

Remaking Malaysia Inc. Challenges and Prospect

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Reviewing Malaysia Inc. -
Concepts and Underlying Philosophy

The topic Remaking Malaysia Inc. - Challenges and Prospects is indeed a very timely one. The Government, of course, remains fully committed to continue using a blend of market and State-led initiatives that has always been the basis for the Malaysia Inc. concept that was introduced in 1983. This concept which is the brainchild of Tun Dr Mahathir Mohamad, views Malaysia as a partnership of the public sector and the private sector, working hand-in-hand to increase national productivity, to improve service levels, and to raise financial performance. In such a partnership, success in one sector reaffirms the other and, over time, strengthens the overall dynamism of the whole. A major thrust of this strategy involved the privatisation of some aspects of the public sector that, at that time, was

mired in low efficiency levels, in addition to costing the Government considerable financial burden. Over time, both Malaysia Inc. and the Privatisation Policy became part of the building blocks of Vision 2020, as a means of attaining the overall aim of growth with equity and the development of Malaysia into a strong, sovereign State with a target of achieving developed nation status by 2020.

We are blessed with a visionary plan, and by and large, there has been, in spite of some hiccups, tremendous success overall. Over the last 45 years since Merdeka, the formula of blending State and market initiatives has given us one of the best development records anywhere in the world by whatever measure - in the eradication of poverty, in providing for basic needs such as health, nutrition, education and basic infrastructure, and in

economic growth. We have today a well-diversified economy that is very well-positioned to meet the challenges of the 21st century.

The rising income level over the years has created a large middle class and cemented social stability that fed back into even more economic growth. This was a virtuous cycle. In Malaysia, we have successfully created a system that has given us the best possibility for upward mobility of the masses. This is one of the messages that you may want to take home with you - if you have the talent and the capacity for working hard; then this country continues to provide you various avenues to rise to the top. Our history, over the last 45 years, is blessed with so many examples of people, from all races in all fields, climbing to the top, in spite of many odds.

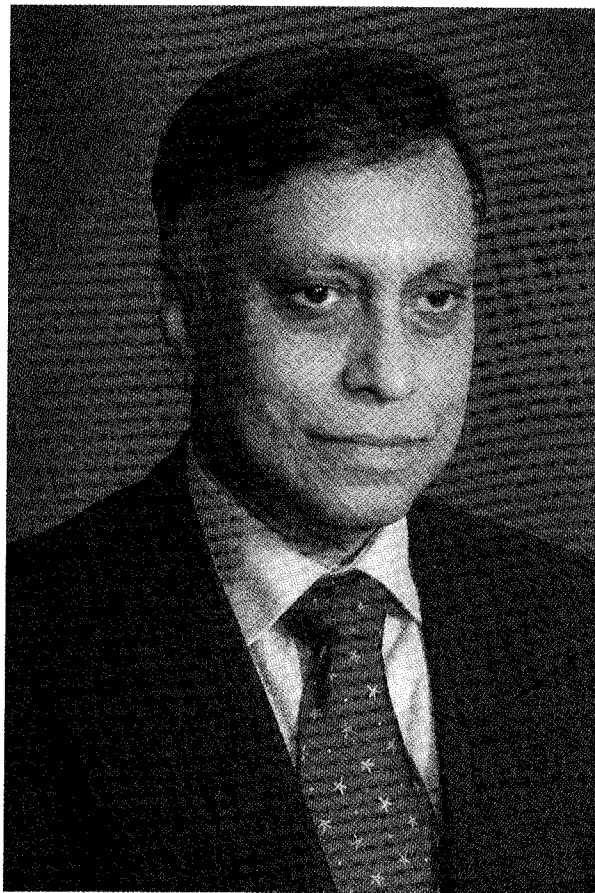
The Government has always been mindful of the need to engineer socio-economic change against a backdrop of stability. While we believe in renewal, we have to be careful not to subscribe simplistically to dogmatic market notions, such as Joseph Schumpeter's "gales of creative destruction". This is the second message I would like to propose for you to consider - that just as States are not absolutely perfect, markets are never completely perfect too, whatever the economics textbooks may say. Recent history is littered with numerous examples of market failures, from the herd panic of portfolio investors during the Asian Crisis, to LTCM and more recently to Enron. Again, we are thankful that Malaysia is in a relatively strong position to be able to take measures that, although seen by dogmatic free-marketers as unorthodox, yet has worked very well for us, whether its exchange controls or corporate restructuring and reforms, on the basis of our own national agenda.

Remaking Malaysia Inc. - A New Business Model?

This brings us to the topic of Remaking Malaysia Inc.

We have often heard of technical know-how and even technical know-who, but perhaps, even more important is the technical know-why. We must ask the question: Why is there a need to remake Malaysia Inc.? The short and obvious answer is that, in the context of the fast changing external and internal environment, we cannot afford to be complacent. We have to keep adjusting to the shocks of changing circumstances. We either keep moving forward or we start decaying.

We find that among the weaknesses of the previous model was an over-reliance on a number of owner-entrepreneurs.



While we often gained from their risk-taking dynamism, there was also often a shortage of controls, good governance and risk management and asset-liability management.

Hence, at this stage of remaking and recovery of our corporate sector, our preference is for institutionalising ownership and professionalising management, with a view to providing greater controls, checks and balance, and to improve risk management. Within these aims, initiatives to improve corporate governance, transparency of decisions, diversification of sources of financing and better regulation on the part of the Government are all part of the overall package to raise the performance of our corporate sector.

However, in remaking Malaysia Inc., we should recognise the wisdom of the old Malay proverb which says, "*Jangan kerana nyamok seekor, kelambu di bakar*" which is equivalent to the English

proverb, "Do not throw the baby out with the bath water". While we are committed to learn from previous mistakes, we must be careful that, in our eagerness, we do not over-compensate. We recognise that the old model based on privatisation and owner-entrepreneurs had its excesses, especially towards the latter stages, but we must also realise that it also had many successes, among them the building of a first-class physical infrastructure and the emergence of a cadre of capable professionals who can now compete internationally. In addition to building first-world facilities at home, Malaysians, including Bumiputeras, are now successfully exporting their experience and expertise in building and maintaining roads, bridges and power plants. This would not have happened had we not empowered them.

It is also worth repeating that, whatever model we choose the same overall developmental aim of growth and development with equity remains.

Challenges

It goes without saying that there are many challenges. The first would be the need to balance these controls with the entrepreneurship culture, i.e. balance the "animal drives" with the good governance. It is not our intention that these additional controls become a shackle that will dampen risk-taking. Our objective is to ensure that the controls assist in optimising risk-reward structures. Our intention is to reinforce the board of directors with more professional representation, and, at the same time, empower the new chief executives with full authority on operational matters and to have a very strong influence on strategic issues. We also need, in due course, to institute share option schemes for the senior management of these



companies to align their interests with that of the shareholders.

Second, there is a need to balance financial profitability objective with socio-economic objective or what has been known as “national service” in the past. Both these objectives are valid, but the key is to place each objective into appropriate vehicles. The ongoing MAS restructuring, for example, reflects our thinking on this issue. In the restructuring of MAS, the higher growth, market-driven international passenger and cargo businesses are placed in a market vehicle that is the listed company, while the domestic passenger business, where there is a strong element of socio-economic objective such as the promotion of national integration, is placed within the federal budget. The net effect to the Government is likely to be value creating, as the value in listed companies is created at several multiples of the savings or profits, unlike the expenditure in the federal budget.

Third, the issue of the adequacy of human capital - in professional management, in civil service and in Government regulation - is also a crucial one. While we have improved leaps and bounds over the last 45 years, we know there is always a shortage of high-quality talent, especially in this world today, where the competition for human capital is a borderless one. Continued investments in education and training, of course, form part of our longer-term strategy, but there is, I believe, another more important aspect, namely the issue of ethical standards. This is another message for you - we want the next breed

of corporate leaders to be not just technically competent and hard-working, but also to be of the highest ethical make-up. With these qualities, the new breed of professional leaders will be able to impose self-discipline and self-regulation on themselves. I believe that self-regulation is perhaps the best form of control. I will discuss the importance of ethics and moral conduct in the remaking of Malaysia Inc. in the latter part of this paper.

Fourth, the next phase of development would be done in a global environment that is likely to be far less friendly to developing countries than the one faced after the Second World War, when competition between the two superpowers during the Cold War, ensured that the US and the West were far more tolerant towards the kind of strategic mercantilism (i.e. import-protectionism with aggressive exports-promotion) that underpinned the rise of Japan, Korea and the rest of East Asia. In today’s unipolar world, the so-called neo-liberal order is the dominant one, with its agenda of a trading and capital flow architecture that favours large transnational corporations (TNCs) and capital providers from the developed countries. We see current WTO initiatives including TRIPs (Trade-Related Intellectual Property) and TRIMs (Trade-Related Investment Management) provisions and the current international financial institutions, such as the IMF, very much favouring developed countries’ TNCs, creditors and investors. Together with China’s economic takeoff, we therefore need to think carefully and find the right

niche and role for our national champions. Where do our Maybanks, Protons, MAS and Sime Darbys fit in? We need to remember that the consideration for inclusion and viability is not just purely economic. There is also the issue of national sovereignty and infant industry development here. It is often forgotten that during the Second Industrial Revolution from around the 1870s to 1914, the United States developed its infant industries under the most protectionist barriers from the then economic superpower, Great Britain. Later, Germany did the same. Thus, while we want our national champions to be as self-reliant as possible, it is important to see the big picture that, in the volatile and even hostile international marketplace, they should also expect some assistance from the State, although this help must be based on some form of merit criteria.

A fifth challenge is the issue of strengthening of our economic institutions to regulate markets and to keep pace with developments in the private sector. Professionalism, hard work, technical competency and the highest ethical standards are also features that must apply to Bank Negara, the Securities Commission, the KLSE (Bursa Malaysia), the civil service, sector regulators, the crisis management agencies (NEAC, Danaharta, Danamodal and CDRC) and public trust investment institutions (PNB, EPF, Tabung Haji, etc.). There is already a core wealth of resources and efficiency here, but in the context of remaking Malaysia Inc., there is always room for improvement.

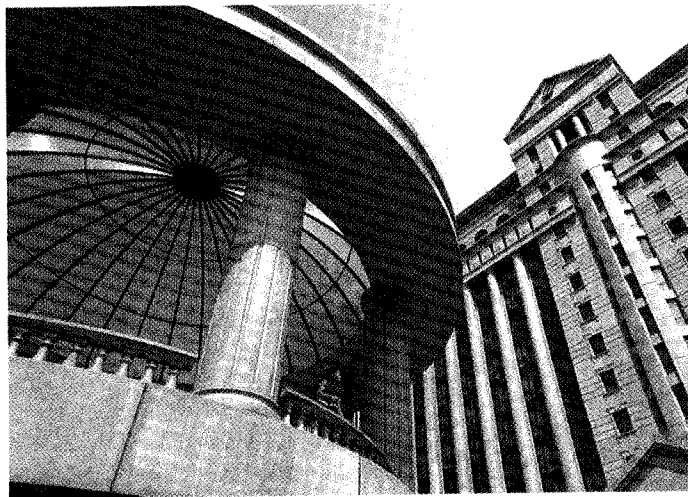
There are, of course, many other challenges, but let me just list one more crucial issue going forward. The Bumiputera business community needs to be rebuilt in the post-Asian crisis period, and, over time, close the gap with non-Bumiputeras in a manner that does not impinge on the ability and rights of non-Bumiputeras to perform and achieve. In the long run, the socio-economic health and balance of the country must necessarily come with the genuine and

meaningful participation of Bumiputeras in all aspects of corporate life. The challenge is to do this without lowering the bar.

Importance of Ethics and Moral Conduct

I believe that the issue of ethics is very important to the remaking of Malaysia Inc. If we look at history, we find that the success of nations and civilisations have been closely linked to ethics and moral values. Ethics and moral codes are important for the smooth running of society because they govern the relationships between each entity: man-to-man, corporation-to-corporation, government-to-man, and so on.

In general, ethical values have been designed to ensure that there is harmony between entities in a society - that each relationship provides a win-win situation. Common ethical values also ensure that each entity or person in the society operates along the same rules of moral values. And when everyone plays by the same set of rules and assumptions, everything gets done much faster and more equitably.



In a sense, the code of ethics and moral values of a society is like its operating system. In a computer, if one of the components is non-compliant to the machine's operating system, not only does it create problems for that component, but the whole computer system may not perform adequately, or may break down.

To use another analogy, that of the horse and rider: ethics or morality is like the rider who guides and rides the horse. Without a rider, a horse will run aimlessly without purpose, never reaching any destination. Hard work without morality may ensure some progress, but we may not reach the desired destination quickly and easily.

On the other hand, ethics or morality, without hard work, is like having a rider without a horse. Without a vehicle, the rider will be unable to get to his distant destination.

In the context of remaking Malaysia Inc., how do we ensure that ethics and good conduct are practised in daily business operations and corporate decisions? In general, ethics can either be imposed from the top or be self-initiated. Interestingly enough, the practice of ethics is related to the level of religious belief. As an example, when we have a Communist based society, which is by definition, atheistic, the regulation of morality and ethics has to be imposed by the Government and is not self-initiated through religious beliefs and practices.

In an open and democratic society such as ours, we all have some measure of external enforcement through the police and the legal system. But it is impossible for the Government to catch every crook and regulate all things. Ideally, the police and legal systems are there only to catch the occasional aberration in society and not to police society at large. The police and legal system should, ideally, only serve as a reminder that we live in an ordered and ethical society. The greater the effort needed by the Government to regulate ethical conduct, the less the resources, in both time and money, it has to spend on developmental aspects.

Malaysia Inc. is, at heart, teamwork. If the Government spends all its time and resources trying to discipline its employees, citizens and corporations, it can no longer be described as teamwork, but would be more in the nature of an adversarial relationship. However, if all parties agree on common moral and ethical issues and act on them, everyone can focus on his own particular area of activity to take Malaysia to greater heights. It is very much like a football team, where each player on the team knows his role and what he is expected to do, rather than the players telling each other what to do and guessing what his other team members may be doing.

In the remaking of Malaysia Inc., good ethics and moral values will need to drive and guide hard work to achieve what we have set out to achieve. If ethics is going to be an important aspect in the remaking of Malaysia Inc., Islam, as the official religion, must lend a powerful hand in this endeavour. And when we speak of Islam, we do not mean the fanatical and bigoted views practised by some groups today, but we speak of Islam as it truly is. This is the Islam that in history enabled the world to flourish; the Islam of Moorish Spain that brought the Renaissance to Europe. It is the Islam during the Crusades, where Christians and Jews of Jerusalem preferred to live under Muslim rule, which was more just and equitable. And it is the Islam of the Malayan Empire where trade flourished in a cosmopolitan environment, making Malacca one of the largest confluences of people and goods in the region, if not the world.

An important aspect of Islam is that it is a way of life to be practised by each individual. During the time of the Holy Prophet, and subsequent Caliphates, there was little need for a police force. Members of society regulated themselves and each other.

The key success factor in the Battle of Badr was that the Muslims were arranged as an ordered army with a central

command, defined strategy, and were highly disciplined. The Arabs were previously more used to a style of individual combat and valour, fighting as hordes rather than as an ordered military. This key factor of self-regulation and being united under a central purpose was the secret behind the success of the early Muslims.

During the Renaissance, Europe left its dark ages of savagery and ignorance by borrowing much of the ethical values and work methods of the Muslims, and in addition, built on the knowledge uncovered by the Muslim scientists then.

The success of the Malaccan Empire sprung from a Palembang Prince who converted to Islam. And with Islam as its moral backbone, the Malaccan Empire grew from a sleepy *kampung* to be among the most successful trading empires in the world.

If Malaysian Muslims can revive the high moral principles and ethical standards as practised by our successful forebears, we may indeed begin to match their achievements.

In the remaking of Malaysia Inc., it will not be Islam itself as a slogan, but the practice of good ethical values, and in particular of Islamic values and ethical standards, that will bring success, not just to Malaysian Muslims, but to all Malaysians.

Prospects

As for prospects, going forward, the role of young professionals is very important. The young professionals of this country are living in a particularly exciting time in our economic history. The young professionals have, at present, abundant opportunities to progress. As you know, we are not ageist in this regard - if you are good enough, you are old enough, and by the same token, for the older ones, if you are good enough, you are young enough.

The recent Asian Crisis has given us an opportunity to redraw the corporate landscape and accelerate reforms. We have consolidated the banking industry. Key companies such as UEM-Renong and MRCB have been professionalised, while MAS' restructuring is a radical plan that leverages on the relative advantages of the State and the private sector. Where key companies need rescuing, there may be a need for a renationalisation phase, but this is not intended to be static. For now, we are using the relative competitive advantage of the State in using its many resources - cheaper funding, long-term orientation and capital market support; but in the long run, we recognise that the Government may not be the best owner of businesses.

For many companies, the model of institutional ownership and professional management would continue to apply. For others, we can envisage that some re-privatisation may well occur if there are competent and deserving entrepreneurs. However, in such cases, the Government would insist on professional management and would also need to be vigilant against any future contingent liabilities for the State.

Overall, we hope these initiatives of better controls, good corporate governance and more professional corporate work ethics would ultimately result in more competitive Malaysian companies, supported by an effective and efficient civil service, in line with the Malaysia Inc. vision. For you, the professional youth of Malaysia, there is every reason to be optimistic.

My final message to you is to be prepared and remember the following:

- The most important part of your worth is your ethical core. Your integrity is the basis of your professionalism.
- You must continuously build your technical competence and ingrain a culture of excellence. In so doing, you must always be aware that you are working in an international and global environment and should build yourselves up to international standards. You need to benchmark yourselves against international standards and best practices.
- You must be prepared to work very, very hard. Genius, as Thomas Edison said, is 1% inspiration and 99% perspiration. □

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