

Responsible Privatisation: A New Malaysian Model of the role of government in the economy

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Executive Summary

“The business of the Government is not to be in business ... For an entrepreneurial economy to succeed, the private sector must lead.”

-YB Lim Guan Eng, Minister of Finance, 2019, Budget Speech, 2nd November 2018-

This paper takes a fresh look at the issue of privatisation in Malaysia and examines whether the concerns raised by earlier privatisation programmes can be addressed by a new concept of ‘Responsible Privatisation.’

The prospect of a new wave of privatisation in Malaysia has been raised in the first budget speech of the new Pakatan Harapan (PH) government and in recent announcements that preceded it. The focus is to reduce the role of the Government in the economy and dispose of particular assets as a potential means of raising money to cut Malaysia’s national debt. For many this raises the spectre of past experiences of privatisation which are characterised as being plagued by cronyism, expropriation of profits at the expense of the Rakyat and a loss of social and strategic focus in Malaysia’s development.

To address such concerns, we develop the idea of ‘Responsible Privatisation’ which we define as the transfer of public activities to the private sector based on maximising economic, social and environmental value, promoting good governance, equity and efficiency and delivering the optimal policy mix of public and private activity in the economy. This form of privatisation combines credible, transparent and accountable institutional scrutiny through parliament with clear regulatory oversight of privatised entities.

New models for investment and enterprise management, including socially responsible investment and social enterprise models, promote socially-strategic aims. Responsible Privatisation also aims to dismantle channels for patronage by transferring the ownership of smaller companies to communities, employees and stakeholders and to empower specific community groups, youth entrepreneurs and women through opportunities to own and run newly privatised companies. We argue that Responsible Privatisation can form the basis of a new Malaysian Model for Privatisation.



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** The views and opinions expressed in this paper are those of the author and do not necessarily represent IDEAS*

Introduction



The election of the Pakatan Harapan (PH) government in May 2018 has resurrected the debate about the role of the government in the Malaysian economy. This has been driven by the early announcement that the new government had inherited total debts and liabilities in excess of RM1 trillion, (Lim, 2018a).¹ Although this debt has been seen by some as manageable, (Bernama, 2018) the level of debt is cited by the government as a source of concern which needs to be reduced, (Lim, 2018a).

In September 2018 the Finance Minister, YB Lim Guan Eng, announced that the Federal Government would, 'monetise,' some of its holdings in non-critical, non-strategic assets by engaging in the sale of shares and land and extending the leasing of idle government assets and buildings. He emphasised that such sales would; (1) comply with the highest standards of governance and transparency; (2) create minimal disruption to business and the Rakyat and; (3) be managed within a mixed policy strategy which will ensure that all stakeholders are engaged to minimise negative impacts, (Lim, 2018b, Ruben, 2018).

In explaining this position further YB Tony Pua, Special Advisor to YB Lim Guan Eng, was quoted at the 'Malaysia: A New Dawn' conference in Kuala Lumpur on 9th October 2018, as saying that Khazanah and PNB² will review their stakes in Government-linked Companies (GLCs), non-core holdings and non-strategic assets to see if they can realise their 'full-value,' in the market and to determine how these assets can be properly and orderly disposed. He highlighted two aims in this process (1) to increase the participation of the private sector in the economy and (2) to raise money for the Government to pare down debt.

The first PH budget announced by YB Lim Guan Eng on 2nd November 2018 crystallised this new philosophy by announcing that, "the business of the Government is not to be in business," (Lim, 2018a). It was acknowledged that government-owned companies have been competing directly with private companies in sectors that are not strategic from the perspective of the Government. This causes, 'crowding out,' of private sector investment so that many private companies are unable to grow and compete.³

It was announced that the Ministry of Finance will set up a Special Task Force to evaluate the role and functions of statutory bodies and companies owned by Ministry of Finance, Inc. The aim of this new body will be to reduce duplication of functions and cut government involvement in areas where the private sector is efficient and competent. In future, government expenditure and investments will focus only on strategic sectors and areas where markets are unable to meet the needs of the people.

¹ Government debt as at the end of June 2018 stands at RM1,065 billion, or around 80% of GDP. This is composed of RM725.2 billion in direct federal government debt, RM155.8 billion in committed contingent liabilities and RM184.9 billion in other liabilities including leased payments for Public Private Partnership (PPP) projects. (Lim 2018a).

² YB Tony Pua later clarified that PNB would not be included in this process because the assets are owned by PNB unit-holders and not by the government directly.

³ In this context, 'crowding out,' means having potentially private commercial activity run by publicly-owned or controlled entities. In a macroeconomic context, 'crowding out,' can also occur if government borrowing, for example to fund commercial activities, takes up a large share of available loanable funds, restricting the availability of funds for private investment and increasing the cost or interest paid by private companies for such loans.

A 'new' phase of privatisation?

Although the term, 'monetisation,' is used as opposed to, 'privatisation,' in practice the policy announced by the new PH government is nothing more than privatisation as widely understood. The approach to privatisation of GLCs and other public assets appears relatively conventional, as can be gleaned from the various announcements on the unfolding strategy. These include monetising or privatising the following types of companies and assets:

- » **Non-critical holdings** – enterprises and assets that have marginal contributions to the financial, commercial or strategic performance of the government portfolio. For example the ownership of a golf course by a government ministry.
- » **Non-core holdings** – enterprises and assets that have a peripheral or otherwise minimal relationship to the primary function of a company or entity and which may be outside of the industry in which the entity primarily operates. For example the ownership of private universities by GLCs in telecommunications, energy and mixed industrial sectors.
- » **Non-strategic assets** – enterprises and other assets that have limited roles in delivering strategic aims. For example government ownership of property developers in the high-end condominium market.
- » **Duplicating entities** – enterprises and other entities that replicate the functions of private sector providers or compete with the private sector through involvement in areas where the private sector is efficient and competent. For example the ownership of technology development companies by government agencies.

Realising the 'full-value' of privatisation

The aim to realise the, 'full-value,' suggests that the Government recognises that some GLCs and other assets have intrinsic or intangible value above the market price. The full-value of an asset is only reached when the intrinsic value meets the market value, which is simply the price that a buyer is willing to pay for the asset in the open market. This is determined by the value of physical and financial assets, future cash and profit flows and the viability of the business as a going concern. GLCs and other government assets have intrinsic value above their market price because they serve wider economic, social and environmental objectives.

For example, they create social value by providing employment beyond what would be necessary in terms of business needs, they create economic value by providing wider business networks through supply chains, often in specific industries or locations, where business opportunities would otherwise be limited and their environmental impact can be better regulated due to state-ownership or control. It is challenging for a government to capture this full-value through, 'monetisation,' since buyers in the open market are often not concerned with such issues, (Goodman and Loveman, 1991).

Indeed in many examples, both in Malaysia and around the world, government assets are sold at a discount to the market value in order to attract buyers for what are often poorly performing but otherwise expensive assets (OECD 2003, 2009, 2018). This means that, "the proper and orderly disposal," envisioned within recent announcements has to balance the maximisation of full-value, accounting for the intrinsic value of government assets, while at the same time making asset sales attractive to potential buyers in the open-market.

Increasing private sector involvement – domestic and overseas sources

There is also a need to ensure that the privatisation process actually increases private participation in the market and reduces crowding out.⁴ Even in some of the most comprehensive privatisation programmes there is a question of whether privatisation actually reduces the role of government in the economy at all.⁵ This is a balance which has to account for where the funds to buy government assets would come from.

Unless overseas buyers are included in the privatisation process there might be insufficient funds from local players or a reallocation of local funds with neutralising or even negative consequences overall. For example, if sales are restricted to Malaysian buyers at the exclusion of overseas buyers there might be a simple transfer of investment from current private activity into newly created opportunities in privatised entities. This distortionary effect might harm investment in the private sector as buyers divest from existing projects to chase discounts and potential windfall gains in former government assets.

It is therefore important to open-up the privatisation process to overseas investors to expand the fund-pool. Indeed in the current environment in which large, 'mega-projects,' are being reduced, opening new opportunities for a larger number of smaller projects for overseas investors will help to support foreign direct investment (FDI) from a wider, more diversified pool from multiple countries. This will create many opportunities for the entrepreneurial economy to succeed, driven by the private sector.

What should be the role of the GLCs in the Malaysian economy?

Malaysia is clearly about to begin a new phase of privatisation but there are many echoes of earlier privatisation programmes particularly those implemented in the 1980s. On face value there appears to be very little difference in the recent government statements on the role of GLCs compared to the position taken by previous administrations within the GLC Transformation Programme (GLCT), (PC-GLCT, 2005).

The GLCT and the New Economic Model (NEM) set out a vision for Malaysian economic development in which a thriving private sector is supported by the GLCs providing a complementary and catalytic role, (PC-GLCT, 2005, EPU, 2010, Khazanah Nasional, 2016). This included promoting investment in research and development (R&D) and helping to create champions at a national and regional level. It also had a focus on divestment of non-core activities and the transfer of assets into the private sector, particularly to the benefit of the Bumiputera community.

A key managerial reform of GLCs under the GLC Transformation Programme (GLCT) was a focus on performance which was and is, primarily measured in terms of financial performance and shareholder value, (PC-GLCT, 2005).

In addition the GLCs are seen as key players in the National Development Agenda (EPU, 2010; Khazanah Nasional, 2016). This aims to deliver growth with equity, to promote the development of the Bumiputera community and to improve governance among Malaysian enterprises by example and by management of relationships with subsidiaries and suppliers.

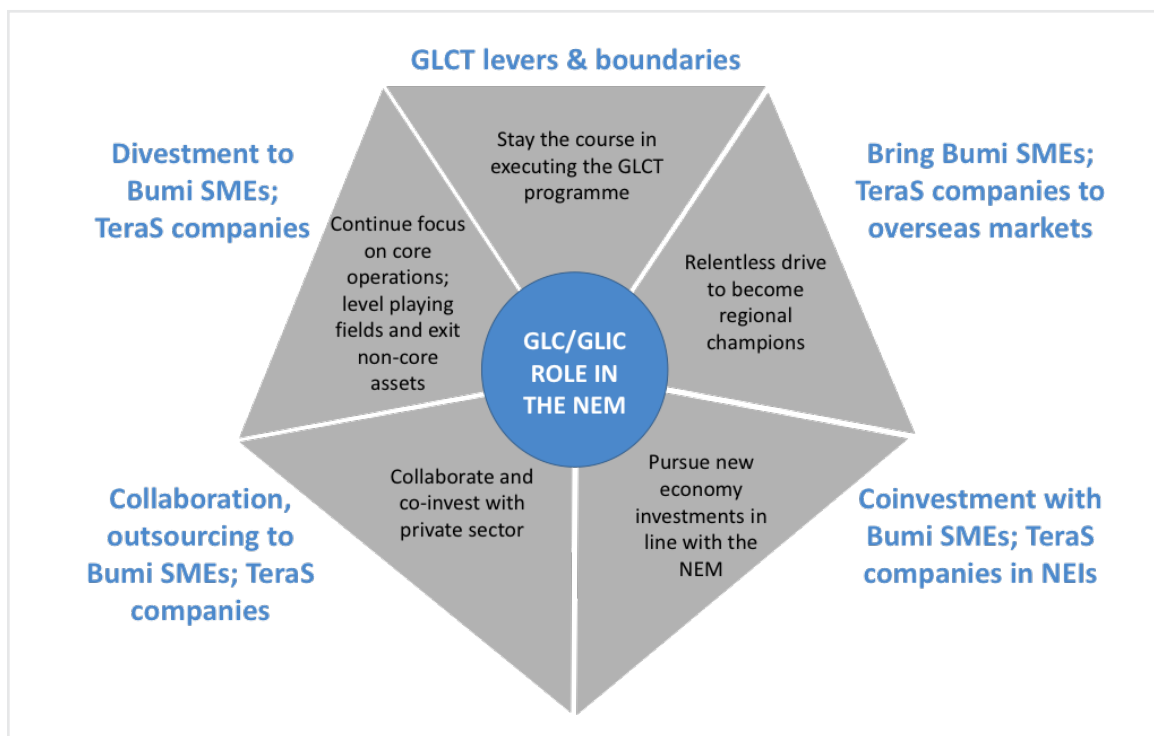
⁴ In this context, reducing crowding out, means having private companies take on formerly government activities and reducing the number of publicly-owned or controlled entities in the economy.

⁵ For example, in the United Kingdom, privatization has been widespread and was conducted by successive governments over many decades since the 1980s. However the share of government in the economy, measured as a percentage of gross domestic product (GDP), is as high today as it was in the 1950s.

Drivers of the Bumiputra agenda were defined across five areas:

1. GLCT levers and boundaries - Stay the course in executing the GLCT programme
2. Divestment to Bumiputra SMEs; TeraS companies - Continue focus on core operations; level playing fields and exit non-core assets
3. Collaboration, outsourcing to Bumiputra SMEs; TeraS companies - Collaborate and co-invest with private sector
4. Co-investment with Bumiputra SMEs; TeraS companies in NEIs - Pursue new economy investments in line with the NEM
5. Bring Bumiputra SMEs; TeraS companies to overseas markets - Relentless drive to become regional champions

Figure 1: The role of the GLCs in the GLCT



Source: Khazanah Nasional 2016; Note: TeraS - High Performing Bumiputera Companies

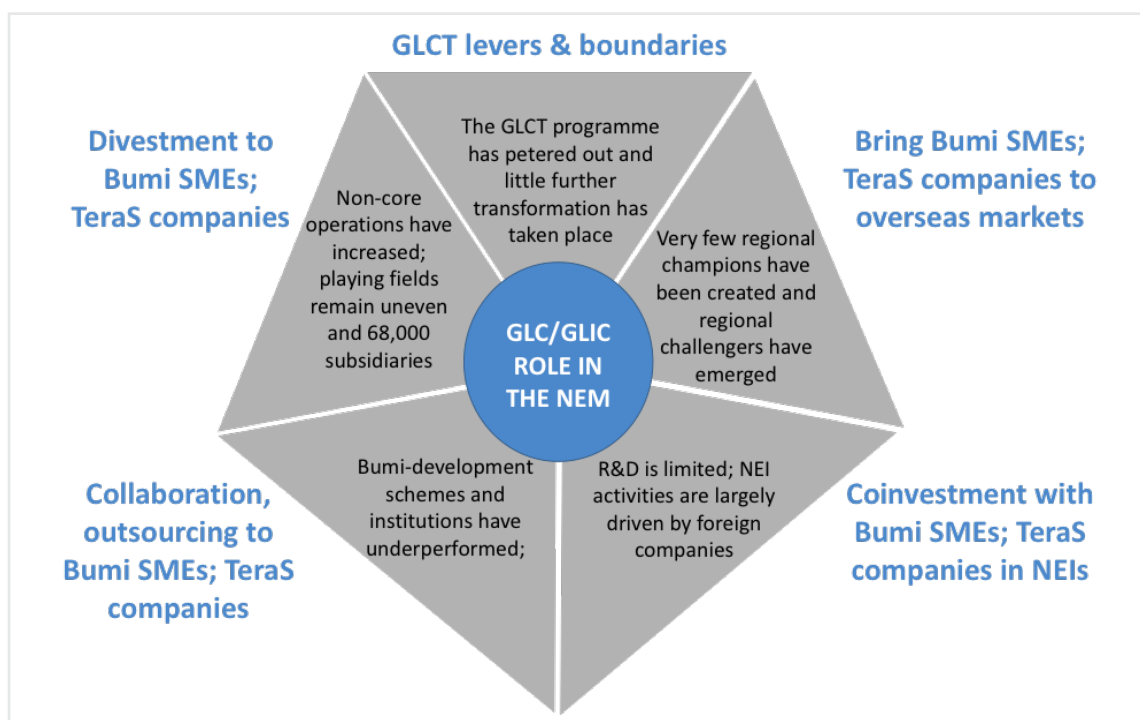
Did the GLCT divest and transfer assets to the private sector?



Despite the claims of the GLCT the role of the GLCs in the Malaysian economy has changed in ways that are materially different to the aims of the NEM. The extent of GLC involvement in the economy has grown to such levels that they are a key, if not the primary driver of commercial activity and investment overall. Malaysia ranks fifth in the world for countries with the highest presence of state-owned enterprises among their largest firms, (Kowalski, et al., 2013, Menon, 2017).⁶ The share of GLCs in the market capitalisation of the Malaysian stock exchange, Bursa Malaysia, has also increased over time (Wan Saiful, 2016).

In addition there has been a massive increase in the number of GLCs and their subsidiaries from an estimate of 1,158 at the end of the 1990s (Adam and Cavendish, 1995) to more than 68,000 at federal-level (Gomez et al., 2017) and hundreds more at state-level, (Gomez et al., 2018).⁷ There is also evidence that GLCs are crowding-out and stifling private companies. Menon and Ng (2013) using annual corporate data from 2007 to 2011 for a total of 443 firms find that when GLCs are dominant in an industry there is a significant negative impact on investment by private firms but when GLCs are not dominant there is no impact on private investment.

Figure 2: The role of the GLCs



Note: TeraS - High Performing Bumiputera Companies

⁶ Menon (2017) quotes data from Kowalski et al (2013), who use the equally weighted average of shares of state-owned enterprises in sales, assets and market value of the country's top ten firms to obtain this ranking.

⁷ Gomez et al. (2017) report the total number of firms associated with the 35 publicly listed GLCs owned by the seven Government-linked Investment Companies (GLICs) was 68,327 in 2013. Of these, 38,068 were owned by Malayan Banking Berhad (Maybank), 23,200 by CIMB and 2,966 by RHB Capital. The next largest number of subsidiaries was 1,327 owned by Boustead, (Gomez et al 2017, Table 4.1, pp.209-10).

The outcomes in terms of the Bumiputra agenda has not significantly improved income and wealth inequality through the GLCs and Government-linked Investment Companies (GLICs), (Abdul Khalid, 2014) and the overall outcome of the GLCT can be characterised as follows:

1. GLCT levers and boundaries -The GLCT programme has petered out and little further transformation has taken place
2. Divestment to Bumiputra SMEs; TeraS companies - Non-core operations have increased; playing fields remain uneven and there are more than 68,000 subsidiaries of the top-35 listed GLCs
3. Collaboration, outsourcing to Bumiputra SMEs; TeraS companies - Bumi-development schemes and institutions have underperformed;
4. Co-investment with Bumiputra SMEs; TeraS companies in NEIs – Research and development (R&D) is limited; NEI activities are largely driven by foreign companies
5. Bring Bumiputra SMEs; TeraS companies to overseas markets - Very few regional champions have been created and regional challengers have emerged

Privatisation in Malaysia: Early experiences

Within this context, the possibility of a new wave of privatisation raises concerns among many that old problems from earlier programmes may be repeated, (Jomo, 2018).⁸ Privatisation guidelines were first published in Malaysia by the Economic Planning Unit (EPU) in 1985 following an announcement two years earlier by Dr. Mahathir bin Mohamad, (EPU, 1985). The guidelines were followed in February 1991 by the Privatisation Masterplan (PMP) which set out the privatisation policies and the following policy objectives, (EPU, 1991a):

1. To relieve the financial and administrative burden of the government;
2. To improve efficiency and increase productivity;
3. To facilitate economic growth;
4. To reduce the size and presence of the public sector in the economy; and
5. To assist in meeting the national development policy targets.

In addition to the overall objectives of privatisation, the PMP identified the activities to be privatised and ranked the entities to be privatised by order of priority, highlighting those of national importance. It also incorporated the Privatisation Action Plan (PAP) which was a two-year rolling plan for implementation, which was reviewed annually, (EPU, 1991b).

⁸ Although some have argued that privatization is the only solution notwithstanding other concerns, see Musa (2013).

The PAP outlined the pathway for privatisation but did not provide institutional processes or regulatory frameworks. Instead, it simply categorised activities to be privatised and the methods for restructuring non-profitable companies in three stages; (1) commercialisation; (2) corporatisation and; (3) divestment. The six categories identified were; (1) flagships; (2) government majority-owned entities that can be easily privatised; (3) companies that can be restructured; (4) services; (5) minority or listed holdings and; (6) new projects.

The absence of a clear and transparent institutional structure to oversee the conduct of the process has been identified as a key failure of the PMP and the overall implementation of privatisation in Malaysia during the 1990s. In particular proper oversight and good regulation was impaired by poor disclosure on cost and benefit analyses (CBA), evaluation and performance criteria, process and organisational flows and detailed disclosure of the agents involved (Nambiar, 2009).

The absence of a proper regulatory framework is also a key failing of the PMP and contrasts starkly with the counter-balancing regulatory regimes introduced in other countries in tandem with the privatisation process. For example, it was not until April 2011 that Malaysia established its own Competition Commission and anti-trust regime within the Competition Act 2010 (CA 2010). The Competition Commission aims to protect and support free and fair competition in commercial markets for the benefit of consumer welfare, efficiency of enterprises and the development of the economy as a whole. In principle this offers a defence against uncompetitive behaviour by dominant GLCs or their privatised counterparts but the absence of this sort of framework has made many sceptical at best about the success of past privatisation programmes.

Privatisation and its discontents

Objections to privatization in Malaysia focus on two main lines of argument. First, there are generic arguments about privatisation and its merits in terms of the claims made by privatisation advocates measured against the results of privatisation around the world. Second, there are specific issues relating to how privatisation has been carried out in Malaysia, particularly under the PMP, (Jomo, 1995, 2003, 2018).

The generic arguments against privatization are not special for Malaysia and have well-understood solutions in incentive-alignment, contract theory or second-best regulation, (OECD, 2003, 2009, 2018). The specific criticisms of privatisation in Malaysia are more interesting in terms of the challenges they pose for future policy development.

In addition to criticisms of the lack of clear process and regulation outlined above, three specific areas of criticism are often cited in the context of Malaysia's experience of privatisation. These are:



Rentier cronyism –

The transfer of assets to connected individuals and vested interests groups;



Public vs Private Welfare –

The process of privatisation of profits and socialization of costs which includes distributional effects and exploitation of monopoly position and;



Strategic Aims –

The claim that social and developmental aims of GLCs and other state-owned entities are lost to market-driven private aims

The narrative of these criticisms often focuses on the sale of whole companies to particular individuals or corporate entities as evidence of preferential patronage, (Jomo, 1995, 2003, 2018). However, the situation may well be worse in the current structure where a wide matrix of influence can also be seen from the network of subsidiaries and connected companies within the existing GLCs and state-owned entities themselves, (Gomez et al., 2017, 2018, Wan Saiful, 2018).

The 68,000 subsidiaries of the 35 listed GLCs at federal-level represent 68,000 channels through which patronage, corruption and money laundering can flow. For example, relatively small projects channelled through GLC subsidiaries, often through preferential direct contracting, can disburse large amounts of money. If each of the 68,000 subsidiaries were given a RM1 million project, RM68 billion can be disbursed through these channels in ways that would not be picked up by conventional auditing. Small projects of this type are often accounted as non-material transactions which raise few, if any, audit concerns.

Similarly each of the 68,000 subsidiaries require a board of directors and a senior management team, often appointed through patronage, which creates multiple opportunities to reward particular, well-connected individuals. A relatively small number of ten directors and senior managers would create 680,000 opportunities for such forms of patronage.

Existing criticisms of privatization in Malaysia also ignore the role of effective regulation and new forms of business models and responsible management approaches (Williams, 2011a), which can offer a defence against earlier deficiencies through, 'Responsible Privatisation.' This allows us to learn lessons from the past and provide a more positive approach to privatisation in the future.

What is ‘Responsible Privatisation’?

Responsible privatisation is the transfer of the ownership or management of public assets or services into the private sector to maximise economic, social and environmental value, promote good governance, equity and efficiency and deliver the optimal policy mix of public and private provision within the economy.

In order to better understand the concept of responsible privatisation it is useful to compare it to conventional privatisation to see the contrast in aims, mechanisms and performance metrics. Responsible privatisation differs in its aims from those of conventional privatisation where the transfer from the public to the private sector aims to prioritise maximising income from the sale of assets, reducing the size of government and promoting managerial efficiency by exposing activities to market mechanisms.

The aims of Responsible Privatisation

Responsible Privatisation does not focus only on the market value of the asset or entity to be transferred from the public to the private sector but aims to maximise the full-value, or minimise the full-costs, of the transfer in a holistic sense. This means accounting for intrinsic value captured by economic, social and environmental value in addition to the value of the asset in purely financial terms.

For example, the sale of a government-owned plantation to a buyer whose business model is based on cutting the number or the salaries of the workforce, disrupting local communities to gain access to a larger land-bank or using management techniques which are not environmentally sustainable would not be within the terms of Responsible Privatisation. Even if they offered the highest price this would not be an optimal outcome because under such circumstances the full-cost or true-cost of the transaction would be borne socially and the benefits would accrue privately to the new owner.

Similarly, Responsible Privatisation aims to promote good governance, equity and efficiency in a broad sense. For example, the sale of a government-owned monopoly, such as an energy company, would not be within the terms of Responsible Privatisation unless proper regulatory processes were in place to prevent the exploitation of monopoly power in the private market. This could be achieved either by direct regulation of prices, for example, or by ensuring contestability of the market by removing entry barriers, (Baumol, 1982).⁹

Finally, the aim of Responsible Privatisation is to deliver the optimal policy mix of public and private provision within the economy, not simply to reduce the size of government which, as mentioned earlier, may not happen in any event. For example, a privatisation programme that simply transferred private investment from existing private activities into formerly government-run activities to capture windfall gains would not be within the terms of Responsible Privatisation. This would simply reallocate private investment in a potentially disruptive way without adding net investment overall. The full-cost economic impact and implications of such a programme would have to be comprehensively analysed, taking into account the availability of local investment funds and the amount and nature of foreign investment to provide extra funds into the domestic economy.

⁹ The regulatory framework for the United Kingdom private energy sector is governed by Ofgem (the Office of Gas and Electricity Markets) which is a non-ministerial government department and an independent National Regulatory Authority.

Privatisation to social enterprises

Responsible Privatisation embraces new approaches to enterprise management such as social enterprise models. These can include employee buy-outs but also extend to NGO and community buy-outs to allow local communities to own a company on which their community depends. These mechanisms are often more appropriate for smaller entities such as those among the 68,000 subsidiaries of the top-35 listed GLCs. By transferring the ownership of smaller companies to communities, employees and stakeholders, Responsible Privatisation empowers specific targeted community groups, including youth entrepreneurs, the B40 and women business-leaders, through opportunities to own and run newly-privatised companies.

Social enterprise models apply the principle that any surplus accrued from the management of the company is reinvested to the benefit of the company stakeholders, which include but are not limited to the employees. This helps to ensure that the benefits of the success of a company are shared by those who created the added-value. It also offers an incentive for stakeholders to be fully engaged in the efficient management of the company since they have a direct stake provided through the reinvestment of any surplus. This can be used to improve their working conditions and provide sustainable employment in the long-term.

Privatisation to ensure social and environmental impact

Responsible Privatisation prioritises the full value of the companies to be transferred into the private sector. This requires that the Government as the vendor prefers potential purchasers that can provide credible, accountable and transparent business models to ensure positive social and environmental impacts. To ensure this, the transfer conditions, which will be scrutinised by Parliament, can be set to ensure that the newly privatised companies do not set aside social and environmental issues in favour of cost-cutting or other market-driven rationalisation processes. Examples include the following:



Communities – Government-owned companies which currently serve important community aims, for example providing employment opportunities to specific community groups, would be transferred only to purchasers that can guarantee that communities would be offered sustainable employment opportunities and would be represented among owners, managers and directors.



Social needs – Government-owned companies which deliver important social needs, such as providing opportunities for people with disabilities, would be transferred to organisations, including NGOs, which can provide business models which guarantee that the social needs would be fulfilled.



Youth empowerment – Government-owned companies across many sectors would be transferred to purchasers that can provide credible business models to empower young entrepreneurs and offer employment for younger workers. This would include programmes to build capacity among younger employees and involve youth leaders as owners, managers and directors in appropriate cases.



Empowerment of women – Government-owned companies across many sectors would be transferred to purchasers that can provide credible business models to empower women leaders and offer employment for women within a supportive environment, with equal pay and conditions and terms that balance work and family commitments. Again this would include programmes to involve women as owners, managers and directors with clear and inclusive career development options.



B40 development – Government-owned companies across many sectors that provide employment opportunities to people in the B40 group would be transferred to purchasers that can provide credible business models to empower those on lower incomes. Those in the B40 community would be given leadership opportunities and training with good pay and conditions and terms that offer them a pathway to raise their incomes over time.



Rural development – Government-owned companies in rural areas would be transferred to purchasers, preferably from the rural communities themselves, which can provide credible business models to empower rural development. Those in the rural communities would be given development opportunities and pathways to improve their lifestyles, working conditions and incomes over time.



Technology development – Government-owned companies in technology and development sectors would be transferred to purchasers that can provide credible business models to promote technology development, build technology capability and skills and position Malaysia to compete in technology internationally within the challenges of the fourth industrial revolution.

While these ideas may appear intuitive and reasonable, the fact is that past privatisation programmes in Malaysia and elsewhere have often ignored such issues and have become a matter of selling whatever can be sold, to whoever will buy it, at whatever price can be achieved.



Privatisation to social institutions

Specific sales models to social institutions are also possible such as university-linked privatisation in which a university could buy a government-owned commercial entity, related to R&D for example, which is directly in-line with its core purpose. This would provide an income stream and a commercialisation unit to promote research within the university and generate funds for further development. In turn, publicly-owned university assets, such as under-used land, plantations concessions or even their golf courses could also be privatised to raise capital to rebalance their holdings into more effective research and learning focused investment portfolios.¹⁰

In general terms Responsible Privatisation mechanisms take into account wider stakeholder concerns and provide incentive-aligned solutions to maximise the social, economic and environmental value accruing to the wider stakeholder group. This contrasts to conventional privatisation in which the primary concern is to maximise profits for the shareholder but is not inconsistent with the view expressed by Friedman (1970) when viewed as the eleemosynary purpose of a newly privatised company run in conformity with the aims of its owners.

¹⁰ Universiti Malaya owns a plantations subsidiary, Universiti Kebangsaan Malaysia (UKM) owns a golf course and most public universities own significant land banks.



Measuring the performance of Responsible Privatisation

The performance of Responsible Privatisation is measured using broad value indicators over a long-term assessment period which would set intermediate and long-term targets for economic, social and environmental value, often called triple-bottom line accounting. Simple financial performance based on profitability is included in these metrics but unlike conventional privatisation financial performance and shareholder value are not the only criteria.

In economic and political terms, Responsible Privatisation measures the full-value economic value-added and welfare impact taking into account the costs of externalities and the intrinsic value created or destroyed by the transfer of a state-owned entity into the private sector. This requires a comprehensive ex ante and ex post evaluation of the full stakeholder impact which is not simply limited to whether privatised entities create economic growth overall nor is its success measured by the amount of money raised by the government through asset sales.

Some tools for Responsible Privatisation

We can also compare and contrast responsible privatisation and conventional privatisation in terms of the tools used to implement the process. In principle a wide portfolio of responsible investment and management tools can be deployed which include, but are not limited to, full-value maximisation models to complement conventional asset valuation models. These require a full mapping of stakeholders, their concerns and their legitimate expectations to ensure that these are addressed and met within the context of the privatisation model chosen. A core of rigorous evaluation and monitoring tools are also required to avoid the errors of the past.

Institutional scrutiny

Parliamentary scrutiny of the process should be used in order to ensure proper evaluation of proposed privatisations and to encourage credible, accountable and transparent assessments of the entities to be privatised. These should cover the likely impact of the privatisation process at the company, market and community level.

Tools for evaluating asset values before privatisation should go beyond discounted market-value sales models to include full-value optimal sales models. This will also determine in part the appropriate divestment strategies and business models which protect intrinsic value. Direct sales and ex-post evaluation should be replaced by structured sales models with ex ante targets and ex post performance measurement. The 'rules of the game' should be based on the tools of socially responsible investment (SRI) and include environmental, social and governance (ESG) criteria.

Regulatory scrutiny

Regulation of the post-privatised entities by market competition and shareholder activism should be enhanced by a wider role for agencies such as the Competition Commission. Regulation of the internal governance and performance of privatised companies should include a wider role for the Companies Commission (Suruhanjaya Syarikat Malaysia (SSM)) with greater powers and resources to respond to complaints from stakeholders. Tools for the reform in governance and empowerment of stakeholders might also include the inclusion of employees or community representatives on the board of directors or on a separate supervisory board to protect the interests of workers and local communities.¹¹

Specific regulatory agencies can be introduced for industries in which regulatory issues are complicated, such as energy or finance or where the companies are in industries with specific economic, social or environmental concerns such as agriculture, plantations or mining. The overall regulatory framework should be placed within a clear rubric of political and social objectives which ensures the optimal mix of public and private activity within the economy.

Social ownership - a defence against capture

In terms of sales tools, conventional privatisation models use combinations and variations of different forms of monetisation models, (OECD, 2009, 2013, 2018). These include public share sales, or so-called, 'popular capitalism,' voucher privatisation which allows people to own shares without payments, direct sales to existing or new commercial entities, public and restricted auctions and in some cases management buy-outs. Although each has its merits and drawbacks, one common outcome of conventional sales models is that over time the sale of shares by small shareholders leads to concentration of ownership, (OECD, 2009, 2013, 2018).

In conventional privatisation unrestricted share re-sale models are often used as tools to transfer entities fully into the private sector and expose them to the market mechanism to promote profit-motivated performance improvements. However, subsequent ownership concentration often disempowers minority shareholders and other stakeholders. An alternative tool in the Responsible Privatisation process would use limited share re-sale models or mutual ownership to promote social and strategic outcomes and help protect the rights of a wider stakeholder group as a defence against corporate capture.

¹¹ Such schemes currently exist in Germany for example within the concept of the social market economy (SME) and have recently been mooted for inclusion in governance reforms in the United Kingdom by the current Conservative government.

Supportive, responsible financing models

The mechanisms of Responsible Privatisation deploy new models of investment processes including socially responsible investment (SRI), of which Islamic investment is a subset, (Williams, 2011 b). SRI also includes, 'impact investing,' which refers to investments in companies, organizations and funds with the specific intention to generate measurable, positive social or environmental impact as well as financial returns. These take into account wider stakeholder concerns which help to capture the full-value of the entities to be privatised while at the same time promoting responsible investment practices. Opening Malaysia's privatisation process to SRI funds offers a huge opportunity to tap a new source of responsible and sustainable investors.¹²

Conventional privatisation process particularly those that involve mergers and acquisitions or which are transacted through agents should be replaced by new venture capital models including impact investment and crowd-funding for community-based buy-outs. Existing government investment programmes such as Cradle Fund, Malaysia Debt Ventures or SME Bank soft-loans can be modified to support the privatisation of smaller government-owned entities to social entrepreneurs. The sale of entities through purely commercial sales contracts should be replaced with full-value and full-cost contracts with credible, accountable and transparent systems of rewards and penalties.

Table I: Conventional versus Responsible Privatisation: Elements

	Conventional Privatisation	Responsible Privatisation
Aims	<p>Financial: Income maximisation</p> <p>Economic: Promote managerial efficiency</p> <p>Political: Reduce government; raise income</p>	<p>Financial: Full-value maximisation</p> <p>Economic: Promote good governance, equity and efficiency</p> <p>Political: Deliver optimal policy mix</p>
Mechanisms	<p>Share sales;</p> <p>Voucher privatisation;</p> <p>Direct sales;</p> <p>Auctions;</p> <p>Management buy-outs</p>	<p>SRI Investment;</p> <p>Social enterprise models;</p> <p>Employee buy-outs;</p> <p>NGO/Community buy-outs;</p> <p>University-linked privatisation</p>
Performance	<p>Financial: Bottom-line profit outcomes</p> <p>Economic: Economic growth</p> <p>Political: Higher government revenue</p>	<p>Triple-bottom line (ESG) outcomes</p> <p>Economic value-added and welfare</p> <p>Full stakeholder impact</p>

¹² In 2016 the total amount of assets under management in SRI funds stood at US\$22.89 trillion according to the Global Sustainable Investment Alliance (GSIA), this is a massive pool of potential investors for Malaysian privatized entities.

Table 2: Conventional versus Responsible Privatisation: Tools

	Conventional Privatisation	Responsible Privatisation
Aims	<p>Financial: Asset valuation models</p> <p>Economic: Market and shareholder regulation</p> <p>Political: Second-best regulation</p>	<p>Financial: Full-value maximisation model</p> <p>Economic: Stakeholder mapping/matrix</p> <p>Political: Rubric of optimal objectives</p>
Mechanisms	<p>Discounted market-value sales models</p> <p>Direct sales and ex-post evaluation</p> <p>Existing M&A models and agents</p>	<p>Full-value optimal sales models</p> <p>Parliamentary scrutiny of processes</p> <p>Creation of New Venture Capital models</p>
Performance	<p>Financial performance models</p> <p>Commercial sales contracts</p> <p>Unrestricted sales and re-sale models to promote profit-motivated performance</p>	<p>ESG 'Rules of the Game'</p> <p>Full-value and full-cost contracts with penalties</p> <p>Limit re-sale models - mutual ownership to promote social and strategic outcomes</p>

Conclusions



Privatisation and the reform of GLCs offers a new opportunity to create a vibrant, innovative and entrepreneurial commercial sector that can help Malaysia rise to the challenges of the next phase of economic development in the high-income world of the fourth industrial revolution. To maximise the potential of a new wave of privatisation Malaysia must learn from the lessons of past experiences of privatisation as well as the examples of privatisation in other countries.



Responsible Privatisation which takes into account the full-value of public assets, focusing on good governance, equity and efficiency and seeking to achieve the optimal mix of public and private activity in the economy can help to avoid old problems. In particular Responsible Privatisation provides a credible, accountable and transparent process for placing public entities into the private sector which is scrutinised by Parliament and overseen by formal regulatory agencies.



By focusing on the wide and deep network of GLC involvement in the economy Responsible Privatisation dismantles the channels for patronage by placing large numbers of subsidiaries into the private sector within new business models including social enterprises, mutual ownership schemes and employee buyouts. These provide a defence against cronyism by widening stakeholder involvement in the ownership and management of newly-privatised companies. They also offer an exciting route to empower community groups, young business leaders and women to take up opportunities in newly privatised businesses.



The over-arching principles of Responsible Privatisation, which focus on full-value assessments, wide stakeholder engagement, clear scrutiny and accountability and new forms of responsible management models, helps balance the public-private trade off by retaining an emphasis on social and strategic aims even within privatised entities. For example, it provides a real and meaningful increase in wider ownership, particularly in specific communities, by placing firms in the hands of direct stakeholders rather than in the hands of public managers in GLCs and other government entities. This has the potential to increase wider capital ownership and improve entrepreneurial development by transferring existing going concerns into the hands of community-based business people.



The ideas of 'Responsible Privatisation' developed in this paper are a starting point to help us define a transfer of public activities to the private sector based on maximising economic, social and environmental value, promoting good governance, equity and efficiency and delivering the optimal policy mix of public and private activity in the economy. We argue that Responsible Privatisation can form the basis of a new Malaysian Model for Privatisation.

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