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SHAPING GOVERNANCE AND CULTURE

REFORMING GLICs AND GLCs

GOVERNMENT-LINKED investment companies (GLICs) comprise six organisations, namely the Employees Provident Fund, Permodalan Nasional Bhd, Retirement Fund Inc, Khazanah Nasional Bhd, pilgrimage fund Lembaga Tabung Haji and Lembaga Tabung Angkatan Tentera.

Together, these GLICs own about 25.7 per cent of the total market capitalisation (as at end-January), representing RM445 billion in assets under management (AUM) on Bursa Malaysia.

Percentage of ownership aside, these six GLICs have a total AUM of about RM1.7 trillion.

So, in a way, GLICs can move markets if they want to by virtue of their shareholdings. And by virtue of their shareholdings, GLICs can also bring about meaningful change in the government-linked companies (GLCs) in which they invest.

Very often, GLICs hold enough shares to warrant representation at the boards of GLCs through the appointment of nominee directors. This is an opportunity for GLICs to further shape the culture and governance at the GLC level.

The size of GLCs accounted for about 42 per cent of the total market capitalisation. Another way to look at the equation is that GLICs can bring about meaningful change to about 42 per cent of the total market capitalisation of Bursa.

This was probably foremost on the mind of the Finance Ministry when mooted the Principles on Good Governance (PGG).

The PGG is supported by three key principles:

- (i) leadership and effectiveness of the board of directors;
- (ii) strengthening the board of directors' composition; and,
- (iii) encouraging accountability and transparency in investment management.

The PGG was prepared after taking into consideration standards, practices and discussions relating to public and corporate governance, including the Malaysian Code on Corporate Governance (MCCG).

PGG's aim is to promote accountability and transparency across entities including GLICs with their stakeholders which encompass the government, the suppliers in the ecosystem and the public.

The PGG is intended to contribute to optimising the government's fiscal resources, improving management, hitting targets, spurring new growth through strategic sectors and invigorating investments in the sustainable industry.

According to Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz, the PGG is part of the GLICs/GLCs' transformation programme spearheaded by the treasury in the past 18 months, which includes the government's earlier Perkukuh Pelaburan Rakyat

(Perkukuh) initiative launched in August last year.

What we see here is a step-by-step approach to elevate GLCs by themselves and through GLICs. The PGG should be seen as a stepping-up of the gear from Perkukuh.

And in that, the PGG is pushing all the right buttons. Tengku Zafrul has touched on all the key points in his statement — leadership, effectiveness, strengthening boards, accountability and transparency. Directors set the tone at the top and determine the board culture. This tone will cascade down as the corporate culture. Get the board right and all else should fall into place.

Environmental, social and governance to the fore

Aside from ensuring GLICs provide good stewardship, the PGG also recommends the establishment of a governance structure for the oversight of environmental, social and governance (ESG) elements in future investment strategies.

Against the backdrop of issues such as flash floods, natural disasters and environmental pollution, as well as issues closely related to the social aspects such as poor treatment of foreign workers, GLICs should be prepared to face the increasing and stringent market demand for ESG practices.

This is vital given that global data have shown that companies

focusing on resolving ESG issues have managed to reduce costs, increase employee productivity, reduce various business risks and create more jobs and business opportunities.

Reforms necessary

Any reform at the GLIC level will trickle down to the GLCs by virtue of the GLIC's shareholding in the GLCs. And the ultimate beneficiary would be the shareholders of the GLCs.

GLCs have traditionally been the investment of choice of minority shareholders.

The GLCs are also the safe haven for investors seeking dividend yield.

MSWG has always maintained that some GLCs need to regain their lustre as they have traditionally been the "go-to" investment for minority shareholders and especially because they are government-linked.

If they have attractive dividend yield, there is no reason why they should not be a favourite of the minority shareholders again.

The best-laid plans will come to nought if the execution is not effective. Perkukuh and PGG are good transformational plans — minority shareholders await the execution of these plans in a timely, efficient, effective and economic manner.

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