

A DINNER BY THE HARVARD CLUB OF MALAYSIA

SHANGRI-LA HOTEL, KUALA LUMPUR, 27 MAY 1994

I wish to thank the Harvard Club of Malaysia, for giving me the opportunity to be with you tonight and to deliver a speech on 'The Management Philosophy for Malaysia'.

2. As a nation, we have 37 years of experience in managing the transformation of Malaysia from a two-sector primary producer into a vibrant and broad-based "economic miracle", if I may quote the World Bank. We have learnt many important lessons in management during this period. Looking back, I think we have managed to get to where we are today simply because we dared to change: to possess the humility to accept what cannot be changed and the courage to change what cannot be accepted, and the wisdom to distinguish one from the other.

3. Since Malaysia's goal is to join the ranks of the industrial nations, it would make sense for us to study their accomplishments as well as their failures, and to emulate their management practices to the extent that they can be of help to us. Frankly, there is no shortage of management literature on the success stories of Japan and the West. However, it also appears that some of the best management theories and ideas have proven to be mere passing fads, or to fail when challenged.

4. The 1980s witnessed a spectacular rise of management schools, management consultants and gurus who capitalised on the insecurities of Western managers fearful of foreign competition and economic decline. The new gurus give importance to the human element in management philosophy.

5. Amidst all this gurus' hype and the lure of new management fads, what can we in Malaysia use, if at all? Stripped to their essentials, these management theorists have two things in common: First, they are all on the side of change; and second, they all provide lots of expertise for us to sift through and to choose from.

6. Malaysia has moved into big business. Billion ringgit companies are not so uncommon now. Obviously huge diversified corporations cannot be managed like a family business or a sole proprietorship. Big corporations need professional managers. Sole proprietors and company founders are seldom trained professionals. To expand and build a business empire the proprietors and founders need the help of professional executives, CEOs and managers.

7. But in the U.S. the pendulum has swung too far. Professional executive officers and professional managers have

come to be regarded as so important that the shareholders, even substantial shareholders, have lost almost totally their influence and role in the company.

8. Power corrupts. The powerful CEOs in the U.S. and other western countries are no exception. And so we find that by 1993 most U.S. CEOs make about 150 times the average salary in his company. In 1974 it was only 34 times. The CEO of Walt Disney took in US\$203 million in 1993, about one half million US dollars a day. The CEO of Travellers came in second with US\$53 million. The record went to junk bond dealer Michael Milken who took home US\$550 million in pay. You all know where he ended. Even bankrupt U.S. companies continue to pay huge sums to their executives, the managers who had apparently managed the companies to bankruptcy.

9. Why did the shareholders, the owners of the corporations tolerate the grasping CEOs and executives like Milken? They tolerated because public adulation of the CEOs has made shareholders almost irrelevant to the company. Holding only a tiny fraction of the shares, widely dispersed, without the means to know and to contact each other, they depended almost entirely on the glossy quarterly and annual reports for information on their investments. The CEOs and executives were not beyond misleading them through these reports.

10. Knowing that the main concern of the shareholders was the dividend paid out, they made sure that the businesses generated handsome profits. This was done by cutting back on research and development, by sale of assets, by not expanding or diversifying. It was fine for as long as they had no competitors. But the moment competitors, particularly foreign competitors, appeared on the scene with better and cheaper products, the profitability of the old corporations could not be sustained. And so in the late 80's the great corporations of America fell one by one.

11. But the CEOs and the executives were not worried. They had already prepared golden parachutes, etc, for themselves. They were replaced at great cost but the new incumbents were just as costly and as powerful. The basic philosophy remained.

12. The Japanese too regard their shareholders as irrelevant. But a different culture prevails in the great Japanese corporations. CEOs and executives are not highly paid. Instead they are long on company loyalty, regarding the success of their corporations as a matter of personal responsibility of all the executives and employees. They are community oriented rather than personally acquisitive. Off and on, rogue managers are exposed but the general picture is one of grim dedication to the company and its success. A lot of national patriotism

and loyalty also comes in. And so, despite relegating shareholders to the background and treating them as irrelevant, as do the American corporations, Japanese companies managed to expand and compete successfully with their foreign rivals. Despite believing more in market share than profit margins, many Japanese companies make it to the Fortune 500 list. Clearly the culture of the people plays a role in the management of companies.

13. As I said large Malaysian corporations have only recently appeared on the scene. Only yesterday they were family-owned and managed. But in order to gain access to capital and to make capital gains, they have converted to public limited companies. And public limited companies cannot be run like family companies.

14. More and more professionals are taking over the management of companies. Clearly if the companies are to grow and prosper they need to accept new management methods. Should they copy the Americans or the Japanese, or should Malaysians have their own management philosophy?

15. Culturally we are different from the Japanese. Malaysians are very fond of the 51 per cent share. Everyone of them, whether individuals or companies, wants to have the exclusive right to control the company. Obviously if they have the majority share they can push through their wishes irrespective of the views of the other shareholders. The company may lose but the majority shareholders may still make something for themselves.

16. In a company with small capital, dominance of one shareholder over the rest may not seem unfair. But in a multi-million dollar company the 49 per cent shareholder has a lot of money at stake. Just because the majority shareholder has one or two million dollars worth of shares more, does not render the minority shareholder's stake insignificant. Indeed, if things go wrong the minority shareholder will lose almost as much as the majority shareholder; to be more precise just 2 per cent less than the majority shareholder. Not having a say in the affairs of the company is, for the minority shareholder, not right.

17. One reason why the Government stipulates that each shareholder in a bank should not hold more than 20 per cent of the share is because of this. Powerful shareholders can play havoc with banks. With everyone holding no more than 20 per cent each, voting power cannot override good ideas or prudence.

18. The same should apply for all corporations. No one should hold such an absolute majority as to ignore the views of others. In any institution prudence and good ideas should prevail. And they will prevail if no one has an overwhelming majority. When all shareholders are minority shareholders, prudence and good ideas should have the support of a sufficient number of shareholder directors as to prevail.

19. Shareholder directors on the board, holding sufficiently large stake should be able to exercise some authority over the executives, particularly the CEOs. High pay, bonus and share options are good incentives but they should not be excessive. There should be a sufficiently knowledgeable Board so as to ensure that the professionals are not doing the wrong thing, especially in feathering their nests. Dividends are good but reasonable expenditure on R&D, expansion and diversification must not be dismissed by management. The long-term interest of the company must receive due consideration even though short-term profits cannot be totally ignored.

20. A good strategy is to have one of the substantial shareholders directly involved in the management. He should have sufficient leeway to act when good opportunities come by suddenly. Of course he should seek management concurrence and Board approval as soon as possible. But he should have a sufficiently free hand. He will perhaps go wrong but not for long if the Board is alert.

21. So what is the management philosophy for Malaysia? Basically it is that owners have a role, an important role. Business is not a profession to be left entirely to professionals. Professionals should make sure that the administration of the business should be correct and proper. They should see that every part of the business functions properly. They should be up-to-date in terms of the latest management techniques and technological innovations. They should be innovative in management and in the progress of the corporation. They should, above all, know how to handle people, including possibly the Board. But they must accept that the owners, i.e. the shareholders or the proprietors, must in the final analysis, have a bigger say in the management of the company. Professional managers may stand to lose if the company fails but it is not what they had put in, but what they had been given. On the other hand, owners will lose all that they had put in.

22. Malaysian managers, whether professionals or not, are really too fond of staying within Malaysia's well-defined area of expertise. They like doing what they have always been doing, perhaps on a bigger scale. They also like to do what other Malaysians are already doing. Just as the prospective

Malay shopkeeper would open a 'kedai kopi' after others have already opened several in a particular location, the Malaysian managers would go into properties because others are doing so. New business should be left to others to start. Malaysian managers would venture only when it is no longer adventurous.

23. Malaysia has looked West and it has looked East. Malaysia has accepted change when change is due. In management, Malaysia has been innovative and has even dared to try some new approaches. That it has been fairly skillful in making the choices is evidenced by the sustained growth over some 37 years of independence.

24. The time has come for the industrialisation process to be more Malaysian-initiated. Our workers have already proven their ability to acquire new skills in the industries started by foreigners. Surely our entrepreneurs and managers are as capable of acquiring the skills needed to venture into new areas of businesses particularly manufacturing.

25. At the beginning I said that we got to where we are because we dared to change. To progress we must not only dare to change but to be prudently adventurous. Provided our managers and owners play their roles in the way outlined, provided we really practise good responsible management, we can make new and unfamiliar businesses pay. Be prudent by all means, but be adventurous also.