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# Shake-up at GLCs

The new government has clearly said that there is a need to review the role of GLCs and the remuneration paid out to their top executives

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A GLANCE at one of the annual reports of the country's government-linked companies (GLCs) reveals that its chief human resource officer earned close to a million ringgit or about RM80,000 per month, last year.

Other senior personnel were also compensated with generous remuneration, with its chief executive taking home over one and the half million ringgit in financial year 2017.

More importantly, this was at a company that had courted much controversy in recent times over allegations of mismanagement and under-performance.

Such a scenario, however, is not uncommon at GLCs, where remuneration of key executives tend to run in the millions but performances sometimes leave much to be desired.

By definition, GLCs are companies where the government has a direct majority stake via their entities such as Khazanah Nasional, Employees Provident Fund, Permodalan Nasional Bhd (PNB), the Armed Forces Fund (Lembaga Tabung Angkatan Tentera) and the Pilgrims Fund (Lembaga Tabung Haji).

In recent years, remuneration of GLC chiefs, senior management and its directors have been on the uptrend following a transformation initiative to make them more competitive commercially.

The thinking behind this is that in

order to attract talent – subjective as the definition of that may be – top dollar should be paid.

Some, however, argue that GLCs should in fact prioritise national service a little more.

Universiti Malaysia's Faculty of Economics and Administration professor of political economy Edmund Terence Gomez says GLCs have social obligations.

"What this essentially means is that GLCs cannot operate in a purely commercial manner as they also have to look at the social dimension," he says. "The GLC professionals have many times articulated that they are doing national service. Going on that alone, one can argue that they shouldn't be paid private sector salaries," Terence adds.

And so it is now, there is a disquiet building up among GLCs following the change in government.

The new government has clearly said that there is a need to review the role of GLCs and the remuneration paid out to their top executives and senior management.

In this regard, the Pakatan Harapan government is understood to be mulling over making drastic changes in the appointment and remuneration of key directors at GLCs which include government agencies.

It was reported recently that the Council of Eminent Persons, headed by Tun Daim Zainuddin, who was Finance Minister in the 1980s, has requested details of the salaries of



some of the top executives at GLCs as part of the review.

Already, there have been a couple of GLC chief executives who have left and more of this is expected to materialise over the coming weeks.

## Remuneration of top executives at key GLCs

Company	Major Shareholder	Top Executive	Remuneration	FY2017 Net profit
IHH Healthcare	Khazanah	Dr Tan See Leng	RM33.89mil	RM969.95mil
Malayan Banking	PNB	Datuk Abdul Farid Alias	RM10.11mil	RM7.52bil
CMB Group Holdings	Khazanah	Tengku Zafrul Abdul Aziz	RM9.86mil	RM4.47bil
Sime Darby <sup>1</sup>	PNB	Tan Sri Mohd Bakke Salleh	RM7.86mil	RM1.62bil
Axiata Group	Khazanah	Tan Sri Jamaludin Ibrahim	RM6.47mil	RM909.48mil
RHB Bank	EPF	Datuk Khairussaleh Ramli	RM6.23mil	RM1.95bil
Bursa Malaysia	Capital Market Dvlp	Datuk Seri Tajuddin Atan	RM5.92mil	RM223mil
SP Setia	PNB	Datuk Khor Chap Jen	RM5.76mil	RM932.85mil
Malaysian Resources Corp	EPF	Tan Sri Mohammad Salim Fateh Din	RM5.07mil	RM167.57mil
Boustead Holdings	LTAT	Tan Sri Lodin Wok Kamaruddin	RM4.48mil	RM462mil
MBSB	EPF	Datuk Seri Ahmad Zaini Othman	RM3.55mil	RM417.13mil
Affin Bank	LTAT	Kamarul Ariffin Mohd Jamil	RM3.45mil	RM417.86mil
Telekom Malaysia	Khazanah	Datuk Seri Shazalli Ramly <sup>2</sup>	RM2.45mil	RM929.75mil
MISC	Petronas	Yee Yang Chien	RM2.44mil	RM 1.98bil
UMW Holdings	PNB	Badrul Feisal Abdul Rahim	RM2.12mil	(RM651.19mil)
Malaysia Airports Holdings	Khazanah	Datuk Badlisham Ghazali	RM1.82mil	RM236.48mil
Tenaga Nasional	Khazanah	Datuk Seri Azman Mohd	RM1.71mil	RM2.74bil
Felda Global Ventures	Felda	Datuk Zakaria Arshad	RM1.67mil	RM143.72mil
Petronas Chemicals Group	Petronas	Datuk Sazali Hamzah	RM1.01mil	RM4.18bil
KLCC Property Holdings	Petronas	Datuk Hashim Wahir	RM999,000	RM877.9mil
Petronas Gas	Petronas	Kamal Bahrin Ahmad <sup>3</sup>	RM996,000	RM1.79bil
Petronas Dagangan	Petronas	Datuk Mohd Ibrahimuddin Yunus	RM906,922	RM1.59bil

> Remuneration include fees, salary, bonus, benefits in-kind and other emoluments.  
 > As for Petronas-linked companies executive directors' payouts are related to costs and benefits paid to Petronas.

Notes:

1. The new Sime Darby Board took effect Dec 1
2. Telekom's Shazalli was appointed on May 1 2017 and resigned June 6, 2018  
 In FY17, Tan Sri Zamzanzairani Mohd Isa, who retired on April 30 last year was paid RM5.53mil in remuneration, while Datuk Bazlan Osman, who is now the telco's acting group CEO was paid RM3mil.
3. Was appointed as MD/CEO on June 1, 2017

Source: Bursa Malaysia  
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"It appears to be a purge of Tan Sri Nor Mohamed Yakcop's boys," quips an industry observer, referring to the veteran politician who was instrumental in the revamp and transformation of Khazanah which started in 2005 and subsequently, driving the GLC transformation initiative.

UM's Terence says if the new government is to appoint new individuals, it must ensure that the process is transparent.

"If you are removing these people, who are you replacing them with? More importantly how are you selecting these people?"

He adds there needs to be a transparent mechanism in the appointment of this new breed of professionals that will be brought in and what must also be looked into is the kind of check and balances being put in place to ensure governance.

"There should be a debate on these things," he says.

Economist Yeah Kim Leng believes that a review is timely and appropriate as part of a deeper institutional and structural reform.

"The broad aims are firstly, to reduce excessive payouts which don't commensurate with performance and secondly, to address the widening wage and benefits gap between the top and bottom rungs of the organisation," he says.

Such rationalisation will result in a more equitable salary structure as well as raise the generally depressed wages of middle management and support staff which form the largest number of most organisations, Yeah adds.

### Unfair advantage

The role of a head honcho, be it at a GLC or non-GLC, is seldom a walk in the park.

CEOs make critical operational decisions that affect everything from future business directions to the health of a company's balance sheet and employee morale.





**On the rise:** A man walks past the Employees Provident Fund headquarters in Kuala Lumpur. Remuneration of GLC chiefs, senior management and directors have been on the uptrend following a transformation initiative to make them more competitively.

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The job generally entails long hours and tremendous pressure to meet expectations of shareholders and stakeholders.

But again, while local GLCs have been key drivers of the economy, one key feature is that they are ultimately owned by the government. This, some argue, give GLCs unfair advantages such as access to cheap funding and political patronage over their private counterparts.

So, is running a GLC more of a stewardship role as opposed to an entrepreneurship role? Therein lies the issue that in turn will have a bearing on the remuneration levels of GLC heads.

Minority Shareholders Watch Group (MSWG) chief executive office Devanesan Evanson puts it this way, "Entrepreneurs have their skin in the game in that there are often the major or substantial shareholder in a company."

"It is in their direct interest to perform as this will be translated into share price appreciation which will impact the value of their shareholdings – this is motivation to grow the entrepreneurial spirit," he says.

On the other hand, GLC heads do not have their skin in the game save for their limited shareholding through ESOS or share grant schemes.

"If a GLC loses money, the impact on them is limited. They may be prepared to take perverse risks as the eventual loser is the govern-

ment-linked investment companies or GLCs (and the minority shareholders of the GLC), which eventually are the people who are the members or subscribers of the GLCs.

"In that way, we are not comparing apple to apple and yet, we need talent to run GLCs.

"So we can conclude that, we need to pay for talent at GLCs but it should not be as much compared to what one would pay the CEO of a firm which he started," Devanesan says, noting that remuneration of some of the GLC heads have risen too fast in recent years.

Rising remuneration is a given, others say, as the government had recruited top talent from the private sector to helm these companies.

A case in point is Axiata Group Bhd, which has done relatively well with the infusion of the "entrepreneurial spirit" under the helm of president and group CEO Tan Sri Jamatudin Ibrahim, who has helmed the Khazanah-owned telco since 2008, they point out.

Prior to that, Jamatudin was with rival Maxis Communications Bhd, a private company controlled by tycoon Ananda Krishnan.

Other GLCs which have performed consistently over recent years include banks like Malaysian Banking Bhd and CIMB Group Holdings Bhd which have expanded their operations out of Malaysia, carving a brand name for themselves regionally.

Under a 10-year transformation programme for GLCs initiated in 2005, companies were given quantitative and qualitative targets to meet as measured by key performance indicators.

Now, the 20 biggest GLCs currently make up about 40% of the local stock market's market capitalisation.

One of the principles under the programme was also the national development agenda, which emphasised the principle of equal growth and development of the bumiputera community with the non-bumiputras.

Asian Strategy and Leadership Institute (ASLI) Centre of Public Policy Studies chairperson Tan Sri Ramon Navaratnam says the purpose of establishing GLCs to encourage bumiputras to participate in business has largely been fulfilled.

"Now that the bumiputras are on a strong footing in the corporate sector with able leaders who have wide experience, it (GLCs) could be seen as an erosion to the welfare and progress of the smaller and medium-sized industries, particularly those where other bumiputras are involved," Ramon says.

Having said that, he says although many GLCs are doing well, they have performed well "mainly because of protective policies and monopolistic practices".

"The time has come in this new Malaysian era for more competition and less protection."

**Benchmarking**

Skill, if simplistic comparisons are to be made, the CEOs of the country's two largest GLC banks, Maybank and CIMB for instance, took home less than the CEO of the country's third largest bank, the non-GLC Public Bank Bhd last year.

In 2017, Public Bank's managing director Tan Sri Tay Ah Lek took home some RM27.8mil in total remuneration while Maybank's Datuk

Abdul Farid Alias earned RM10.11mil and CIMB's Tengku Zafrul Abdul Aziz made RM9.86mil.

Across the causeway, a survey of CEO remuneration of Singapore-listed companies by one financial portal shows that Singaporean GLC CEOs earned 31% more than their non-GLC counterparts in 2017.

Singapore's Temasek Holdings-owned DBS Bank, which is Singapore's largest bank, paid out S\$10.3mil (RM30.36mil) to its head honcho, while in the telecommunications sector, SingTel's remuneration to its top executive was some S\$6.56mil (RM19.34mil) for the most recently concluded financial year.

By definition, Singapore GLCs are those which are 15% or more owned by the city-state's investment arm Temasek Holdings.

UM's Terence does not think Singapore should be a benchmark for Malaysian companies.

"Singapore is a much smaller country and the manner in which they operate in is also different... their GLCs are deeply conditioned by their holding company, which is the Minister of Finance Incorporated," he says.

MSWG's Devanesan notes that determining remuneration is "not exactly science" as there are many parameters to be considered.

Some of the factors to note include whether the companies are in a monopolistic or near monopolistic position and the performance of the GLC heads over the years.

"Based on these parameters, we can instinctively know if a GLC head is over-remunerated," he says. Over in China, state-owned Industrial and Commercial Bank of China (ICBC), the country's largest lender by assets, paid out about 63.43 yuan or about RM39mil in total remuneration before tax for the year 2017 to its top executive.

Notably, the Beijing-based ICBC's net profits was at a whopping US\$45.6bil (RM182bil) in 2017.