

# The University of Hull

TELEKOM MALAYSIA:  
PRIVATISATION AND STRATEGIC MANAGEMENT

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by  
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### **Abstract**

This thesis is concerned with an evaluation of decisions and practices of the government of Malaysia and top management of Telekom Malaysia (TM) in the preparation for and after privatisation of the entity.

The thesis shows that in reality the Malaysian government has pursued policies contrary to its stated privatisation goals by denying independent decision making in TM and hence the evolution of strategic management practices in the privatised entity. Instead of an independent decision-making body, the top management of TM are little more than acquiescent political and civil service appointees, who are obliged to accept passively directives from the government which clearly will affect the ability to achieve the stated corporate goals of Telecommunications Vision 2005 - to put in place a first class network and organisation which is capable of providing services on a par with those existing in the advanced countries by the year 2005.

On the basis of this study, the researcher has arrived at several propositions. The most important contribution of the thesis is that it presents to both the government and top management of TM, recommendations to adopt an appropriate strategic management and long-term approach to achieve the stated goals based on long-term growth, efficiency and higher bumiputra equity, that supports the realisation of TM's ambitious goal of Telecommunications Vision 2005.

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I hope that this study will be of use, and lead to further improvements within the Government of Malaysia and Telekom Malaysia.



## Table of Contents

	PAGE
ABSTRACT	I
ACKNOWLEDGEMENTS	II
TABLE OF CONTENTS	IV
LIST OF ABBREVIATIONS	IX
 CHAPTER ONE: INTRODUCTION	
1.1 Statement of the Problem	1
1.2 Approach for Solving the Problem	4
1.3 Objectives of the Study	6
1.4 The Research Questions	8
1.5 Methods of Study	10
1.6 Research and Interview Strategy	11
1.7 The Research Fieldwork	13
1.7.1. Phase 1 (September-November, 1991)	13
1.7.2. Phase 2 (July-November, 1992)	15
1.8 Interviews and Other Sources of Information	15
1.9 Scope and Limitations of the Study	17
1.10 Organisation of the Thesis	17
1.11 Conclusion	20
 CHAPTER TWO PRIVATISATION IN MALAYSIA	
2.1 Introduction	21
2.2 Literature Review on Privatisation	21
2.3 Defining Privatisation	22
2.4 The Rationale of Privatisation	25
2.5 The Multiplicity of Privatisation Objectives	28
2.6 Privatisation in the Industrialised Economies	30
2.7 Privatisation in Asia-Pacific/LDCs	32
2.8 Privatisation in Malaysia: Its Origin, Strategic Dimension and Implications	35
2.8.1. The Rationale for Privatisation	35
2.8.2. The Strategic Shift to Privatisation	39
2.8.3. Government's Decision-Making Process	49
2.9 Claims of Privatisation Success	54
2.10 Conclusion	60
 CHAPTER THREE LITERATURE REVIEW OF STRATEGIC MANAGEMENT	
3.1 Evolution of the Subject	64
3.2 Business Policy	67
3.3 Long Range Planning	70
3.3.1. Definitions	72
3.3.2. Criticism of Long Range Planning	73
3.4 The Strategy-Structure or Organisation School	75
3.5 Incrementalism	77
3.6 Environment School	80
3.7 Developments in the 1980's	82
3.7.1. Competition School	82
3.7.2. Core Competence School	88
3.8. Strategic Management in the Public Sector	90
3.9 The Evolution of Planning Systems in Large Companies	93
3.10. The Stakeholder School	97

	PAGE
CHAPTER FOUR	THE HISTORICAL PERSPECTIVE OF JTM: THE "CORPORATISATION" OF JTM AND THE PREPARATION FOR THE FLOTATION AND PRIVATISATION OF THE ORGANISATION
4.1	Introduction 104
4.2	Organisational Changes of JTM Prior to Privatisation 104
4.3	Decision to Privatised JTM 118
4.3.1.	AMMB Report, August 1984 121
4.4	Establishment of Syarikat Telekom Malaysia (STM) 124
4.5	ADL Consultant Report 1988 127
4.6	Government Relationship With STM 134
4.7	Executive Share Option Scheme 136
4.8	Conclusion 137
CHAPTER FIVE	THE POST PRIVATISATION OF TM
5.1	Introduction 139
5.2	Flotation and Privatisation of STM 139
5.3	TM's Corporate Mission 140
5.4	TM's Financial Performance 141
5.4.1.	Growth of Operating Revenue 144
5.4.2.	Share Prices 145
5.4.3.	TM's Network Services Expansion 145
5.5	TM's Market Position 148
5.6	TM's Structure and Decision-Making Process 151
5.7	Resignation of Executive Director 160
5.8	Capital/Financial Policy 163
5.8.1.	TM's Sustainable Growth Rate 164
5.8.2.	Actual Funds for Expansion and Modernisation of Network in the Sixth Plan Period (1991-95) 167
5.9	Government Intervention and Attitude Towards TM 172
5.10	Executive Shares Option Scheme (ESOS) 183
5.11	A Survey of Strategic Priorities 185
5.12	Conclusion 190
CHAPTER SIX	MARRYING STRATEGIC MANAGEMENT THEORY AND PRACTICE
6.1	Introduction 192
6.2	Privatisation Framework 192
6.3	Strategic Management Framework for Privatised TM 195
6.4	Preparation for the Privatisation of TM 197
6.5	Post Privatisation of TM 201
6.6	TM's Approach and Performance Towards Telecommunications Vision 2005 210
6.7	Government Priorities in Telecommunications Sector 214
6.8	Strategic Priorities 215
6.9	Conclusion 217
6.10	Recommendations 221
6.10.1.	Recommendations for Government 221
6.10.2	Recommendations for Top Management of TM 224
6.11	Future Research 226

	PAGE
POSTSCRIPT	228
APPENDIX 1 List of Organisations and Corporations Whose Officials Were Interviewed During the Study.	235
APPENDIX 2 Major Players in the Malaysian Telecommunications Sector	236
APPENDIX 3 Analysis of Board of Directors of Telekom Malaysia	238
APPENDIX 4 Telekom Malaysia, The Management Committee Members	240
APPENDIX 5 TM Key Officials Private Sector Recruitment	243
APPENDIX 6 Senior Executives From Former TM Engineers	244
APPENDIX 7a TM Sustainable Growth Rate for the Financial Year 1987	245
APPENDIX 7b TM Sustainable Growth Rate for the Financial Year 1988	246
APPENDIX 7c TM Sustainable Growth Rate for the Financial Year 1989	247
APPENDIX 7d TM Sustainable Growth Rate for the Financial Year 1990	248
APPENDIX 7e TM Sustainable Growth Rate for the Financial Year 1991	249
APPENDIX 7f TM Sustainable Growth Rate for the Financial Year 1992	250
APPENDIX 7g TM Sustainable Growth Rate for the Financial Year 1993	251
APPENDIX 7h TM Sustainable Growth Rate for the Financial Year 1994	252
APPENDIX 8 Selection of contractors for Digital Switching Equipment of MYR 2 Billion (1992/93)	253
APPENDIX 9 Telekom Malaysia - The Perceived Order of Priorities of Privatisation Goals (Senior Officials A)	254
APPENDIX 10 Telekom Malaysia - The Perceived Order of Priorities of Privatisation Goals (Senior Officials B)	255
APPENDIX 11 Telecommunications Environment Overall Perceived Order of Priorities of Major Interest Groups of the Privatisation Goals	256
BIBLIOGRAPHY	257

**List of Tables**

Table	Page
4.1      Malaysian Telecommunications Department Loans from the Federal Treasury: 1972-88 (MYR million)	108
4.2      Original and Revised Allocations for the Telecommunications Sector under the Various Five Year Malaysia Plans (MYR million)	108
4.3      Total Subscribers and Waiting List of JTM (1970-1981)	109
4.4      Installation of Effective Cable Pairs (ECPs) by Contractors	115
5.1      Telekom Malaysia Financial Performance (1987-1994)	142
5.2      Telekom Malaysia Growth of Operating Revenue (1987-1994)	143
5.3      Telekom Malaysia: Network Services Expansion (1987-1994)	146
5.4      The Actual and Forecasted Market Share of TM, Celcom and Mobikom in Mobile Services (1990-1995)	150
5.5      Actual and Estimated Capital Expenditure (1991-1995)	165

List of Figures

Figure		Page
2.1	Decision-Making Process of Privatisation in Malaysia	50
4.1	The Organisation Structure of STM Until October 1988	126
4.2	Organisation Structure 1989	129
4.3	Proposed Overall Structure for 1989	131
5.1	TM's Organisation Structure 1994	152
5.2	Telekom Malaysia: Policy Decision-Making Process	153
5.3	Privatisation Environment of Telekom Malaysia	174

### List of Abbreviations

AMMB	Arab Malaysian Merchant Bank
ADL	Arthur D. Little Company
BCIC	Bumiputra Commercial and Industrial Community
BN	Barisan Nasional
BoD	Board of Directors
BO	Build and Operate
BOT	Build-Operate-Transfer
BT	Build and Transfer
Capex	Capital Expenditure
CEO	Chief Executive Officer
CIC	Capital Issues Committee
DE	Debt Equity Ratio
DEL	Direct Exchange Lines
ECP	Effective Cable Pairs
ED	Executive Director
EON	Edaran Otomobil Nasional Berhad
EPU	Economic Planning Unit
ESOP	Employee Share Ownership Plan
ESOS	Executives Share Option Scheme
GM	General Manager
HRM	Hanafiah, Raslan and Moahmad
ICU	Implementation and Co-ordination Unit
IDC	Inter-Departmental Committee
IMF	International Monetary Fund
ISDN	Integrated Services Digital Network
ISIS	Institute of Strategic and International Studies, Kuala Lumpur
ITTM	Institute of Telecommunications and Information Technology
JTM	Jabatan Telikom Malaysia (Malaysian Telecommunications Department).
KLSE	Kuala Lumpur Stock Exchange
LDCs	Less Developed Countries
MAS	Malaysian Airline System
MAYPAC	Malaysian Packet Public Data Network
MBO	Management Buy-Out
MCM	Management Committee Meeting
MISC	Malaysian International Shipping Corporation
MEASAT-1	Malaysia East Asia Satellite - 1
METP	Ministry of Energy, Telecommunications and Energy
MF	Minister of Finance
MITI	Ministry of International Trade and Industry
MoF	Ministry of Finance
MNC	Multinational National Corporation
MRCB	Malaysian Resources Corporation Berhad
MYR	Malaysian Ringgit
NEP	New Economic Policy
NFOEs	Non-Financial Public Enterprises
NUTE	National Union Telecommunication Employees
OBA	Off-Budget Agencies

PE	Public Enterprise
PM	Prime Minister
PMP	Privatisation Masterplan
PNB	Permodalan Nasional Berhad (National Equity Corporation)
PTF	Privatisation Task Force
RMAF	Royal Military Air Force
ROA	Return on Assets
SBU's	Strategic Business Units
SEACOM	South-East Asia Commonwealth
SGM	Senior General Manager
SOE	State Owned Enterprises
SOF	Senior Officials
STM	Syarikat Telekom Malaysia
TC	Technical Committee
TM	Telekom Malaysia
TNB	Tenaga Nasional Berhad
UMNO	United Malaysian National Organisation

## Chapter One Introduction

### 1.1 Statement of the Problem

The commitment to privatisation in Malaysia can be traced to the early 1980s following the accession of Dr. Mahathir to the premiership. When announced in 1983, Malaysia's privatisation appeared to represent a dramatic change in the New Economic Policy (NEP), which when introduced in 1970, had supported the establishment of a large number of state organisations. By 1980 there were over 120 parastatal organisations through which the government was able to pursue one of the principal objectives of the NEP, namely the redistribution of income in favour of the Bumiputra community.<sup>1</sup>

Dissatisfaction with the performance of state enterprises was given as the major reason for the policy switch to privatisation.<sup>2</sup> A key feature of the NEP was that income redistribution would be achieved from future income generated by high growth rates, targeted at 8 per cent per annum. To some extent the NEP achieved this objective in the 1970s with an average annual growth rate of 7.9 per cent per annum. However, in the 1980s following the second round of OPEC oil price increases in 1979, the Malaysian economy, very open to external influences, followed the rest of the world into recession. By 1985 Malaysia was experiencing negative economic growth and in the same year Dr. Mahathir clearly enunciated Malaysia's goals of privatisation.

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<sup>1</sup> Bumiputra refers to the native Malays and other indigenous groups living in Malaysia. They currently constitute approximately 55% of the total population of the country.

<sup>2</sup> Md. Salleh, Ismail (Prof), "The Privatisation of Public Enterprises: A Case Study of Malaysia". In *Privatisation And Public Enterprises : The Asia Pacific Experience*", Geeta Gouri (Eds), Institute of Public Enterprises, Hyderabad, 1991, Chapter 37.



These goals of privatisation were stated in a published paper "Guidelines on Privatisation" (EPU, 1985) as follows:<sup>3</sup>

"Privatisation has a number of objectives. First, it is aimed at relieving the financial and administrative burden of the Government in undertaking and maintaining a vast and constantly expanding network of services and investments in infrastructure. Second, privatisation is expected to promote competition, improve efficiency and increase the productivity of the services. Third, privatisation, by stimulating private entrepreneurship and investment, is expected to accelerate the rate of growth of the economy. Fourth, privatisation is expected to assist in reducing the size and presence of the public sector with its monopolistic tendencies and bureaucratic support, in the economy. Fifth, privatisation is also expected to contribute towards meeting the objectives of the New Economic policy (NEP), especially as Bumiputra entrepreneurship and presence have improved greatly since the early days of the NEP and they are therefore capable of taking up their share of the privatised services."

The first four objectives could be identified with the concept of privatisation espoused within a wide range of literature and growing practices within developed countries. On the other hand, the inclusion of the redistribution objective differed markedly from generally established views, which prompted Milne to emphasize the uniqueness of the Malaysian privatisation policy.<sup>4</sup>

Although the Malaysian government clearly identified its principal reasons for privatisation, it failed, perhaps deliberately, to prioritise them, or place particular emphasis on any particular goal.

This thesis sets out to show that in practice the Malaysian government has, in the case of Telekom Malaysia (TM), overwhelmingly promoted the bumiputra

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<sup>3</sup> Government of Malaysia (January, 1985), "Guidelines on Privatisation", Economic Planning Unit, Prime Minister's Department, Kuala Lumpur.

<sup>4</sup>R.S. Milne, (1986) "Implications and Prospects: Privatisation in Malaysia", Euro- Asia Business Review, Volume 5 (1), January, pp.21-24.

redistributional goal as its primary objective. Moreover, in pursuing this objective, the government has ignored its other stated goals of privatisation, such as long-term growth, efficiency, productivity, market orientation and reduced government interference. Indeed, the thesis will show that in reality the Malaysian government has actively pursued policies contrary to many of its stated goals of privatisation, by denying the evolution of strategic management practices consistent with those normally advocated by private enterprise. Instead of an independent decision making body, the top management of TM are little more than acquiescent political appointees, who for the most part, passively accept directives from the government. On the rare occasion where there has been a challenge to government policy this has been quickly snuffed out by the Ministry of Finance. As a result, TM has been allowed little or no autonomous decision making. It has not been allowed to alter its pricing structure, and has been restricted in its ability to raise development expenditure. Consequently, the thesis argues that TM is underfunded and is unlikely to achieve its stated goals of achieving telephone penetration rates per capita comparable with other higher income economies, by 2005. Increasing political interference, rather than less, since privatisation in 1990 appears to have been the main reason why the Executive Director (ED), Dr. Syed Hussein, resigned in mid-1993, apparently in disagreement over policy decisions imposed on TM by the government.

A review of privatisation and strategic management literature is used to establish what may be considered the mainstream academic thinking on these subjects. This is then used to evaluate the performance of TM and the evolution of its management structure as it was transformed from a government department to a government-owned corporation, and finally to its flotation in 1990 as a private enterprise, or perhaps more correctly a partially privatised entity, since the government through the Minister of Finance (Incorporated) retained 76 per cent of the shareholding.

## **1.2 Approach For Solving the Problem**

To develop an approach for addressing the problems raised, five major areas of research were undertaken in this study, including one which is concerned with the pre-privatisation period. This covers the period prior to corporatisation in 1987 of the Malaysian Telecommunications Department or Jabatan Telekom Malaysia (JTM) to flotation and privatisation in November, 1990 of the government-owned company known as Syarikat Telekom Malaysia (STM). This area of research is of primary importance, since major decisions implemented by the government and top management of JTM and STM respectively during that period have had major implications for the operational status of the company, post-privatisation.

The first area of research was concerned with the rationale and reasons for the adoption of privatisation in Malaysia, as reflected in the formulation and declaration of the privatisation policy in 1985, the Privatisation Masterplan (PMP) in 1991, and privatisation as a national efficiency strategy in the government's long-term policy of Vision 2020. This review was particularly relevant as a basis of assessing whether privatisation policy as applied in the telecommunications sector was based on the mainstream view of privatisation as applied in the UK and the advanced countries.

The second area of research was to trace the behaviour and decisions of both government and top management of JTM in the effort to provide and maintain an efficient and effective telecommunications service to support economic growth in the country. This included the path taken by government towards the privatisation of the Malaysian Telecommunications Department before January 1, 1987, when the department's operation was transferred to a wholly-owned government company, Syarikat Telekom Malaysia (STM). This review was particularly important to compare and evaluate the approach taken before and after privatisation.

The third area was to trace the strategy or approach of both the government and top management in the telecommunications company after it was floated and privatised, to evaluate whether it was consistent with the stated goals of the privatisation policy, based on the national development philosophy of long-term growth with equity.

The fourth area explored was the corporate strategy framework which is desirable for privatised TM to achieve its intended performance within the context of trying to satisfy multiple but conflicting government objectives. Research in this area included a review of the current literature of corporate strategy, with the specific purpose of identifying the appropriate management framework to be adopted by TM to achieve its desired performance.

The fifth and the final area of research was a survey of the perceptions or views of relevant government officials and top management of privatised STM/TM regarding what they considered to be the order of priorities among the five stated goals or objectives of privatisation for achieving TM's desired performance.

Such a survey would be relevant to ascertain whether government and management as a team adopted a consistent and long-term view to achieving long-term goals, within the context of achieving the overall privatisation objectives. An important conclusion that can be drawn from such a survey is that any split or conflicting views among key executives of TM, on what ought to be the strategic priorities for achieving TM's long-term goals, would obviously reflect the existence of a divisive element within TM that would undermine the ability to adopt an independent policy to achieve the stated goals.

### **1.3 Objectives of the Study**

A review of the literature on both telecommunications policy and privatisation policy in the developing world reveals that there has been little research in this area addressing the implications of policies formulated and implemented at the macro (national) level on strategic decisions at the micro or (privatised company) level. This study, which seeks to fill this gap, has several objectives.

The primary objective of this study is to:

identify the major problems and challenges faced by top management of the privatised TM in achieving its long-term goals, and to propose an appropriate management approach or strategy to be adopted by its top management, in particular, its CEO, for achieving its long-term goals in the context of multiple privatisation objectives.

The secondary objectives of this study are:

1. to examine the rationale of the Malaysian government for adopting privatisation, the premise of the privatisation policy that it has formulated, and the stated goals of the policy it tries to achieve in the context of national development. In this regard, Malaysia's privatisation objectives are compared with those of other developing and advanced countries, in particular, the United Kingdom.
2. to examine the actual privatisation process as applied to the government telecommunications department. It is a premise of this study that both the government and top management would pursue their respective stated objectives in order to achieve desired long-term performance. This involves investigation of a wide range of strategic decisions and processes of both the government and

top management of privatised TM, and in particular, their consistency or otherwise, with previously stated privatisation goals.

It is hoped that the findings of this study would serve as practical guidance to both government and top management of privatised entities as well as other privatised government-owned corporations which are operating within an environment of government control.

For the purposes of this research, the main interest groups, i.e. the government, top management of TM and bumiputra entrepreneurs are defined as follows:

(1) Government

The Federal Government of Malaysia. This includes those political executives holding office in the Ministries and senior government officials who act as their advisors in Ministries and Departments of the Federal Government of Malaysia. These include the Prime Minister, Deputy Prime Minister, Minister of Finance, Parliamentary Secretary of the Ministry of Finance, Minister of Energy, Telecommunications, and Post and senior civil servants of the Ministry of Finance or Federal Treasury, the Ministry of Energy, Telecommunications and Post (METP), the Economic Planning Unit (EPU), Malaysian Telecommunications Department (or JTM Regulator), the Ministry of International Trade and Industries, the Public Services Department of Malaysia, and civil servants appointed by the government as the non-executive members of the board of TM.

(2) Top management of TM

(i) Executive and non-executive board of directors and their alternate directors. The executive board of directors include the Executive Chairman (CEO), the Executive Director (ED) (also referred to as the Chief Operating Officer) and Executive Director of Finance (ED of Finance).

(ii) Senior executives employed on a full-time basis by TM who were appointed members of the Management Committee Meetings (MCM) of Telekom Malaysia (TM). MCM is the highest committee of executive directors and senior executives of TM which is chaired by the CEO. Its main function is to advise the board of directors and Minister of Finance on major policy decisions of the corporation.

(3) Bumiputra entrepreneurs/executives

Owners and senior executives of bumiputra-owned companies which are currently carrying out various forms of entrepreneurial activities in the telecommunication industry. These include registered bumiputra contractors and suppliers of telecommunications equipment and facilities with TM, and also existing and potential operators of telecommunications services which have been licensed by the government to operate telecommunications services, either in the fixed or mobile network or both, and therefore, constitute TM's existing and future competitors in the industry.

#### 1.4 The Research Questions

The question that prompted this study can be stated as follows:

Is TM actually privatised, and is its top management able to pursue independently its long-term goals and in the process able to reconcile the five stated privatisation goals based on long-term growth with equity?

The research reported in this thesis could reasonably be interpreted as an investigation of issues relating to the management of public enterprises, rather than privatisation. This arises from the fact that only a minority of TM equity has been transferred to private ownership: the government has retained majority ownership and control. The thesis is therefore providing a detailed and informative case study in the area of public enterprise reform, and illustrates the fundamental problem in public enterprise policy, of balancing management accountability and autonomy.

In order to address this question, it is necessary to ask several questions focusing on issues of privatisation in Malaysia, its application in the telecommunications sector, and the actual strategic decisions and behaviour of both the government and top management of the privatised TM in their pursuit of balanced achievement of privatisation and long-term corporate goals.

Conceptually, the study begins by asking the following questions: what is privatisation in general as compared to that in Malaysia? What are the actual strategic priorities of the privatisation goals or objectives of both the government and top management of privatised TM for achieving their stated goals?

Answering these questions is not as simple as asking those involved in determining what is or ought to be the strategic priorities for achieving TM's long-term performance. Obviously, it requires identifying those involved in the government and top management, and examining the actual decisions and processes made by both government and top management of TM to achieve long-term goals.



TM was chosen for the research because of its importance as the first and major government department to be privatised. Further, TM operates in one of the most important sectors of the economy, the telecommunications sector, which provides the telecommunications infrastructure for both public and private sectors. When the company was being prepared to be privatised, the government assumed that "improved management practices and aggressive marketing" would enable it "to shift from basic telephone service into advanced business services to support the move towards higher value-added manufacturing and service-oriented services" (Malaysia, Sixth Malaysia Plan, p.284). As TM has inherited from former JTM the task of developing and maintaining the telecommunication services of the nation, it might be expected that on privatisation it would be able to evolve as a leading private sector entity, and to act independently in pursuit of its long-term goal as expressed in Telecommunication Vision 2005, a corporate response to the Prime Minister's 'Vision 2020'.

In this regard, research on the current behaviour and practices of both, government and top management of privatised TM would be crucial to determine whether they were supportive of achieving this mission, at the same time reflecting the balanced achievement of privatisation goals based on long-term growth with equity.

### **1.5 Methods of Study.**

The study traces events from the pre-privatisation period when JTM operated as a government department after the country gained political independence in 1957, until the end of 1994, by which time TM had been privatised for approximately four and a quarter years.

A combination of case study method and semi-structured interviews using open-ended questionnaires was adopted, to provide the flexibility needed to obtain the

relevant information from different individuals occupying various top positions in government and the privatised STM/TM. Bearing in mind the sensitive nature of the research, an application of a standard and rigid approach or style during interviews would have been likely to jeopardise their willingness to discuss matters openly especially as this might involve criticism of decisions already made by the government or the privatised entity. In this respect, the open-endedness of the research questionnaires, which allows a more flexible approach to be adopted by the researcher in various stages of information gathering, was found to facilitate obtaining responses from the wide range of individuals in both the government and STM/TM. Further, as the data to be obtained and analysed would be highly qualitative, thus, a qualitative approach to data collection involving both the case study method and semi-structured interviews was considered appropriate.

#### **1.6 Research & Interview Strategy.**

The strategy employed by the researcher throughout the fieldwork was one based on presenting a positive perspective of the potential contribution of the study to both government and the privatised entity, TM. It was stressed to respondents that the study, which was based on examining and analysing the actual behaviour and practices of both government and top management of TM, would serve to contribute towards an understanding of what ought to be the desired approach or strategy in the sector for achieving long-term goals. Further, during the fieldwork effort was made to promote the study as not conducted purely for the purpose of satisfying the academic requirements for obtaining a higher degree, but rather as an important forum in which those involved in the privatisation could contribute towards an overall understanding of the problems and challenges facing privatised entities as a whole, in the process of

achieving long-term goals based on the national development philosophy of long-term growth with equity.

#### Interviews:

As most interviews were conducted on the condition of confidentiality, interviewees are not cited throughout the text of the thesis, although general attributes of sources are noted when beneficial. These procedures have been adopted in a number of academic writings about Malaysia such as Lowe and Jaafar (1982); Machado (1989), and Kennedy (1990). Except where an assertion has been attributed to an individual speaker, information obtained through interviews was verified through interviews with multiple sources.

The following steps were also undertaken to ensure effectiveness of the fieldwork to be conducted:

- (i) obtaining the relevant information in a timely manner through maintaining direct contact with the source;
- (ii) encouraging maximum and effective participation of respondents by instilling their confidence in the researcher's ability to handle major issues relating to decisions which have been by government, top management, and bumiputra entrepreneurs;
- (iii) assuring potential respondents of the value of their contribution and that their identity would not be revealed in the thesis;
- (iv) sequencing the interviews in such a manner as to facilitate information collection. Further, they were structured to avoid would-be respondents being deterred from participating because of fear that what they said might be inconsistent with what had been said by their superior officers.

## **1.7 The Research Fieldwork.**

The fieldwork was conducted in two phases as follows:

- (i) phase 1 : September - November, 1991 (14 weeks).
- (ii) phase 2 : July - November, 1992 (16 weeks).
- (iii) In addition, further information was continuously obtained from relevant sources in the organisation concerned after the researcher returned to the U.K. This was to incorporate the latest developments in the relevant issues to achieve the objectives of the research.

### **1.7.1 Phase 1 (September-November, 1991).**

The first phase commenced after the researcher received official approval from the Secretariat of Privatisation Task Force Unit (PTF) of the Economic Planning Unit (EPU) for a three-month official attachment at the organisation.<sup>5</sup> During phase 1 the following information was obtained:

#### **From EPU:**

- (i) the rationale and reasons of government adopting privatisation to replace public enterprises, as an alternative approach to national development;
- (ii) the overall objectives of privatisation, and the government's approach and priorities in privatisation as based on the Privatisation Master Plan (PMP);
- (iii) the existing administration and implementation machinery for implementing the overall privatisation programme;

#### **From the Ministry of Finance (MoF)**

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- (i) government's approach and expectations of TM;
- (ii) the rules and regulations governing the Ministry's presence and role in TM;
- (iii) appointments of board of directors and senior executives of TM, and their expected role and responsibilities in privatised TM;
- (iii) the Ministry's requirements and priorities in privatised TM. This involved major policy decisions pertaining to the financing of major projects or capital investments and the selection of major contractors to implement them.

From JTM- Regulator

- (i) the historical perspective of Telekom Malaysia (TM) in the pre privatisation era (or during the time of former Jabatan Telikom Malaysia) (JTM) (from 1957 until prior to 1987);
- (ii) events and issues surrounding the preparation for the privatisation of STM/TM during the transitional period (after 1987 up to - November, 1990);
- (iii) the specific responsibilities and role of JTM Regulator as the new regulatory body of the industry after the 'corporatisation' of former JTM in 1987;
- (iv) a general overview of senior officials' perspective on the privatisation policy and how it was pursued in the sector in the post-privatisation period, after November, 1990.

From Syarikat Telekom Malaysia (STM)/ Telekom Malaysia (TM).

- (i) top management's (including members of the board and senior executives) problems and achievements in pursuing long-term goals of TM. This included their perceptions of TM's current and future position in the sector as well as the government approach and priorities for achieving TM's long-term goals.

### **1.7.2 Phase 2 (July - November, 1992).**

Phase 2 of the field work was conducted within a period of 16 weeks, involving both case study and interviews held with the senior officials and their supporting staff. These included previous and current members of top management of TM, government officials in selected Ministries and Federal Departments and government agencies involved in the planning and implementation of privatisation policy, including privatisation in the telecommunications sector.

In this phase the researcher pursued an in-depth study of both the government and top management's approach and decisions in the privatisation of TM.

The information collected in this phase included the following:

- (i) the government and top management's decisions in preparation for the privatisation of TM;
- (ii) problems and difficulties facing top management of TM in the post privatisation era;
- (iii) the overall views and perceptions of senior government officials and members of the board and senior executives of TM

### **1.8 Interviews and other sources of information.**

Interviews were conducted at the government level as well as at the telecommunications sector level, including the privatised STM/TM and other private operators who have been given the licence to operate in the sector.

The main purposes of the interviews were two-fold. First, the interviews conducted at government level were to obtain information on previous, current and future decisions and practices of government, as well as problems faced by the government with regard to privatisation, in general, and as implemented in the telecommunications sector, as a whole, and in Telekom Malaysia, in particular.

Second, the interviews conducted at the sector level, including the corporate level, were to obtain information on previous, current and future decisions of top management of TM, as well as problems and challenges faced by them in achieving their own ambitious goal of Telecommunications Vision 2005. Interviews were held with senior executives of other companies operating in the sector, to obtain their overall views regarding what ought to be TM's desired priorities and performance, as well as government priorities to achieve the privatisation goals.

It is to be noted that during the interviews, the researcher also randomly selected senior government officials, top management and senior executives and supporting officials to seek their respective views on what they perceived or viewed as the desired order of priorities among the five stated privatisation goals for achieving TM's long-term goals. This survey of perceptions and views was emphasised in the context of achieving long-term goals within the context of 'long-term growth with equity'- the national development philosophy of Malaysia. (see Appendix 1 for list of organisations and corporations whose previous and existing officials were interviewed in the study).

The other sources of information collected for the purpose of this study include - (i) press reports; (ii) Government documents; (iii) Company documents; (iv) Library research; (v) informal and formal meetings with other officials in related government organisations; (vi) official reports prepared by consultants commissioned by the concerned organisation; (vii) published official and non-official documents on

privatisation; (viii) non-government documents, including a wide range of materials like articles and working papers published in nationally-circulated magazines and journals, research reports on privatisation and also privatisation of Malaysian Telecommunications Department (ix) seminars - the researcher also attended seminars on privatisation organised jointly by the government and the private sector.

### **1.9 Scope and Limitations of the Study**

The purpose of this research is not to arrive at specific conclusions from the decisions, practices and behaviour of top management of TM and government to be applied to other corporate settings. Rather, it is to draw lessons to guide top management of TM and also those operating in a similar corporate setting dominated by government as to how effectively to pursue and influence the government to take a long-term approach towards achieving long-term corporate goals, consistent with the government's goals of long-term growth with equity.

This research is only concerned with selected major practices, decisions and behaviour of government and top management of TM that have affected and will continue to affect the process of achieving TM's desired performance in the context of Privatisation Policy and also the long-term policy of Vision 2020. Therefore, future research, as stated in chapter 6, would be required to analyse government priorities and achievements in other aspects of the implementation of the privatisation policy, to arrive at a more general conclusion regarding government privatisation in the context of Vision 2020.

### **1.10 Organisation of the Thesis.**

This thesis is divided into six chapters. These are as follows:



Chapter 1: Introduction, presents an overall perspective of the Malaysian privatisation policy and the actual privatisation of the Malaysian Telecommunications Department or Jabatan Telikom Malaysia (JTM). This chapter outlines the objectives of the study, its scope and limitations, and the organisation of the thesis.

Chapter 2: Literature Review on Privatisation, deliberates on privatisation as an approach to development in both developing and advanced economies. The chapter also seeks to investigate whether privatisation in Malaysia is consistent with the mainstream view of privatisation as implemented in other developing and advanced economies, particularly in the UK.

Chapter 3: Literature Review on Strategic Management, discusses the theoretical framework of the study based on the stakeholder approach to strategic management. Based on Freeman's (1984) emphasis that this concept is an action-oriented corporate response for managing and satisfying of multiple stakeholders' stakes to achieve corporate goals or objectives, this chapter proposes that the stakeholder approach to strategic management is relevant to top management of TM, to influence its major stakeholder, the government, to adopt a long-term approach for achieving corporate goals based on long-term growth with equity.

Moreover, as the top management of TM is currently operating in a highly competitive environment, competing with those who represent the major beneficiaries of privatisation and also those who compete with TM to satisfy the same stakes of the government, this requires top management of TM to adopt an action oriented approach or strategy to influence the government, as a major

stakeholder, to sacrifice short-term gains in favour of long-term growth with equity.

Chapter 4: Historical Perspective of JTM during the Pre-privatisation Period, covers a thirty-year period of operations as a government department (1957-1987) followed by nearly four years when operations were "corporatised" or transferred and managed by STM, until the company shares were finally floated and the government divested some 20% of the issued shares to approved parties to mark the privatisation of the industry in November, 1990.

Chapter 5: Post-privatisation of TM, discusses the strategic decisions, practices and behaviour of both government and top management of TM. This chapter aims to evaluate whether the two parties' actions were consistent with achieving their respective stated long-term goals or objectives in TM. Discussion is also presented of the views of selected government officials, members of top management of privatised TM and senior executives of bumiputra-owned firms, including their supporting staff regarding the preferred order of priorities among the five stated privatisation policy objectives or goals.

Chapter 6: Summary of Findings and Conclusions, seeks to present the overall findings of the study, and to recommend to both government and top management of TM, the general approach they ought to take to achieve their own stated goals in the context of the Privatisation policy and Vision 2020. Also, suggestions are made for future research in specific areas, in order to evaluate the privatisation process in the country and the problems and achievements encountered in achieving long-term goals within the context of national development.

### **1.11 Conclusion**

This study seeks to examine and evaluate the decisions and practices of both government and top management of a partially privatised TM in the pursuit of their own stated long-term goals. More specifically, this study examines whether government has effectively pursued a balanced approach to its five stated goals in privatising its telecommunications department, and whether top management of the partially privatised entity are able to respond efficiently and effectively to market forces and develop an advanced telecommunications system comparable with those existing in developed economies, by the year 2005.

## Chapter Two

### **Privatisation In Malaysia.**

#### **2.1 Introduction.**

This chapter opens with a literature review on privatisation, in general, to establish the mainstream view of privatisation in both developing and industrialised economies. Then, it goes on to explore how privatisation is being pursued in the developing economy of Malaysia, with a special emphasis on the reasons for its adoption, the objectives it seeks to achieve and the manner in which it is being implemented to achieve those specified objectives. This chapter also critically examines the uniqueness of the privatisation policy being pursued in terms of achieving a balanced performance of efficiency, growth and equity and the problems it may create for strategic management, in the sense that trade-offs may be necessary to take into account all these stated objectives.

#### **2.2 Literature Review on Privatisation.**

Privatisation has been implemented widely in both developed and developing economies to achieve a multiplicity of objectives (Heald and Steel, 1982).<sup>1</sup> Its methods of implementation range from the sale or denationalisation of a state-owned activity to the leasing or contracting-out of a government function (Heald, 1985).<sup>2</sup> The broad

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<sup>1</sup>D. Heald and D.R. Steel (1982), "Privatising Public Enterprises" An analysis of the Government's case", Political Quarterly, Vol. 53, 1982, pp.333-349.

<sup>2</sup>D. Heald (1985), "Privatisation: Policies, Methods And Procedures", A paper presented to the conference on "Privatisation: Policies, Methods And Procedures", organized by Asian Development Bank, held in Manila on 31 January-1 February, 1985. Referring particularly to developing economies, he stressed that in the implementation of privatisation, such issues as competition policy, laws and institutions for the (to-be-enlarged) private sector, tariff policies and taxation policies all become central.

reason for interest in privatisation is that "governments are searching for new ways to mobilise resources and for ways to use more effectively the resources they have" (Berg, 1987).<sup>3</sup>

Development economists argue that there exist fundamental differences in the manner in which privatisation is being implemented in the developing and industrialised economies to achieve desired objectives. But, in general, privatisation has been considered as a package of economic reforms designed to improve economic performance in both types of economy, and in particular, to replace those public enterprises which failed to achieve stated development objectives (Heald, 1988).<sup>4</sup> Thus, an understanding of the poor performance of public enterprises may serve as practical guidance to the future effectiveness of privatisation both in the developing and industrialised nations.

### 2.3 Defining Privatisation.

Privatisation has been defined both in a narrow and in a broader perspective.<sup>5</sup> Beesley and Littlechild (1983), in a rather narrow, legalistic sense, have defined the term privatisation to mean:

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<sup>3</sup>Berg, Elliot (1987), "Privatisation: developing a pragmatic approach", Economic Impact, No. 57, 1987, pp.6-11.

<sup>4</sup>David Heald (1988), "The Relevance of UK Privatisation for LDCs", In Privatisation In Less Developed Countries edited by Paul Cook & Colin Kirkpatrick, Harvester Wheatsheaf, Great Britain, 1988.

<sup>5</sup>V. Bashkar, "Privatisation and the Developing Countries: The Issues and the Evidence", Discussion papers No.47, August 1992, United Nations Conference On Trade And Development, UNCTAD/OSG/DP/47.

"the formation of a Companies Act company and the subsequent sale of at least 50 percent of the shares to private shareholders."<sup>6</sup>

Heald (1985) describes privatisation in terms of several characteristic features (i) substitution of market systems of allocation for non-market systems, (ii) the switching of the source of financing for a good or service from taxation to user charges, (iii) privatisation of production without privatising financing, (iv) denationalising and load-shedding, where these terms are used to refer, respectively, to the selling-off of public enterprises, and the (partial) abandonment of public non-market functions."<sup>7</sup>

Marston (1986) in a much broader view, describes privatisation as:

"the process by which government or its designated representative considers the feasibility of transferring functions and facilities from a public to a commercial operation, and if appropriate, takes action to accomplish a transfer".<sup>8</sup>

Kay and Johnson (1986) state that in the United Kingdom, the term privatisation is used to cover :

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<sup>6</sup>Michael Beesley and Stephen Littlechild, "Privatisation: Principles, Problems and Priorities", *The Lloyds Bank Review*, No. 149 (July, 1983), pp.1. The author concludes that privatisation is not primarily a matter of selling shares in a nationalized industry but rather its underlying intent is to improve industry performance through increasing of market forces. This calls for such devices to promote competition.

<sup>7</sup>David Heald (1985), op.cit.

<sup>8</sup> Marston, Lance. "Preparing For Privatisation", a paper presented at the International Conference on Privatisation, held in Washington, D.C., 17-19 February, 1986. The author is a practitioner and at that time was the Vice- President and Director of Government Consulting, The Hay Group. His paper concluded that there is no text that one can learn to carry out the "perfect privatisation" and it can only be achieved through experience.

(i) denationalisation (the sale of publicly owned assets), (ii) deregulation (the introduction of competition into statutory monopolies), and (ii) contracting out (the franchising to private firms of the production of state financed goods and services).<sup>9</sup>

Cook & Kirkpatrick (1988) define 'privatisation' as :

"...a range of policy initiatives designed to shift the balance between the public and private sector in the economy."<sup>10</sup>

In the context of Malaysia, Thillainathan (1983) defines privatisation to include:

"...also the case where only 50% or even less of the assets or shares are sold to such private shareholders".<sup>11</sup>

Craig (1988) suggests that in Malaysia, privatisation is defined very widely and that it involves a process by which the government will systematically examine any proposal for private sector involvement throughout the public sector.<sup>12</sup>

Prager (1992) argues that privatisation can mean a variety of policy initiatives, where on the simplest level it involves "a transfer of ownership: the government bows out and the private sector enters", while in the contemporary setting, "ownership and control are not necessarily synonymous, and it is control that determines results".

Privatisation in the context of both developing and industrialised economies has thus become somewhat of an umbrella term for a wide range of options including not

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<sup>9</sup>Kay, J.A. & D.J. Thompson, "Privatisation: a policy in search of a rationale", The Economic Journal, Vol.96, No.381, (March, 1986), pp.118-132.

<sup>10</sup>see Paul Cook and Colin Kirkpatrick, "Privatisation in Less Developed Countries", Harvester Wheatsheaf, Hertfordshire, 1988.

<sup>11</sup>R. Thillainathan, "Privatisation in Malaysia: Guidelines For Appraisal and Action", a paper presented at the Malaysia Economic Association Seminar on *'The Implementation of the Malaysia Incorporated Concept'*, August 25, 1983, Kuala Lumpur.

<sup>12</sup>J. Craig (1989), "Privatisation In Malaysia: Present Trends and Future Prospects", in Paul Cook and Colin Kirkpatrick (eds.), Harvester Wheatsheaf, Great Britain.

only the sale of public sector assets to the private sector but also deregulation, liberalisation and franchising (Bishop and Kay, 1989).<sup>13</sup> Where privatisation policy objectives have been defined broadly, Schwartz (1992) has shown that policy-makers tend frequently to obscure the trade-offs that all policy makers face.<sup>14</sup>

## 2.4 The Rationale of Privatisation.

In general, privatisation has been adopted on the premise of the superiority of market forces over the public sector in achieving economic efficiency. It has gained significance as a policy instrument in economic development because of the growing empirical evidence from the USA that privately-owned companies make more efficient use of labour, capital, and other resources, and are also more innovative (De Alessi, 1974 and 1980).<sup>15</sup>

The rationale of privatisation in the LDCs has been towards the gradual replacement of public enterprises managed by public sector managers. After these enterprises are privatised they are managed by either the same managers or new

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<sup>13</sup>see M.R. Bishop and J.A. Kay, (1989) 'Privatisation in the United Kingdom: Lessons from the Experience', World Development, Vol.17, No.5, pp. 643-658.

<sup>14</sup>see Gerd Schwartz, "Privatisation in Eastern Europe : Experience And Preliminary Policy Lessons", a paper prepared and presented to the *Conference On Post Privatisation Policy And Performance: International Perspectives*, organised by the Development And Project Planning Centre, University of Bradford and the Institute for Development Policy and Management, University of Manchester, at the University of Bradford on 6-7 March 1992. The paper, based on the experience of selected Eastern European countries, generally describes some of the fundamental problems of large scale privatisation, elaborates on the unresolved policy choices, and makes some preliminary conclusions on the desirable properties of privatisation schemes for such economies in transition.

<sup>15</sup>L.De Alessi, "An Economic Analysis of Government Ownership and Regulation", Public Choice, Vol.XIX, Fall 1974.  
L.De. Alessi, "The economics of property rights: A Review of the Evidence", Research in Law and Economics, Vol.2, 1980.





professional managers from the private sector or a combination of both, in order to attain the desired level of economic efficiency.<sup>16</sup>

There are those, however, who have reservations regarding the future potential of privatisation. Fischer (1988) argues that there is nothing intrinsically superior about performance under private ownership based on the relationship of efficiency and ownership, while Millward (1988) concludes that "there is some very limited scattered evidence that productivity may be lower in the public sector but public enterprises can be found at the top as well as the bottom of the range and more studies are needed to permit any general conclusions".<sup>17,18</sup> Performance turnaround of enterprises such as British Airways, British Steel, etc., has occurred whilst they were still in the public sector.

Yarrow (1986) states that privatisation may lead managers to place greater emphasis on profit goals, but whether this will result in an increase of economic efficiency depends upon both the degree of competition in product markets and the firm's regulatory environment.<sup>19</sup>

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<sup>16</sup>David Heald (1988), "The Relevance of UK Privatisation for LDCs", In *Privatisation In Less Developed Countries* edited by Paul Cook & Colin Kirkpatrick, Harvester Wheatsheaf, Great Britain, 1988.

<sup>17</sup>see Bernhard Fischer (Kiele Institute of World Economics and Organization For Economic Co-operation and Development), "Public Enterprises In Developing Countries: Market Structure, Competition, Efficiency And The Scope For Privatisation", *Malaysian Journal of Economic Studies*, Vol.xxv no.2 (December 1988), pp.46-61, dealing with some practical problems associated with privatisation in developing countries.

<sup>18</sup>Millward, R. (1988), " Measured Sources of Inefficiency in the Performance of Private and Public Enterprises in LDCs". In Cook and Kirkpatrick (eds.), "Privatisation in Less Developed Countries", Harvester Wheatsheaf, Great Britain.

<sup>19</sup>see Yarrow, George. 1986. "Privatisation in theory and practice." *Economic Policy*, No.2, pp. 324-377.

Cook and Kirkpatrick (1988)<sup>20</sup> propose that public sector reform rather than privatisation may contribute towards improving the economic efficiency of poor performing public enterprises in LDCs, and suggest the following:

- (i) " ..the granting of greater operating autonomy to public enterprises.....with clearly specified objectives in terms of which performance can be measured."
- (ii) " ...to reform the system of incentives to enterprise management, with rewards being more directly related to performance...."
- iii) "...a measure of `rehabilitation', involving investment in rationalisation and modernisation of the sector."

Cook & Kirkpatrick (1988), Hemming and Miranda (1991) and van Brabant (1992) emphasise that privatisation will cause improvements in allocative and productive efficiency only if the new private ownership is subjected to real competition.<sup>21 22 23</sup>

Prager (1992) cautions that from an efficiency point of view, the effectiveness of privatisation will depend upon the degree to which it meets the twin goals of private ownership and competition. Hence, if the state sells only a minority interest in a privatised entity, "nothing really has changed" and it is merely "collecting cash without losing control".<sup>24</sup>

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<sup>20</sup>see Paul Cook and Colin Kirkpatrick (1988), op.cit., p.32.

<sup>21</sup>see Paul Cook and Colin Kirkpatrick (1988), op.cit.

<sup>22</sup>see Hemming, Richard and Kenneth Miranda (1991), "Privatisation" In Public Expenditure Handbook, Ke-young Chu and Richard Hemming (eds.), Washington, DC: International Monetary Fund, 1991, pp.139-145.

<sup>23</sup>Jozef van Brabant (1992), "Privatisation in Transitional Economies", paper presented to the Conference 'On Post Privatisation Policy and Performance: International Perspectives' on 6-7th March 1992, University of Bradford.

<sup>24</sup>Jonas Prager (1992), "Is Privatisation a Panacea for LDCs? Market Failure versus Public Sector Failure", The Journal of Developing Areas, 26 (April 1992), pp. 301-322.

However, in practice, there are real constraints on introducing competition in LDCs, since governments usually prefer not to take such economic or political risks which may lead to possible failure of privatisation strategies. Thus, a government may tend to postpone further privatisation and retain control in the partially privatised enterprise or introduce competition in a manner which does not pose a real threat to the privatised enterprise (Chwee Huat Tan, 1992 and Jones and Fadil, 1992).<sup>25, 26</sup>

## 2.5 The Multiplicity of Privatisation Objectives.

Privatisation usually has a multiplicity of objectives, some of which may be incompatible with each other. Its overall stated objectives are normally divided into profit and non-profit or economic and non-economic objectives.

In the United Kingdom, the Conservative government views the denationalisation of public industry as fulfilling a multiplicity of objectives. These include improving economic performance, increasing managerial efficiency, curtailing the power of public sector trade unions, and reducing the Public Sector Borrowing Requirement (Heald and Steel, 1982).<sup>27</sup>

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<sup>25</sup>Chwee-Huat Tan, (1991), "Issues and Problems In Privatisation: Comparison Among Southeast Asian Countries", Public Enterprise, Vol.11, No.4, p.323. He stresses that most governments would prefer partial privatisation through the sale of shares to ensure that future corporate decisions would be in line with government policy.

<sup>26</sup>see also Jones, L. and Fadil, Azim Abbas, "Case Studies for Malaysia," In World Bank conference on the Welfare Consequences of Selling Public Enterprises: case studies from Chile, Malaysia, Mexico, and the U.K. Washington D.C. 11-12 June, 1992.

<sup>27</sup>D.A. Heald and D.R. Steel (1982), op.cit.

It can be argued that pursuit of multiple objectives may reflect a lack of any clear purpose. This is partly due to a general tendency to include any objective which appears achievable. As a result, no objectives are effectively achieved. In particular, economic efficiency which might appear to be the most important has systematically been subordinated to other goals (Kay and Thompson, 1986).<sup>28</sup>

An important issue for both developing and developed economies concerns the prioritising of the multiple policy objectives of privatisation. In the case of partially privatised entities where government still maintains its majority shareholding and effective control of top management decision-making, they can be expected to operate in the same control environment as public enterprises which they are intended to replace as a key policy instrument in the economy.<sup>29</sup> In this case, the partially privatised entities are likely to be continually subjected to the same tensions between pursuit of economic or profit related objectives and non-economic or non-profit related objectives.

Hence, where privatised enterprises still remain under effective government control, top management's task of determining and implementing a consistent order of priority for achieving long-term corporate objectives is more complex, since it involves formulating and implementing a strategy within an environment dominated by the economic and political agenda of those in power.

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<sup>28</sup>Kay, J.A. & D.J. Thompson, "Privatisation : a policy in search of a rationale", The Economic Journal, Vol. 96, No. 381, (March, 1986), pp.118-132.

<sup>29</sup>Chwee-Huat Tan, (1991), op.cit.

## 2.6 Privatisation in the Industrialised Economies.

Privatisation in the United Kingdom has become a guide for its implementation elsewhere.<sup>30</sup> Weyman-Jones (1992) argues that the essence of privatisation in the absence of competition in the UK is the emergence of a powerful group of industry regulators.<sup>31</sup> In the case of British Gas, competitive threats to the privatised monopoly have been replaced by an effective regulatory regime installed to ensure customer benefits. For instance, OFGAS, the regulator, tries to replicate the consequences of competition.<sup>32</sup>

The privatisation of British Telecommunications conforms to the general concept of privatisation where the government has no effective control in the top management decision-making process of the privatised entity. The Conservative government, which initially retained ownership of large sections of the industry, later disposed of those shares to the public in stages so as to ensure the effectiveness of the capital market in absorbing the large amount of shares offered at any given time. Thus, the privatisation of British Telecommunications was characterised by a clear

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<sup>30</sup>The privatisation of British Telecom was specifically studied in different periods between 1983-1985 by the Federal Government of Malaysia for the purpose of preparing for the then proposed privatisation of Malaysian Telecommunications Department (Jabatan Telekom Malaysia, JTM).

<sup>31</sup>see Thomas G. Weyman-Jones, "Regulating The UK Electricity Utilities: The Issue Of Economic Efficiency", a paper presented and discussed at the proceedings of the conference on 'Post Privatisation Policy And Performance: International Perspectives held on March 6-7, 1992. The paper combines the economists' recent theoretical perspective on regulating the operation of public utilities of private ownership, and the lessons that could be learned from the actual privatisation of utilities in the UK.

<sup>32</sup>see James McKinnon, "Regulation In The UK", A paper presented in the conference on 'Post Privatisation Policy and Performance: International Perspectives' held on 6-7th. March, 1992 at The University of Bradford.

government policy of relinquishing its major interest and effective control of the privatised entity.<sup>33</sup>

Kay and Thompson (1986) argue that the interaction of ownership and competition should promote efficiency and that the primary obstacle to competition in the U.K. has been the opposition of incumbent management to any restructuring of their industries.<sup>34</sup>

On the methods of privatisation, Langton (1993) contrasts the proposed privatisation of loss-making British Railways through commercialisation or "franchising-off" profitable routes, to that of profit-making government-owned entities like British Telecom and British Gas, privatisation of which entailed stock market flotation of their shares, resulting in a quick pot of gold for the Treasury.

However, in general, the privatisation of public enterprises especially in the United Kingdom, basically revolves around the major issues of striking a balance between flexibility for operators (efficiency) and regulation to protect customers (consumer welfare or benefits).<sup>35</sup>

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<sup>33</sup>In contrast, the privatisation of Telekom Malaysia in November, 1990 was characterised by less than 20% of the issued shares being divested to the general public, and almost 80% of the shares being retained by the Federal Government, that is, Ministry of Finance Incorporated owned 76%, and Bank Negara Malaysia (The Central Bank of Malaysia) owned 4.5% (Telekom Malaysia, 1990 Annual Report).

<sup>34</sup>see Kay, J.A. and Thompson, D.J. 1986, Privatisation: A Policy in Search of a Rationale", Economic Journal, Vol. 96, No.381, March, pp.18-32.

<sup>35</sup>The Sunday Telegraph, 23rd. May, 1993.

## 2.7 Privatisation in Asia-Pacific/LDCs.

Privatisation in the Asian LDCs has been largely regarded as a panacea for ailing economies and recent events both in mixed and planned economies seem to indicate that denationalisation, divestment, and related options towards a privatisation syndrome could feasibly solve socio-economic problems and raise the standard of welfare for all.

Aylen (1987) emphasises that, "a programme of privatisation in a developing country is really a programme for reform".<sup>36</sup>

Research by the IMF (Premchand 1982; Floyd, 1982; and Short, 1983) indicates that privatisation in the LDCs is generally undertaken because of the poor performance of public enterprises. Further, the claim that public enterprises (PEs) in developing economies depend more heavily on public funds than their counterparts in the developed economies seems to suggest that, public enterprises which rely more on government funds are those likely to be privatised in developing economies.<sup>37</sup>

With regard to LDCs, Cook & Kirkpatrick (1988) and others emphasise that the slow pace of divestiture is due to the absence of a well-developed financial system, the uncertainty of economic benefits of privatisation, and resistance from certain interest groups, forming strong political constraints.<sup>38</sup>

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<sup>36</sup> Aylen, Jonathan, (1987) "Privatisation in Developing Countries", Lloyds Bank Review, No.163, January, pp.15-30.

<sup>37</sup> see A Premchand, "Government and public enterprises: budgetary relationships", DM/82/51, 1982; R.H.Floyd, "Some topical issues concerning public enterprises", DM/83/57, 1983; R.P. Short, "The role of public enterprises: an international statistical comparison", DM/83/84, 1983, Washington D.C., International Monetary Fund.

<sup>38</sup> Cook, P., and Kirkpatrick, C. (1988), op.cit., p.29. They pointed out that the absence of a well-developed financial system means that divestiture will have to be made by direct placement with local or foreign interests large enough to handle the transaction. The government may be unwilling, however, to have its assets transferred to certain groups of potential buyers, if it results in a further concentration of wealth.

Schwartz (1992) argues that the realisation of economic efficiency in LDCs is constrained by - (i) the privatisation of state monopolies where there is no incentive for effective regulatory policy to control anti-competitive behaviour; (ii) government intervention for correcting market failure associated with externalities, thereby justifying the continuing of government protection and subsidisation; and (iii) the uncertainty of outcomes from various deregulation measures undertaken, which would induce caution against further desire to increase competition.<sup>39</sup>

In addition, privatisation measures adopted to achieve redistributive and other social objectives would lead towards a more restrictive competition policy. It has been said that partial privatisation as opposed to complete privatisation of public enterprises is favoured by governments in the South-East Asian countries as it allows the governments to retain effective control (Chwee-Huat Tan, 1991).<sup>40</sup> This could be seen as a mere transfer of ministerial responsibility and accountability to the professional managers appointed to run the partially privatised entities, not accompanied by the desired managerial autonomy. This can also be termed as a distancing of government responsibility and accountability, although government effectively retains control of the decision-making process.

A regional study on privatisation in the Asia-Pacific countries reveals that it is being pursued as a package of policy reforms suitable to meet diverse situations (Geeta, 1991):<sup>41</sup>

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<sup>39</sup>see Gerd Schwartz, (1992), op.cit.

<sup>40</sup>Chwee-Huat Tan (1991), op.cit.

<sup>41</sup>Geeta Gouri (ed.) 1991a, "Privatisation And Public Enterprises" : The Asia- Pacific Experience", Institute of Public Enterprises, Hyderabad.



- (i) Australia : to reduce the dependency of public sector on government budgetary resources, where privatisation is characterised by the contracting out of the municipal and local government functions to private parties.
- (ii) Malaysia: an explicit linkage between objectives of privatisation and the distributional objectives of the NEP (New Economic Policy). Any privatisation transaction has to include a minimum of 30 per cent bumiputra participation. If individual bumiputra investors are not able to participate in such a transaction, the Amanah Saham Nasional (translated as National Unit Trust) managed by the Permodalan Nasional Berhad (PNB), an agent of the bumiputra community established by the government, is required to invest temporarily on their behalf.<sup>42</sup>
- (iii) the Philippines : a balancing of external payment account and reducing financial burden caused by loss-making PEs. Thus, privatisation involves industrial rehabilitation and protecting the entire economy from vulnerability to external pressures.
- (iv) Republic of Korea: to ensure a more equitable distribution of company shares among lower income groups on a preferential basis, where privatisation allows them to benefit as owners of successful enterprises.
- (v) Sri Lanka : the 'peoplisation' programme, i.e. privatisation is to protect against external influences for greater equity. The management of government-owned textile mills has been successfully contracted out to private firms.

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<sup>42</sup>see also Ibrahim, Abdul Khalid, (1987). "Privatisation and the NEP. Paper presented at National Conference on Privatisation, Kuala Lumpur, Oct., 26-27, 1987. Author is the CEO of Permodalan Nasional Berhad (PNB) (translated as National Equity Corporation). PNB was established in 1981 under the Yayasan Pelaburan bumiputra (translated as bumiputra Investment Foundation) which is chaired by the Prime Minister to pursue NEP objectives of promoting bumiputra interests in commerce and industrial activities in the economy. The PNB has been, and will continue to be given priority of equity participation in privatised corporations, especially when individual bumiputra investors are lacking to contribute towards the NEP.

The above study concludes, "...privatisation, yes! But privatisation not in the narrow conventional sense. Privatisation options have to be pursued in the context of dynamic national development'."<sup>43</sup>

Geeta et al. (1991b) highlight that the contradictions between efficiency and equity represent one of the major challenges for privatisation in Asia-Pacific economies.<sup>44</sup> They suggest a systematic approach to privatisation to ensure its effectiveness in achieving its desired objectives. This requires a clear indication of objectives to be pursued, and the priority of their ordering, especially where efficiency and equity are included.

## **2.8 Privatisation in Malaysia: Its Origin, Strategic Dimension and Implications.**

### **2.8.1 The Rationale for Privatisation:**

In Malaysia, the significant growth of the public enterprises sector is related to the New Economic Policy (NEP) launched by the government in 1970. This policy, which promoted direct government participation in the economy to achieve desired national objectives, has resulted in the establishment of various types of PEs in the country.

The Prime Minister in introducing the NEP in the Second Malaysia Plan (SMP) (1971-75) emphasised:

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<sup>43</sup>Geeta Gouri, T.L. Sankar, Y. Venugopal Reddy, Khalid Shams (1991b), "Imperatives and Perspectives" In *"Privatisation And Public Enterprises : The Asia-Pacific Experience"* edited by Geeta Gouri, Institute of Public Enterprises, Hyderabad, p.91-92.

<sup>44</sup>Geeta Gouri, T.L. Sankar, Y. Venugopal Reddy, Khalid Shams op.cit.

"The Plan is a blueprint for the New Economic Policy. It incorporates the two-pronged objective of eradicating poverty, irrespective of race, and restructuring Malaysian society to reduce and eventually eliminate the identification of race with economic function. In order to achieve this objective, the Plan contains new strategies, priorities, and programmes. In particular, it is intended that there should be more active and direct Government participation in commerce and industry, so as to make a meaningful contribution towards attaining of the economic and social goals."

[Prime Minister of Malaysia, Second Malaysia Plan].

Since the inception of the policy, PEs have been the main instruments of direct government involvement in the economy (Rugayah Mohamed, 1991).<sup>45</sup> However, in the 1980s, the government expressed its overall dissatisfaction with the performance of PEs, in particular, of their inability to contribute towards economic growth and the New Economic Policy objective (NEP) for which purpose they were established.

The Prime Minister expressed government dissatisfaction over the performance of PEs as follows:

"..Within a very short period hundreds of government-owned companies were formed...While some succeeded admirably, most failed. Even those which are monopolistic are not able to pay their way, much less make a profit. The pendulum had obviously swung too far. While we cannot say the policy is a total failure, for much experience has been gained from it, we cannot continue to pay this very high price".

[The Prime Minister, 1988].<sup>46</sup>

In addition, the Federal Treasury in a survey covering forty so-called Non-Financial Public Enterprises (NFPEs) or Off-Budget Agencies in which the Federal Government held a majority interest concluded:

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<sup>45</sup>Rugayah Mohamed (1991), "Comparative Performance of Public and Private Enterprise in Malaysia," Ph.D Thesis, University of Bradford.

<sup>46</sup> The keynote address by the Prime Minister at the conference on "*Privatisation in Malaysia: Opportunities and Implications*", Kuala Lumpur, 14th. July, 1988.

"...that although revenue increased at a higher rate and operations expenditure declined over the past five years, there has been an increase in development expenditures, thus creating high deficits. This was especially so in the case of the National Electricity Board and the Department of Telecommunications, both of which had significant surpluses but were offset by large development expenditure, resulting in very substantial overall deficits".<sup>47,48</sup>

Seonarno and Yusof (1985)<sup>49</sup> highlight the causes of poor performance as being:

- (i) unclear objectives and overlapping of functions and objectives. There exist some degree of ambiguity as to the criteria for the selection of programme and projects, i.e. it is unclear as to whether they are wholly profit and commercially oriented or whether they are to take non-commercial or social factors into consideration; and
- (ii) inadequate or poor monitoring and control of the large enterprises known as the "Off-Budget Agencies" (OBA), which gave rise to their excessive foreign borrowings. This naturally has raised government concern as to the need to keep the deficit in the balance of payments to a manageable level.

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<sup>47</sup>Government of Malaysia, Ministry of Finance, "Economic Report 1985-1986", National Printing Department, 1985, p.105-106.

<sup>48</sup>The Off-Budget Agencies (OBAs) are also defined as those agencies in which the Government has a majority share equity ownership of more than 50% and with an annual revenue exceeding MYR 5 million.

<sup>49</sup>R. Seonarno (Dato' Seri) and Z.A. Yusof (Dr.), "Privatisation in Developing Countries: The Experience of Malaysia", a paper presented by Malaysia at the Conference On Privatisation Policies, Methods and Procedures, Manila, 31 Jan.-1 Feb. 1985.

Further, Puthucheary (1984)<sup>50</sup> identifies three problem areas of PEs:

- i) they are operating on high financial expenses because they can easily secure business loans and the amounts borrowed are large;
- ii) they neglect the question of capability as they are primarily concerned with the expected profits from their ambitious and large scale activities; and
- (iii) there is a lack of proper guidelines and monitoring system.

Based on the above, government evaluation can be summed-up as follows:

- (i) The PEs failed to be self-financing or financially independent of government funds for their operation to stimulate economic growth necessary for future distribution; and
- (ii) as a result of their under-performance or unprofitability, they could not be potentially transferred to the bumiputra community to achieve the redistributive objective of the NEP.

However, the above government evaluation of PEs is rather biased and subjective as it has not taken into consideration the overall impact of its presence on their top management's decision-making. A strong presence of government, whether as owner or majority shareholder in PEs would generally have a significant impact on their ability to achieve the stated organisational objectives. Thus, the lack of political will of the government to assess the impact of the imposition of its own approach or priorities, in particular, between profitability and socio-economic responsibilities on the performance of PEs would preclude an objective evaluation of PEs' actual role and contribution to the economy. Furthermore, failure to consider the impact of

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<sup>50</sup>Puthucheary Mavis, "The Political Economy of Public Enterprises in Malaysia", The Malaysian Economy at the Crossroads: Policy Adjustment or Structural Transformation. eds. Lim Lin Lean and Chee Peng Lim, Kuala Lumpur, 1984, pp. 223- 227.

bureaucratic constraints on top management decision-making and performance would lead to failure to consider the relevance of other options like administrative and managerial reforms to improve the performance of under-performing public enterprises.

In conclusion, it is to be noted that during the recession of the mid 1980s, the government changed its order of priority in relation to growth and equity. For instance, the government relaxed imposition of NEP requirements on foreign investment during that period, to attract such investment in order to promote growth or creation of new wealth for future distribution. Milne (1986) points to the government's pragmatism in favouring growth over equity by encouraging the flow of foreign investment: He states, "...consequently, the need for economic growth has been recognised, and has prevailed over doctrinaire interpretations of the NEP which would have impeded growth". (Milne, 1986).<sup>51</sup>

On this basis, it would be possible for government to repeat its pragmatism by looking into the possibility of improving under-performing PEs through administrative or managerial reforms rather than through privatisation alone, to achieve long-term efficiency, growth and equity.

### **2.8.2 The Strategic Shift to Privatisation.**

The government's dissatisfaction with the performance of PEs led to the adoption of the privatisation policy in 1983. This is reflected in the following words of the Prime Minister which emphasise, in particular, the ultimate aim of privatisation and the timing of its implementation:

"The reason why we did not pass (the PEs) on to the private sector before was because of the NEP. There were not enough bumiputra companies

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<sup>51</sup>Milne (1986) op.cit., p.24.

or agencies that could participate. So any privatisation before would have been entirely non-bumiputra and this was to be avoided. But now, we have large bumiputra companies like PNB which owns Guthrie, Sime Darby, Barlow Boustead and we even have individual bumiputras who would be able to participate in the privatisation process".  
[Prime Minister, 1983]<sup>52</sup>

The above seems to indicate that the emphasis of privatisation would be the transfer of profitable PEs to the target group. This might mean that privatisation would involve transferring profitable PEs to the private sector, eventually leaving the public sector with under-performing or unprofitable PEs which are not suitable to be transferred to the bumiputras to achieve NEP and post-NEP targets. Further, there have been claims (discussed in Chapter Four of this thesis) that strong influence was being exercised by private interests close to the PM, regarding what was to be privatised, in what manner and to whom (see also Kennedy, 1990, and Jomo, 1995). Further, EPU officials recalled that they and those waiting for PM's decisions on their privatisation proposals had to wait for his recovery from a heart attack in 1989. Privatisation proposals were said to have been frozen and meetings at the EPU on privatisation were only resumed after the PM had returned to work.<sup>53</sup>

The Prime Minister, in launching the policy, also announced another national policy known as the Malaysia Incorporated Concept, to complement the privatisation policy:

"In a nation the private sector forms the commercial and economic arm of the national enterprise, while the government lays down the major

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<sup>52</sup>New Straits Times, July 16, 1983. Also in V.Kanapathy et al.(1989) "The Mahathir Era: Contributions To National Development", Petaling Jaya, Malaysia: International Investments Consultants. This includes selected extracts of major policy announcements made by Mahathir Mohamed since becoming Prime Minister of Malaysia in mid 1981.

<sup>53</sup>see Malaysian Business (1-15 September, 1989, p.15) reporting that the pro-privatisation groups had to wait patiently for the PM's recovery from a heart attack. It was said that privatisation approvals picked up in tandem with the PM's recovery.

policy framework and direction and provides the necessary back-up services. Thus the government becomes the service arm of the enterprise.

The Malaysia Incorporated Concept then requires that the economic and service arms of the nation work in full co-operation so that the nation as a whole prospers".

[Prime Minister, October, 1983].<sup>54</sup>

The above reveals the PM's view of the nation as a corporate entity, in which the government and private sector co-operate, the former providing the enabling environment or infrastructure for growth, and the latter (expanding as a result of government privatised projects being transferred from the public sector) assuming its role as the main engine of economic growth (see Fifth Malaysia Plan, 1986-1990).

As stated in the introductory chapter, in January 1985, the Prime Minister's Department explicitly stated its overall aims of privatisation in a published "Guidelines on Privatisation" (EPU, January, 1985) as follows (i) relieving the financial and administrative burden of the Government in undertaking and maintaining a vast and constantly expanding network of services and investments in infrastructure; (ii) promoting competition, improving efficiency and increasing the productivity of the services; (iii) stimulating private entrepreneurship and investment to accelerate the rate of growth of the economy; (iv) reducing the size and presence of the public sector with its monopolistic tendencies and bureaucratic support, in the economy; and meeting the objectives of the New Economic Policy (NEP), especially developing the bumiputra entrepreneurship.<sup>55</sup> (Guidelines on Privatisation, 1985). Then, few months later, the Prime Minister explained the reasons for government adopting privatisation as follows:

"Privatisation...is a form of encouragement for greater private investment and expertise in the development of the economy. Incidentally it will also reduce the size and extent of the direct participation of the government in the economy, a participation that is

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<sup>54</sup>New Straits Times, October 11, 1983. Also in V.Kanapathy et al., op.cit.

<sup>55</sup>Malaysia (1985), "Guidelines on Privatisation", op.cit.



often costly and with due respect to everyone concerned, inefficient. Privatisation is in effect an encouragement for greater competitiveness in economic activities instead of survival through monopoly and high-handed government action. Such competitiveness calls for entrepreneurship, skilled management and constant innovation. A competitive environment which is believed to prevail in the private sector should be conducive to high productivity and efficiency". (Mahathir, 1985).<sup>56</sup>

The above seems to assure that privatisation would be pursued by the government to achieve higher efficiency and greater competitiveness in economic activities instead of survival through monopoly and high-handed government action.

The Privatisation Guidelines (1985, p. 2-3) define privatisation in terms of complete privatisation, where there is 100 per cent transfer of ownership and control of public enterprise to private sector, and partial privatisation, which involves a portion of the ownership of the enterprise being transferred to the private sector and government control being exercised in accordance with its retained shareholding. In addition, privatisation can also take the form of selective privatisation - leasing, management contract, and contracting-out of services which includes Build-Operate-Transfer (BOT) for large infrastructure projects.

In 1988, the Economic Planning Unit (EPU) of the Prime Minister's Department clarified further the premise and scope of privatisation to be pursued in the economy. Of significance, is a stated commitment to a shift from politically based to market-oriented decisions or priorities:<sup>57</sup>

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<sup>56</sup>Mahathir, Mohamed (1985), Honorary Fellowship Address to Malaysian Institute of Management In *Malaysia Management Review*, Vol. 20, No.1, April.

<sup>57</sup>H.M. Hanafiah Omar (1988), "Privatisation Policy: Issues and Problems," an official paper presented to the conference on *Privatisation In Malaysia*, Kuala Lumpur, 1988. Also printed in Ambrin Buang (Ed.) (1990) "The Malaysian Economy In Transition", National Institute of Public Administration (INTAN), Kuala Lumpur. The author is the head of a powerful secretariate of the PTF within the EPU. He is directly responsible to the Director-General of the EPU on matters regarding privatisation and its implementation.

Scope of privatisation:

(i) "In essence, privatisation is concerned with the transfer of various Government interests or investments to the private sector...[it] include[s] the transfer of the Government's responsibility in providing goods and services that are traditionally within its domain to the private sector."

Methods of privatisation :

(ii) "...Privatisation can take a number of forms and types. In practice there is no ranking or order of preference being attached to the different forms of privatisation".

(iii) "...the extent or degree, of Government ownership and control of an existing enterprise, activity or service can be used as a basis for distinguishing between 'complete' or 'partial' privatisation...."

Principle of privatisation :

(iv) "However, the fact remains that the privatisation programme is based on our convictions that commercial enterprises flourish better as private entities than under public ownership...Public sector decision-making gives more emphasis on social and political aspects and is not oriented to maximisation of profit and the needs of the marketplace."..... (Head of Privatisation Task Force, Economic Planning Unit, 1988).

In early 1991, the government published the *Privatisation Masterplan* (PMP).<sup>58</sup>

The Prime Minister, in his Foreword to the PMP, emphasised the main aims of PMP:

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<sup>58</sup>Government of Malaysia (1991), "Privatisation Masterplan", Economic Planning Unit, Prime Minister's Department, Kuala Lumpur. It was based on a joint study commissioned by a British consultant and a local merchant bank.

(i) removing obstacles to privatisation.

"...We have identified some of the privatisation bottlenecks and taken the necessary remedial actions. For instance, we have amended several existing laws so as to allow for privatisation of entities which by law are the preserve of the Government. Besides the legal aspects, the Government has devised very clear principles and taken steps to streamline the administrative machinery and procedures. The role of Ministries in regulating those economic activities which involve monopolies has also been defined in order to prevent possible abuses by privatised monopolies...The Privatisation Masterplan study by the Government is another step in this direction."

(ii) stimulation of private sector response.

".... The Masterplan has identified the services and the bodies that are open to privatisation proposals by the private sector... In publishing this Masterplan report, the Government's objective is to enable the public and the private sectors to be better informed about the policies under the privatisation programme and the investment opportunities created by it".

(iii) accelerating privatisation and economic growth.

"...I believe that this Masterplan will accelerate the implementation of the privatisation programme and help contribute towards faster economic growth". [Prime Minister's Foreword in Privatisation Masterplan , 1991].

The Prime Minister also reiterated the government's priorities in privatisation in the PMP (1991):

" ...I wish to take the opportunity of reiterating the commitment of the Government to further reduce the public sector role in the economy by privatising those projects and services that can be better managed by the private sector. Recent public response to the listing of the shares in the privatised companies and services indicates general acceptance of the wisdom of the Government's policy. Privatisation will enhance the role of the private sector in the economy while at the same time creating new

opportunities for the public, in particular the employees of the privatised projects as well as the bumiputra community to own wealth through the purchase of shares in these projects. It is the Government's hope that more people will be able to share the wealth of the nation this way."....[Prime Minister's Foreword in Privatisation Masterplan , 1991].

The main features of PMP were emphasised as follows (A.H.Sawal, 1990):<sup>59</sup>

- (i) a part of a wider process of economic reform whereby market signals are allowed to govern economic activity;
- (ii) tailored towards national objectives - achieving desired growth to realise the NEP objective;
- (iii) existence of an integrated machinery to prepare and take decisions on privatisation quickly.
- (iv) considering staff sensitivities or welfare of employees of the organisation to be privatised, including terms and conditions of employment after privatisation;
- (v) effective solving of legal constraints that could affect the proposed privatisation;
- (vi) drawing support for the privatisation programme through vigorous publicity efforts.

In addition, the PMP (1991) stated that privatisation would be implemented through the following methods: (i) Sale of Assets or Equity; (ii) Lease of Assets; (iii) Management Contract; (iv) Build-Operate or Build-Operate Transfer (BOT).

According to the PMP (1991), the *sale method* could be applied to either Government equity or assets. For example, this method was employed by the government when it privatised (partially) its public enterprises such as Malaysian International Shipping Corporation Bhd (MISC) (1986), Malaysian Airline System (MAS) (1986), Telekom Malaysia Berhad (TM) (1990) and Tenaga Nasional Berhad (TNB) (1992).

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<sup>59</sup> Sawal, as a head of PTF was involved in preparing the PMP.

The *lease method* involves the transfer of rights to use assets for a specified period, for instance 21 to 30 years in return for specified payments. For example, the government used this method in combination with the sale method to privatise the Klang Container Terminal and Government Security Printing (Director General of EPU, 1992). Privatisation by the lease method included the Royal Military Air Force (RMAF) Aircraft Maintenance Depot and Shah Alam Abattoir

*Management contract* involves the contracting of private sector management expertise to manage a Government entity for a fee. For example, the government employed this method for the privatisation of tourist facilities at National Park (1986), RISDA Marketing Activities (1987), and Semenyih Dam (1987).

The *Build-Operate-Transfer (BOT)* method is employed by the government in privatising new projects such as roads and water supply projects. By this method, the private sector constructs the facility using its own funds, operates it for a certain period known as the concession period and transfers it to the Government at the end of that period. In the case of Malaysia, this is considered as a privatisation programme whereby, throughout the concession period, there is a legal transfer of such government facilities to the private sector.

The Build and Operate (BO) is similar to the BOT method except that the former does not involve the transfer of the facility to the Government. Both methods are accompanied normally by a grant of a licence and/or concession. Examples of projects privatised under BOT include North-South Highway (1988), Labuan Water Supply (1987), Menara Kuala Lumpur (K.L.Tower) (1991), and K.L. Interchanges. Projects privatised under the BO method are Sistem Television Malaysia Berhad, and Desaru International Resort. This is considered as privatisation because it involved projects which would normally be undertaken by the government as part of its services to its

citizens but were handed over to the private sector to be implemented and managed by them, thus reducing the role of government in the economy at the expense of an increased private sector role.

Based on the above, PMP aimed to facilitate privatisation and within a short period of time there was to be an unprecedented shift of resources from the public to the private sector. However, the PMP did not address the fundamental issue of the prioritisation of the privatisation objectives or goals to achieve a balance of efficiency, growth and equity in the privatised sector or in the economy as a whole. This was despite government recognition that trade-offs between the multiple objectives are necessary to achieve such balance (Abdul Wahab, 1990).<sup>60</sup> Furthermore, it has been questioned whether the masterplan will be subject to the same limitations as the Guidelines on Privatisation, in particular, political pressures which could affect systematic implementation of privatisation (Salleh, 1991).<sup>61</sup>

The PMP (1991) continued to stress commitments towards fulfilling the national development philosophy based on growth with equity (Hitam, Samsudin, 1991). In this regard, though the Masterplan stated the NEP objective as the last objective of the policy, this does not mean that it is the last priority of the government in privatisation.<sup>62</sup> This was confirmed in the privatisation of Malaysian Telecommunications Department

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<sup>60</sup> Abdul Wahab, Haji Yahya (1985), "Economic Development Policies & Strategies for the Next Decade: Early Thoughts & Considerations", an official paper presented by Deputy General of EPU during an official assignment. Printed in *Malaysian Management Review*, Vol.22, No.3, 1990. It stated that government recognised the need for trade-off between profit and non-profit objectives of privatisation in the development process.

<sup>61</sup> He argues that privatisation may still be subject to ad hoc, case-by-case implementation despite the existence of the masterplan.

<sup>62</sup> Abdul Wahab, op.cit. p, 14, stated that NEP is not a static but a living policy that evolves with the changing of the economy. Hence it has been incorporated in the long-term policy of Vision 2020 to make Malaysia a fully developed nation by year 2020.

(JTM - Jabatan Telekom Malaysia) where the government made decisions based on the importance of the NEP objective over efficiency and growth. (This will be discussed in Chapter Five on the post privatisation of Telekom Malaysia).

*Vision 2020.*

Later in the same month of February, 1991 the Prime Minister announced the post-NEP (or post 1990) policy which later became known as the "Vision 2020" policy. The main aim of the long-term policy is to make Malaysia a fully industrialised nation by the year 2020 AD. Importantly, in the policy privatisation was accorded a central role:

(i) "...privatisation will continue to be an important cornerstone of our national development policy and national efficiency strategy.....It is aimed at enhancing competitiveness, efficiency and productivity in the economy, at reducing the administrative and financial burdens on the Government and at expediting the attainment of national distributional goals".

(ii) "...In implementing our privatisation policy, the Government is fully aware of the need to protect public interest, to ensure that the poor are provided access to essential services, to guarantee that quality services are provided at minimum cost, to avoid unproductive monopolistic practices..." [Prime Minister, 1991].<sup>63</sup>

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<sup>63</sup>Prime Minister (Mahathir Mohamad) (1991), "Malaysia: The Way Forward", ISIS, Kuala Lumpur. A Working paper presented by the Prime Minister to the nation which has now been adopted as the long-term development approach of Malaysia towards making the nation as a fully industrialised nation by the year 2020.

Based on the above policy, it appeared that privatisation would be pursued as an efficiency instrument or strategy for achieving long-term development objectives. However, the government did not address explicitly the prioritisation of its privatisation goals in the policy, despite the potential conflicts among those goals; in particular, between efficiency and equity.

On reviewing the implementation prior to the PMP (February, 1991), the document states that as at the end of 1990, a total of 37 privatisations had been implemented since the adoption of the policy. Of these, 27 involved private interests taking over existing government entities, while the other 10 involved the construction of new infrastructure. The government had also committed itself to implementing another 18 privatisations, of which 7 involved privatising the construction of new infrastructure projects. However, this did not include various divestments undertaken by government since 1981 involving the transfer of government equity to Permodalan Nasional Berhad (PNB), an investment trust company established by the government to represent bumiputra interests in the economy. Hence, it is to be noted that privatisation of TM in November, 1990, the largest privatisation project ever undertaken by the government, was undertaken just three months earlier than the PMP.

### **2.8.3 Government's Decision-Making Process.**

The PMP (1991) stated that privatisation would be pursued within a wide range of activities, including activities and functions which have traditionally rested with the public sector. This applies to enterprises already owned by the government and to new projects which have normally been implemented by the public sector.<sup>64</sup>

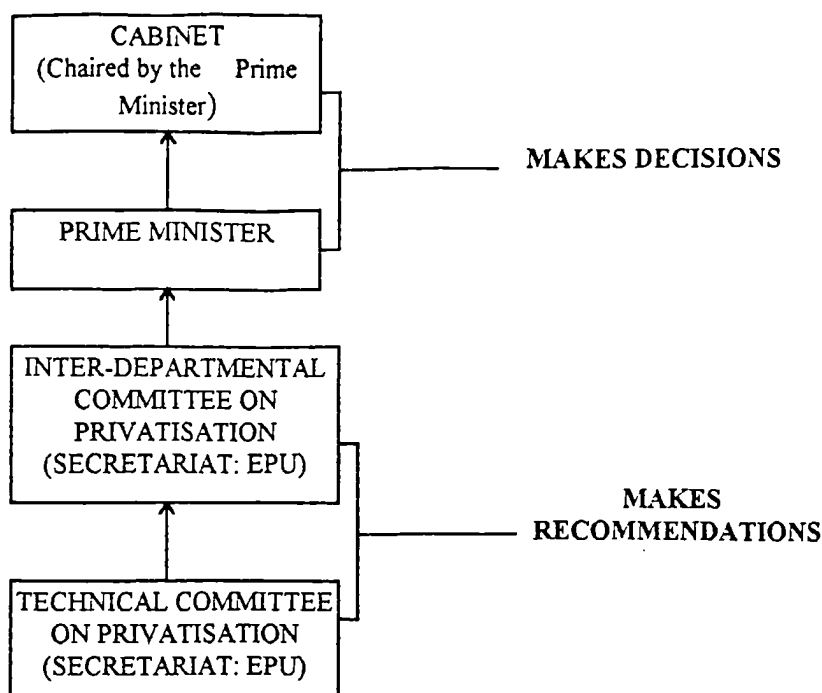
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<sup>64</sup>Government of Malaysia, "Privatisation Masterplan", op. cit., p.13.



According to EPU officials, since the existence of the Privatisation Guidelines (1985), the government's decision-making process on privatisation can be divided into two levels: (i) the recommendation level and (ii) the approval level (see Figure 2.1)

**Figure 2.1**  
**Decision-Making Process of Privatisation**  
**in Malaysia**



Source: Economic Planning Unit (EPU) Prime Minister's Department.

As shown in Figure 2.1, first government officials or private parties submit their privatisation proposals to the Secretariat of the Inter-departmental Committee on Privatisation (IDC).<sup>65,66</sup> The Secretariat of the Inter-departmental Committee on Privatisation is the Privatisation Task Force (PTF) administered by the Director-General of EPU. PTF is supported by Technical Committees (TCs) formed by the secretariat

<sup>65</sup>According to the PMP, privatisation proposals can be initiated either by the government or by the private sector.

<sup>66</sup>The IDC was formed to undertake the overall responsibility for planning, monitoring, coordinating and evaluating the implementation of the privatisation (Guidelines on Privatisation, 1985).

from time to time to advise them, as well as the IDC, on a particular privatisation proposal under consideration by the government.<sup>67</sup>

The Privatisation Task Force, based on the advice of the Technical Committees, then submits its report to the Inter-departmental Committee on Privatisation chaired by the Director-General of the EPU. He, in turn as Chairman of IDC, submits recommendations to the Prime Minister for his consideration and approval.

At the highest or approval level, the Prime Minister and the Cabinet make their privatisation decisions based on the submissions of the IDC. However, according to EPU officials, there have been cases where the PM himself directed the IDC to study the feasibility of privatising certain projects. In these cases the Committee, with the consent of the PM, submitted the proposals directly to the Cabinet for official endorsement, as they were regarded as projects already approved by PM.

However, between 1985-1988, there were instances where PTF was not consulted by the government regarding the privatisation of certain programmes (Salleh, 1991). For example, the PTF was not consulted for its recommendations when the government approved the privatisation of - (1) North-South Toll Expressway (1988), (2) Kuala Lumpur City Council Waste Disposal (1986) (3) Taman Negara Tourist Facilities (1986), and (4) Malaysian International Shipping Corporation Berhad (1986). In addition, there have, in the past, been instances where the government initially made its decisions based on recommendations by TC and IDC but later overruled them when the proposer made an appeal against the decision (interviews with officials of PTF).

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<sup>67</sup> A TC is an ad hoc committee formed by PTF to evaluate a privatisation proposal for the consideration of the government. It is usually chaired by the head of PTF and its members may comprise relevant government officials and also private advisors who have been appointed to advise the PTF and the IDC on matters related to privatisation proposals under consideration. The TC then makes recommendations to IDC regarding the proposals for privatisation.

Further, according to several officials of EPU, at present there is still, as yet, no proper system in the Prime Minister's Department for the monitoring and evaluation of privatisation performance. It was only recently that the Prime Minister directed the PTF officials to consider setting up a proper monitoring and evaluation system specifically for major privatisation projects undertaken by the government.

#### Process of Privatisation of a Government Department.

The PMP (1991, p.44-45) states that the privatisation of a government department/statutory body has to pass through several stages, namely, the commercialisation stage, the corporatisation stage and the divestiture stage.

Commercialisation stage involves the introduction of user charges, followed by commercial accounting, and commercial performance objectives. The corporatisation stage involves the changing of the legal status or form of the entity from a department or statutory body into a government company established under the Companies Act, 1965. This stage also involves the actual transfer of Government assets and liabilities, including its employees, from a government department or a statutory body to a company wholly owned by the government.

PMP highlights that the corporatised entity is expected to achieve the following:

- (i) “replacing bureaucratic administration with commercial management,
- (ii) introducing clear financial and operational performance targets and commercial accounting,
- (iii) replacing centralised production-oriented decisions with consumer and market driven decisions.” [PMP, p.44].

The final or divestiture stage involves the transfer of ownership (shares), usually in stages, from the public or government to the private sector. This can be accomplished through -(i) public flotation, (ii) private sale, (iii) management buy-out (MBO)/Employee Share Ownership Plan (ESOP), where employees become owners.

With regard to achieving privatisation objectives (including privatisation of a government department), the Prime Minister has pointed to the lack of capable and honest managers as one of the major obstacles: <sup>68</sup>

(i) "...Management is not one of Malaysia's strong points. In the first instance, we do not have enough managers. Of the ones that we have, a good number are unfortunately mediocre. Some we have seen are downright dishonest. If privatisation is going to remedy the ills of nationalisation then we must have good managers."

(ii) "..The Government cannot afford to have too many failures in the privatised companies. We do not want to be forced to take them back. We do not want to be involved in business again ". [ Prime Minister, 1988].

The PMP (1991) also reports major challenges to privatisation which the government had overcome. These include removing of legal constraints, deregulating and lifting of barriers to encourage competition, and proper timing of flotation of shares for privatisation to ensure absorptive capacity of the capital market.

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<sup>68</sup>The Prime Minister of Malaysia's keynote address during his official opening of the "*Conference On Privatisation In Malaysia : Opportunities and Implications*" on 14th July, 1988, Kuala Lumpur.

## 2.9 Claims of Privatisation Success

The government has reaffirmed several times that privatisation has been implemented satisfactorily. Specifically, the EPU of the Prime Minister's Department has claimed that privatisation implemented so far has achieved its objectives.

For instance, a senior official of the agency stated the following to support the government claims for the success of privatisation. In terms of its contributions to higher efficiency, the official stated the following cases to support the claims made by government (A.H. Sawal, 1990, pp.3-7):

(i) privatisation of the container terminal at the Klang Port, where before privatisation the average turnaround time per vessel was 11.7 hours. But two years after privatisation, the turnaround time was reduced to 8.9 hours per vessel. (The Klang Port Container Terminal was privatised by lease & sales method in 1988).

(ii) 'corporatisation' of the government telecommunications department, JTM (1987-1990 in preparation for privatisation) i.e. when a government-owned entity STM (Syarikat Telekom Malaysia) took over the operation of JTM, the corporation made several improvements such as detailed billing systems which reduced errors and complaints, introducing new telecommunications services, improved counter services shown by faster responses to applications for telephone installations and breakdowns

(the official did not mention that STM had raised charges on local calls by 30 per cent in 1987 immediately after taking over the operation of JTM).

In terms of contributions of privatisation to economic growth, the official stated the following in support of the government claims:

- (i) STM has introduced several new services that were scarcely known prior to privatisation (referring to the corporatisation stage of JTM i.e. after STM took over the operating arm of JTM in 1987). These include the Malaysian Packet Public Data network (MAYPAC), INTELSET Business Service, telebanking, International Direct Dialling, Data Services, private leased and others. (However, STM's inability to meet current demand for its services arising from higher economic growth during the period was not discussed by the official).
- (ii) Privatisation has encouraged private entrepreneurship in sectors previously the domain of the government. This being referred to those selected bumiputra companies or entrepreneurs who were given licence or approvals to operate services previously provided by government.

In terms of relieving the government's administrative and financial burden, the following were cited to support the government claims:

- (i) The privatisation of STM resulted in savings of public annual recurrent administration expenses (MYR 831 million) and development expenditure (MYR 1,371 million) respectively, the former due to the transferring of some 29,000 government employees from the public sector to become employees of the privatised STM and the latter as a result of STM taking over the financing of the annual development expenditure.

In terms of meeting the NEP equity targets, the official stated that most of the privatisation projects had at least 30 per cent bumiputra participation, and that bumiputra companies had played an important role in the newly privatised projects.

Prior to the above, the Secretary-General of EPU (Mohd Sheriff Mohd Kassim) (1989) also claimed that so far only one privatised project had failed out of the many projects being privatised by the government. This was Taman Negara

Facilities (National Park), which had been privatised in 1986 through the leasing method. However, no reasons were given for its failure.

Later, the Director-General of EPU (1992, p.11-14) further claimed that privatisation as implemented through the various methods has contributed towards - growth, efficiency, financial standing of government and equity:

- (i) "...There are clear indications that privatisation has led to increased efficiency and enhanced competition in the private sector" [p.11].
- (ii) "Privatisation has played a role in accelerating economic growth in the following ways - in several cases, privatised entities are much more flexible to pursue corporate expansion goals. Growth opportunities are also increased through the pursuit of the profit motive. For example, STM has introduced several new services and has marketed aggressively and upgraded the services that were hardly known prior to privatisation...".
- (iii) "...The privatisation of the highway has stimulated growth in a number of related industries, especially construction materials. This has encouraged private entrepreneurship in sectors previously within the domain of the Government..."
- (iv) "Privatisation has succeeded in reducing the administrative burden of the Government, particularly in terms of personnel and financial administration...".
- (v) "...Firstly, [there are ] one-off proceeds from sale of Government interest in companies ...apart from these one-off proceeds, recurrent revenue from privatisation comes in the form of lease payments and more generally, in the form of corporate tax. In addition, the exposure of the government in privatised projects has also declined with loan prepayments undertaken by some of these entities".

(vi) "...Most of the privatisation projects have at least 30 per cent bumiputra participation...Privatisation has, therefore, become one of the instruments of increasing bumiputra's role and participation in the commercial sector".<sup>69</sup>  
[Director-General of EPU, June 1992].

Also, consistent with the above claims, the Finance Minister (1992) announced the government's long-term commitment to continue adopting privatisation:

"There is no turning back from the economic path that we have taken [privatisation]. It is by now evident that economic activity is better governed by market signals rather than administrative directives. The results from the privatisation exercise carried out so far have been convincing enough for us to think more in terms of a wider process of economic reform. Government policies affecting the private [privatised] sector will have to be tailored so as to minimise direct government intervention in economic activities.  
... The savings accruing from privatisation have enabled the government to focus its investment towards projects in more urgent areas..."

The above evaluation of privatisation can be generally interpreted as only a statement of faith, rather than a statement of fact, as it is not supported by any extensive data or clear evidence to support the claims of privatisation's success, especially in terms of raising efficiency and facilitating economic growth. Indeed, its benefits at that point were obvious only in terms of financial contribution to the government.

An objective evaluation of privatisation would require clear evidence of efficiency and economic growth being achieved in absolute terms and, secondly, that they are being realised because of privatisation being adopted by the government. Therefore, in evaluating the impact of the government's presence in privatised corporations, it would be necessary to undertake a comparative analysis of performance of projects under partial privatisation as compared to those under complete privatisation,

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<sup>69</sup>The Director-General of the Economic Planning Unit (June, 1992), op.cit.



which are characterised by a reduction or absence of government's presence in top management's decision-making. This is necessary to evaluate efficiency and economic growth and equity, with and without the presence of government in top management's decision-making. Only in this way could one possibly assess and conclude whether the government's approach to growth and equity has been successfully pursued through privatisation in a manner that is not inconsistent with long-term growth and equity.

There are also independent claims that privatisation has been subject to wrong policy priorities, geared more towards realising the equity objective of promoting specific bumiputra entrepreneurial activities based upon the building of political patronage and strong political connections, rather than on performance that would affect the efficiency and growth objectives (Lim, 1989),<sup>70</sup> (Jomo, 1992),<sup>71</sup> Craig (1988) in assessing privatisation in Malaysia concluded that much of the decision-making made by politicians and bureaucrats is 'political' and that the main beneficiaries are likely to be those bumiputra already in command of assets, and not the bumiputra masses.<sup>72</sup>

Other adverse consequences of privatisation have not been considered by the government in evaluating its own performance. These include the increase of charges on local telephone calls by 30 per cent before TM was privatised; the implications of two sets of services existing in education or medical services, i.e. one for those who

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<sup>70</sup>see Soh Eng Lim, (1989) "Lessons In Going Public", In Investors' Digest, KLSE, Kuala Lumpur. Soh raises doubts about the relevance and value of privatisation to achieve growth and development based on efficiency in the multiracial situation of Malaysia.

<sup>71</sup>see Jomo K.S. (1992), "Privatization In Malaysia: For Whom And For What?", a paper presented in the conference on 'Post Privatisation Policy and Performance: International Perspectives', 6-7th March, 1992, University of Bradford.

<sup>72</sup>see Craig, J. (1988). "Privatisation in Malaysia: Present Trends and Future Prospects," In Cook, P., and Kirkpatrick, C. (eds). 1988, pp.256-257; and Gale, B. (1985), Politics and Business, Petaling Jaya: Eastern University Press.

can afford privatised services and the other for those who cannot afford them - mostly bumiputra voters in the rural areas; and emphasis on short-term profits by privatised entities that prevents optimal investment and means that product quality cannot be improved except by increasing prices.

Jomo (1992) also suggested that the advocates of privatisation in Malaysia have not been honest in presenting a full and balanced record of what has happened with privatisation. The government has deliberately presented its 'own-made' view of privatisation achievements, to imply that in the context of Malaysian experience, it has already been 'an unqualified success'. The existence of mistakes or negative consequences and implications of privatisation is not acknowledged, as this would constitute a threat to its own integrity in implementing future privatisation plans, with the aim of achieving the stated multiple policy objectives of privatisation.

He further criticised the government's approach to privatisation as ambiguous and inconsistent. The government, which ought to be promoting a higher level of efficiency through privatisation seems to be pursuing an approach that would, in fact, constrain its achievements in the economy. While privatisation is meant to reduce the role of the public sector in the economy, it is not clear whether this is an end in itself or merely a means to an end. If the former, then privatisation is either intended to aggrandise its politically influential beneficiaries, or clearly ideological in inspirations, or intended to please the international economic institutions like the World Bank and Asian Development Bank, with which the Malaysian government seeks to find favour. On the other hand, if it is the means rather than the end, then it is also unclear as to what, when and how government would further dispose of its majority holding of such assets and also its influence and control in partially-privatised projects.

Jomo (1992) found that the government's claim that privatisation has contributed to growth is vague and even spurious. There is no clear evidence that

privatisation has contributed to the recent manufacturing-led economic growth which followed after the deep economic recession of 1985-86. He stated that government had made no claims that privatisation was a necessary and indispensable ingredient for the broader economic liberalisation measures of the mid-eighties which probably induced the foreign investment increase, and argued that, on the contrary, privatisation which resulted in the expansion of the local stock exchange market has probably diverted potential investment funds away from the dynamic, foreign-dominated manufacturing sector, towards the private acquisition of public assets.

Jomo (1992) concluded that privatisation in Malaysia has probably been most successful in contributing to the Government's NEP objective, particularly bumiputra wealth acquisition. The prioritisation of this objective was said seriously to undermine the achievement of the other stated aims of the privatisation policy".<sup>73</sup>

## **2.10 Conclusion.**

The findings of past studies, and the current economic debate on privatisation have emphasised that privatisation is pursued as an alternative development strategy to achieve higher economic efficiency. This is true in both industrialised nations and developing countries. However, there exist major differences in its implementation in those economies which are basically related to the order of priorities among the multiple objectives being pursued.

Contemporary economists have pointed out that a mere change of ownership to private parties without presence of real competitive threat will prevent privatisation from

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<sup>73</sup>Jomo K.S. (1992) "Privatisation In Malaysia: For What and For Whom?", a paper presented to the conference on *Post Privatisation Policy And Performance: International Perspectives* organised by Development and Project Planning Centre and Institute for Development Policy and Management of the University of Bradford, 6-7 March.

achieving its basic purpose which is greater economic efficiency. This is supported by the World Bank (1983) argument that "the key factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed".<sup>74</sup>

In the industrialised economies, in particular the United Kingdom, the privatisation process of government-owned enterprises is characterised by a clear reduction of government ownership and control in the operations of those privatised entities, within a prescribed period of time. In contrast, the privatisation process in the developing economies, in particular those of the South-East Asian region, where so far, partial privatisation of public enterprises has been favoured over full privatisation, the common feature of privatisation is the retention by government of majority ownership and effective control in top management decision-making.

In the case of privatisation in Malaysia, the government led by the PM claimed that it has been implemented satisfactorily. However, there have been independent claims, as stated above, that the government has not been honest in presenting the full and balanced record of what has happened with privatisation. It has been suggested that privatisation in Malaysia has probably been most successful in contributing to the government's NEP objectives, particularly bumiputra wealth acquisition. One might even agree with Jomo that the prioritisation of this objective has probably seriously undermined achievement of other stated aims of privatisation policy.

Despite the potential conflict among the privatisation goals as discussed above, there has been no attempt on the part of the government to prioritise them at least implicitly if not explicitly. Indeed, from the various policy statements as stated above,

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<sup>74</sup>World Bank (1983), World Development Report, Washington D.C.: World Bank. It stated that in theory, rather than in practice, it is possible to create the kinds of incentives that will maximise efficiency under any type of ownership.. [World Bank, 1983, p.50.]

the government, in general, and the PM, in particular, have on various occasions placed emphasis on all five objectives.

Having multiple goals may create problems for strategic management in the sense that trade-offs may be necessary in order to take account of all the specified objectives. The problems of incompatibility may be minimal where the multiple goals pursued are mutually supportive. However, in the Malaysian case, the inclusion of the redistribution goals introduces a divisive element and incompatibility. For instance, promoting bumiputra contractors is likely to hinder both growth and efficiency goals as the organisation or privatised enterprise is compelled to develop the technical competence of new suppliers, which are most unlikely to be the lowest cost bidders. Even if mutually conflicting goals are treated as short-term constraints, they will tend to limit strategic decision-making so severely that it would be difficult for a strategy to evolve, since either the decision-making would be paralysed or would result in pragmatic opportunism, and thereby long-term sustainable growth would be neglected.

Though privatisation has been stated by government recently in Vision 2020 as a national efficiency strategy, the continued reluctance of the government explicitly to prioritise the privatisation goals only indicates that considerable uncertainty must remain as to how government would be able to achieve a balanced achievement of long-term efficiency, growth and equity through privatisation towards year 2020. In this situation, privatised entities would face similar constraints to those faced by PEs as it is uncertain how government would be able to transform ailing PEs into successful entities unless accompanied by managerial and administrative reforms supportive of achieving long-term efficiency and higher economic performance.

Therefore, the basis of the political executives' dissatisfaction with the poor performance of PEs, as discussed above, ought to serve as a guide and lesson for top

management of privatised corporations in Malaysia. This is particularly with regard to implementing a strategy to achieve corporate objectives within the environment of government imposing NEP objectives on the process of achieving corporate goals. In this regard, the recommendations of the World Bank (1988) study offer only partial rather than comprehensive guidance for top management. For example, the study highlighted that to improve performance, the appointments of the BOD members of the PEs should be considered on the basis of qualifications for the assignment rather than motivated by political considerations.<sup>75</sup>

Specific recommendations for more practical guidance in the adoption of an appropriate framework of action or strategy for top executives in both public enterprises and privatised corporations are therefore required to ensure that they achieve the expected performance based on achieving long-term efficiency and growth with equity.

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<sup>75</sup>The World Bank study (1988) recommended that: (i) "the BOD should perform several functions, the most important being: "long-range planning, performance evaluation, and appointment and dismissal of top management; and (ii) "A prerequisite for the successful performance of the evaluation and planning function by the BODs is the nomination of people with the right blend of experience and independence. Many of the appointments are motivated by political considerations rather than qualifications for the assignment. With increasing pressures on PEs to improve their performance, the traditional approach of selecting political appointees and ministry representatives should be appraised."

### Chapter Three

#### **Literature Review of Strategic Management.**

##### **3.1 Evolution of the Subject.**

Although the subject of strategic management is relatively new, it has grown rapidly over the last 15-20 years and can be considered as the fastest growing subject in the management field. The term strategic management first came into general usage following an international conference on the subject in 1977 (Dan Schendel and C.Hofer, 1979).<sup>1</sup> This conference marked an important renewal and revitalisation of strategic management, including formalisation of this new name for the field (C.Hofer and D.E. Schendel, 1978).<sup>2</sup>

The rapid development of the subject has come about because of the real problems experienced by managements and businesses in their pursuit of achieving a desired level of organisational performance. In this regard, management as an academic discipline has lagged behind management as a problem solving reality and management teaching tends to be the distillation of good management practice. Thus, theory is not or has not been dreamt up in ivory towers, but rather, has developed from the observation of existing management practices which have been proved effective in dealing with new problems, or developing a new solution to an existing problem (Partridge, 1992).<sup>3</sup>

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<sup>1</sup>see Dan E. Schendel/Charles W. Hofer, "Strategic Management: A New View of Business Policy and Planning", Little, Brown and Company (Inc.), 1979.

<sup>2</sup>see Charles W. Hofer and D. Schendel, "Strategy Formulation: Analytical Concepts", West Publishing Company, 1978.

<sup>3</sup>Partridge, B.E. (1992), "Strategic Management- MBA Course Handbook," International Management Centre, University of Hull.

From another perspective, the subject has developed and evolved in many ways parallel to the growth and evolution of the organisation (Bruce Scott, 1971).<sup>4</sup> At first, organisations were small and entrepreneurial; the formulation of goals, objectives and strategies was typically intuitive, based on informal understanding of the market and how to compete. When and where these intuitions were reasonably accurate, the organisations grew until they experienced problems of size, thus requiring co-ordination. This led to the formalisation of objectives, and even also to the processes by which the objectives were derived. For example, the phenomenal growth of US organisations in the 1950s and 1960s led to their markets being saturated, thereby creating the need for them to develop diversification strategies rather than just looking at growth within the scope of the existing product/market (Ansoff, 1965).<sup>5</sup> Organisations, through utilising their surplus funds and resources, began to grow but through different means and strategies which led to the creation and extension of the multi-divisional organisation and later multinational corporations (MNCS). This gave rise to the problem of how to integrate the diversity of operations which led to the concept of corporate strategy (Chandler, 1962; Stopford, 1968; Franko, 1974).<sup>6</sup>

The period of the 1970s saw the end of corporate optimism imposed by the reality of increased competitive pressure and even the lack of economic growth (Ansoff, 1973; 1978).<sup>7</sup> Corporate strategy became the insurer/tool for integrating the company's

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<sup>4</sup>Scott, Bruce. R, "Stages of Corporate Development", Harvard University Intercollegiate Case Clearing House Report No.9-371-294 BP989, Boston, Mass., 1971).

<sup>5</sup>Ansoff, H. Igor, "Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion." New York: McGraw Hill, 1965.

<sup>6</sup>Chandler, Alfred, "Strategy and Structure: Chapters in the History of the American Industrial Enterprise." Cambridge, Mass.: MIT Press, 1962; Franko, Lawrence, "The Move Toward a Multi-Divisional Structure in European Organizations." *Administrative Science Quarterly*, December, 1974; Stopford, John, "Growth and Organizational Change in the Multinational Field," Doctoral diss., Harvard University, 1968.

<sup>7</sup>Ansoff, H. Igor, (1973) "Management in Transition," in "Challenge to Leadership: Managing in a Changing World," New York: The Conference Board; and Ansoff, H. Igor, (1978) "Planned Management of Turbulent Change," *Encyclopaedia of Professional Management*. New York: McGraw-Hill.



diverse functional policies into coherent patterns to create competitive advantages/competencies. The period of 1970's and 1980's also saw resource problems as compared to the 1950s and 1960s, when the company could easily be on competitive terms with its rivals, even by financing growth through a combination of internally generated funds and increased borrowings. However, the contemporary situation of increased competition meant lower margins resulting in less internally generated funds. At the same time, debt capacity had been used up i.e. debt/equity ratios had climbed to levels where further borrowing was difficult, especially at a time when inflation pressured further for increased cash requirements in both fixed and working capital.

The last twenty years has also seen an increase in environmental uncertainty - an increase in the rate of change in the environment which has triggered the real need away from long-range planning towards scenario modelling, i.e. a move away from best guess estimates (expected net values) towards the recognition that the future cannot be forecasted as such, rather, the need is to remain flexible and adaptable (Ansoff, 1965; Beck, 1982; Wack, 1985).<sup>8</sup> One indication of how rapidly the subject developed in the 1980s was that M.Porter, who probably had the greatest impact on the subject in the 1980s, was not even invited to the 1977 conference.

The problem with the subject of strategic management, however, is that it has neglected the basic role of competition. Strategy formulation has been seen more as a planning process which overlooked/neglected the very purpose for having an effective strategy. There is also little evidence that it was effective or even implemented (M. Allen, 1980; Ansoff, 1970; D. Hussey, 1977).<sup>9</sup> The definitions of the subject also tend

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<sup>8</sup>Ansoff, H. Igor, (1965) op.cit.; Beck, P.W., "Corporate planning for an uncertain future," *Long Range Planning*, Vol.15, No.4, 1982; P.Wack,(1985) "Scenarios: shooting the rapids," *Harvard Business Review*, November/December.

<sup>9</sup>M. Allen, "The Corporate Strategy Gaps," *Management Today*, September, 1980; Ansoff, H. Igor et al., "Does Planning Pay?" *Long Range Planning*, December, 1970; D. Hussey, "Who says planners don't?" *Long Range Planning*, October, 1977.

to downplay the concept of competition. However, during the 1980s competition was at least discussed even if it was not directly incorporated into the concept of strategic management. Michael Porter (1980)<sup>10</sup>, Ohmae (1982)<sup>11</sup>, Henderson (1983)<sup>12</sup> and, Ries and Trout (1986)<sup>13</sup> emphasised the importance of beating the competition in the formulation of strategy and introduced the concept of competitive strategy.

There are five distinct roots to the subject of strategic management. The first root can be clearly traced back to the field of business policy case analysis developed by the Harvard Business School. The second root is Long Range Planning which was based on the experience of industry contributing to the development of management systems and sciences. The third root is the Strategy/Structure or Organisation School, while the fourth root is the Incrementalism School exemplified by Linblom (1959)<sup>14</sup>, Quinn (1978a)<sup>15</sup> Mintzberg (1991).<sup>16</sup> The fifth root is the Environment School (Ansoff, 1977).<sup>17</sup>

### 3.2 Business Policy

Business Policy is an example where theory developed to explain practice (Leontiades, 1982).<sup>18</sup> In the US, it was not until 1959 that the Ford Foundation study by Gordon and Howell (1959) provided the academic impetus for the study and

<sup>10</sup>M. Porter, "Competitive Strategy: Techniques for Analyzing Industries and Competitors," New York: The Free Press, 1980.

<sup>11</sup>Kenichi Ohmae, (1982)"The Mind of the Strategist," McGraw-Hill: New York

<sup>12</sup>B. Henderson, (1983)"The Anatomy of Competition," Journal of Marketing, Spring

<sup>13</sup>Ries & J. Trout, (1986) "Marketing Warfare," McGraw-Hill: Singapore.

<sup>14</sup>Lindblom, L., "The Science of Muddling Through," Public Administration Review, Vol.19, pp.79-88.

<sup>15</sup>Quinn, J.B., "Strategic Change: logical incrementalism," Sloan Management Review, Vol. 1, no. 20, Fall, pp.7-21.

<sup>16</sup>Mintzberg, H. (1991) "The structuring of organizations", in Mintzberg, H. & Quinn, J.B. (Eds.), "The Strategy Process: Concepts, Contexts, Cases, Englewood Cliffs, NJ: Prentice-Hall.

<sup>17</sup>Ansoff, H. Igor, (1977)"The Changing Shape of the Strategic Problem," Paper presented at a Special Conference on Business Policy & Planning Research: The State of the Art," Pittsburg, May.

<sup>18</sup>M. Leontiades, (1982) "The Confusing Words of Business Policy," Academy of Management Review, Vol 7, No.1, pp.45-48.

teaching of business policy as an integrating capstone course in the business school MBA curriculum. Business policy integrated various specialist courses like management economics, organisation studies, marketing, production, finance, management science, etc., to form a general view of management and in particular General Management and Leadership. This led to the development of the present substantive area of its own, with its own concepts, models and theories

The term Business Policy has been defined in several ways. The word business is self-evident, thus leaving the term Policy, which needs to be clarified or defined. In practice, Policy is something which top management lays down for the organisation to adopt or implement to achieve its stated purpose or mission. Hence, it is about defining the company's mission, its scope, and the basic purpose of the organisation. Partridge (1992) states that while different authors define Policy in different terms, it is generally about how organisations compete, which markets to compete in, which products to make, what technologies to use, and even the type of organisational structure adopted.

Glueck (1972)<sup>19</sup> defines business policy as: "a field that examines the entrepreneurial functions in business: the determination of the field of business in which the firm will operate, its goals, its major plan of action (called corporate strategy) to reach these goals, and its major subplans (called policies) to implement the corporate strategy." Business Policy is looked upon as the special responsibility of top managers. On the basis of a rational assessment of the company's internal and external situation, they determine the nature of the organisation's mission and how it is to be achieved. They develop the major thrust of corporate strategy and then delegate to middle managers the responsibility for formulating policies that are consistent with this strategy

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<sup>19</sup>Glueck, W. (1972) "Business Policy: Reality and Promise", Proceedings of the National Meeting of Academy of Management", August.

and integrate their planning efforts. Thus, policy formation is described as a top-down process in a pyramidal-shaped authority structure.

Levitt (1960)<sup>20</sup>, in a classic article, "Marketing Myopia", discussed how the enormously successful US Railways failed to redefine their mission as the US economy changed around them. The organisation kept to the simple definition of being in the railway business, rather than in the transportation business thus ignoring the relevance of involving itself in road haulage in order to be successful. Similarly, the Hollywood Film Studios defined their scope in terms of cinema rather than entertainment and missed out on the new development of television. To give another example, Ford in the early 1920's was the number 1 in the motor industry - the largest and the most efficient - but in only a few years it lost its dominance to GM and nearly went out of business, simply because it failed to adapt its production technology to market and consumer conditions. Therefore, success can bring its own rigidity, its own fossilisation and the failure to recognise new opportunities, which thus become new threats and new forms of competition.

Drucker (1964)<sup>21</sup> emphasised that even in the 'good old days', efficiency was not likely to make large profits - spectacular profits did not depend on efficiency but on effectiveness - being in the right place and at the right time i.e. "doing the right things rather than doing things right." Therefore, the key to corporate success is about being effective and a corporation's policy or strategy is about being effective. This is in contrast to the traditional view of achieving success or making large profits by being efficient, or at least cheaper than the competition i.e. as proposed by economic theory where price is the major variable of competition. This means that policy or strategy is

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<sup>20</sup>Levitt, Theodore, (1960) "Marketing Myopia," Harvard Business Review, Vol.38, No.4, July August.

<sup>21</sup>Drucker, Peter, (1964) "The Big Power of Little Ideas," Harvard Business Review, Vol. 42, No.3, May/June.

concerned with matching the organisation with its environment, rather than being efficient in the way it performs its activities to achieve its stated corporate mission or objectives. This involves analysing the organisation in terms of what are its resources and its capabilities; analysing its environment in terms of what are the existing trends/opportunities, positive and negative; and developing and formulating a strategy for future changes in the market or industry. In essence, the corporation requires a framework for tackling future changes rather than dealing with each development on an ad hoc basis

Andrews (1971)<sup>22</sup> presented a model of strategic decision making that was derived from Business Policy Case Teaching at Harvard (SWOT analysis). The model is based on an analysis of the strengths, weaknesses, opportunities and threats of the organisation in terms of the competition it is facing and the important or critical factors of its success. Though the model is simple that is not to suggest that it is easy to use. For example, the simplest use of SWOT would be to identify one's own strengths and weaknesses, while a more sophisticated use is to identify each competitor's relative strengths and weaknesses. An even more sophisticated use is to consider how the corporation's competitors view its strengths and weaknesses (Partridge, 1992).<sup>23</sup>

### **3.3 Long Range Planning**

The past two world wars and the great depression had not prepared business to cope with 1950s and 1960s "normal" problems of changing consumer patterns, development of new competitive strategies, and the uncertainties of a relatively uncontrolled market place (Ansoff, 1979). In this regard, corporations operating in such an uncertain environment needed a new business philosophy based on planning

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<sup>22</sup>Andrews, Kenneth, (1971) "The concept of corporate strategy". Homewood, Ill. Dow-Jones-Irwin.

<sup>23</sup>B.E. Partridge (1992), op.cit.

for performance. Thus, they needed to go beyond tactical planning geared to short range concerns of current operations. This was to enable them to anticipate and plan long-range for entire firms, based on the best current evaluations of future events. For this purpose, businesses settled on the term "long range planning." Thus, Long Range Planning departments were formed and long range planning systems evolved. Over the period, long range planning became a symbol of progress that more and more companies, especially large ones, felt they could no longer do without. By the mid sixties, approximately three quarters of the largest 500 companies in America and Japan were reported to be using formal systems for long range planning or were about to do so (Argenti, 1974, p.1).<sup>24</sup>

By the time academicians began to contribute seriously to the field, long range planning was the term in vogue. It was, however, a definition with which some academicians did not seem comfortable. As Drucker (1964, p.120)<sup>25</sup> commented, "long range planning is not a term I like or would have picked myself....But it is too late to do anything about the term: it is a common usage." However, this anomaly resolved itself easily because a more acceptable term, corporate planning, was beginning to be accepted as a substitution for long range planning; there was "a growing body of opinion which prefers the discarding of the term long range planning because it under emphasises the comprehensive nature of corporate planning" (Hussey, 1974, p.7).<sup>26</sup>

Later, the term "strategic" became the new popularly accepted prefix to planning. Strategic planning began to replace long range planning because it eliminated the implication of a time horizon for planning and because it added "the connotation of importance" (King and Cleland, 1978, p.6).<sup>27</sup> In consequence, strategic planning later

<sup>24</sup>J. Argenti, (1974) "Systematic Corporate Planning," John Wiley: New York.

<sup>25</sup>P. Drucker, (1964) "The big power of little ideas," Harvard Business Review, Vol. 42, No. 3, May/June.

<sup>26</sup>D. Hussey, (1974) "Corporate Planning: Theory and Practice: Oxford: Pergamon Press.

<sup>27</sup>King, W.R. and Cleland D.I. (1978) "Strategic Planning and Policy: Van Nostrand Reinhold: New York.

gave way to "strategic management" but the term is still being used. In other words, the transition seems to be noncontroversial.

### 3.3.1 Definitions:

The Journal of the Society for Strategic and Long Range Planning defines LRP as follows:

" LRP is dealing with the future implications of present decisions in terms of:

- (i) setting goals and developing strategies to achieve them
- (ii) translating strategy into detailed operational programmes and ensuring that plans are carried out.

It is concerned with the planning of the total resources of the organisation for the achievement of quantified objectives within specified time."

Argenti (1989)<sup>28</sup> reviewed various definitions of corporate planning, according to him they are misleading, because:

"corporate planning is planning for the corporate whole, not for its parts. It is not business planning, production planning, strategic planning or any other type of partial planning. It is not co-ordinating, forecasting or budgeting. It is a process designed to yield a corporate plan - a statement of strategies designed to affect the organisation as a corporate whole."

Other leading professionals and academicians that view strategy formation as a planning activity rather than a decision include Chandler (1962)<sup>29</sup> and Lorange and Vancil (1976).<sup>30</sup> Chandler defines strategy as: "the determination of the basic long-term

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<sup>28</sup>John Argenti op.cit.

<sup>29</sup>Chandler, A.D., Jr. (1962) "Strategy and Structure", New York: Doubleday.

<sup>30</sup>Peter Lorange and Richard F. Vancil, (1976) " How to Design A Strategic Planning System", Harvard Business Review, September-October.

goals and objectives of the enterprise and the adoption of courses of action and the allocation of resources necessary to carry out these goals" (Chandler 1962, p.13).

However, Chandler's concept of strategy which includes goals and objectives as well as the means to achieve them was challenged by strategy theorists like Hofer & Schendel (1978).<sup>31</sup>

P. Lorange and Vancil (1976), in emphasising that every business carries with it strategic planning and that the formality of that process varies from company to company, described the strategic planning system as: ... "a structured or designed process that organises and co-ordinates the activities of managers who do the planning," and that the effective strategic planning system can never be the same for two different companies.<sup>32</sup> [Lorange and Vancil, 1976].

Ansoff (1976, p.39)<sup>33</sup>, on examining the results of numerous planning surveys, commented:

" Today only a handful of leading firms employ strategic planning to manage their forward growth thrusts. A majority still employ the simpler and earlier long range planning techniques which are based on extrapolation of the past and lack the systematic generation and analysis of alternatives characteristics of strategic planning."

### **3.3.2 Criticism of Long Range Planning**

The concept of strategy as adopted by Long Range Planning can be criticised According to Horwitz, (1979).<sup>34</sup> long range planning as a management tool is

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<sup>31</sup>Hofer, C.W. & Schendel, D. (1978) "Strategy Formulation: Analytical Concepts". St. Paul : West Publishing.

<sup>32</sup>Peter Lorange and Richard F. Vancil, op.cit.

<sup>33</sup>Igor Ansoff et al. (1976) "From Strategic Planning to Strategic Management", p.39, Wiley, London.

<sup>34</sup>R. Horwitz, (1979)"Corporate Planning", Long Range Planning, Vol. 12.



ineffective because of several reasons: (i) it is unrealistic to quantify long term objectives as the future can only permit vague purpose. Quantification of objectives is said to create a false sense of security and impedes implementation. (ii) Outcomes that are not expected cannot logically come within planning, as the unknown starts to exhibit unpredictability and to become uncontrollable; thus, the logic of planning evaporates until it vaporises into thin air.

Other studies, for example, Rhenman (1976),<sup>35</sup> and Barry (1986),<sup>36</sup> suggest that strategic planning is seldom necessary. Most organisations survive successfully by regarding environmental changes as independent of each other. They argue that the procedures of strategic planning make it more difficult to observe and deal with strategic problems.

James (1984)<sup>37</sup> questioned the effectiveness of strategic planning. He argued that the strategic planning crisis was due to emphasis on its sophistication rather than the validity of its application, a wide misapplication and rigidity of strategies and, an overemphasis of planning at the expense of implementation.

Paul et al. (1978)<sup>38</sup> concluded that "strategic planning may not always have produced the expected results" as could be seen from the growing list of companies entangled in financial misfortunes because of decisions apparently made in accordance with the principles of strategic planning. As it has been established that the rate and nature of environmental change has accelerated and that environmental change has a direct linkage to the strategic planning process, perhaps in some instances there could be other factors

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<sup>35</sup>Eric Rhenman, (1976)"Organisation Theory for Long Range Planning", Wiley, London. p.4.

<sup>36</sup>see Barry, Bryan W. (1986)"Strategic Planning: Workbook for non-profit organizations", St.Paul, Minn.

<sup>37</sup>Barrie G. James, (1984) "SMR FORUM: Strategic Planning Under Fire", Sloan Management Review, Summer, pp.57-61.

<sup>38</sup>Ronald N.Paul, Neil B.Donovan and James W.Taylor, (1978). "The Reality Gap in Strategic Planning," Harvard Business Review, May/June

such as inadequate environmental scanning of environmental changes that set in, to render strategic planning a disaster.<sup>39,40</sup>

### 3.4 The Strategy-Structure or Organisation School.

Chandler (1962), in his study of successful US companies, established the idea that their performance was a result of the link between their competitive strategy and their organisational structure.<sup>41</sup> His notable conclusions were: (i) organisation structure follows from strategy; (ii) US organisations went through a stagewise developmental sequence of changes in structure; and (iii) organisations did not change their structures until forced to do so by increasing inefficiency.

Organisation structure continues to evolve, particularly as organisations go global (Rumelt, 1974; Galbraith & Kazanian (1986), Bartlett and Ghoshal (1993).<sup>42</sup> Mintzberg (1991)<sup>43</sup> agrees with Chandler's findings that as organisations grow, they have to restructure to ensure that their structure fits with the strategies they are pursuing. They might secure this fit by forming a larger, functionally departmentalised structure, with departments at the centre shared by many geographic areas; or by establishing large independent subsidiaries as holding company or divisionalised structures.

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<sup>39</sup> A. Toffler, (1982), "The Third Wave," Bantam Books, New York and J.Naisbitt, (1982). " Megatrends", Warner Books, New York.

<sup>40</sup> Charles W. Hofer and Dan Schendell, (1974). "Strategy Formulation: Analytical Concepts", West Publishing Company, St. Paul, MN

<sup>41</sup> Chandler, A.D. (1962), "Strategy and Structure", Boston, Ma.: MIT Press.

<sup>42</sup> Rumelt, R.P. (1974) "Strategy, Structure and Economic Performance", Cambridge, Massachusetts: Harvard University Press, Galbraith, J.R. & Kazanian, R.K. (1986), "Strategy Implementation; Structure, Systems and Process", St. Paul, Minnesota: West Publishing, A. Bartlett and S. Ghoshal, (1993) "Beyond The M-Form : Toward A Managerial Theory Of the Firm," Strategic Management Journal, Vol. 14, 23-46.

<sup>43</sup> Mintzberg, H. (1991), "The structuring of organizations", in Mintzberg, H. and Quinn, J.B. (Eds.)(1991), " The Strategy Process: Concepts, Contexts, Cases, Englewood Cliffs, NJ: Prentice-Hall.

Thompson (1967)<sup>44</sup> argued that technology is the major determinant of organisation structure/design. He distinguished between three types of organisation structure based on three types of technology: (i) mediating, based on the pooling of resources, for example, the interdependence of clients and customers which gives rise to the simplest form of organisation - standardised operation, i.e. bureaucracy; (ii) long-linked, based on the sequential interdependence of operations, for example, mass production assembly line manufacturing; and (iii) intensive, based on reciprocal interdependence, giving rise to the most complex organisation - custom technology, unit technology based on the particular situation. In this respect, technology was stressed as the operating core of the organisation and Thompson argued that the organisation is motivated to seal off this core from environmental influences so as to maximise efficiency.

Thompson then developed an analysis of organisation based on his notion of organisation domain, whereby organisations stake out domains, i.e. claims which an organisation stakes out for itself in terms of products or services to particular clients or customers; this concept is similar to product market scope. He argued that the more constrained an organisation is in its environment, the more compensatory power the organisation will seek over the remaining sectors of its environment. For instance, the organisation will seek to place boundaries around those activities which are crucial and would be too costly to be tackled through a co-operative strategy. As the organisation expands, or where different parts of the organisation have grown at different rates and have different capacities there is some excess capacity which causes an imbalance and leads to diversification.

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<sup>44</sup>Thompson, J.D. (1967), "Organizations in Action," New York: McGraw-Hill, Chapters 3-4.

The above shows growth of organisation structure based on technology which gives rise to the problem of how to design - to organise itself. Thus, where organisations face constraints in technology and domain, and since these vary between organisations there is no best way to structure or design the organisation.

The significance of Thompson's study is that the domain identifies the points at which the organisation is dependent on inputs from the environment. The problem for the organisation is whether these claims to domains are recognised by those who can provide the inputs i.e the co-operation of environmental groups is essential for the organisation to be viable. In this respect, an organisation cannot unilaterally fix its domain and therefore cannot take it for granted. The domain has to be sustained because resources are scarce and other organisations are competing to stake out domains. Hence, this gives the idea of consensus on the domain relevant to the concept of distinctive competencies.

### **3.5 Incrementalism**

Lindblom (1959)<sup>45</sup> described the process of strategic decision making as a form of muddling through. Mintzberg, Theoret & Rainsinghani (1976)<sup>46</sup> in analysing twenty-five decision-making processes in selected organisations formulated a descriptive model of strategic decision making; the model divides the decision process into three basic stages: identification, development and selection. The research shows that decision-making situations are characterised by novelty, complexity, and open-endedness and that a final choice is made in such situations only after lengthy periods, involving many difficult discontinuous and recursive steps.

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<sup>45</sup>C. Lindblom (1959), op.cit.

<sup>47</sup> H. Mintzberg, (1976) "The Structure of 'Unstructured' Decision Processes" Administrative Science Quarterly, June.

Mintzberg (1990)<sup>47</sup> also described the different schools of thought of strategy formation with a view that different conditions suit different strategy formation processes.

Mintzberg (1985, 1990)<sup>48</sup> and Quinn (1978)<sup>49</sup> emphasised strategy not as planning but rather as no more than a stream or pattern of decisions. Mintzberg (1987)<sup>50</sup> emphasised strategy as a learning process. Mintzberg & Waters (1985) argued that 'strategy need not be deliberate (planned), but it can also emerge (unplanned).'

Quinn (1978a)<sup>51</sup> in a study of corporate planning in nine multi-billion dollar companies and in interviewing ten executives in each, concluded that:

"... the processes through which firms arrived at formulating their strategy are typically fragmented, evolutionary, and largely intuitive. While formal systems have a role, strategies tend to emerge from a series of 'strategic subsystems', each of which attacks a specific class of strategic issues and is blended incrementally and opportunistically into a cohesive pattern that becomes the company's strategy."

Quinn (1978a) suggested that: (i) even with an existence of a well developed "strategic planning system", major strategic decisions are taken outside that planning framework; (ii) those strategic decisions usually occur by a process of "logical Incrementalism" - strategy changes in a series of small steps, each of which is clearly related to its predecessor, and which allows the integration of powerful interests within the organisation and the development of political support for each change.

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<sup>47</sup>see H. Mintzberg, (1990) "The Design School: Reconsidering the Basic Premises of Strategic Management", *Strategic Management Journal*, March/April.

<sup>48</sup>H Mintzberg & J. Waters (1985), "Of strategies deliberate and emergent", *SMJ*, July/Sept  
H. Mintzberg (1990), "The Design Schools: Reconsidering The Basic Premises of Strategic Management", *Strategic Management Journal*, Vol.11, pp.171-195.

<sup>49</sup>J. B. Quinn (1978), op.cit.

<sup>50</sup>H. Mintzberg, (1987) "Crafting the Strategy," *Harvard Business Review*, July/August.

<sup>51</sup>J.B. Quinn, (1978a). "Strategic Change: Logical incrementalism", *Sloan Management Review*, 20, pp.7-21, Fall.

Later Quinn (1980)<sup>52</sup> stressed that Incrementalism is indeed 'logical' and purposive, and it facilitates decision-making and implementation within a political organisational context.

Mintzberg (1978)<sup>53</sup> argued that organisational strategies can emerge unintentionally, and outlined various combinations of intended and realised strategies:

1. Intended strategies that are realised : deliberate strategies.
2. Intended strategies that are not realised, perhaps because of unrealistic expectations, misjudgements about the environment, or changes in either during implementation : unrealised strategies.
3. Realised strategies that were never intended, perhaps because no strategy was intended at the outset or perhaps those that were intended were got displaced along the way: emergent strategies. [Mintzberg, 1978, p.945].

Quinn (1977, 1978, 1980)<sup>54</sup> revealed that top managers often avoid making goals explicit on articulating strategy. He suggested (1977) that it is politically astute and effective management for goal setting to be secretive.

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<sup>52</sup>see Quinn, James Bryant.(1980) "Strategies for Change : Logical Incrementalism", Homewood Ill" Irwin.

<sup>53</sup>H. Mintzberg, (1978)"Patterns in Strategy Formation". Management Science, Vol. 24, 934-949.

<sup>54</sup>(i) Quinn, J.B.(1977), "Strategic Goals: Process and Politics", Sloan Management Review , 19, (1), pp.21-37;

(ii) Quinn, J.B.(1978) "Strategic Change: Logical Incrementalism", Sloan Management Review, 20 (1), pp.7-21.

(ii) Quinn, J.B. (1980) "Strategies For Change : Logical Incrementalism. Homewood, Ill.: Richard D. Irwin.

Mintzberg (1978),<sup>55</sup> Pettigrew (1977)<sup>56</sup> and Quinn (1980)<sup>57</sup> emphasised that strategy formulation is a decision-making process, and by virtue that not all organisations have planning systems but they all make strategic decisions, usually one at a time.

The above concept of strategy formation can be criticised as it is descriptive, based only on observation, and not particularly theoretical. Thus it is not helpful to those who want to develop a theory for the formulation of an effective strategy. However, emergent /incrementalism can be useful if it is used altercentrically, i.e. used to diagnose competitors' likely actions/reactions, (Partridge, 1992).<sup>58</sup> Further, it does not give an organisation any competitive advantage over its rivals since, if everybody adopted a strategy based on a general framework or theory, then no one would secure a real competitive advantage over the others in any particular market in which it operated (Kay, 1993).

### 3.6 Environment School

Various management strategists have been concerned with developing models of how to deal with environmental change to achieve organisational mission and performance. Economists, particularly in industrial society, have studied the conditions under which firms acquire power to create situations of economic competition to their advantage, thus achieving power to dominate their market (Scherer, 1970).<sup>59</sup> In this regard, business organisations need to challenge environmental conditions, rather than accepting them as given in order to achieve success.

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<sup>55</sup>Mintzberg, H. (1978), "Patterns in strategy formation", In Management Science, Vol.24, pp.934-949.

<sup>56</sup>Pettigrew, A. (1977) "Strategy formulation as a political process". Journal of International Management Studies, Vol.8, pp.78-77.

<sup>57</sup>Quinn, J.B. op.cit.

<sup>58</sup>Partridge, B.E. (1992) op.cit.

<sup>59</sup>see Scherer Frederick, (1970). "Industrial Market Structure and Economic Performance," Chicago, Ill.: Rand McNally.

Organisational theorists Thompson (1967),<sup>60</sup> Aldrich (1979), Pfeffer and Salancik (1978, p. 308) have emphasised the environment concept in the studies of organisational stability and change. Their conclusions emphasised that managers' effectiveness in managing their external environment necessitates a focus on finding or creating a unique advantage over the competition to achieve success.

Steiner (1979)<sup>61</sup> and Grinyer et al. (1986)<sup>62</sup> generalise that organisational success depends on matching the organisation to its environment. This indeed requires that managers of organisations first perceive their environment correctly in order to achieve success. However, the question where the boundary lies between the organisation and the environment can be rather critical for organisational success.

In earlier studies, Emery and Trist (1965) suggested a fourfold classification of environments: (i) randomised - the environment elements are placid and randomly distributed throughout the environment; (ii) clustered/structured - still placid but no longer random; rather, they are patterned, so knowledge about some elements can be useful in dealing with others, which allows scope for strategy; some parts of the environment are more favourable than others. Movement or adoption requires resources etc. so there is an advantage in size; thus, organisations tend to become centralised and hierarchical. This is relevant for the economic model of imperfect competition: (iii) disturbed/reactive - the environment, structured, containing competitive elements which react to its own actions; and the ability to deal with this reactive behaviour becomes critical; and (iv) turbulent - great increase in uncertainty.

Ansoff (1979) presents a strategic success hypothesis stating that a firm's performance will be optimal when: (i) the aggressiveness of the sequence of actions

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<sup>60</sup>Thompson, James. (1967) "Organizations in Action". New York: McGraw-Hill Book Company.

<sup>61</sup>Steiner, G.(1979), "Contingency theories of strategy and strategic management" In D. Schendel and C.W. Hofer (eds.), *Strategic Management : A New View of Business Policy and Planning*, Little Brown, pp.405-416.

<sup>62</sup>Grinyer, P.H., Al-Bazazz, S., and Yasai-Ardekani, M. (1986), "Towards a Contingency Theory of Corporate Planning: Findings in 48 UK companies, *Strategic Management Journal* (Jan.- Feb.) 3-28.



undertaken by the firm matches the level of turbulence in the environment; (ii) the responsiveness of the firm's capability matches the aggressiveness of its actions; (iii) the elements of the firm's capability matches the aggressiveness of its actions; and (iv) the elements of the firm's capability are supportive of one another. He defined levels of turbulence in terms of rising levels of unpredictability and complexity and he distinguished five levels: repetitive, expanding, changing, discontinuous, and surpassing. Strategic aggressiveness is defined in terms of the size of the break with past strategies and the speed with which they are implemented. Ansoff identified five levels of aggressiveness: stable, reactive, anticipatory, entrepreneurial, and creative. He then distinguished five levels of capability responsiveness: custodial, which is precedent-driven and suppresses change; production-oriented, which is efficiency driven and adapts to change; marketing orientation, which is market-driven and seeks familiar change; strategic, which is environment-driven and seeks new change; and flexible, which seeks to create the environment and seeks novel change. Strategic logic means, for instance, that flexible capability and creative action is required in surpassing environments. Ansoff maintained that all these levels can be identified in advance of acting by strategic diagnosis.

### **3.7 Developments in the 1980s**

#### **3.7.1 Competition School.**

This school of thought put back the emphasis on competition in the formulation of strategy where others only deliberated on the process of strategy formulation but overlooked the basic issue of how to beat intelligent competition.

Previous schools of strategy failed to realise that theory can not give an organisation any competitive advantage over its rivals, since if everyone had read the same book no one could gain advantage just from the theory. (Kay, 1993 and Partridge, 1992)

Quinn (1980) suggested that corporate models of strategic planning can be meaningful and enriched by classical concepts of military strategy. He argued that revival of its credibility should include return to the basic military concepts dealing with market driven conditions, and avoiding the popular and irrelevant growth-oriented business concepts widely employed. Strategic functions should be reoriented from emphasis on theoretical planning to practical planning. He stated:

"Executives are generally intrigued by the insights the classical strategists offer ... Yet I find little specific reference to classical principles in the management literature, and I repeatedly see formally developed formal strategies that ignore basic strategic axioms to the point of embarrassment..."<sup>63</sup>

(Quinn, 1980, pp. 6,7).

Ohmae (1982)<sup>64</sup> argued that strategy is a state of mind, that without competition there is no real need for strategy, and that, strategy is about attaining a competitive advantage in the most effective way. He viewed corporate strategy as requiring a strategic thinking, as opposed to a linear thinking to arrive at the best solution in the market arena (battlefield):

"...a breakthrough to the best solution can come only from a combination of rational analysis, based on the real nature of things, and imaginative reintegration of all the different items into a new pattern, using non-linear brainpower."<sup>65</sup>

Michael Porter (1980 & 1985) put the classical economic theories of market form into a framework for analysing the nature of competitive advantage in a market

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<sup>63</sup> see Quinn, James Bryant, op.cit.

<sup>64</sup> Kenichi, Ohmae (1982), "The Mind of the Strategist", McGraw-Hill, Chapter 2.

<sup>65</sup> Kenichi, Ohmae, op.cit., pp. 13-15.

and the power of a company in that market. His model of competition goes well beyond the behaviour of current competitors, reflecting a major advance on classical economic models of competition. Porter emphasises that the state of competition depends on five basic competitive forces, the collective strength of which determines the profit potential of the industry. Porter's five competitive forces are: (i) the threat of new competitors; (ii) the threat of substitute goods or services; (iii) the bargaining power of customers; (iv) the bargaining power of suppliers; and (v) the rivalry among existing competitors.

Porter emphasises that these five forces can change dramatically over time and can be influenced by the actions and strategies of the firms in the industry. Porter also emphasises that although these extraneous forces are important, what is perhaps more important is the varying ability of the different firms to deal with these forces - that is, profit still varies between firms in the same industry.

Only after the structural analysis of the industry has been completed is the firm in a position to identify its competitive strengths and weaknesses - how does the firm stand relative to other firms vis-à-vis each competitive force?

Porter also demonstrates four uses of his model in formulating strategy : (i) positioning - taking the structure of the industry as given and matching the firm's strengths and weaknesses - i.e. finding positions in the industry where the five forces are weakest; (ii) influencing the structure of the industry - this involves altering the causes or underlying forces, for example, introducing product differentiation to raise entry barriers, or customer switching costs, exploiting economies of scale, etc. (iii) identifying trends before the competition and respond before them; and (iv) identifying diversification opportunities.

Porter made two advances on his basic model:

(i) industry segmentation and (ii) competitor intelligence:

(i) On industry segmentation : The first step is to characterise the strategies of all competitors in the industry along the dimensions of competitive strategy listed. This then allows for the mapping of the firms into different strategic groups. Harrigan (1985)<sup>66</sup>, Hatten, Schendel & Cooper (1978)<sup>67</sup>, and J.McGee & Thomas (1986)<sup>68</sup> provided other techniques of identifying strategic groups. However, the model shows that there is no simple a priori way of doing this, as it would be uncertain which competitive dimensions are the most relevant for each industry.

Porter (1980) notes that the best strategic variables to use for mapping the strategic groups are those that determine the key mobility barriers between the different groups. "Mobility barriers" are a corollary to the existence of the strategic groups. They are factors which determine or inhibit the movement of a firm from one strategic position to another. Examples of the sources of mobility barriers are economies of scale, user technology, geographical coverage, ownership, relationship to stakeholders, etc.

Porter's value chain analysis is that a product or service gains value as it passes through the vertical stream of operations within the company (design, procurement, production, marketing, delivery, service). When created value exceeds these value-added costs then a profit is generated. The notion of value creation arises from viewing a product as a bundle of attributes which can be configured in multiple ways to appeal to segments of customers having diverse demands; this creates the potential for differentiating a company's products and charging price premiums. A necessary

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<sup>66</sup>K. Harrigan, (1985) "An application of clustering for strategic group analysis," Strategic Management Journal, January.

<sup>67</sup>K. Hatten, D. Schendel & A.C. Cooper, (1978) "A Strategic model of the US brewing industry 1952-1971," Academy of Management Journal, Dec.

<sup>68</sup>J. McGee & H. Thomas, (1986) "Strategic Groups: Theory, Research and Taxonomy," Strategic Management Journal, March, 1986.

condition for super-profits is that not all companies in the industry will be able to offer certain combinations of product attributes which are highly valued by customers or that some companies will be disadvantaged in their ability to offer those combinations.

Competitive advantage, to be maintained or defended, must be based on those activities in which a company has proprietary access to scarce resources, for example, skills, patents, assets, distribution networks, etc., that is, those that the competition cannot match or copy directly. However, part of the difficulty of the analysis is that the value chain is not a collection of independent activities. Rather, it is created by the interrelationships and internal linkages of operations as value creating activities, services and even Strategic Business Units (SBUs.) These complex interdependencies provide opportunities for optimisation as well as problems of co-ordination between activities within the chain. A company therefore needs to know what the value and cost of each activity are, in order to create and maintain competitive advantage. Apart from the problems of determining joint costs, it is difficult for a company to know the value to the customer of intermediate activities; if intermediate products or services are not traded on external markets. However, Hegert and Morris, (1989) emphasise the difficulty of using accounting data for value chain analysis.

Porter (1985) notes that each activity a company performs will have an underlying cost structure and behaviour: the determinants of these costs are cost drivers - e.g. economies or diseconomies of scale, learning and spillover, pattern of capacity utilisation, linkages, interrelationships, integration, timing, discretionary policies, location, and institutional. Differentiation justifying a premium price means creating value for the customer either by lowering buyer costs or by raising buyer performance.

A company can lower the buyer's cost in a number of ways such as lowering delivery, or installation or financing costs, or the required rate of usage, and the cost of failure.

(ii) on competitor intelligence: This requires perceptive competitor analysis - that is an understanding of the competition and what they are doing or will do: The basic questions are, "who should we pick a fight with (or avoid) and with what sequence of moves? What is the meaning of that competitor's moves and how seriously should we take it? Partridge (1992) argues that the concept from the conventional strategic management could be used, not so much to formulate strategy per se, but to use it to understand and predict competitors moves.

Ries and Trout (1986)<sup>69</sup> propose that business strategy should be based on market share and to be successful, a corporation must be competitor-oriented as against customer-oriented. This requires managers to be aware of the context or environment in which they compete.

However, with respect to Quinn's emphasis on the relevance of applying a military model to the corporate situation, J.Kay (1993)<sup>70</sup> cautioned against the application of military analogy in the corporate world. According to him, its application for corporate success can be rather inappropriate or misleading, simply because military power is directly related to the scale of resources that underpin it, while economic power rests on competitiveness. The excessive emphasis of military analogy on leadership, vision, and determination might not be suitable for corporate leaders as "what is sometimes a necessary military strategy is almost never a sensible business strategy."

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<sup>69</sup> Ries and J.Trout. (1986) "Marketing Warfare", Mc Graw-Hill, 1986. Chapters 2-4, 6-10.

<sup>71</sup> John, Kay, (1993) " Foundations of corporate success ", Singapore: Oxford University Press. The history of military strategy suggests that a superior technology (c.f. distinctive capabilities) is the single most important principle of military success (Partridge, 1992).

### **3.7.2 Core Competence School**

This school of thought emphasises the use of resources in challenging and stretching ways to build up a number of core competencies. This has similarities with the Competition School but rather the focus on existing competitive advantage in current product markets looks to changing the future rules of competition. In current competition the single most important variable is size as expressed in market share (Ries and Trout, 1986) as *ceteris paribus* the largest competitor usually wins, but as military history shows, a smaller force with a new technology can often win. (Partridge, 1992)

Hamel and Prahalad (1993, p. 303) for instance have studied a number of global companies in America, Europe and Japan. They found that less successful companies follow the conventional prescriptions and so seek a strategic fit, i.e. trimming their ambitions to those that can be met with available resources, while successful companies focus on leveraging resources, i.e. using what they have in new and innovative ways to reach seemingly unattainable goals. Consistency is maintained by all in the organisation sharing a central strategic intent and the path to this successful state is accelerated organisational learning (Senge, 1990, 1994).<sup>71</sup> In this regard, managers are not simply matching the resources to the requirements of the environment. Instead, managers competently use the resources they have, creating requirements of the environment which they can meet, and move to achieve stretching goals. In this respect they continually renew and transform their organisation. Therefore Hamel and Prahalad's study emphasises not the idea of adapting to the environment, but rather, on creative reaction with the environment to achieve stretching goals.

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<sup>71</sup>Peter, M. Senge, (1990) "The Fifth Discipline," Doubleday: New York, 1990; Peter M. Senge et al, (1994) "The Fifth Discipline Fieldbook," Double Day: New York,

Prahalad and Hamel (1990)<sup>72</sup> introduce the concept of corporate core competence which differs from the mainstream of strategic management's treatment of corporate strategy. According to Rumelt (1994)<sup>73</sup> it differs from the traditional role ascribed to competence, being more central, more integrative and more dynamic. The concept of corporate core competence developed by Prahalad and Hamel has four key components: (i) corporate span - core competencies span business and products within a corporation; (ii) temporal dominance - products are the momentary expression of a corporation's core competencies; (iii) Learning-by-doing - competencies are gained and enhanced by work; and (iv) competitive locus - the corporation being conceived as a portfolio of core competencies and discipline.

Hamel and Prahalad's (1993)<sup>74</sup> emphasis on the notion of strategy as stretch seems to bridge the gap between those who see strategy as grand plan thought up by great minds and those who see strategy as no more than a pattern in a stream of incremental decisions. On the one hand, strategy as stretch is strategy by design, in that top management has a clear view of the goal line. On the other hand, strategy as stretch is strategy by incrementalism, in that top management must clear the path for leadership metre by metre.

However, J. Kay (1993) has emphasised the difficulty of delivering core competence. He argues that, success in business derives from adding value of your own, not diminishing that of your competitors, and this is based on distinctive capability, not destructive capacity. Such distinctive capabilities of the firm are what he called architecture, innovation and reputation that cannot readily be reproduced or

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<sup>72</sup>Prahalad, C.K. and Hamel, G. (1990) "The core competence of the corporation," Harvard Business Review, May-June, Vol.82.

<sup>73</sup>R.P. Rumelt, (1994) "Foreword - Core Competence in Strategic Thinking," in G. Hamel & A. Heene (Eds.), "Competence Based Competition," John Wiley.

<sup>74</sup>Gary Hamel and C.K. Prahalad, (1993) "Strategy as Stretch and Leverage", Harvard Business Review, March-April.



copied by competitors. Architecture is a primary distinctive capability defined as a network of relational contracts within, or around, the firm. Firms may establish these relationships with and among their employees (internal architecture), with their suppliers or customers (external architecture), or among a group of firms engaged in related activities (networks). Reputation is a primary distinctive capability, a name for high quality in characteristic that cannot easily be monitored. It enables contracts to be made, or made on more favourable terms, than would otherwise be possible. Innovation - is a primary distinctive capability - new products, new processes, or styles of relationship. While the term is mostly used to refer to technological innovation, here, it is meant to be applied in a more general sense.

### **3.8 Strategic Management in the Public Sector**

The bias of existing literature toward the practice of strategic planning or strategic management by organisations operating in the private sector reflects the well-recognised adoption of this management tool in that particular sector of the economy. However, there is a growing interest in the practice of a strategic management approach in public administration as that environment becomes extremely competitive (Eadie, 1982) and (Selberg, 1982).<sup>75</sup>

There is also realisation on the part of government leaders and public managers of the need to accommodate their organisation to a changing environment, failing which they believe that organisational change will be based on someone else's plan (Grewe et al, 1989).<sup>76</sup>

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<sup>75</sup>Douglas C. Eadie, (1982) "Putting a Powerful Tool to Practical Use: the application of strategic planning in the public sector", Public Administration Review, 43 (5), pp. 447-552 and Barry Selberg, (1982)"Strategic Planning and Energy Management " Public Management, 64(4), pp.6-7.

<sup>76</sup> See Timothy Grewe, James Marshall and Daniel E. O' Toole (1989), "Participative Planning for a Public Service", Long Range Planning, Volume 22, No. 1, pp. 110 - 117.

The trend towards privatisation has also created new demand for strategic management (See Chapter 2). Strategic management is said to be crucial to privatisation for two reasons: first, the entrepreneur who wishes to take over a public service must convince the decision makers that a private company can provide the needed service more efficiently and reliably; second, the entrepreneur must persuade the public to choose the private version of the service.

In this respect, strategic management as a management tool would be useful in situations where organisational survival depends on beating the competition. Therefore, where management of government-owned and privatised corporations have to face mounting pressure of expectations and demands from both governmental and non-governmental elements in their environment, including the threat of losing market share due to competition, they as a team would need to adopt an appropriate management tool to achieve the desired corporate performance.

Hafsi and Thomas (1986)<sup>77</sup> developed a framework to study and describe the overall process of strategic decision in state-owned firms (SOE), which includes both, the processes that take place inside the firm, the core processes, and those that take place at the boundaries of the firm, (i.e. with the representatives of its relevant constituents and of government), the boundary processes. The model or framework which they proposed is based on a theory of SOEs strategic decisions involving an analysis of three major relationships between government and SOEs, namely, co-operative, adversarial, and autonomous. In their study they found that generally, the processes that take place inside the firm and those placed at the boundaries of the firm tend not to mix. In essence, their study or framework explains why at times the SOEs is

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<sup>77</sup>T. Hafsi & H. Thomas, (1986)"Understanding Strategic Decision Processes in State-Owned Enterprises," In "Strategic Management Research," Edited by J. McGee and H. Thomas, J. Wiley & Sons Ltd.

a docile instrument, but in other cases a fairly autonomous organisation, behaving like a private sector firm.

Pairing the characteristics of the core process and of the boundary process from a cluster analysis of numerous strategic decisions studied in SOEs, they identify three major patterns of boundary-core configurations.

The configurations of cluster one show a decision process where the key actors - the government decision-makers and the firm's executives - work earnestly to reduce their differences (the overall decision process being co-operative). In this case, the core and boundary processes are difficult to distinguish and they tend to be merged. This type of situation has given rise to the argument that SOEs have no real autonomous life and rely heavily on the government for resources and guidance.

The configurations of cluster two are typical of a process where the core and the boundary processes tend to keep separate (the overall decision process being adversarial). At least, the firm's managers work hard at keeping its core processes immune from direct outside interference (similar to firms of the private sector). However as outside actors, particularly those in the government, want to affect directly these decisions, they come into conflict with the firm's management - ending, as a consequence, the co-operative process that may have existed earlier.

The third cluster is a situation where the firm is largely autonomous of its sponsors, especially government. The firm's decisions are made independently referring to criteria that are market-related, a situation similar to that of private sector firms. (the overall decision process is characterised as being autonomous).

### 3.9 The Evolution of Planning Systems in Large Companies.

Gluck et al (1980)<sup>78</sup> examined the relationship between formal planning systems and strategic performance across a broad spectrum of companies. In particular, they examined the evolution of planning systems in those giant companies where formal planning and strategic decision making appeared to be most closely and effectively interwoven.

Houlden (1985)<sup>79</sup> based on a survey of 105 corporate planning units found: (i) a recognition of the need for corporate planners to conceptualise situations more on qualitative as opposed to quantitative terms as an aid to judgement by top management; (ii) development of new 'techniques' which are conceptually strong but with which care has to be exercised in reading too much into the quantification of a given situation; (iii) the use of these new concepts in the communication between corporate planners and top executives; (iv) increased concern with raising the level of creativity in corporate planning processes, to facilitate development of strategies and beating competitors and (v) lack of awareness by corporate planners of even the existence of some concepts/techniques that others have found useful.

Gluck et al (1980) found that formal strategic planning does indeed evolve along similar lines in different companies, albeit at varying rate of progress. They observed this evolution as four sequential phases, each marked by clear advances over its predecessor in terms of explicit formulation of issues and alternatives, quality of preparatory staff work, readiness of top management to participate in and guide the strategic decision process and the effectiveness of implementation. The four-phase

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<sup>78</sup>Frederick W. Gluck, Stephen P. Kaufman, and A. Steven Walleck, (1980) "Strategic Management for Competitive Advantage," Harvard Business Review, July-August,

<sup>79</sup>Brian T. Houlden, (1985) "Survival of the Corporate Planner," Long Range Planning, Vol.18, No.5, pp.49-54.

model of evolution is stated as follows: Phase 1: basic financial planning; Phase 2: forecast-based planning; Phase 3: externally oriented planning and; Phase 4: strategic management, with the stakeholder concept as one of its tools.

Gluck et al. (1980) found that Phase I companies often display powerful business strategies, but they are rarely formalised. If a business strategy exists, it is in terms of a projected earnings growth rate, occasionally expressed or qualified by certain debt-equity targets or other explicit financial objectives. They considered that the quality of strategy in phase 1 depends on the CEO and top management team.

Companies in Phase II reflect an improvement in the effectiveness of strategic decision making. It was observed that during this phase, top management carry out an analysis of long-term implications of decisions and also give thought to the potential business impact of discernible current trends, well in advance of any clear effects in current income statements. They found that the issues that forecast-based plans address often lead to timely business decisions that strengthen the company's long-term competitive position. According to them, one of the most fruitful by-products of phase II is "effective resource allocation", i.e. under the pressure of long-term resource constraints, planners learn how to set up a circulatory flow of capital and other resources among business units. A principal tool is portfolio analysis, a device for graphically arranging a diversified company's business along two dimensions: competitive strength and market attractiveness. However, the portfolio analysis used tends to be static and focused on current capabilities, rather than on the search for options. In this regard, it is deterministic - i.e., the position of a business on the matrix is used to determine the appropriate strategy, according to a generalised formula. Phase II companies regard portfolio analysis as the end product of strategic planning, rather than as a starting point. In sum, Gluck et al. concluded that companies in this phase simply treat planning as a mechanical routine, where managers normally copy last

year's plan, make some performance shortfall adjustments, and extend trend lines another 12 months into the future.

Phase III companies displayed a creative and dynamic resource allocation. Their planners, after losing their faith in forecasting, try to understand the basic marketplace phenomena driving change. The result is often "a new grasp of the key determinants of business success and a new level of planning effectiveness." The companies' strategists develop capabilities in increasing response to markets and competition. This is generally achieved by conducting thorough situational analysis and competitive assessment, evaluation of strategic alternatives, and dynamic allocation of resources.

A distinguishing characteristic of Phase III planning in diversified companies is the formal grouping of related businesses into strategic business units (SBUs) or organisational entities. According to the researchers, the SBU concept recognises two distinct strategic levels: corporate decisions that affect the shape and direction of the enterprise as a whole, and business-unit decisions that affect only the individual SBU operating on its own. In this regard, strategic planning is packaged in pieces relevant to individual decision makers, and strategy development is linked to strategy implementation as the explicit responsibility of operating management. However, Gluck et al. pointed out that SBUs also have their limitations. For example, many enterprises cannot be neatly sorted out into discrete business units because their businesses share important corporate resources.

It was noted that Phase III significantly differs from Phase II in that corporate planners offer a number of alternatives to top management. Each choice is usually characterised by a different risk/reward profile or gives priority to a different objective. The "alternative strategies" approach becomes both the strength and weakness of Phase III planning, as it is considered to impose a heavy burden on top management. As the

organisational capability for detailed product/market and business-unit planning spreads through the organisation, the number of issues raised, alternatives surfaced, and opportunities developed expands rapidly. Top managers soon recognise the importance of participation in the planning process, as decisions arising from it could significantly affect their companies' long-term competitive strength. The researcher also stated that a principal weakness of Phase II and Phase III strategic planning processes is their being strictly carried out according to a formal corporate calendar.

In Phase IV strategic management emerges with strategic planning and management as a single process. However, Gluck et al. found that only a few companies in their survey were being managed strategically. This is accomplished through three mechanisms: (i) a planning framework that cuts across organisational boundaries and facilitates strategic decision making about customer groups and resources; (ii) a planning process that stimulates entrepreneurial thinking; and (iii) a corporate values system that reinforces manager's commitment to the company's strategy.

The researchers observed that Phase IV companies try to keep their planning process as flexible and creative as possible. They pointed out that, as it is difficult to institutionalise a process that can produce creative plans, strategically managed companies challenge and stimulate their manager's thinking by: stressing competitiveness, focusing on a theme such as new technology, alternative channels of distribution, negotiating objectives which are consistent between corporate headquarters and business unit general management, and demanding strategic insights.

In this regard, an adoption and implementation of the stakeholder concept of strategic management can only emerge in Phase IV companies as it requires similar elements to those which characterise strategically managed companies. Only phase four

companies which can produce creative plans have the potential to adopt the stakeholder concept better than their competitors in a given environment, thus enabling them to create their own future, rather than be buffeted into a predetermined corner by the winds of environmental change.

### **3.10 The Stakeholder School**

This school of thought argues that the corporate strategy of an organisation can only be considered adequate if it encompasses an appreciation of the demands of various stakeholders in its environment, which need to be satisfied to achieve the corporate mission. In this regard, the management theorists propose that corporate and business strategy need to be aware of the components that characterises the organisation's operating domain, such as its relationships with various parties like government and its organisations, stockholders, competitors, suppliers, consumers, trade unions, political parties, etc., that can have a profound effect on, or be affected by its performance.

For corporations operating in a political setting, stakeholder management offers the management an effective tool to fulfil their role and mission which is not only to make a profit, but also to engage in social actions or responsibilities (Mitroff, 1983; Freeman, 1984). Mitroff emphasised that modern organisations, whether public or private, are beholden to, or at the very least are affected by, a larger set of forces than the traditional three parties of shareholders, customers, and the organisation itself. The stakeholder concept, embodies the notion that there exists a very complex set of relationships between a particular organisation and its stakeholders, and that "the



corporation may be thought of as the entire set of relationships it has with itself and its stakeholders".<sup>80</sup>.

According to Mitroff (1983) as these relationships change over time, the organisation itself may be thought of as changing, as becoming a different organisation, as it were. The failure to grasp this essential fact has prevented many an organisation from seeing that because its environment, that is, its external stakeholders, has changed it is not the same, even though internally it looks the same to itself. This is also in accordance with Ackoff and Emery (1974)<sup>81</sup> contention that in a system ( a set of relationships), a change in any one part potentially affects all other parts and the whole system itself.

In this context, it is relevant that top management as organisational strategists need to evolve beyond the traditional entrepreneurial roles that match organisational strengths and weakness to opportunities and threats in the product/market domain. Therefore, organisational strategists by adopting the stakeholder approach to strategic management, would be enabled to control, or simply influence environmental outcomes so as effectively to satisfy the various demands of major stakeholders to achieve corporate goals (see also Pfeffer and Salancik, 1978).<sup>82</sup> These acts of strategising would require top management to be involved in political alliances, collusive structures and tactics in order effectively to satisfy those demands imposed on the organisation, and to achieve desired organisational goals (MacMillan, 1978).<sup>83</sup>

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<sup>80</sup>Mitroff (1983), Ibid, p.22.

<sup>81</sup>Ackoff, R.L., and Emery, F.(1974) " On Purposeful Systems. Chicago: Aldine-Atherton.

<sup>82</sup>J. Pfeffer and G.R. Salancik. (1978), "The External Control Of Organisations: A Resource Dependence Perspective", Harper & Row.

<sup>83</sup>MacMillan, I.C. (1978), "Strategy Formulation: Political Concepts", New York: West Publishing.

Emery and Trist (1965)<sup>84</sup>, Pfeffer and Salancik (1978)<sup>85</sup> and many others have also looked at the transactional level of organisations. In this context, Pfeffer and Salancik (1978) have defined an effective organisation as "the organisation which satisfies the demands of those in the environment (i.e. stakeholders) from which it requires support for its continued existence. They proposed that an organisation would be ineffective if it misread or misinterpreted such demands, remained committed to past practices, or failed to see the various conflicts in demands. They proposed that the procedure for assessing organisational effectiveness represents both a model of organisational behaviour and the prescription for managing organisations for continued survival.

Aldrich (1979)<sup>86</sup> and MacMillan (1978)<sup>87</sup> also explore the transactional level of organisation in terms of using external networks. MacMillan (1978)<sup>88</sup> argues that introducing and implementing change frequently requires the use of power and influence, which he examines in terms of restructure of situations and the ability to change people's intentions. What is often ignored in theory, is that aspect where practising managers actually achieve the organisation's strategy through restructuring its environment. In this context, a manager could exercise control over the behaviour of others (both internal and external) by structuring the situation and also changing their intentions. Managerial tactics that can be employed to achieve this are inducement, coercion, persuasion, and obligation.

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<sup>84</sup>Emery, F.E., and E.L. Trist (1965), "The causal texture of Organisational Environments". Human Relations, 18, pp.21-32.

<sup>85</sup>Jeffrey Pfeffer and Gerald R. Salancik (1978), "The External Control of Organisations: A Resource Dependence Perspective", Harper & Row.

<sup>86</sup>H.E. Aldrich, (1979) "Organizations & Environments", Prentice-Hall, 1979.

<sup>87</sup>I.C. MacMillan, "Strategy Formulation: Political Concepts", West Publishing..

<sup>88</sup>MacMillan, Ian.C. (1978), "Strategy Formulation: Political Concepts", West Publishing. Provides relevant perspective on politics and change.

Freeman (1984) argues that if organisations are to be successful in the current and future environment, then executives must take multiple stakeholder groups into account. Defining "stakeholder" as "any group or individual who can affect or is affected by the achievement of an organisation's purpose", Mitroff (1983)<sup>89</sup> describes the modern large-scale corporation as being buffeted by a growing array of disparate forces, many of which seem increasingly beyond its control, and he refers to these forces as "stakeholders". He defines these "stakeholders" as "all those interest groups, parties, actors, claimants, and institutions" - both internal and external to the corporation - that exert a hold on it, that is, those who either affect or are affected by a corporation's actions, behaviour, and policies.

The adoption of the stakeholder concept by top management could be deceptively simple because it starts with the simple task of identifying the stakeholders. However, this is immediately followed by the need to comprehend a more complex task of managing the relationships with them. The variety and the incompatibility between their "stakes" in the real world need to be effectively satisfied if the organisation is to achieve its purpose. This requires a multiple level of analysis, and processes for taking dynamic stakeholders' priorities into account. From this, we can see the complexity of the stakeholder approach to strategic management. In essence, this is part of the complexity of an integrative aspect of strategic management towards an action orientation in managing the overall environment, which needs to be adopted by top management operating in such an environment in order to achieve corporate goals.

Freeman (1984) further argues that high stakeholder management capability requires: (i) design and implementation of communication processes with multiple stakeholders; (ii) explicit negotiation with stakeholders on critical issues and seeking of

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<sup>89</sup>Ian I. Mitroff (1983), " Stakeholders Of The Organizational Mind", Joseph Jossey Bass Publishers, California.

voluntary agreements; (iii) generalisation of the marketing approach to serve multiple stakeholders, to provide a more detailed view of their needs and as a basis for market research; (iv) integration of boundary spanners into the strategy formulation process within the organisation (v) proactivity i.e. anticipating stakeholder concerns; (vi) allocation of resources consistent with stakeholder concerns; and (vii) active use of the stakeholder concept. Further, the stakeholder strategy process comprise stakeholder analysis, values analysis, and societal issues.

Mason & Mitroff (1983)<sup>90</sup> and Johnson (1987)<sup>91</sup> suggest that the stakeholder concept is particularly relevant for the public sector because the political process is more pluralistic and more problematic. In this regard, if SOEs (where government is the prime owner) are to be a "stakeholder-serving" in the sense of fulfilling the rising expectations of powerful stakeholders better than their competitors, then stakeholder management ought to be taken seriously by corporate leadership. The overall skills within the top management ought to be geared towards understanding and using the stakeholder concept more effectively to influence major stakeholders, to achieve long-term organisational purposes. In this perspective, where negotiation with major stakeholders is a give and take process, a process of compromise, and of establishing "win-win" solutions, these dynamics of strategising cannot be effective if top management fail to appreciate the various trade-offs and options available to them to satisfy the varied but conflicting stakes or expectations of stakeholders. In essence, this task requires that top management immerse themselves in the corporation business. However, the critical question facing top management is where is the boundary between the organisation and the environment?

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<sup>90</sup>R.O. Mason & I. Mitroff, (1981) "Challenging the Strategic Planning Assumptions," New York: J. Wiley.

<sup>91</sup> G. Johnson, (1987)"Strategic Change and the Management Process," Oxford: Blackwell

R. Mazzolini (1984)<sup>92</sup> studied how strategic decisions were made in various organisations in Europe. Based on the study, he concluded: "Unless leadership actively intervenes, it is the firm's bureaucracy that determines its strategy." (p. 356). According to him, for strategy to occur, an intervening force must initially step in during the normal decision process, and such intervening forces are represented by individuals with influence on the firm's strategy. Therefore, one must analyse which such forces cause an organisation to look at new types of strategies, and one must understand how these forces emerge. This requires uncovering key players' identity - their position, their preferences, and their personality. However, while these forces can provide the impetus for new problems or opportunities to be considered, Mazzolini stressed that "...their influence beyond that is critically conditioned by existing processes. Leaders themselves are constrained by the bureaucratic setting." (Mazzolini, p.357).

Accordingly the individual's sources of power to influence the doings of the total organisation include: formal authority, ability to veto others' decisions, direct control over resources, direct access to those with power, control over vital information, vital expertise for planning and implementation, and personal traits. Therefore, it can be argued that the application of stakeholder concept can assist top managers operating in both private and public sectors to identify, analyse and satisfy the preferences of those key individuals or major stakeholders, in order to implement their strategy in their respective organisations. In particular, by using the framework they would be able effectively to satisfy the preferences or stakes of those identified multiple stakeholders, better than their existing or potential competitors in any given situation. This is possible as the stakeholder concept could assist top management to surface the

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<sup>92</sup>R. Mazzolini, (1984) "Strategy: A Bureaucratic and Political Process," in R.A. Lamb (Ed.), "Competitive Strategic Management," Prentice-Hall.

trade-offs that the corporation faces. On effectively doing this, the corporation could then mobilise and allocate its limited resources and energy to fulfil the priorities or preferences of those primary stakeholders better than its competitors. In this context, the main point of adopting a stakeholder approach is to force organisational managers to be more responsive to those that can influence and affect the doing of their organisation and the essence of its application is to gain commitment throughout the corporation to ensure that organisational purpose is being achieved as planned. This requires identifying the primary stakeholders, identifying their objectives and stakes in the organisation, diagnosing their power and influence, and formulating strategies to deal with the stakeholders (Freeman, 1984).

## Chapter Four

### **The Historical Perspective of JTM: The "Corporatisation" of JTM and the Preparation for the Flotation and Privatisation of the Organisation**

#### **4.1 Introduction.**

This chapter examines the organisational evolution of the Malaysian Telecommunications Department, or Jabatan Telikom Malaysia (JTM) from the time prior to the formation of Malaysia in 1963 until its partial privatisation at the end of 1990.<sup>1</sup>

#### **4.2 Organisational Changes of JTM Prior to Privatisation**

With political independence in 1957, the Malayan government assumed responsibility for the operational function of JTM through to January 1, 1987. In the preparation for privatisation, the department was "corporatised", and operational responsibility was legally transferred to a government owned company - Syarikat Telekom Malaysia (STM). Following four years as a corporate entity, the issued shares of the company were floated on the Kuala Lumpur Stock Exchange (KLSE) on November 7, 1990. The Minister of Finance (Incorporated) as owner of the corporation divested some 24.9% of the issued shares to approved parties to accomplish partial privatisation of the corporation (TM Prospectus, September 26, 1990; TM Annual Report, 1990).

Three distinct time periods can be recognised prior to privatisation. First, the period from independence in 1957 to the introduction of the New Economic Policy

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<sup>1</sup>In 1963 Malaysia was formed by the Federation of Malaya, Singapore, Sabah and Sarawak. (In 1965 Singapore left the Federation and became an independent country).

(NEP) in 1970. Second, from 1970 to 1981 when Dr. Mahathir Mohamed was elected Prime Minister and, third from 1981 until privatisation in 1990.

### **1957-1970**

On gaining independence in 1957, Malaya inherited a telecommunications network primarily developed to serve the interests of the tin mining and plantation industries, the main economic activities developed under the British colonial rule. Although the telecommunications system was, in relative terms, superior to those of many other lesser developed countries, the changed economic priorities associated with independence, especially the desire for economic diversification through industrialisation, necessitated further substantial development of the telecommunications sector. This was recognised in JTM's Annual Report in 1957 which stated that emphasis would be placed on providing the best possible telecommunications services to international standards.

However, the first major reorganisation did not take place until 1963, after the formation of Malaysia, when JTM was placed under direct control of a newly established Ministry of Works, Telecommunications and Posts. With this reorganisation, a more systematic structure was introduced with specific functional areas, including technical, finance, administration and training services. The department was placed under the control of the Director-General of Telecommunications who was responsible to the Minister of Works, Telecommunications and Post (see JTM, Annual Report 1963-1966). To overcome shortages of qualified staff, new training programmes were initiated which resulted in junior technical staff being sent to the United Kingdom to acquire professional engineering qualifications.<sup>2</sup>

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<sup>2</sup>F.C. Onn (1989) states that since independence Malaysia has pursued a strategy of purposeful economic development emphasising industrialisation.



It appears that during the period up to 1970 sufficient funds were made available to allow the telecommunications service to develop in line with the general absorptive capacity of the economy. Under the First Malaysia Plan (1966-70), a total of MYR 196 million was allocated by the Ministry of Finance. This represented 12.7% of total expenditure for transport, communications and utilities, or 2% of the total national budget.

Major projects accomplished included the completion of stage one of the South-East Asia Commonwealth (SEACOM) linking Kuantan in Peninsular Malaysia to Kota Kinabalu in Sabah in 1965. Between 1967-70, a microwave system was installed linking major west and east coast towns with the rest of Peninsular Malaysia. Also before the end of the decade, several automatic telephone exchanges were introduced, and the completion of Kuantan Earth Satellite Ground Station enabled the development of direct dialling between major towns and cities (various JTM Annual Reports from 1966-1971).

During this period JTM received praise from the World Bank which commended JTM throughout the 1960s as a model for other nations to emulate, and gave the system its highest 'A' rating (Crawford, 1984, p.27).<sup>3</sup>

### **1970-1981**

The introduction and implementation of the New Economic Policy (NEP) signalled a more important and dynamic role for JTM, since the NEP called for a high annual rate of economic growth of 8% in order to allow a substantial reallocation of

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<sup>3</sup>Crawford, M.H. (1984), "Information Technology and Industrialisation Policy in the Third World", Cambridge, Mass.: Centre For Information Policy Research, Harvard University.

wealth to the bumiputra community. It was deemed essential that the country should have an efficient telecommunications service to support the proposed higher rate of economic growth based on rapid industrialisation underpinned by foreign investment.

In 1972, the government replaced the existing Federal Treasury Accounting System (Malaysian Telecommunication Instruction, 1971). Consequently, JTM became a self-accounting entity (F.C.Onn, 1989). According to former JTM officials, the main objectives were to make JTM self-sufficient, in terms of revenue required for financing both its operating and development expenditures. According to Telecommunications (Amendment) Act, 1972, JTM was required to earn a targeted 8% return on assets.<sup>4</sup> Under the 1972 Act, a 'Telecommunications Fund' was established whereby all monetary transactions including revenue from services were to be processed through the fund, which was responsible for the payment of operating expenditure and the finance of development expenditure. However, due to insufficient surplus after operating expenditure, throughout the period, JTM continued to rely on loans on from the Federal Treasury in order to finance its development programme. Prior to "Corporatisation" in 1987, JTM as a government department owed the Federal Treasury a total of MYR 4.1 billion, including outstanding interests (JTM Annual Report, 1986).

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<sup>4</sup>Malaysia, Telecommunications (Amendment) Act, 1972, Laws of Malaysia, Act A115, Kuala Lumpur, National Printing Department, 1972.

**Table 4.1**  
**Malaysian Telecommunications Department**

**Loans from the Federal Treasury: 1972-88 (MYR million)**

Year	Operating Expenditure	Development Expenditure* (1)	Total Expenditure	Total Revenue	Operating Profit (2)	Loans/ Deficit** (1) - (2)
1972	86	89	176	133	47	42
1973	92	79	171	159	67	12
1974	111	120	230	186	75	45
1975	131	203	334	221	91	112
1976	145	210	355	282	137	73
1977	189	288	477	301	112	176
1978	205	359	564	358	153	206
1979	240	381	621	433	193	188
1980	299	638	937	524	225	413

Source: Calculated from Department of Telecommunications Annual Reports, 1972-80

\* According to JTM former officials, these are with respect to development expenditure committed and paid for by JTM during the year.

\*\*Loans obtained from the Federal Treasury to finance development expenditure.

Despite the high priority accorded to the telecommunications sector to boost economic growth, Kennedy (1990, p.27) suggests that JTM was underfunded and that it never received Federal Treasury approval for more than half of its original requests.

Funds allocated under the Five Year Plan are shown in Table 4.2

**Table 4.2**  
**Original and Revised Allocations for the Telecommunications Sector**  
**under the Various Five Year Malaysia Plans (MYR millions)**

Five Year Plan	Original Allocation	Revised Allocation
First Malaysia Plan (1966-70)	142.5	146.20
Second Malaysia Plan (1971-75)	298.39	515.55
Third Malaysia Plan (1976-80)	1,080.01	1,200.00

Source: First to Third Malaysia Plan, Government of Malaysia

As a result of underfunding, Kennedy (1990) notes that JTM faced increased public complaints and that waiting lists for telephones grew rapidly from 13,704 in 1970 to 149,945 in 1981, as shown in Table 4.3

**Table 4.3**  
**Total Subscribers and Waiting List of JTM**  
**(1970-1981)**

Year	Subscribers	Waiting List	Waiting List as % of Subscribers
1970	103,763	13,704	13.2
1971	110,019	11,924	10.8
1972	121,603	13,674	11.2
1973	136,494	20,591	15.1
1974	149,458	35,085	23.5
1975	169,538	48,306	28.5
1976	194,359	65,303	33.6
1977	227,564	76,438	33.6
1978	271,010	84,247	31.1
1978	325,154	105,699	32.5
1980	395,640	133,609	33.8
1981	488,675	149,945	30.7

Source JTM Annual Reports from 1971-1981.

In 1978, the government created a new Ministry to supervise JTM which was called the Ministry of Energy, Telecommunications and Post (METP) (JTM Annual Report, 1978). During that year, the government instigated a major reorganisation and structural change in JTM. The primary objective appeared to be the decentralisation of some decision-making processes. The reorganisation resulted in Malaysia's thirteen states being served by seven regional centres, with newly appointed regional directors allowed greater powers to plan and implement development programmes at state level.<sup>5</sup>

<sup>5</sup>Malaysia, "Telecommunications Department Annual Report 1979, Kuala Lumpur, Government Printers, 1980.

**1981-1990**

The election of Dr. Mahathir Mohamed as Prime Minister in mid 1981 resulted in significant changes in the organisation of the telecommunications sector. Although the Malaysian economy had fared well in the 1970s with a high economic growth rate averaging 7.9% per annum, the beginning of the 80s witnessed economic uncertainty with the downturn of the world economy precipitated by the collapse of international oil prices following the second round of OPEC oil price increases in 1979.

Mahathir's accession to power was accompanied by the imposition of his own distinctive personalised and forceful style of government which pervaded many economic areas. The telecommunications sector was one of the first areas to be affected by significant changes in development policy.

One of the immediate consequences of Dr. Mahathir's new policies was the decision in 1981 to 'contract out' to selected bumiputra consortia, key and strategic operational functions of JTM.

According to previous JTM officials, Dr. Mahathir expressed dissatisfaction over the waiting list of about 150,000 prevailing in 1981, and directed the Deputy Prime Minister, Musa Hitam to visit JTM's headquarters in November 1981 to announce the proposed implementation of a turnkey system. Hashim (1986) and Jasin (1986) emphasise the dramatic change in policy, whereby for the first time important functions such as planning and engineering were taken away from the direct control of

JTM to be implemented by outside contractors. Hashim referred to these projects as "turnkey" projects.<sup>6,7</sup>

According to former JTM officials who were involved in negotiation over the turnkey projects, all matters relating to the preparation and implementation of the projects were handled by the Implementation Co-ordination Unit (ICU) of the Prime Minister's Department. Although JTM was invited to submit recommendations, these were for the most part ignored by the ICU which imposed its own directives. Which were subsequently approved at the cabinet level, and allocated funds by the Federal Treasury. Senior ICU officials, under instruction from the Deputy Prime Minister's and Prime Minister's office led a team, including officials from METP and JTM, into a series of negotiations with selected bumiputra contractors to establish the terms and conditions for the implementation of the turnkey projects.

In September, 1983, JTM signed an agreement with four contractors to implement the projects. However, based on interviews with former officials with ICU, METP and JTM, it is clear that JTM had little direct involvement in formulating policy which was mainly the result of direct negotiation between ICU and the selected bumiputra contractors. JTM's criticisms that the contractors' prices were unreasonably high (approximately four times higher than JTM's estimates) and opposition to proposals which would devolve planning and design responsibility to the contractors were ignored. Hashim (1986, p.61) noted that "the project not only included the

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<sup>6</sup>Rita Raj Hashim (1986), "Privatisation of Telecommunications in Malaysia", Research Report submitted on March 1986, for the degree of Master In Public Administration, University of Malaya, Kuala Lumpur. p.59-92.

<sup>7</sup>see A Kadir Jasin, (1986)"Several Factors behind the delay in cable projects", Part II, Business Times, February 19.

implementation of the project work but the entire planning and design of the network.”<sup>8</sup> The point was also made that under the terms and conditions of the contract agreement, the contractors were not responsible for maintenance, beyond guaranteeing the operation of the network plant for one year.<sup>9</sup>

The agreed value of the contract was MYR 2.5 billion based on estimates for a total of 1.76 million lines (ECPs - effective cable pairs) to be installed equally by the four contractors at an agreed and approved cost of MYR 1433 per ECP. In the contract agreement, each contractor was allocated a total of 444,100 ECPs in a specific geographical region assigned to them.

The bumiputra contractors were required to form partnerships with established foreign partners or secure their expertise. This was intended to allow local companies to acquire transfer of technology from their foreign partners in the process of implementation. The following three joint-ventures were formed:

- 1) Binaphone - Philips (Holland)<sup>10</sup>
- 2) Uniphone - Sumitomo (Japan)<sup>11</sup>
- 3) Electroscon - Ericson (Sweden)<sup>12</sup>

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<sup>8</sup>Rita Raj Hashim (1986), "Privatisation of Telecommunications in Malaysia", Research Report submitted on March 1986, for the degree of Masters In Public Administration, University of Malaya, Kuala Lumpur. p.59-92.

<sup>9</sup> Ibid.

<sup>10</sup> A joint-venture company between a local bumiputra company, AZH holdings with Philips.

<sup>11</sup> A joint venture company between Sapura Holdings and Sumitomo Holdings.

<sup>12</sup> Electroscon formed a joint-venture company with LM Ericson (a reputable company with turnkey experience), called Electroscon Network Engineering.

Sri Communications, which did not establish any form of joint-venture with a foreign partner, acquired foreign expertise on a contract basis particularly for the designing and planning work.

Responding to criticisms over the high costs of the contracts, the Minister of Energy, Telecommunications and Posts stated: "We are convinced that there is no other way to achieve these targets (No Waiting List by end of 1985) but to get the private sector involved on a turnkey basis. So up to a point it may incur slightly bigger costs, but don't forget you (JTM) also earn the income earlier than otherwise" (Supriya, 1983).<sup>13</sup>

In this regard, a former JTM deputy director estimated that it would have been much cheaper if JTM had been given the required funds to implement the whole project using the conventional method. According to this official, by conducting the project using the conventional method, JTM would have been able to save the cost of the planning (design) fee and also project management costs which were 5 per cent and 20.86 per cent of the installation cost respectively, as stated in the turnkey contract. Using the conventional method and with planning and designing of the network, as well as project management, done entirely by JTM, it would have cost the department on the average no more than MYR 450 per ECP to contract out the whole project based on competitive bidding, even to those bumiputra contractors which were awarded the contract.

To supervise the implementation of the turnkey project, the Minister of Energy, Telecommunications and Post (METP) was instructed by the Cabinet to establish an

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<sup>13</sup>Supriya S. "Telecoms takes the private line", New Straits Times dated 15th. October, 1983.



Inter-Ministerial Steering Committee consisting of officials from the Ministry of Finance, ICU, METP, and JTM.

The stated objectives of the turnkey projects were to achieve the following:<sup>14</sup>

- (i) to provide cable pairs to enable the JTM to clear all back-logged requests by 1985;
- (ii) to install a main cable network capable of meeting demand for the next five years;
- (iii) to install a distribution cable network capable of meeting demand for the next 20 years;
- (iv) to install a duct and manhole system capable of meeting demand for the next 30 years.

To achieve the immediate priority of 'no waiting list by end of 1985', each contractor was given a target to deliver 304,669 installed ECPs or a total of about 1.2 million ECPs for all the four contractors to JTM by the end of 1985 (Hashim, 1986). Actual connections to subscribers from installed ECPs remained the responsibility of JTM. Arthur D.Little (ADL) consultants (1983) estimated that if ECPs targets were met by the turnkey contractors, JTM would be required to achieve a connection rate of 33,000 per month compared with its then current average monthly completion rate of 8,000 connections. To achieve these high connection rates, JTM was obliged to redeploy staff, including the planning and engineering staff made redundant by the turnkey contracts, to more mundane tasks of connections and maintenance.

Implementation of the turnkey projects by the contractors, however, lagged well behind schedule. This as shown in the following, Table 4.4, where the best

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<sup>14</sup> Malaysia, "Terms and Conditions for Planning (Appendix II, Contracts for the Turnkey Implementation of Local Network), p.1), Kuala Lumpur, 1983.

performance by a contractor was only 43.5 per cent of the 1985 target while the lowest achievement was less than 20 per cent of the target.

**Table 4.4**

**Installation of ECPs by Contractors**

Contractor	Target for 1985 (ECP's)	Installed ECP's	Achievement (Installed as % of target)
Contractor 1	304,669	72,624	23.8
Contractor 2	304,669	59,060	19.4
Contractor 3	304,669	88,768	29.1
Contractor 4	304,669	132,610	43.5

Source: JTM (Unpublished)

The achievement rates shown in Table 4.4, though themselves clearly indicative of poor performance, tend to underestimate the overall problem, since many ECPs were poorly installed, thus requiring repair by JTM. More importantly, however, a large number of ECPs were installed in areas where immediate prospective subscribers were non-existent. These problems can be ascribed to the nature of the turnkey projects in which JTM was forced to play an acquiescent role.

Although the current discussion is based on interviews with present and former JTM officials, including its former Director-General, their views of events, for the most part, were confirmed by officials from other government bodies including the ICU and METP. As suggested earlier, JTM had little influence in the formulation of policy regarding the turnkey projects. Moreover, once the contracts were up and running JTM was still expected to play a compliant role. The Minister of METP instructed the Director-General of JTM that it was expected to co-operate fully with the contractors and work as a team, a directive which was frequently brought to the notice of JTM

throughout the implementation period. JTM officials claimed that the agreement was predominantly one-sided in favour of the contractors, and so loosely worded that contractors were able to reap unexpected benefits. One unfortunate consequence was that contractors were able to install ECPs in areas where there was no immediate prospect of customer demand, while ignoring areas where ECP installation could have significantly reduced waiting lists. As a result, instead of eliminating waiting lists, one of the main priorities of the turnkey projects, JTM faced a record waiting list of 332,000 at the end of 1985. Furthermore, because of the mismatch between installed ECPs and exchange capacity in relation to effective consumer demand, JTM had unused capacity of more than 46 percent for ECPs and 55 percent for exchanges. JTM officials alleged that the above figures were deliberately suppressed for several years in order to avoid embarrassment and criticism of the government and the bumiputra contractors.

JTM claimed that because of poor implementation by contractors it had to divert manpower to repair and maintenance, which affected its ability to increase the rate of connections to potential subscribers. A further problem arose in that JTM staff, many of whom were adversely affected by changed manpower commitments and job function in JTM, were recruited by the newly established contracting companies, thus further reducing JTM's ability to meet its increased commitments. The consensus of opinion among JTM interviewees was that the department had little option but to comply with the instructions passed to them from METP. Attempts to secure more rational approach were merely conceived by the government as obstructive, and also used by the government to apportion blame on JTM for underperformance.

It seems reasonable to assume that JTM officials would bias their judgements against the contractors while minimising their own shortcomings. Jasin (1986)<sup>15,16</sup> and

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<sup>15</sup>A. Kadir, Jasin, (1986) "2.54 Billion Telecoms Scheme Running Behind Schedule", Part I, Business Times, February 18.

Hashim 1986 <sup>17</sup> argued that both JTM and the private contractors were equally responsible for the shortfall of the projects. JTM was criticised for delaying approvals at all stages, being unable to come up with prices for a large number of plant units, deferring work on schemes where plans had been completed by the contractors and lack of expertise and manpower to monitor and review the contractors' works. On the other hand contractors were criticised for failing to meet targets.

When the contractors failed to meet the longer term targets based on five years, i.e. September, 1988, the government granted an extension of the contract period on a year to year basis. This was done on the understanding that they would complete the turnkey projects assigned to them before privatisation of STM at the end of 1990. However, even when the contractors failed to meet the original 1988 targets as late as 1992, there was no evidence of the government invoking time penalties which were written into the agreements in case of non-completion within the agreed time schedule.

Kennedy (1990) concluded that the turnkey projects reflected an increasingly political nature of the way business was being conducted in the telecommunications industry. Furthermore, they reflected the authoritarianism of the government whose decision to adopt the turnkey projects in JTM was made, not as a result of an objective evaluation or an open discussion with top management of JTM, but rather, through a directive sent through the Prime Minister's Department and the METP.

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<sup>16</sup>see A Kadir Jasin, "Several Factors Behind the Delay in Cable Projects", Part II, Business Times, February 19, 1986.

<sup>17</sup>see also Rita Raj Hashim (1986), "Privatisation of Telecommunications in Malaysia", Research Report submitted on March 1986, for the degree of Masters In Public Administration, University of Malaya, Kuala Lumpur. p.59-92.

### 4.3 Decision to Privatise JTM

Interviews with former EPU officials who dealt directly with the Prime Minister, indicated that Dr. Mahathir revealed a strong commitment to privatisation. Furthermore, it was indicated that JTM would be the likely first major candidate. By early 1982, privatisation of JTM was discussed by an Inter-Departmental Committee on Privatisation under the chairmanship of the Director General of EPU, which prepared the way for the Prime Minister's announcement of privatisation policy in March, 1983. Discussions focused on acquiring expert opinions from both public and private sector, to initiate the privatisation of JTM as quickly as possible, so that private sector capital could replace or augment limited government revenue to finance the telecommunication sector to support the industrialisation programme.

In 1983, Shamsuddin Kadir, a close friend and adviser to the Prime Minister and owner of Sapura Holdings, a leading bumiputra company operating in the telecommunications sector, commissioned financial consultants Arthur D. Little Company (ADL) to prepare a report on the proposed privatisation of JTM. In November, 1983, ADL submitted its report to Sapura Holdings entitled "The Advantages And Feasibility of Privatising Jabatan Telekom Malaysia." Shamsuddin subsequently handed the report to the PM, but apparently declined an invitation to be considered for the top managerial post in a privatised JTM, since this would conflict with other business interests.

ADL (1983, p.2) in its report stated that it was commissioned to consider two questions:

- 1) "Would a `privatised' JTM be more responsive to the nation's needs and lead to faster and more efficient expansion?"
- 2) "Is it feasible to `privatise' JTM?"

The report strongly criticised JTM for its inability to meet demand, but laid most of the blame on civil service procedures which prevented JTM from responding positively and flexibly in a dynamic high technology industry. It particularly noted the inability to hire appropriately qualified staff, inability to install sophisticated management systems, inappropriate financial regulations and systems, and inadequate control over data processing priorities and resources. It concluded that JTM's organisational structure was inflexible, not commercially oriented and incapable of responding to the needs of high technology industry since civil service rules prevented the rapid procurement of vital equipment.

The study warned that government failure to correct structural deficiencies would have detrimental effects at two levels:

1) at the micro-economic level, the penalties of JTM being unable to respond to its high technology environment were - an inability to meet demand, low level of profitability or loss due to inefficient utilisation of resources, and inability to fund further expansion because of poor profitability;

2) at the macro and national level, the overall penalties - a continuing impairment in the competitiveness of Malaysia in international markets, an increasing inability to compete in the growing electronics and telecommunications industries, and " a brake upon the growth of the Malaysian economy, both in terms of national and international commerce (ADL, 1983, p.5).

The report then related the experience of other nations such as Hong Kong, Canada and USA where telecommunications services had been provided through private sector initiatives, only to indicate that "retaining telecommunications, which

requires sophisticated management of high technology, and high quality professional leadership, within the civil service" as in the case of JTM, is rather inappropriate.

ADL recommended that:

"JTM be incorporated and removed from the Civil Service so that it could install a flexible structure and commercial management practices to respond effectively to its high technology environment "(ADL, 1983, p.47).

ADL noted that as a private corporation, JTM should have the following advantages: ability to finance independently; introduction of commercially-oriented management practices; freedom to hire employees, promote them and, where necessary fire incompetent staff; and flexibility to respond quickly to changes in the marketplace (ADL, 1983, p.47).

It was also recommended that JTM should retain its monopoly of a basic telephone service, but compete in providing value-added services." The report finally recommended that there should be a government regulatory body to ensure that both JTM and other competing private sector companies complied with overall national objectives.

ADL concluded that privatisation was feasible provided "that upon JTM's incorporation, the management of JTM will be resolute in its new environment in stripping out Civil Service procedures, and the Government will ensure that the board of an incorporated JTM is entrepreneurial in nature rather than being staffed by ex-public servants." (ADL, 1983, p.48).

Although not directly commissioned by the government the ADL report was nevertheless considered to be influential and gave support to the government's decision to proceed with the privatisation of JTM, even though as will be seen in later analysis, many of its recommendations were not fully implemented.

#### **4.3.1 AMMB Report, August, 1984**

On 16th of August 1984, the government itself commissioned a study on privatisation, involving the Arab Malaysian Merchant Bank (AMMB), Kleinwort, Benson Limited, (a British merchant bank which had advised the British government on the privatisation of British Telecom), and Hanafiah, Raslan and Mohamad (HRM), a Malaysian accounting firm.

The terms of reference covered four main areas:

- 1) an assessment of JTM's present balance sheet position;
  - 2) an assessment of JTM's earnings potential over the next ten years as a Companies Act company;
  - 3) provision of recommendations on a number of issues germane to incorporation and ultimate privatisation, including capital structure, financial objectives, and mechanisms for achieving divestiture;
  - 4) proposals regarding the corporate and organisation structure of JTM.
- (AMMB/KBL/HRM, 1984, p.3).

The main conclusion of the study, published on December 1984, were  
(AMMB/KBL/HRM, 1984, p.8-14):

Current network: JTM's current accounting, management and information systems are inadequate and must immediately be strengthened.

Prospects for Privatisation: The practical scope for significant privatisation may only develop some years from now, when the prospective debt/equity ratio, interest



cover and other relevant ratios for STM may fall in line with those of large Malaysian private sector companies.

The study listed its main recommendations as follows (AMMB/KBL/HRM, 1984, p.15):

(1) Immediate action should be taken to improve financial position of STM regardless of when JTM's assets were to be vested in STM and whether privatisation of STM was the ultimate goal.

(2) The vesting of JTM's assets in STM "should act as a catalyst for reform" as well as its means, for example, through the resultant imposition of commercial disciplines and the scope for strengthening management through external recruitment. (AMMB/KBL/HRM, 1984, p.15).

3) The immediate objective of STM should be "to measure up as rapidly as possible to commercial standards." This would include the fundamental measures necessary to provide satisfactorily for accounts and record keeping, financial management and cost control, manpower planning and improved productivity, corporate planning, co-ordinated investment and maximum revenue realisation (AMMB/KBL/HRM, 1984, p.15);

4) The period 1985 to 1988 should be set aside to allow these reforms to take effect and to monitor closely actual results. In particular, it must be STM's aim to realise, as early as possible, sufficient profit to allow payment of dividend and, thereafter, to achieve a profit record which meets the standards set by the CIC (Capital Issues Committee - the approving authority for the quotation and listing of Companies Act company shares on the stock exchange) and by the KLSE (Kuala Lumpur Stock Exchange) (AMMB/KBL/HRM, 1984, p.15).

The consultant also drew attention to areas where they considered immediate action should be taken. These included (AMMB/KBL/HRM, 1984, p.16-22):

Key corporate matters: Government to make Board and Senior Management appointments as soon as possible with the appointment of chairman and Managing Director;

Issues for JTM (STM): systematic review of financial and management accounting and control systems requirements; radical measures to maximise line connections in 1985 and 1986; and systematic review of corporate planning requirements.

Issues for Government: capital restructuring, with initial issued and paid up capital of STM being MYR 1 billion made up of MYR 266 million existing capital and MYR 734 million capitalised from the existing development reserve fund; capitalisation of MYR 2 billion outstanding government debt and; waiver of interest on MYR 1 billion government debt for the years 1986 to 1988 inclusive.

The study made specific recommendations concerning the proposed organisation structure of STM and, in particular, placed emphasis on the strengthening of the Accounting and Corporate Planning divisions within STM (AMMB/KBL/HRM, 1984, p.200-204). On the appointment of the Board of Directors, the study recommended it should consist of either ten or twelve members, depending on the desired level of executive representation. The ten members would be composed of (i) Chairman (non-executive), (ii) Managing Director (executive), (iii) Operations or Technical Director (executive), (iv) Finance Director and (v) six non-executive directors. On the appointment of non-executive directors, the group recommended that two of the non-executive directors should be Government Appointed Directors

(referring to government officials serving in Government Ministries and acting on behalf of the government), while the remaining four should be sought from private sector backgrounds, at senior levels, in such disciplines as general management, finance, sales or marketing, high technology manufacturing and personnel. It also recommended the establishment of an Executive Committee chaired by the Managing Director, its members to comprise the Operations Director, Technical Director, Finance Director, Administration Director, Company Secretary and General Manager of Corporate Planning (AMMB/KBL/HRM, 1984, p.203-204):

Finally the consulting group recommended as a step towards privatisation that the relationship between Government as a shareholder and STM should be put "at arm's length." It proposed "any statement that the government feels it can make at the time of the vesting of JTM in STM to the effect that it will not interfere in the day to day running and commercial decisions of the company will be helpful in terms of outside perception." (AMMB/KBL/HRM, 1984, p.174):

#### **4.4 Establishment of Syarikat Telekom Malaysia (STM)**

STM or Syarikat Telekom Malaysia Berhad was established on October 12, 1984, in fact two months before the publication of the AMMB report. It was registered under the Companies Act, 1965 and wholly owned by the government through the Minister of Finance (Incorporated). It was specifically established to take over the operational function of JTM, but this was not effected until January 1, 1987 when JTM was "corporatised" and its operational function legally transferred to STM.

With corporation, approximately 29,000 of JTM's employees were transferred out of the civil service into STM. These former JTM employees who opted to become the employees of STM ranged from the highest ranking official of the department, the

director-general of JTM to the lowest category of civil servants, which included the low-paid labourers. JTM remained as a government department, retaining less than 200 employees who had opted to remain as civil servants. JTM now assumed a specific task as a regulator to the telecommunications industry. With its new role JTM will, to avoid confusion, hereafter be referred to as "JTM-Regulator.

According to A.H. Sawal (1990) and interviews held with current EPU officials, the objectives of the "Corporatisation" of JTM were to achieve the following:

- 1) Replacing bureaucratic administration with commercial management.
- 2) Introducing clear financial and operational performance targets and commercial accounting.
- 3) Placing the enterprise distant from undue political intervention.
- 4) Replacing centralised production-oriented decisions with consumer and market-driven decisions.<sup>18</sup>

In 1985, the Prime Minister appointed Tan Sri Rashadan Baba as Chairman of STM. Subsequently, in December, 1987 his appointment was upgraded to Executive Chairman which effectively confirmed him as the Chief Executive Officer (CEO).

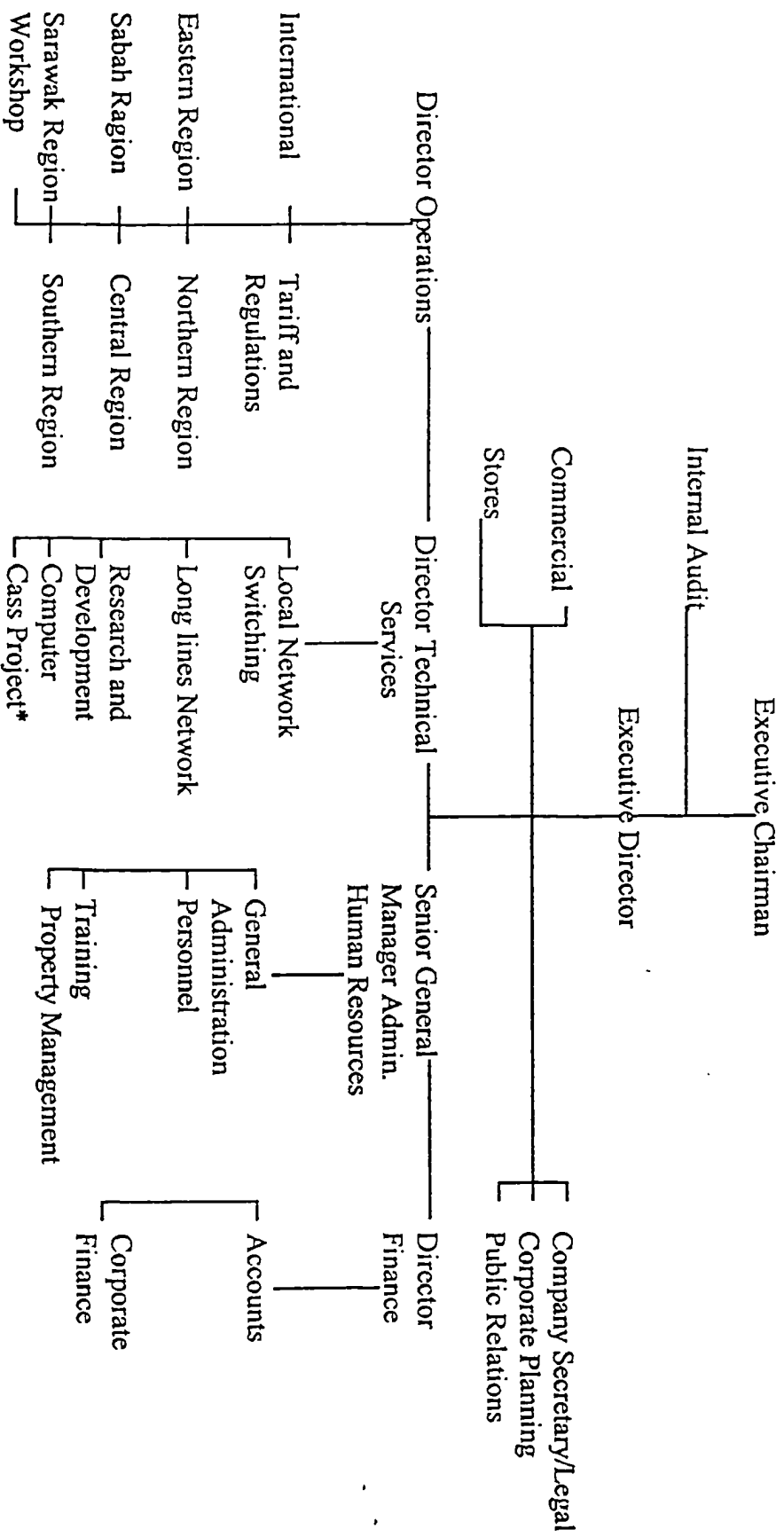
Given the freedom to achieve his own team Tan Sri Rashadan recommended a close friend, Dr. Syed Hussein, for appointment as chief operating officer. Later, his post was designated as Executive Director (ED). Hussein had private sector experience, an engineering background and previous service in JTM. The initial organisation structure of STM until November, 1988 is as shown in Figure 4.1

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<sup>18</sup>A.H. Sawal (14th. May 1990), op.cit., p.17-18.

Figure 4.1

## The Organisation Structure of STM Until October 1988



\* Customer Automated Services System Project.

Interviews with Dr. Hussein revealed that he and the CEO were the principal intermediaries between STM and the government on preparing STM for flotation. In this respect, they were given full backing by the Ministry of Finance to pursue whatever strategies they considered necessary to accomplish a successful flotation within the possible shortest time period. In essence, this required that STM had to achieve a desired level of short-term profits in order to meet the qualifying conditions of the KLSE. Specifically, the crucial requirement was that the company must make a reasonable profit for three years prior to flotation. Restructuring of the organisation to ensure that STM, prior to flotation, became commercially oriented and market driven was also considered another priority, since KLSE regulations also required evidence of future viability.

The Corporatisation of JTM made possible the introduction of some better services such as improved counter services, an option for detailed billing system reducing errors, and quicker response to installation of telephones (STM Annual Reports 1987-89). However, it was also noted that this was accompanied by a thirty per cent increase in the unit charge for local telephone calls from 10 sen to 13 sen per three-minute call.

#### **4.5 ADL Consultant Report 1988**

In 1988 ADL consultants were commissioned to advise on the reorganisation of STM. Terms of reference were as follows:

- (1) To develop a clear sense of direction for the 1990s.
- (2) To continue growth in penetration and scope of services and improve service levels.
- (3) To improve marketing orientation, including the establishment of customer segmentation.

- (4) To improve the utilisation of network resources.
- (5) To improve organisation effectiveness and efficiency along commercial lines  
(see ADL's Main Report, Part 1).

However, it appears that ADL was specifically instructed beforehand, by the CEO and ED, that reorganisation should conform to already clearly predefined and preconceived roles of the CEO and ED. Technical and engineering matters were to be assigned to the ED because of his previous experience, while administration and financial divisions would be the responsibility of the CEO.

Based on ADL's recommendations, STM created four layers of management (General Managers' Forum, 1989)<sup>19</sup>:

- (i) Top management - Management Committee Members (MCM)
- (ii) General Managers - Heads of Departments
- (iii) Assistant General Managers - Head of Divisions
- (iv) Managers - Heads of Units.

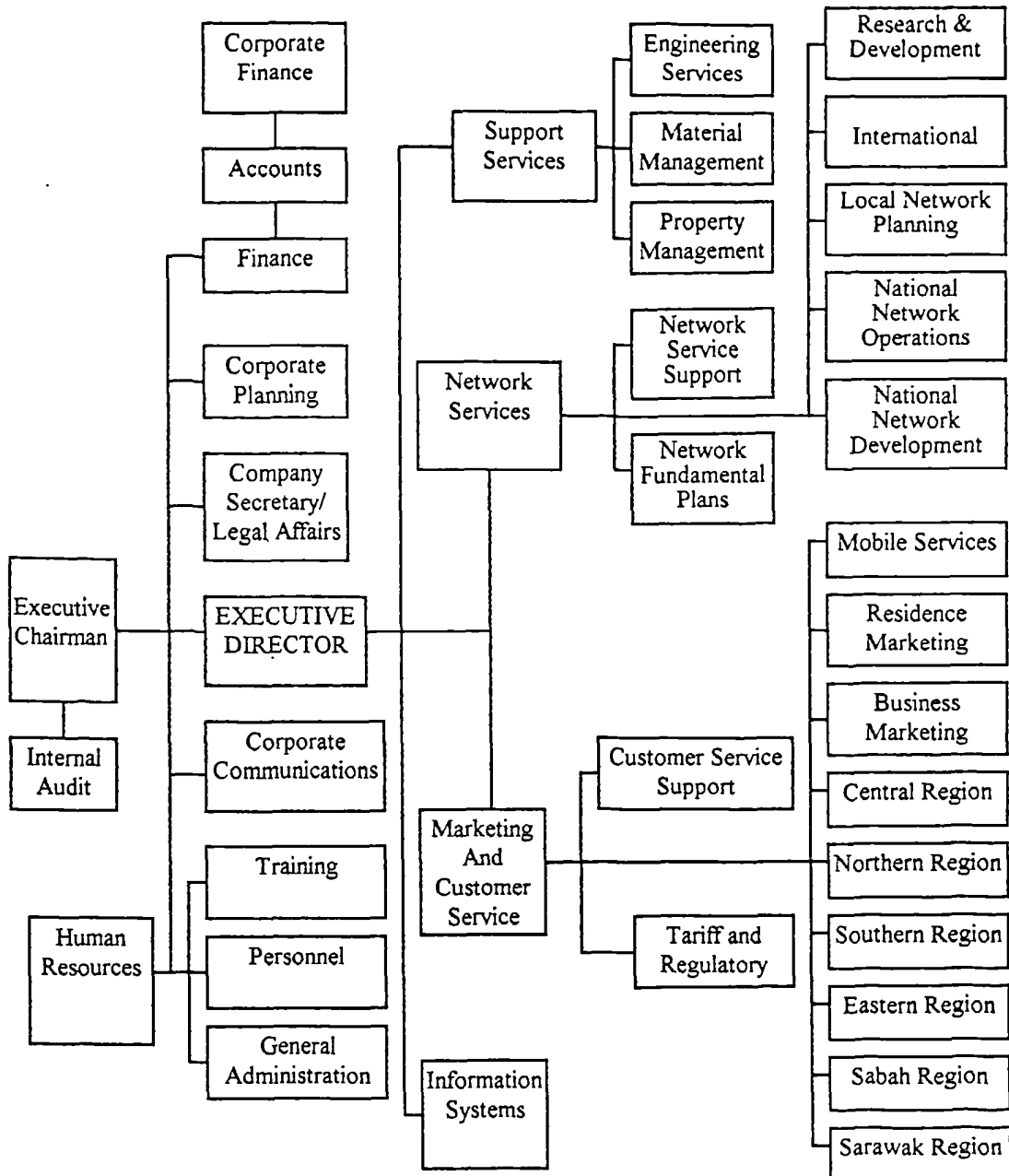
The organisational chart of STM as at 1989, based on ADL study completed at end of 1988, is shown in Figure 4.2

Comparing the new organisation structure with the one which existed prior to the study, as shown in Figure 4.1, the CEO and ED still maintained their same position in STM, and were the most powerful and influential decision-makers within STM. Both these executives retained control of the same functional divisions, where the CEO supervised directly the financial, administrative, and corporate planning divisions,

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<sup>19</sup> Telekom Malaysia, "Managers' Forum" a restricted and internally circulated document, 1991.

**Figure 4.2**  
**Organisation Structure 1989**





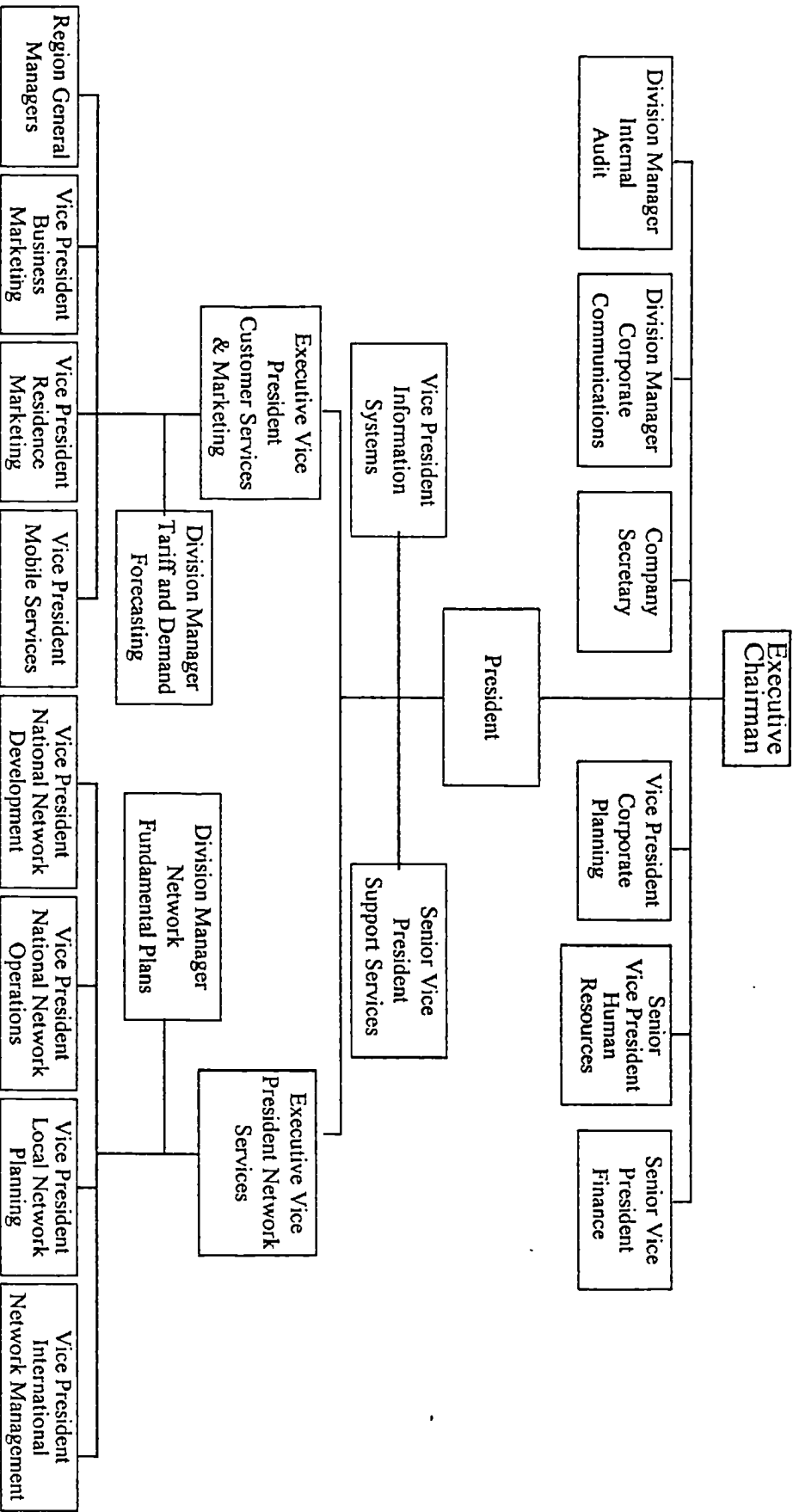
while ED supervised those divisions related to engineering and marketing and customer services. Further, the CEO and ED both controlled the MCM, an important feature of the reorganisation.

The new organisation structure, did not conform rigidly to ADL's proposed structure, as shown in Figure 4.3. For example, the corporate planning function considered to be worthy of senior executive status by the consultants, was relegated to general manager level without membership of the MCM. Another anomaly appeared with the marketing function, which was placed alongside the engineering and technical divisions under the ED, which effectively meant that STM had no senior level executives with marketing experience, and marketing strategies were assigned to former engineering personnel. This structure did not seem to support the priority objective for STM to become market-driven.

There can be little doubt that the overriding strategy pursued by STM was to ensure that it would be able to comply with the conditions of KLSE for flotation at the earliest possible time. To this end the CEO and ED embarked on a programme of cost cutting in order to generate the required profits. Although the CEO claimed that the growth of demand for telecommunications services, due to the promising rate of economic growth had lifted STM's business performance to a level where flotation could be realised in 1990 (STM 1989 Annual Report, p.4), the improvements in profit can be attributed to drastic cuts in expenditure.

All regional offices, on order from the CEO and ED were directed to postpone projects and reduce operating costs. This particularly applied to rural areas, which generally incurred higher development and operating costs. Shortages in the supplies of cables and wires restricted development and maintenance works at all regional levels.

### Figure 4.3



Financial records of STM show that stocks of cables and wires were drastically reduced from MYR 214 million in 1988 to MYR 156 million in 1989, a 60% reduction, and further to MYR 116 million in 1990. Similarly, stocks of telephone equipment were reduced from MYR 29.7 million in 1988 to MYR 11.2 million in 1990 (STM Annual Reports 1988-1990). Capital expenditure fell from MYR 680.4 in 1987 to MYR 392.1 million in 1989. These measures were implemented even though economic growth was accelerating rapidly, from 5.4% in 1987 to 9.2% in 1989 (Economic Report, 1987-1990) (STM Annual Report 1990; Economic Reports 1987-90).

As a result of the above measures, STM's financial performance showed a major improvement with pre-tax profits increasing from MYR 4.9 million in the year 1987 to MYR 366 million in 1989 (STM 1987-1989 Annual Report).

Loganathan (1989) supports the view that this improvement was achieved through cost-cutting measures of operating and non-operating expenditures.<sup>20</sup> Kennedy (1990) suggests STM's astonishing improvement in financial performance during such a short period of time must be in part, a phenomenon of bookkeeping.

In August 1990, the CIC approved STM's application for flotation of its shares, revealing that it had fully met the following requirements (interviews with officials of the CIC):

- 1) Reasonable profits achieved for a minimum period of three years, i.e. for financial years 1987-89.
- 2) Good prospects for future profits.<sup>21</sup>

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<sup>20</sup>Loganathan, S., "Big STM profit augurs well for flotation", In Business Times, Kuala Lumpur, dated 10th. July, 1989,

<sup>21</sup>See Malaysia, "Guidelines for the New Issue of Securities and the Valuation of Public Limited Companies", (Fourth Edition), September, 1989, the Capital Issues Committee (CIC), Ministry of Finance, Kuala Lumpur.

In effect, the cost cutting directives had forced STM to shift policy from long-term development planning to short-term measures which affected the longer term operational efficiency of STM.

The Director-General of JTM-Regulator expressed concern over STM's under-performance during the period, based on a survey of 300 of Telekom Malaysia's major account holders in the Klang Valley, where 53% of the respondents indicated lack of satisfaction with TM services, while 72% indicated that circuit quality needed improvement.<sup>22</sup> In fact much earlier in 1989, the Deputy Minister of METP had publicly commented on TM's failure to meet two objectives set by the government: increasing the local telephone penetration rate and improving the utilisation of value-added services.<sup>23</sup>

However, JTM-Regulator's role during this period appears to have been minimal and ineffective. As a residual body of the former JTM it had little experience as a regulatory body. Although STM's licence obliged it to develop and maintain rural telecommunications, the Director-General of JTM-Regulator admitted that while it had specific powers to monitor STM's operations, there was no proper monitoring service in existence. This was partly due to lack of resources but also because the Director-General's superior officer, the secretary-general of METP, was also a board member of STM, which in practice made it difficult for JTM-Regulator actually to regulate. In this situation, it assumed a role more of an advisor, rather than a regulator.

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<sup>22</sup>Ketua Pengarah (Director-General) JTM wrote and presented the paper for a conference on Wawasan 2020 (Vision 2020) entitled "Regulatory Framework For The Malaysian Telecommunications Industry": Key Issues, Jabatan Telekom Malaysia, Kuala Lumpur, 2nd. December, 1991, p.15.

<sup>23</sup>Rodhiah I., (1989) "Competition For Telecom?" Business Times, dated December 12, page 1.

Officials of METP also confirmed the lack of a monitoring system for STM and said that it would not have been able to check whether, in fact, STM was strictly complying with its licensing regulations. It would appear, therefore, that STM would have had little difficulty in cost-cutting in rural areas, as implied by F.C. Onn (1989), even though that would have been contrary to the terms of its licence.

#### **4.6 Government Relationship with STM**

The Minister of Finance Incorporated was registered as the owner and sole shareholder of the corporation when it was established in 1984. As a result all major policy decisions of the corporation, including the financing of its major projects with value MYR 15 million and above and the selection of major contractors to implement them required the approval of the Minister of Finance as the "highest approving authority" of the corporation.

During the period from 1987 when STM took over responsibility from JTM it appears that little conflict arose between STM and Ministry of Finance (MoF). Indeed directives were issued to ensure that STM proposals were given priority approval. It should be noted, however, that this was a period of intensive cost-cutting and few major proposals were initiated by STM. Instead several proposals were postponed, or cancelled. In these circumstances it seems quite plausible that the government could maintain a perception that its interference in the management of STM was only minimal. However, in practice, a tightly controlled administrative system existed. The CEO, as head of a government-owned corporation was required to attend a weekly post cabinet meeting chaired by the Minister of Finance, the main purpose of which, was to brief all heads of federal departments and CEOs of major government corporations of which the

Minister was registered as owner, about government policy directives and the importance of implementing them at both the department and corporate levels. According to one STM executive, the role of the CEO was described as "merely acquiescence to government policy directives" while that of the Executive Director (ED) was described as "implementing those government directives."

The only significant occasion when this acquiescent relationship appears to have been strained was in relation to the decision to divest STM's 49% holding in Celcom - a joint-venture with the UMNO owned Fleet Group which held 51 % shareholding.

The directive from the Minister of Finance in 1989 took both the CEO and ED by surprise, since they had already called for tenders, completed the preliminary planning work, and had specified the new system (ART 900) for Celcom. The decision provoked strong criticism within STM, especially from the engineering division, which argued that the existing system, ATUR 450 was an out-dated analogue system which would not be able to compete effectively with the new digital systems.

Despite strong criticism within STM, the CEO did not take serious issue with the Ministry of Finance since, in return, STM was given a written promise that it would be awarded a licence to operate a third mobile licence; a promise which was not subsequently fulfilled, since the government, in early 1990, announced that:

"the third mobile license would not be granted for at least three or four years in order to allow Celcom sufficient time to become firmly established."<sup>24</sup>

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<sup>24</sup> see S. Jayasankaran, (1992) "Putting All The Pieces Together". In Malaysian Business, April, 1-15, Kuala Lumpur, p.18-19. It was noted that STM sold its stake at MYR 4 million to Tajuddin Ramli who had good connection and common business interest with Daim, the Finance Minister from 1985-1991 (February).

Apart from the government reneging on its promise over the licence, the price received by STM for its 49% share of Celcom, and the identity of the purchaser, a close business associate of the former Minister of Finance, were also seen as highly controversial. Criticisms that the price of MYR 4 million seriously undervalued Celcom were vindicated one year later when the Fleet group sold its 51% of the shares of Celcom for MYR 81 million to Time Engineering, a subsidiary of Renong an UMNO-related company.

Another government decision which also affected STM's corporate strategy was the decision in 1988 to award Uniphone, a Sapura subsidiary, a licence which placed it in a monopoly position for the provision of payphones in urban areas, while STM's licences was restricted to less profitable rural areas. This decision does not appear to have been contested by STM, although the National Union of Telecommunications Employees (NUTE) estimated that STM would lose potential revenues of MYR 45 million per annum.<sup>25</sup>

#### **4.7 Executive Share Option Scheme**

Whilst still a government corporation, STM before its flotation, requested permission to put into place a share option scheme exclusively meant for full time directors and executives of STM. According to officials of the CIC, the scheme - Executives Shares Option Scheme (ESOS) was a "government reward" to be allocated to senior executives of STM, on the successful flotation and privatisation of their corporation. Although the foundations of the scheme were laid before privatisation, its

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<sup>25</sup> The STAR, 19 July, 1988, p.4.

significance in relation to government influence and control in the post privatisation period, is examined more closely in the following chapter.

#### **4.8 Conclusion**

Between 1957 and 1990 JTM was transformed from a small government department, primarily serving the relatively simple needs of a colonial administration to a large government owned corporation geared to meet the increasingly complex requirements of a country undergoing rapid economic and structural change. In other words, a transformation from a relatively passive service or supply oriented organisation to a customer driven or market-oriented corporation.

In the earlier years, immediately following independence, few problems were experienced as JTM adapted to less demanding and less ambitious development plans prior to 1970. However, with the introduction of the NEP in 1970, JTM was required to adapt to more demanding conditions associated with the aspirations of a development programme which required rapid industrialisation and economic diversification in a period of fast technological change. Moreover, the NEP required employment creation for the bumiputra in the higher value added secondary and tertiary sectors of the economy. To some extent, JTM fulfilled the role as an instrument of the NEP as its workforce increased fourfold from approximately 7,000 in the 1970 to 30,000 at the end of 1986. Attempts were also undertaken to ensure that JTM became more commercially accountable, although despite the dynamism of the economy in the 1970s it appears that JTM's requests for development expenditures were consistently denied and JTM was seriously underfunded throughout the 1970s. As a result, the waiting list grew from 13,704 in 1970 to about 150,000 in 1980.



Soon after assuming office in 1981, Prime Minister Mahathir expressed dissatisfaction at the waiting list of 150,000. Matters were taken out of JTM's hands by a government decision to employ four bumiputra contractors to install additional capacity, with a clearly identified target of achieving no waiting list status by year 1985. Despite costs nearly four times higher than the previous average cost per installation in JTM, the contractors managed only a 29% completion rate by 1985 and the waiting list more than doubled to 332,000.

The government decision to privatise JTM led to the establishment of STM in 1984, although operational function commenced with 'Corporatisation' on January 1, 1987. The result was a tightly controlled administration system whereby the CEO attended weekly cabinet briefings on the implementation of policy decisions. Consultants' recommendations regarding management structure and policy were largely ignored, and STM embarked on a short term profit making strategy in order to comply with KLSE regulations for qualifying for the right of flotation. This involved major cost cutting and curtailing of development expenditure which would seriously prejudice future long-term strategic growth.

It could be argued that the short-term profit strategy was the only way to secure an early flotation for STM, given the KLSE regulations. The key issue, therefore is, would the government adopt a different strategy once the flotation obstacle had been overcome? This is examined in the following chapter.

## **Chapter Five**

### **The Post Privatisation of TM**

#### **5.1 Introduction**

This chapter examines further the evolution of STM after its flotation and privatisation in November 1990, to the end of the year 1994. This analysis is undertaken to evaluate whether the government and top management of the corporation have made decisions that are consistent with their stated goals in the post-privatisation period.

#### **5.2 Flotation and Privatisation of STM**

Following almost a four-year preparatory period, STM was floated on the Kuala Lumpur Stock Exchange (KLSE) on the 7 November, 1990. The company was able to raise close to MYR 2.35 billion through the public issue of 470.5 million shares. A total of MYR 1.9 billion or 80 per cent of the proceeds from the public issue was utilised to prepay mostly government debts and the balance of MYR 0.45 billion or 20% was used to finance capital expenditure and working capital (TM Annual Report, 1990, p.10, 12).

In conjunction with the flotation exercise, STM was privatised, where the government divested 23.9 per cent of the total issued shares of the corporation to public investors. However, the Minister of Finance (Incorporated) remained the largest shareholder (retaining 76.1 per cent of the 1,970,500,001 issued shares of the company). Apart from being the major shareholder, the Minister of Finance

(Incorporated) is a golden shareholder of the corporation.<sup>1</sup> Importantly, as a major shareholder and a golden shareholder, the Minister of Finance (Incorporated) retained the power to ensure decisions made in TM are consistent with government policies (TM Annual Report, 1990, p.101).

### **5.3 TM's Corporate Mission**

In the year of its privatisation, STM introduced an ambitious aim to be pursued by the newly privatised corporation (Annual Report 1990, p.24):

"The vision we have set for ourselves is to endow the nation with a system of telecommunications comparable to that in the developed countries by the end of the decade."<sup>2</sup>

Further, in mid 1991, to enhance the company's image internationally, the name of company was changed to Telekom Malaysia (TM). This was to enable the newly privatised entity to gain easier international recognition (see also TM Annual Report 1992).

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<sup>1</sup>The principal features of the TM's Golden Share or the Special Rights Redeemable Preference Shares of MYR 1 each are as follows:

- (1) may be issued only to the Government or any representative or person acting on its behalf.
- (2) the holder is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the company. However, the special shareholder is entitled to attend and speak at such meetings.
- (3) the holder has the right on certain matters, where its prior consent is needed for their approvals. These include, in particular, the alteration of the Articles of Association relating to the rights of the Golden or Special Shareholder, the dissolution of TM, any substantial acquisitions and disposal of assets, amalgamation, merger and take-over.
- (4) the holder has the right to appoint up to six (6) out of a maximum of twelve (12) Directors of the company.

<sup>2</sup>TM Annual Report 1990, p.24.

In the following year, the executive chairman presented its long-term mission more specifically under the theme "Telecommunications Vision 2005", which is

"to elevate the nation by the year 2005 to the ranks of countries advanced in telecommunications" (TM Annual Report 1992, p.6).

Top management stressed this mission would be accomplished through:

"...bold investments in infrastructure, technology, and people to put in place a first class network and organisation providing superior service accessible by all." (Ibid)

In the transformation into a privatised enterprise, it was stated by TM that it would adopt a managerial approach in line with private sector management practices. In this regard, top management strategic decisions and practices, as well as the government approach in TM, would be evaluated appropriately based on achieving long-term efficiency, growth and bumiputra equity to realise the corporate goal of Telecommunications Vision 2005 and also fulfilling the overall objectives of the Privatisation Policy and Vision 2020.

#### **5.4 TM's Financial Performance**

TM's overall financial performance since corporatisation and privatisation is summarised in Tables 5.1 and 5.2. Table 5.1 shows operating income, pre-tax profits, return on investment, long-term loans, and sustainable growth rates covering the period between 1987-1994. Table 5.2 shows growth of operating income over the same seven year period.

**Table 5.1**  
**Telekom Malaysia Financial Performance (1987-1994)**  
**MYR (Million)**

Items	Pre-Privatisation				Post-Privatisation				Comments on Post-privatisation performance
	1987	1988	1989	1990	1991	1992+	1993	1994	
1. Operating Income Growth Rate Over Previous Year	1,644	1,882	2,141	2,574	3,004	3,414	3,391	4,492	Declining Trend
2. Profit Before Tax*** Growth Rate Over Previous Year	5	180	366	564	1,079	1,276	1,527	1,676	Declining Trend
3. Return On Assets (ROA)	0.1%	2.3%	4.8%	6.8%	11.4%	8.8%	10.3%	9.5%	Declining Trend
4. Return On Shareholders Funds	13.6%	10.9%	13.6%	10.9%	16.7%	12.7%	14.5%	14.6%	Significantly remained unchanged
5. Long-term Loans	4,862	4,645	4,111	1,674*	1,333	1,178	1,034	2,173**	Additional funds acquired
6. Debt Equity Ratio	2.3	2.0	1.5	0.3	0.2	0.2	0.1	0.2	Reflecting low commitment to invest
7. Capital Expenditure	680	718	392	802	1,385.6	1,864.1	2,294.4	3,228	Increasing but not sufficient
8. Dividend Rate	-	-	-	5%	12.5%	15%	15%	15%	Consistent dividend policy
9. Sustainable Growth Rate (Without raising equity)	303.7%***	-3.5%	4.1%	6.56%	10.59%	7.17%	8.68%	8.43%	Declining Trend emerging

\* MYR 2,361 million was repaid mostly from flotation proceeds amounting to MYR 2,350 million.

\*\* Convertible bonds of MYR 898.3 million due in 2004.

\*\*\* High due to negative retained profit during the year.

+ TM starts paying Corporate tax in 1992.

Note: Return on shareholders' funds = profit after tax ÷ shareholders' funds

**Table 5.2**  
**Telekom Malaysia Growth of Operating Revenue (1987-1994)**  
**(MYR Million)**

Operating Revenue	1987	1988	1989	1990	1991	1992	1993	1994
1. Operating Revenue	1,644	1,882	2,141	2,574	3,004	3,414	3,931	4,492
1.1. Growth Rate Over Previous Year	-	14.5%	13.8%	20.2%	16.7%	13.7%	15.1%	14.4%
2. Business Telephone	825	954	1,163	1,503	1,718	1,861	2,135	2,403
2.1. As a % of Operating Revenue*	50.2%	50.7%	54.3%	58.4%	57.2%	54.5%	54.3%	53.5%
2.2. Growth Rate Over Previous Year	-	15.6%	22%	29%	14%	8%	15%	13%
3. Residential Telephone	561	608	670	731	853	994	1,171	1,402
3.1. As a % of Operating Revenue*	34.1%	32.3%	31.3%	28.4%	28.4%	29.1%	29.8%	31.2%
3.2. Growth Rate Over Previous Year	-	8.4%	10%	9%	17%	17%	18%	20%
4. Mobile Services	30	62	88	124	177	232	271	261
4.1. As a % of Operating Revenue*	1.8%	3.3%	4.1%	4.8%	5.9%	6.8%	6.9%	5.8%
4.2. Growth Rate Over Previous Year	-	107%	42%	41%	43%	31%	17%	(4%)
5. Data Services	1.6	5.7	8.6	10.3	12.0	13.7	19.7	22.5
5.1. As a % of Operating Revenue*	0.1%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%
5.2. Growth Rate Over Previous Year	-	256%	51%	20%	17%	14%	44%	14%

Source: TM Annual Reports (1987-94)

\* Not totalling 100% due to leased services, telex, and other services, which contributed a small portion to total operating revenue.

Notes: (1) Growth of operating revenue declined in 1994.

(2) The growth rate of mobile services reversed in 1994.

(3) The growth of data services declined significantly in 1994.

The financial performance of TM, from 1990 onwards, was particularly encouraging. The CEO, in a statement to shareholders emphasised that pre-tax profits in 1990 not only recorded strong growth as it had in the three years prior to flotation, but also "breached the MYR 500 million mark for the first time" (TM Annual Report 1990, p.9). TM's pre tax profits increased throughout the post privatisation, from MYR 1,079 in 1991 to MYR 1,676 in 1994 (note: TM started paying corporate tax in the financial year 1992).

Based on the above data, annual growth rate of profits has in fact declined particularly in the financial year 1992 onwards. Although, profit growth over the previous year cannot be expected to be as high as in the pre-privatisation period, because of the specific consolidation efforts made to prepare for the flotation within a short period, growth rate over previous year, post privatisation, should be increasing steadily, in view of higher economic growth, exceeding GDP rate of 8 per cent per annum, and TM's monopoly position.

#### **5.4.1 Growth of Operating Revenue**

TM's fixed line services, for which it has retained a monopoly, contributed more than 80 per cent of the total revenue throughout the post privatisation period. However, in both mobile services and data services, where competition exists, TM has not made any major improvements. Thus, TM's major earnings are still in the fixed line services, where competition has yet to come.

The decline of annual growth rate of revenue over the previous year for the mobile services can also be explained by looking at TM's declining market share in the

mobile services. As shown in Table 5.4, TM's market share in mobile services had significantly declined due to competition from Celcom. Its market share had virtually declined from 82 per cent in 1990 to 30 per cent in 1993, and was forecasted to fall further to 23 per cent by 1995.

#### **5.4.2 Share prices**

TM's shares traded on the KLSE received a good market response. It was said that on the day of flotation a total of 22.5 million shares were being traded (TM Annual Report, 1990, p.101). However, this only represented about 5% of the 470.5 million shares offered to the public. Further, shares held by MoF (Incorporated) were not traded and remained tightly in the hands of the government. At the end of the flotation of 1990, TM share price traded on the KLSE recorded a 40% increase to MYR 7.00 over its offer price of MYR 5.00. As a result TM emerged as the largest public listed company, accounting for 10 per cent of the total market capitalisation of the KLSE. (TM Annual Report, 1990, p.11).

#### **5.4.3 TM's Network Services Expansion**

TM's network services expansion is summarised in Table 5.3. The annual growth rate of Direct Exchange Lines (DEL) has steadily increased since 1990. Similarly, growth rate of ECPs over the previous year reached its highest at 16.7 per cent in 1993. In terms of meeting demand, TM faced a rising waiting list immediately after flotation. Those waiting for services increased from 82,000 in 1990 to 170,000 in 1993, but reduced to 122,000 at the end of 1994. The overall utilisation rate of ECPs (Effective Cable Pairs) was fairly constant during the period. Senior engineers in the



**Table 5.3**  
**Telekom Malaysia: Network Services Expansion (1987-1994)**

Items	Pre-Privatisation				Post-Privatisation				Comments
	1987	1988	1989	1990	1991	1992	1993	1994	
1. Direct Exchange Line (million)	1.13	1.25	1.39	1.59	1.82	2.09	2.4	2.85	Showing Constant Trend
1.1 Growth of DEL Over Previous Year	-	7%	20%	14.5%	14.5%	14.8%	14.8%	18.8%	
2. Effective Cable Pairs (million)	2.69	2.92	3.0	3.16	3.41	3.84	4.48	n.a.	Showing an Increasing Trend
2.1 Growth of ECP's Over Previous Year.	8.6%	8.5%	2.7%	5.3%	7.9%	12.6%	16.7%	-	
3. Exchange Capacity (million)	2.31	2.41	2.45	2.51	2.7	3.2	3.83	n.a.	Showing an Increasing Trend
3.1. Growth Over Previous Year	-	4.3%	2.1%	2.4%	7.6%	18.5%	19.7%	-	
4. Utilisation of ECPs Capacity	42%	43%	46%	50%	53%	55%	54%	n.a.	Remaining Fairly Constant
5. Utilisation of Exchange Capacity	49%	52%	57%	63%	67%	65%	63%	n.a.	Remaining Fairly Constant
6. Waiting Lists (1000)*	84	69	63	82	140	170	170	122	
7. Number of Access Lines per employee	40	44	50	56	63	71	80	n.a.	

\* Waiting list changes rapidly as new housing areas opened up in new growth areas.

Note: It was estimated that growth of DEL was 18.8% in 1994.

Network Services division said rising waiting lists were inevitable due to the postponement of projects and cutting back of supplies and equipment undertaken during the preparation for the flotation of the company especially between 1988-1990.

Senior engineers in the network services said the rising waiting list after flotation arose because people applying for services could not be connected since they were located in areas where capacity did not exist (i.e. outside served areas). Many potential customers were located in new growth areas, in which TM had postponed its approved development programmes during the period in preparation for its privatisation. Further, TM also faced a shortage of telephones which affected its ability to provide them to its new customers, most of whom either had to wait for some time until they could obtain equipment from TM, or purchase from other approved vendors. According to JTM-Regulator officials, TM did not fear the loss of customers arising from postponement of its development projects in the expected growth areas, because it expected the government would not allow competition in the fixed lines until several years after privatisation.

Between 1993-94, TM tried to adopt a strategy to promote demand in rural areas where demand was unsatisfactorily low but capacity was abundant. The objective was to increase capacity utilisation and raise operating revenue before the advent of competition in the fixed lines. Senior engineers in the corporate planning, marketing and customer services divisions said TM planned to achieve this objective by reducing rental rates for telephones in the rural sector, to be cross-subsidised by higher rental rates to be charged in the urban sector, especially to business customers. TM expected that this pricing strategy would make telephone installation more affordable to the rural sector and hence raise capacity utilisation in the 'served areas' of the rural sector.

However, TM's request was turned down by the regulatory authority because cross-subsidisation was not allowed under the stated conditions of its licence.<sup>3</sup>

### 5.5 TM's Market Position

TM has not performed satisfactorily in competing with Celcom's mobile services - the fastest growing market segment of the sector (TM Annual Report, 1993). As shown in Table 5.4, TM has lost market share to its main competitor, Celcom, which operates a more effective semi-digital mobile system compared to TM's ATUR 450 system based analogue technology. For instance, in 1990 TM's actual market share was 82% while Celcom held the remaining market share of 18 per cent. However, since then, TM has lost its market share in this fastest growing market segment of the sector to Celcom. TM's market share in the mobile services declined to 64 per cent in 1991, and further to 42 per cent and 30 per cent in 1992 and 1993 respectively. During this period, Celcom increased its market share from 18 per cent in 1990 to 70 per cent in 1993. Further, it was forecast that TM's market share in 1994 and 1995 would be 24 per cent and 23 per cent respectively, while Celcom was forecast to achieve 74 per cent and 73 per cent respectively. Mobikom, a new operator was expected to be able to gain 2 per cent and 4 per cent of the market share in 1994 and 1995 respectively; (the reasons for its failure to compete effectively with its main rival, Celcom, are discussed later in this chapter).

On the other hand, in 1992, Celcom's CEO jubilantly commented on his company's market achievements as follows: "...after a year or so of our operation in

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<sup>3</sup> Z. Phoon, (1994a), "Race of the Telcos", Corporate World July, p.16 (The government has again shot down TM's proposals to adjust tariff rates to reduce monthly rental rates of phones in rural areas to be subsidised by higher rental rates in urban).

late 1989, we have exceeded our own targets.”<sup>4</sup> The Executive Chairman of Celcom openly declared: "We thought we'd get 30,000 subscribers in two years (referring to 1989-1991) but we got that number in one (i.e. in 1990).".....[ Tajuddin Ramli, April,1992] <sup>5</sup>

As at the end of 1994, the major players in the Malaysian telecommunications sector are shown in Appendix 2. Some of the major players had already made a significant move against TM. For instance, Celcom had already captured TM's potential market share in the mobile services, while Binariang had already signed a memorandum of understanding with aerospace conglomerate Arianespace and Hughes Communications to launch Malaysia's first satellite MEASSAT-1 in 1995. Binariang would also be the first cellular operator in Malaysia to offer fully digital services using the GSM (Global System for Mobile Communications) (Phoon, Z. 1994a).

In the competitive situation facing TM, Phoon (1994b) commented that Tan Sri Rashadan (CEO of TM) "has not divulged any strategy in the telecoms war" despite emerging competitive forces in the sector. TM was seen to lack independence in response to competition when its request to cut prices in the rural sector to meet competition was turned down by the regulatory authority (Clifford, 1994, p.60). The CEO has responded recently to the increased competition introduced by METP, by saying that "I want to see more competition, only if it was on a level playing field, and its introduction structured and benefits both the customers and country," (Phoon, 1994b).

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<sup>4</sup>see S. Jayasankaran, (1992) "All The Right Connections" In Malaysian Business, April, 1-15, Kuala Lumpur, p.14.

<sup>5</sup> Ibid

**Table 5.4**  
**The Actual and Forecasted Market Share of TM, Celcom and Mobikom**  
**In Mobile Services (1990-1995)**

Operators of Mobile Services (Services in Operation)	System/Capacity/Coverage	1990*	1991*	1992*	1993*	1994**	1995**
TELEKOM MALAYSIA (1985 Government-owned company)	Using ATUR 450 (Automated Telephone Service Using Radio). Operating on 450 Megahertz. System based on analogue technology. Capacity - 6,000 channels. Coverage - whole of Malaysia.	54616 (82%)	70917 (64%)	83118 (42%)	89028 (30%)	97931 (24%)	107724 (23%)
CELCOM (1990) (A bumiputra owned company)	Using ART 900 ETACS system. Operating on 900 megahertz. System based on semi-digital technology. Recently upgraded to fully digitised system. Capacity - expandable 1,320 channels. Coverage - 90% of country's populated area	12500 (18%)	40651 (36%)	115479 (58%)	210000 (70%)	280000 (70%)	350000 (73%)
MOBIKOM (1994) (Owned by a consortium of bumiputra and Government-owned companies). TM owns 30% of Equity)	Using ART 800 system. Based on American mobile phone system. Operating on 800 Mhz. System - digital technology. Capacity - maximum of 600 channels. Coverage - limited to major cities/towns					10000 (2%)	20000 (4%)
Total Customer Base		67116 (100%)	111568 (100%)	198597 (100%)	299,931 (100%)	387,931 (100%)	477,724 (100%)

\* Actual \*\* Forecast.

Notes:

- (i) Celcom's projection is based on its strategy to be 'one-fifth the size of TM' as stated by its Executive Chairman. (Malaysian Business, March 15 1993)
  - (ii) Mobikom expects to achieve at least 10,000 customers in its first year of operation and double this figure by the following year.
  - (iii) TM's forecast is based on a 10% growth over previous years.
- Source TM, CELCOM, MOBIKOM.

## 5.6 TM's Structure and Decision-Making Process

The structure of the organisation has not evolved. It remained within the control of the MoF. TM has been accused of being over-staffed and under managed.<sup>5</sup>

TM's organisation structure and its policy decision-making process as of 1994 were as shown in Figures 5.1 and 5.2 respectively.

TM's board of directors appointed by the Minister of Finance (Incorporated) are still dominated by ministerial and political appointees. The appointment of politicians to the board was based on the position held by them in their respective political organisations. The appointment of ministerial representatives to the board was based on the custom of the respective ministries. The Ministry of Finance developed a policy that the Deputy Secretary-General I or Deputy Secretary-General II would represent the Ministry on TM's board, while the METP would be represented by the Ministry's highest civil servant, its Secretary-General.

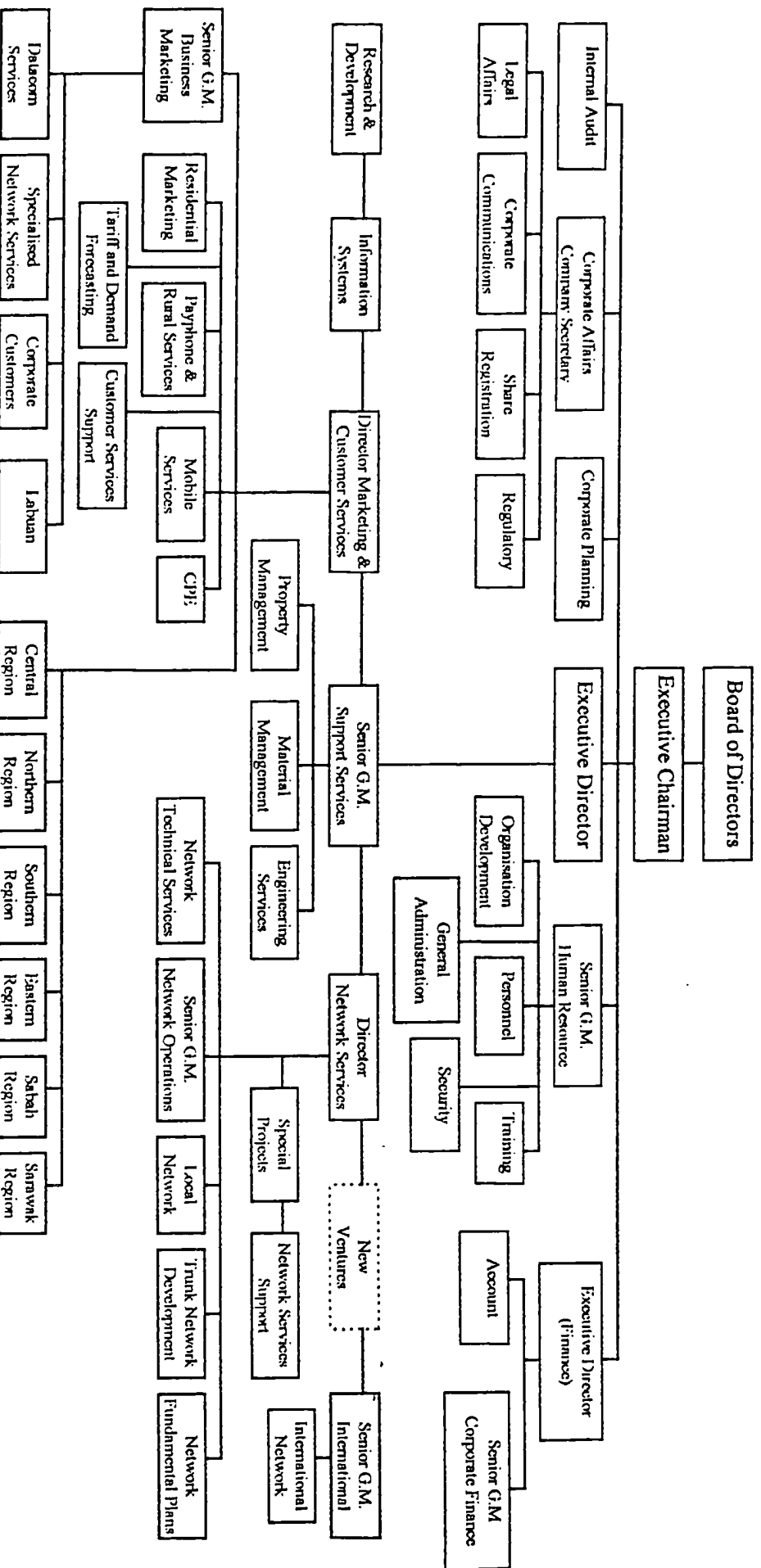
The existing board members comprise two executive directors, including the executive chairman (CEO), senior officials from the MoF and METP, four political representatives from the ruling National Front coalition, and two private sector representatives - one of whom was a former JTM Deputy Director-General, and is the only board member with technical experience of the sector (TM Annual Report, 1993, 1994) (a list of the board of directors and their background is given in Appendix 3)

Several MCM members who were former senior JTM officials/engineers expressed a common view that "most of our board of directors had no idea what telecommunications was all about and even our executive directors were mainly from the plantation sector." Further, they claimed that the executive directors had deliberately

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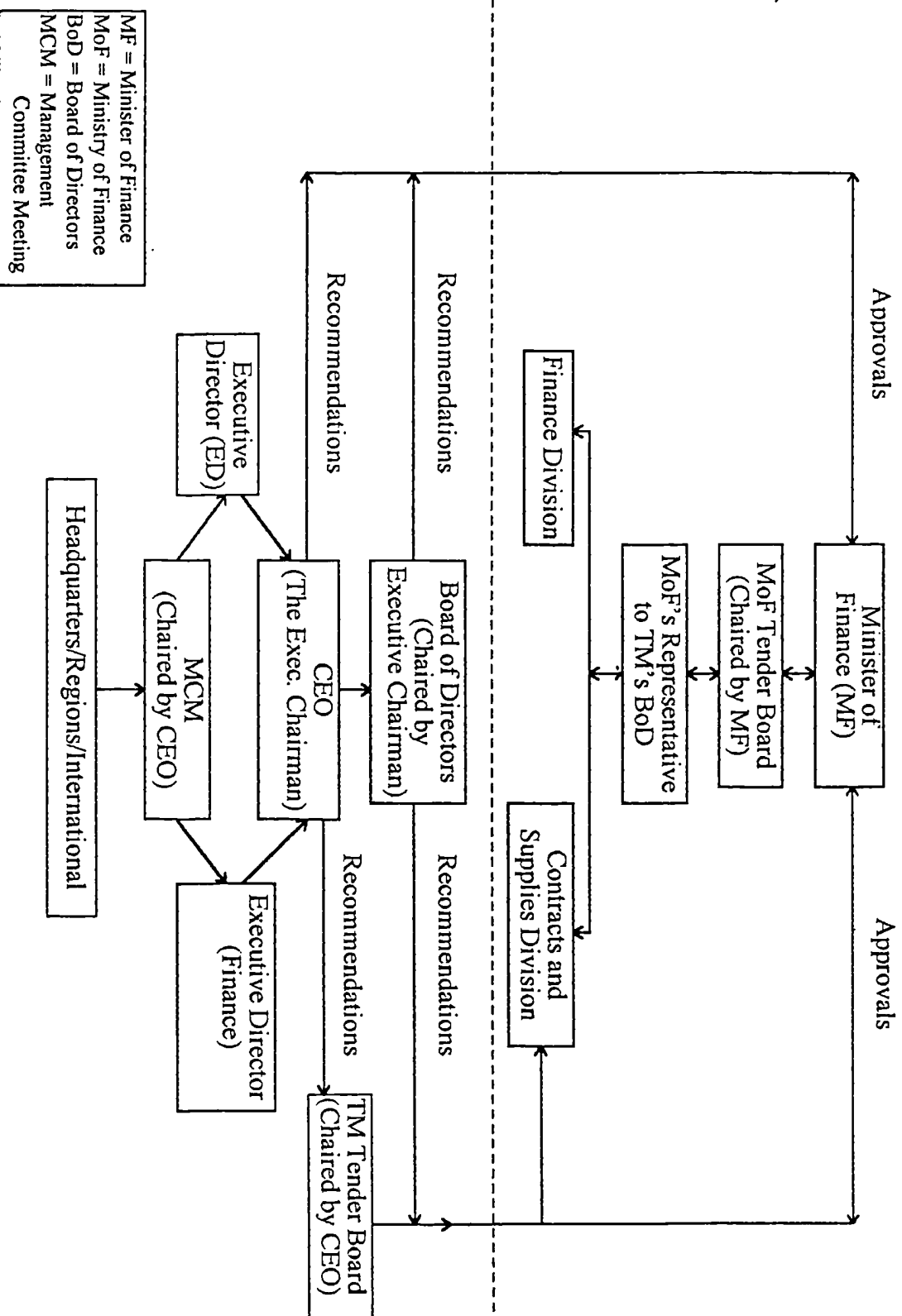
<sup>5</sup>Far Eastern Economic Review, 14 July, 1994.

**Figure 5.1**  
**TM's Organisation Structure 1994**



Source: Telekom Malaysia

TELEKOM MALAYSIA





pushed former JTM engineers down the organisation structure as none of them including former JTM director-general, was given the chance to represent the board, despite wide technical experience in the sector.

In addition, the CEO is required to attend the weekly post cabinet meetings chaired by the Minister of Finance. These meetings are held immediately after he attends the cabinet meeting chaired by the PM. It was in this regard that the Parliamentary Secretary of the Ministry of Finance emphasised that, by attending the meeting, the CEO "would be able to obtain first-hand information from the Minister himself on what was expected of TM and in what manner things had to be carried out to meet the priorities of the Ministry of Finance (MOF) and government."

Senior MoF officials consider the appointment of politicians to TM's board of directors as a "political dividend" both to the respective individual politicians appointed and to the political parties they represented. Further, non-executive board members are expected to work closely as a team, which raised doubts as to whether there exists an independent corporate view that will ensure TM's long-term interest. A political representative on the board described his role in TM as "an advisor" to the government in terms of achieving a balanced achievement of privatisation policy objectives and TM's ambitious Telecommunication Vision 2005. Other non-executive board members representing the ministries also saw their role in the board as advisors rather than decision-makers, and pointed out that the CEO and the executive directors were the actual decision-makers as well as the main advisors to the government.

Interviews with previous and existing Ministries' representatives revealed that they saw their role in the board as "an extension of civil servants' duties and responsibilities," and that their decisions would be subject to the final approval of their respective Ministers.

Several MCM members regarded the appointment of the Secretary-General of METP to the Board as "inappropriate". This was particularly because of his position in METP as a senior regulatory official. Further, he was said to have failed to support TM's case in obtaining the third mobile service, which was promised to TM in return for the sale of its 49 per cent stake in Celcom to Tajuddin Ramli in 1989. (this will be further discussed below).

The TM Tender Board role has not evolved as it is governed by the administrative regulations of the Ministry of Finance (known also as Treasury Instructions) currently applied to the public sector. Under the stated regulations of the Ministry, the Tender Board has a limited executive power, and can only approve tenders not exceeding MYR 15 million. Therefore, TM Tender Board is required to obtain approval of the Ministry of Finance Tender Board, which is chaired by the Minister of Finance for the award of tenders valued at MYR 15 million, and above.

TM Tender Board chaired by the CEO, comprises five other TM senior executives: ED, ED of Finance, Director of Marketing and Customer services and Director of Network Services. In addition, a senior representative of the MoF is represented in the Tender Board meetings, to comply with the Treasury Instructions. The reorganisation reflects that management of internal affairs is still centralised, but now includes the ED of Finance, who was brought into TM by the government specifically to assist the CEO on financial matters.

The supervision of senior executives has been distributed among the CEO, ED, and also ED of Finance, where the CEO handles directly administrative and human resources, the ED is responsible for engineering and technical matters and day-to-day running of the corporation, while the ED of Finance specifically concentrates on

financial matters. Corporate Planning has become the supporting arm to both the CEO and ED, consistent with its role as providing secretarial support services to MCM.

The existing organisation chart indicates the importance of the Finance Division, as it is the only functional division represented by an Executive Director. Further, as stated above, the ED of Finance was brought specifically into TM by the Minister of Finance to take charge of financial matters. However, despite the fact that the main objective of the reorganisation was to make TM a marketing-driven corporation, the marketing division is led by former secretary-general of JTM, who is not a board member (even though having the title of Director of Marketing and Customer Services), and has no prior experience in marketing.

The divisions under the CEO are mostly senior executives recruited from private sector, with the exception of the GM of Corporate Planning. He is not a full MCM member.

The reorganisation of TM can be summarised as follows (based on interviews with the Human Resource Division, which was the secretariat for the implementation of the reorganisation) (The list of MCM members and their job responsibility is also given in Appendix 4)

The key appointees recruited from the private sector were the CEO, ED, ED of Finance. Full details of their positions in the company are given in Appendix 5. The other senior posts were held by former JTM engineers/senior executives. Full details of their positions in the company are given in Appendix 6.

Other former JTM engineers promoted to senior executive position and appointed as MCM members are Senior GM of International Services, General Manager

of Corporate Planning (not MCM Member, but attends meetings and provides secretarial support services to MCM).

It was also noted that though the structure shows GM of Corporate Planning reporting directly to the CEO, in the reality of day-to-day operations, the executive also received instructions directly from the ED as he was charged with secretarial support services to the MCM.

The MCM, chaired by the CEO, has no executive power to approve decisions. Its role is confined to advising the board of directors. Its members comprised solely executive directors and senior executives of TM.

According to a senior executive of the Committee and also Human Resource division, MCM's main role was co-ordinating proposals from various departments/divisions to be submitted to the Board and also to ensure that decisions made by the Board or Ministry of Finance were implemented accordingly by the respective departments/divisions.

MCM to a certain extent has evolved, but only in terms of the size of its membership. For instance, upon TM's flotation and privatisation, new members were appointed by the CEO. It comprised seven members, namely, the CEO (Chairman), ED, ED of Finance, Director of Marketing and Customer services, Director of Network Services and Senior GM of Human Resource (TM Annual Report 1990). However, subsequently, the Committee has expanded to include twelve appointed members, several new heads of departments and divisions being represented in the Committee (TM Annual Report, 1993). The new appointments include the Senior GM of International Services, Senior GM of Corporate Finance, Senior GM of National Network Operations, Senior GM of Business Marketing and Senior GM of Support Services. Corporate Planning, despite consultants' recommendations to the contrary, is

led by a General Manager, who is not a full member of the Committee. Both the GM of Corporate Planning and Company Secretary provide secretarial support services to the Chairman of the Committee.

Therefore, several years after privatisation, the corporation has still not yet implemented a structure fully based on the recommendations of the consultants, to make it a market-driven and customer-oriented organisation. The marketing division is not led by a marketing professional, and is not represented on the board, TM still being subjected to bureaucratic rules of the MoF regarding its tendering procedures.

At the Ministry of Finance level, major proposals submitted by TM for the financing and implementation of major projects are first evaluated by the Ministry's Finance Division and Contracts and Supplies Division for the approval of the Minister of Finance. The MoF Tender Board, chaired by the Minister of Finance, specifically approves the major contractors proposed.

At TM level, the board of directors chaired by the executive chairman (CEO), submits major proposals, including its five year plan, to the Minister of Finance as its largest shareholder, for approval. According to MCM members, the CEO also receives directives from the Minister of Finance and Prime Minister from time to time, to implement certain government policies (discussed below).

Regarding the status of TM's BoD, the Ministry representatives are accountable to their respective Ministers for the decisions they make in the board. Also, based on the fact that board members are appointed by the Minister of Finance (Incorporated), all decisions made at the board level are referred to the Ministry of Finance representatives in order to avoid conflict with the priorities of the Ministry. This is because, eventually, decisions made or recommended by the board are subject to considerations

and approval of the Minister of Finance as the largest shareholder and, not least, as the golden shareholder of the corporation.

Decisions made by TM's Tender Board function are also based on strict adherence to the stated tender procedures and regulations of the Ministry of Finance, including incorporating decisions made by senior officials of the Ministry of Finance in all the decisions made by the Tender Board. Despite having MoF representation, however, it still has to obtain approval from the Ministry's Tender Board for its proposed list of major contractors. On this account, senior MCM members argued that the board is one which obviously had a limited power and functioned as "a subsidiary to the MoF Tender Board which approves decisions of TM Tender Board."

Based on the above, the role of neither the BoD nor the Tender Board of TM has evolved and TM remains within the effective control of the Ministry of Finance. As the Ministry representatives have to refer to their respective ministries before committing themselves to any decisions, they are in fact representing the government rather than the corporation at the board level. Further, TM Tender Board rather than its BoD is given the main role in approving and processing contracting arrangements. This arrangement whereby selection of major contractors is handled separately by TM's Tender Board with the Ministry of Finance Tender Board has existed since the corporatisation of JTM in 1987. In this regard, non-executive directors were excluded from the selection of major contractors, except for the MoF's representative who is also an appointed member of TM's Tender Board. Thus, TM's BoD supposedly the highest authority at the corporate level, has to adopt and implement what had been proposed by TM Tender Board to the MoF Tender Board for approval.

TM has attempted to initiate change to enable it to respond effectively to market forces. However, the restrictive attitude of the Ministry of Finance has prevailed. A

senior executive of TM claimed that, immediately after the flotation, the Ministry of Finance had refused to allow the privatised corporation board to approve capital expenditure or capital investments in excess of MYR 15 million, (which represented less than 1 per cent of its actual annual capital expenditure of 1991-93). In the above regard, a senior MoF official explained that TM's request could not be granted as other government-owned corporations would seek similar exemption, and if this had been allowed, the ministry's supervision of its entities would be severely affected. It was in this regard that TM's senior executives viewed that TM would not be able to make independent decisions and therefore would remain within the effective control of the Ministry of Finance until the entity was sold to potential bumiputra entrepreneurs.

The above limitations of executives and managerial functions highlight the control of the Ministry of Finance over TM. Specifically, TM's strategic decisions remained subject to Treasury rulings, particularly regarding tendering procedures. However, the reorganisation strengthened the respective position of CEO, ED and ED of Finance in terms of controlling MCM members.

### **5.7 Resignation of Executive Director**

In June 1993, another significant event took place when the Executive Director (ED) tendered his resignation to the Minister of Finance. According to several MCM members, this was as a result of a growing personal conflict between him and the CEO, particularly since 1992. It was said that the ED's ideas were seen to be no longer "acceptable" to the CEO, particularly on matters relating to handling of government directives. The resignation of the ED was not so much of a surprise to MCM members, because they knew of the conflict. However, it was a surprise to senior officials of the

MoF because they regarded Dr. Syed Hussien as a possible candidate for the CEO post if Rashadan Baba resigned or retired.

According to MCM members, the major disagreement or conflict between the ED and CEO was particularly regarding how TM should handle government policy decisions. It was said that ED disagreed with the way the CEO had handled TM's participation in KL Tower, which a senior member of MCM described as a project which TM did not wish to get involved in, as its estimated pay-back period exceeded 15 years. Another area of conflict concerned the ED's discontent with CEO's passiveness in handling PM's idea for the construction of TM's new building for its proposed new headquarters. According to several MCM members, the CEO had passively accepted the idea of building a new building for TM's headquarters in response to preparations undertaken by government for the coming Commonwealth Games. ED had hoped to persuade PM that it would be more economical and time-saving for TM to purchase a suitable building at a reasonable price in KL for its headquarters. (based on unofficial estimates, the initial cost of the proposed building for TM's headquarters, using the latest architectural designs and concepts was around MYR 600 million).

Prior to the above, a senior MCM member said that conflict between ED and CEO had arisen over matters related to the CEO's approach in handling joint-ventures with bumiputra entrepreneurs. For instance, senior engineers cited the case of TM's recent joint-venture in Mobikom; where whilst the former ED wanted to ensure, before committing such investments, that TM's long-term interests, competitiveness and technical advantage remained secure in Mobikom, the CEO had somewhat rushed and accepted the terms dictated by the METP. As a result, TM's stake was confined to 30 per cent and it was expected to provide expertise, as its partners had no practical experience to develop Mobikom's operations as a leading mobile services company



using the latest technology. Further, senior executives remained uncertain as to the future of Mobikom, in terms of whether TM would remain an influential partner in the joint-venture once Mobikom was able to operate independently of TM.

Finally, in a farewell party held by TM for the out-going ED, at which neither the CEO nor the ED of Finance were present, ED personally revealed that he was resigning because his ideas were no longer being accepted by 'someone at the top'. On this account, a senior MCM member pointed out that ED referred specifically to the 'CEO' and to a certain extent 'ED of Finance' as both were seen to be working closely without any conflict or misunderstanding. Further, senior engineers without hesitation pointed out that ED was different from the CEO or ED of Finance, since he was a man with long-term vision. They regarded his resignation as a loss to TM which was difficult to replace.

On the departure of the ED from TM, there was no serious attempt by the CEO to strengthen the top management position by finding a suitable candidate to fill immediately the vacant position of ED. Thus, it led to further consolidation of the CEO's position in the corporation. It was said that the CEO had proposed and it was agreed by the Minister of Finance that the existing ED (Finance) should cover the vacant position of the ED temporarily, until a suitable candidate could be found. However, recently a MCM member said that the CEO had indicated that the post of ED would not necessarily be filled. As a result, ED number two post continued to be covered by ED (Finance), the holder of number three post. Thus the power in TM now shifted and was concentrated in the CEO and ED of Finance.

The appointment of ED of Finance by CEO to cover the post of ED was criticised by senior engineers as inappropriate and an ad hoc decision. They complained that the ED of Finance, being an accountant by profession was not qualified to handle

the technical matters of telecommunications technology. Further, ED of Finance had been perceived as being reluctant to commit himself to long-term development of TM, since the Corporate Finance division under his control was rather restrictive in approving allocation for major projects which had a relatively longer pay-back period but were necessary for meeting effectively the expected long-term demand. However, executives in the corporate finance division explained that present strategies were consistent with current financial priorities to ensure projects with immediate pay-back were given more priority compared to those with longer pay-back period. This was to ensure sufficient internally-generated funds within the five year plan period.

### **5.8 Capital/Financial Policy**

The Corporate Planning executives said that TM's various Annual Business Plans after privatisation were geared towards achieving the following objectives (consistent with Telecommunications Vision 2005):

- i) To maximise market penetration before the advent of competition (marketing strategy).
- ii) to build competitive strengths in service quality (competition strategy).
- iii) to increase efficiency and productivity with emphasis on providing premium customer service (competition strategy).

Despite its intention to achieve the long-term mission by 2005, TM was seen to adopt a short-term capital/financial policy particularly in financing its capital expenditure in the existing five year plan period. Initially, TM had planned to spend about MYR 10.7 billion under the Sixth Malaysia Plan period (1991-95). However, this was revised to MYR 12.9 billion to achieve basically a higher growth rate in capacity in response to expected higher economic growth.

Growth depends on investment and financing. However, if we look at the financial performance of TM in Table 5.1 above, we can see that the revenue from the privatisation flotation was used primarily to repay government loans rather than to finance capital expansion. This suggests that the goal of reducing the size of the public sector or least the public finances of the telecommunications infrastructure, was a higher priority than growth. Over the post privatisation period (1990-1994), TM repaid MYR 3.013 billion, or 31 per cent of its capital expenditure for the same period (MYR 9,574.1).

#### **5.8.1 TM's sustainable growth rate**

The calculation of the sustainable growth rate of TM for financial years 1987-1994 is given as in Appendices 7(a) to 7(h). It shows a sustainable growth rate below 10 per cent throughout the plan period (1991-1994).

Based on the analysis, TM could grow faster if it invested more, but this would require government approval and additional sources of financing, apart from the internally generated funds which were announced by the CEO in 1992 as the basis for financing TM's current five year plan (1991-95) (note: TM's investment plans were agreed as part of the Sixth Malaysia Plan covering 1991-95).

The CEO had emphasised that "STM would not tap funds from the financial system as that will raise interest on loans and affect annual profits" (Zainul Ariffin, 1992).<sup>6</sup> Thus, TM had used primarily internally generated funds to finance its major

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<sup>6</sup>Zainul Ariffin, (1992) "Telekom To Finance Own Expansion," in New Straits Times, July 21, stated that the company would finance its development programme through internally-generated funds.

development and modernisation programme until 1994 when it acquired additional loans, representing US\$360 million Euroconvertible bond due in 2004 (2.55 MYR = US\$1) (TM Annual Report 1994). It was stated that it was acquired to finance "capital projects and working capital for approved development projects in the five year plan." (TM Annual Report, 1994 p.37). In terms of capital expenditure to develop and modernise the network, TM was expected to be able to spend about MYR 11.97 billion, or 95% of its Five Year Plan allocation of MYR 12.9 billion. (see Table 5.5).

**Table 5.5**  
**Actual and Estimated Capital Expenditure**  
**(1991-1995) (MYR million)**

Financial Years	Capital Expenditure
1991	1,385.6
1992	1,864.1
1993	2,294.4
1994*	3,228.0*
1995**	3,200.0**
Total	11,972.1

Source: TM Annual Reports (1991-94) and Corporate Planning Division.

notes:

\* Estimates.

\*\* It was projected that for the year 1995, TM would spend MYR 3.2 billion to develop and modernise its network.

The capital expenditure was spent on expanding and modernising the three most important segments of the network: local network, switches, and long lines (TM Annual Reports 1990-94). In terms of expansion and modernisation of the network during the plan period, executives in the Corporate Planning and also Network Services estimated about 80 per cent of the actual capital expenditure was spent on expanding the network, including increasing new plants and parts and also replacing old ones which had become obsolete due to depreciation. The balance of 20 per cent of the capital

expenditure accounted for upgrading/modernising the network, which included financing the portion of Integrated Services Digital Network programme (ISDN) in the plan period, for which the completion target had been brought forward to 1997 instead of 2000 (see also TM Annual Report, 1992).

However, engineers in the network services responsible for planning the network argued that TM had been under funding the modernisation of its network. They estimated at least 30 per cent, instead of the actual 20 per cent, of its total development expenditure was needed to speed-up the completion of its present digitalisation programme of its switching, trunk and junctions before the arrival of competition, especially in fixed lines, expected by 1997. Further, TM had to invest in research and development in the field of new technology in order to ensure improvement in network capacity and transmission quality, and also for higher growth in the value-added services.

Comparing TM with Celcom, the latter had a gearing of more than 400 per cent, that is, a debt of MYR 216 million against MYR 50 million in paid-up capital. In this regard, a Celcom executive has been quoted as saying that "the gearing position of the company was normal because in the USA and England they (telecommunication companies) have gearing of up to 1,200 per cent." Celcom also planned to invest over a billion ringgit in the next three years, that is, 1993-95 to reach full capacity. Even so, the gearing was to be maintained at 400 per cent as the company was very optimistic about its future growth in the industry" (S. Jayansankaran, 1992).<sup>7</sup> This was in contrast with TM which had a gearing ratio of only 30 per cent in 1990 and reduced further to 10 per cent in 1993 before levelling at 20 per cent in 1994, showing its lower

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<sup>7</sup>S. Jayansakaran, (1992) "All the right connections" In Malaysian Business, April 1-15, p.17.

commitment to securing the required long-term external resources to finance its development programme (TM Annual Report 1990-94).

### **5.8.2 Actual Funds for Expansion and Modernisation of Network in the Sixth Plan Period (1991-95)**

#### **Telecommunications Vision 2005.**

TM would need to invest sufficiently in expansion and modernisation of its network in its five-year plan in order to achieve Telecommunications Vision 2005. Based on the existing and expected rate of rapid technological change in the telecommunications, especially in the advanced countries, TM would need to achieve at least a telecommunications penetration rate of 65%.

The required level of investment by TM for the expansion and modernisation of its network in the current five year plan (1991-95) to achieve the above objective by 2005 can be determined as follows:

#### **1) Required Expansion of Network:**

First, to determine approximately the number of telephone lines required to be installed by TM in 2005, several methods can be used such as (i) trend analysis, (ii) penetration analysis based on population and households, (iii) analysis of total telephones world-wide in relation to GNP and (iv) analysis of telecommunications penetration rate in relation to per capita GNP (ADL, 1983, p.109). As method (ii) above which is the penetration analysis based on population growth had been applied by ADL (1983) to forecast the demand for telecommunications services in Malaysia, it will be appropriate to adopt a similar method to determine the required number of direct

exchange lines (DELs) needed to be installed by TM in 2005 in order to achieve Telecommunications Vision 2005.

Penetration analysis based on population growth:

Total telephone (DEL) penetration rate in 1990 = 1,585,744

Assuming that by 2005, the advanced nations in Asia achieve an average 65 per cent telecommunications penetration rate.

Using the projected population growth rate of 2.3% per annum for 1990-2005 [adopted by The Second Outline Perspective Plan, 1990-2000], the estimated population of 18,010,200 in 1990 should reach 25,331,041 in 2005.

Therefore, total number of DELs to be installed by TM by 2005 to achieve Telecommunications Vision 2005 = 25.3 million x 65 per cent = 16.4 million DELs.

Based on the actual DELs of 1,585,744 in 1990, if TM expands its DELs by an average rate of 17% annually between 1990-2005, it will be able to install 16.7 million DELs by 2005, and hence achieve the Telecommunications Vision 2005.

Examining the actual growth rate of DELs between 1990-93,(see Table 5.3), we can see that, if the recent 15% annual growth rate is maintained throughout the remaining period to 2005, TM would install only 12.9 million DELs, which represents a 51% penetration rate. Therefore, TM must increase its existing annual growth rate of DELs by at least 2% annually from 1994 onwards if it wishes to achieve a higher penetration rate consistent with its ambitious Telecommunication Vision 2005.

The capital expenditure required to achieve 65 per cent penetration rate

Based on the estimated average development cost incurred by TM in developing and modernising its existing network during the current five year plan period (i.e from

1991 to 1994) and supported by interviews recently held with relevant executives in the corporate planning and network services division, the following assumptions were adopted in estimating the overall development funds required to finance both the expansion and modernisation of its network.

Assumptions:

For estimating the funds required to finance the above rate of expansion of its DEL over the period, the following assumptions are adopted:

- (i) Average development cost per direct exchange line (DEL) is MYR 6,000 in the urban areas and MYR 15,000 in the rural areas. (The average cost of installing a rural payphone by TM is also MYR 15,000).
- (ii) 90% of DELs being developed are in the profitable urban areas and the remaining 10% in the less profitable rural areas.

(2) Funds required to upgrade and modernise the network

Assumptions:

- (i) TM would need to spend at least 30 per cent of what is required for expanding its network towards upgrading/modernising its network in its existing five year plan (1991-95) and to 2005. This was based on the need for TM full digitalisation of both switching and also trunk and junction before 2005 so that TM could achieve both, a competitive advantage over its existing competitors and its Telecommunications Vision 2005.

Based on the above assumptions, total funds needed by TM in the Sixth Plan to expand and modernise its network can be estimated as follows:

Case 1:            Cost of expanding and modernising the network based on an average            growth rate of DEL of 15% per annum from 1991 until 1995.



(1) expansion of network:

<u>Sixth Plan</u>	<u>No. of DELs</u>	<u>Capital Expenditure (MYR million)</u>
1991 -1995	rural - 160,376	2,405,640 (20.5%)
	urban - 1,443,377	8,660,262 (79.5%)
	<u>Total 1,603,713</u>	<u>Total 11,065,902 (100%)</u>

(2) modernising of network.

The above MYR 11.066 billion represents only 70 per cent of the capital expenditure as 30 per cent is required for modernisation and upgrading the network. TM would need an additional MYR 4.74 billion for upgrading /modernising its network during the plan period in order to achieve full digitalisation (both switching and trunk and junction) by 2005.

<u>Total funds required (MYR million) (Growth of DEL 15% per annum)</u>		
expansion	MYR 11,065,902	(70%)
upgrading/modernisation	MYR 4,742,529	(30%)
Total capex:	<u>MYR 15,808,431</u>	(100%)

To achieve a 51% penetration rate by 2005 based on an average growth rate of DEL of 15% per annum, TM would need to spend during the Sixth Plan period, (1991-95) a total of MYR 15.8 billion as compared to MYR 12.9 billion actually allocated by TM for expanding and modernising its network.

Case 2: Cost of expanding and modernising the network based on an average growth rate of DEL of 17% per annum from 1991 until 1995.

(1) expansion of network

<u>Sixth Plan</u>	<u>No. of DELs</u>	<u>Capital Expenditure (MYR million)</u>
1991 -1995	rural - 189,092	2,836,380
	urban - 1,701,826	10,210,956
	<u>Total</u>	<u>13,047,336</u>

(2) modernising of network.

The above MYR 13.047 billion represents only 70 per cent of the capital expenditure as 30 per cent is required for modernisation and upgrading the network. TM would need an additional MYR 5.59 billion for upgrading /modernising its network during the plan period in order to achieve full digitalisation (both switching and trunk and junction) by 2005.

Total funds required (MYR million) (Growth of DEL 17% per annum)

expansion	MYR 13,047,336	(70%)
upgrading/modernisation	MYR 5,591,715	(30%)
	<u>Total capex: MYR 18,639,051</u>	<u>(100%)</u>

To achieve a 65% penetration rate by 2005 based on an average growth rate of DEL of 17% per annum, TM would need to spend during the Sixth Plan period (1991-95) a total of MYR 18.64 billion as compared to MYR 12.9 billion actually allocated by TM for expanding and modernising its network.

Based on the above estimation, TM's allocation of MYR 12.9 billion under the Sixth Plan (1991-1995) is inadequate to enable TM to expand and modernise its network at a rate that would enable it to achieve its Telecommunications Vision by 2005. Any shortfall of investment in the Sixth Plan would have to be compensated by a higher level of investment in its subsequent five year plans namely, the Seventh Plan (1996-2000) and Eighth Plan (2001-2005) in order to effectively achieve its goal by 2005.

### **5.9 Government Intervention and Attitude Towards TM**

The government continued to treat TM like any other government department.<sup>8</sup> The CEO was criticised by his senior executives, including the ED, regarding the way the chief executive handled the government directives. As stated above, this has led to conflict and eventually the resignation of ED from his number two post, as he felt that his ideas on how TM should manage government directives and policy decisions were no longer been accepted by the CEO.

Governmental directives and policy decisions affecting TM throughout the post privatisation were effected not through a single entity or institution, but rather by various levels and channels of the government. These include directives and decisions made by the PM, Minister of Finance, and the Minister of METP, the regulatory

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<sup>8</sup>In March, 1992, a new Minister of Finance, Anwar Ibrahim, was appointed to succeed Daim Zainnuddin who had held the position since 1984. The new Minister of Finance was said to be more open in his approach to privatisation. The new Minister had previously suggested for more bumiputra entrepreneurs to be given business opportunities through privatisation. MoF officials considered that Daim had been rather more selective in his approach by awarding major government contracts and/or business opportunities to a group of already established bumiputra entrepreneurs. However, despite difference in approach to promoting higher level of bumiputra business activities in the economy, both Daim and Anwar could be seen as following the same principles of trying to achieve higher level of bumiputra business activities through privatisation.

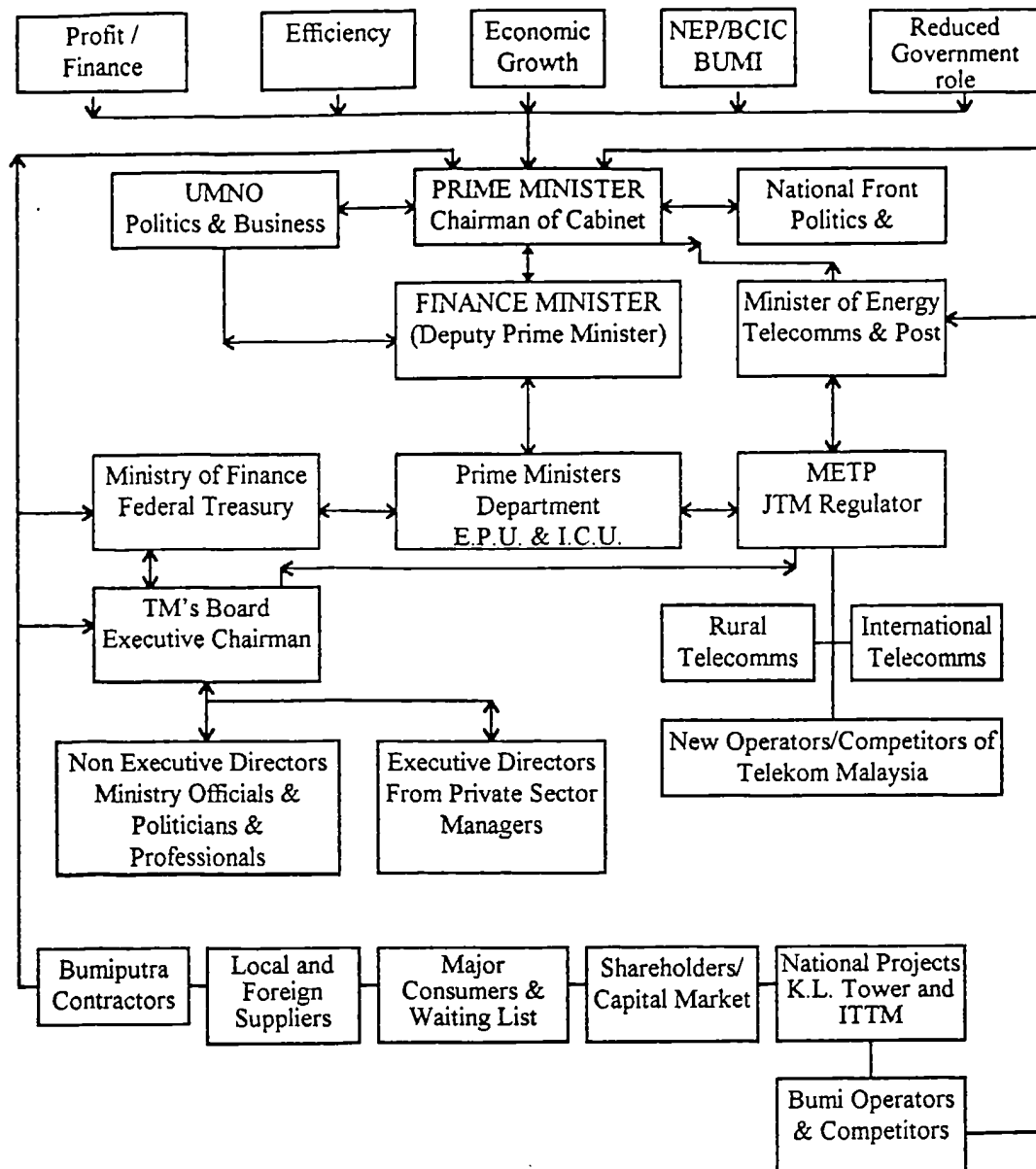
authority, who issued licences to bumiputra and other entrepreneurs to operate a wide range of telecommunication services.

The various parties or elements which had significant influence on Telecommunications sector and TM can be summarised as in Figure 5.3

Figure 5.3 shows the PM, MF and Minister of METP as the major influential forces affecting the telecommunications sector and TM's operations. As mentioned above, appointees to the board of directors, including the CEO, were approved by the Minister of Finance after consulting the Prime Minister, the board were expected to accept and implement government directives, and thus remained under their effective control.

In early 1992, the sector witnessed a controversy as TM's choice of contractors was overruled by the Minister of Finance. TM's executive directors and senior executives were taken by surprise when the Minister of Finance overruled their choice of contractors for the supply of a total of 4 million digital exchange lines for a period of five years (see also Meredith, 1992). The supply contract, worth MYR 2 billion (US 769 million), was contested by nine bidders including Perwira Ericsson (local partner: a government statutory body, Lembaga Angkatan Tentera), Pernas NEC (a joint venture between Pernas, a government corporation with NEC), Fujitsu (local partner: KUB, an investment co-operative arm of UMNO), Siemens (local partner: Electcom, a local bumiputra company), AT&T, Alcatel Alsthom (local partner: Yayasan Bumiputra Pulau Pinang, formerly chaired by MoF before he became the Minister of Finance) and Telenokia (Nokia) (local: Sapura Telecommunications - formerly, Sapura Holdings).

**Figure 5.3**  
**Privatisation Environment of Telekom Malaysia**



**Keywords**

CABINET  
BUMIPUTRA (BUMI)  
UMNO  
NATIONAL FRONT  
I.C.U.  
E.P.U.  
I.T.T.M

THE COUNCIL OF MINISTERS MEETING  
TARGET INDIGENOUS GROUP OF THE NEP/BCIC  
UNITED MALAYS NATIONAL ORGANISATION (CHAIRD BY P.M.)  
RULING COALITION PARTY (CHAIRD BY THE P.M.)  
IMPLEMENTATION AND CO-ORDINATION UNIT  
ECONOMIC PLANNING UNIT  
INSTITUTE OF TELECOMMUNICATIONS AND  
INFORMATION-TECHNOLOGY

TM's list of contractors proposed to the Ministry of Finance Tender Board (chaired by MoF) for approval were as follows (see also appendix 8):

- (i) Perwira Ericsson - to supply 2.5 million lines.
- (ii) Siemens - to supply 750,000 lines
- (iii) Pernas NEC - to supply 750,000 lines.

According to the senior executive, Perwira Ericsson had submitted the lowest tender, Siemens the second lowest and Pernas NEC submitted the third lowest tender. TM's choice was said to be based on lowest cost and technical efficiency. In contrast, the Minister of Finance's approval of five contractors was based on promoting bumiputra contractors as much as possible, especially if it involved foreign contractors and transfer of technology to their local partners. The Minister of Finance's approvals stated that five contractors should equally supply 800,000 lines as follows: (i) Pernas NEC (ii) Perwira Ericsson (iii) Nokia (iv) Alcatel Althom (v) Fujitsu.

Pernas NEC and Perwira Ericsson were approved not only because of the competitiveness of their price, but more importantly because of the status of their local partners with strong affiliation with UMNO. Siemens was replaced by Nokia despite submitting the second lowest bid. The other additional contractors approved were Alcatel Althom and Fujitsu which had strong affiliation with UMNO and the Minister of Finance himself. There were allegations of favouritism by the unsuccessful bidders - Siemens and AT&T were said to have written to PM to air their grievances and Perwira Ericsson to have expressed its unhappiness with regard to the reduction of its allocation in the contract (Meredith, 1992, p.1)

According to TM's engineering experts, the Ministry of Finance's choice of selecting additional contractors would affect TM's long-term efficiency and incur an

additional cost of MYR 300 million or 15% of the total contract. In addition, TM executives said that their engineers had to be acquainted with the five different systems used by the contractors in the upgrading of the telecommunications system. As a result of this decision, TM executives claimed that they had to conduct further technical tests for the integration of the five different systems to be used in the upgrading of TM's telecommunication system. This involved an additional five month period before the contract agreement was signed with the contractors at the end of 1992.

In response to criticisms, senior MoF officials said that TM had overlooked other important matters, which led to its choice being overruled by its highest approving authority and causing embarrassment to the entity. It was said that the Minister's approval contained companies having close affiliation with the government and UMNO, who had also been able to convince the Minister that they would be able to comply with government policy more effectively than other suppliers, in terms of using more local content. In this regard, TM could be blamed for first, not understanding the political links of those submitting or interested in the tenders. This prevented TM from being able to negotiate with them based on accommodating the Minister of Finance's interests in the development of TM's long-term network, that is, lowest cost with using more locally produced materials in the long-term.

In the above regard, CEO as chairman of TM Tender Board had failed to adopt the stakeholder concept in order to understand the various stakes of the Minister of Finance, and those with whom TM was competing to satisfy those stakes for achieving long-term goals.

### Allowing more competition and restricting TM in Mobile Services

After privatisation, the government through METP allowed more competition to TM's services. This was seen as consistent with increasing potential bumiputra entrepreneurs' participation in the economy as laid out in the privatisation policy and

Vision 2020. Further, METP (Secretary General, 1992, p.15, 18) cautioned that:  
 "...competition should not be introduced for the sake of competition. It has to be introduced in an orderly and regulated manner and this takes time.....liberalising the market to permit more players and introduce competition in order to increase efficiency, necessitates a more thorough study and analysis of the market." [Secretary-General of METP, 1992]

The Secretary-General of METP also stated that the existing regulatory structure and its size was "not reflective of the functions of the Regulator". According to him, the regulator (JTM Regulator) was unable to carry out its functions effectively under the existing organisational set-up (Secretary-General of METP, 1992, p.18; p.22]. The Director-General of JTM interviewed also claimed that TM was under-regulated as his department lacked manpower and resources to monitor and investigate performance and complaints raised by consumers. In this regard, senior officials of JTM Regulator said they could not ascertain whether TM had sufficiently complied with the conditions of its licence and taken adequate measures to improve customer service in both rural and urban sectors. Hence, they regarded the existing liberalisation policy of the government in the sector as one of fulfilling long-term demand for modern telecommunications services in the economy.

As discussed earlier in this chapter, TM's market share in the mobile services had declined since its privatisation. METP's restriction on TM's desire to expand its operation effectively in the mobile services was the main factor for TM's poor market performance. The restriction had immediately begun when TM sold its 49% stake in Celcom to Tajuddin Ramli, a businessman who had close links with the former Minister



of Finance. The decision had continued to affect TM's performance in the fastest growing market segment. As stated earlier, in return for the sale, METP had promised TM that it would be given the licence to operate the third mobile licence, using the latest digital technology. However, since its privatisation, TM has had to rely on its first mobile network, ATUR 450, to compete with Celcom's more advanced mobile network which operates using a semi-digital system and is more effective in city areas.

TM's engineers said that TM's existing ATUR 450 designed in 1985 was an out-dated analogue system and was initially designed for the remote rural areas where it was costly to develop the network. A senior executive said that ATUR 450 was plagued by poor reception frequently interrupted by high torrential rainfall and new high rise buildings in major cities and towns. It was also admitted by top management that the first mobile service had approached its maturity phase and therefore left little room for future growth. (TM 1993 Annual Report, p.30). Experts recently commented that ATUR 450 could be converted from its analogue system to a digital system.<sup>9</sup> This, however, has yet to be realised for TM to effectively compete with Celcom.

In 1993, the Minister of Energy, Telecommunications and Post stated that the government intended to establish a second telecommunications network, including mobile services, run by a consortium of companies which would likely begin operation by 1995. The Minister explained that the government did not want to depend on one network for providing telecommunication services in the country: "Over-dependence on just one network and problems arising from inter-connections experienced by various operators can be overcome with an additional network".<sup>10</sup>

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<sup>9</sup>Malaysia Business, "TELE Talk", May 1-15, 1993, p.16.

<sup>10</sup>New Straits Times, "Minister: Second telekoms network by 1995", dated February 10, 1992,

Then, immediately after the official statement, the METP issued the third mobile licence to Mobikom which had formerly been a TM subsidiary. However, under the terms of the licence, TM was forced to form joint ventures with several government and bumiputra firms in Mobikom, and TM's stake in the company was restricted to 30 per cent. According to METP officials, this particular arrangement was made by the government because many influential parties became interested to operate the third mobile network. In order to fulfil its promise to TM and at the same time satisfy requests from political supporters, the Minister of METP required TM to form joint-ventures with selected government-controlled and bumiputra firms in Mobikom, some of which obviously had no experience in telecommunications. TM's stake was confined to owning 30 per cent, while the remaining stake was shared among Permodalan Nasional Berhad (PNB) (or Bumiputra National Equity), Edaran Otomobil Nasional Bhd. (EON), a national car project, each owning 30% stake, and Sapura Holdings (bumiputra-owned) owned the remaining 10 per cent stake (New Straits Times, 1993)<sup>11</sup>.

TM senior executives and METP senior officials said that TM had asked for a higher stake in Mobikom as it was expected to play a bigger role as provider of expertise in the joint-venture. However, METP officials said TM's request for a higher stake in Mobikom could not be granted, as the Minister had already agreed with other bumiputra and government companies regarding their stakes in Mobikom. Hence, Mobikom represents another platform on which government promoted specific bumiputra economic activities at the expense of TM's role and expertise in the mobile services. On this account, a senior TM executive in the marketing division felt that

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<sup>11</sup>see New Straits Times (Business & Finance), January 27, 1993.

TM's stake in the consortium would be uncertain as it could be asked later by the government to sell it to an influential bumiputra entrepreneur.

It was also noted that TM's various stakes in radio paging and voice messaging services had been reduced in the post privatisation. Examples include, its investments in Skytel System - formerly TM owned 100% shareholding but now reduced to 40%; and Value-added data and electronic telecommunication services (VADS) - TM's subsidiary, formerly 60% owned, but subsequently scaled down to 40% (TM Annual Report 1990-94).

In early 1994, Celcom was awarded two licences to operate full telecommunication services. According to the METP officials, one licence was for the company to operate a digital cellular telephone and the other for digital micro-wave optical fibre and satellite transmission. Therefore, with this advancement, Celcom would soon have the facilities to become a full-fledged second carrier to TM. Also, Celcom moved further ahead by arranging with an international carrier, US Sprint, to reroute calls it carries into Malaysia for Celcom's ART 900 service and vice versa. This means that those making international calls will have a choice between Celcom and TM. It was also noted during interviews with METP officials that Celcom's ART 90 system has a comparative advantage over ATUR 450 particularly in terms of superb voice clarity, high volume usage and high rapid expansion.

While the government tended to restrict TM to basic telecommunications services, it started to liberate the telecommunications sector by approving more licences to selected private companies to operate a full range of telecommunication services. Senior METP officials did not hesitate to say that the issuing of these licences by the Minister of METP was not based on real market needs but was undertaken for political

ends. It was apparent that the licences were approved to those companies which had established strong links with UMNO, in general, and with PM and MF, in particular.

It was noted that those contesting TM's market share in the sector were those former JTM senior staff who became entrepreneurs to respond to the government policy of creating a Bumiputra Commercial and Industrial Community (BCIC). These companies operated as fully-fledged private sector management free from government control and at the same time received encouragement from the government to expand in the sector. This was consistent with Kennedy's (1990, p.323) contention that the government had issued licences to serve political ends, rather than to meet market demand. Further, Jomo (1992) and many others had earlier suggested that privatisation had led the government to promote selected entrepreneurs who had established close links with the leaders of UMNO and the National Front, including the Prime Minister and Minister of Finance, who encouraged them to operate in the sector.

Based on the above, the restrictive attitude of METP denied TM the ability to compete effectively in the market segment. TM virtually lost its market share to Celcom in the fastest growing market segment. While TM's stake and operations in the mobile services were effectively restricted by the Minister of METP, it continued to be faced with the unpredicted behaviour of the Minister of METP who had approved mobile licences to companies including Malaysian Resources Corporation Berhad, which in 1994 had been granted the licence to operate mobile services, despite having no previous experience and expertise in telecommunications. This company also had close links with the Minister of Finance.

The Minister of METP's decisions to approve these licences were criticised even by a senior executive of Sapura Holdings - a company which had close links with PM, who pointed out that there were too many licences for a small country like Malaysia,

and that this would adversely affect the return to investments of the sector. Experts had also supported this view that "there are too many licences for a small country" like Malaysia and this would lead to poor investments and low return in the industry. (Clifford, 1994).

#### Other Government Policies

In addition, the government influence on TM could be witnessed through its participation in government projects. For instance, TM was obliged to participate in the KL Tower, which executives in corporate planning division described as a "business in which TM did not want to get involved," because its pay-back period exceeded fifteen years.<sup>12</sup> However, it was reported by officials in PM's department that TM had shown interest in the KL project, and that in an official meeting, its senior executive had given TM's positive response to participating in the project. However, this seems to suggest that senior TM officials had adopted a hypocritical or sycophantic stance, being ready to say 'yes' in official meetings, contrary to their own convictions.

CEO had also been directed by the government, as part of TM's social responsibility, to provide training to potential bumiputra contractors in its newly established Institute of Telecommunications and Information Technology (ITTN). Specifically, this was to enable them to participate in TM's major contracts in the future. Further, according to senior officials of the PM's Department, TM must seek prior approval from PM and Minister of Finance of its intention to expand abroad, to prevent TM from incurring losses or failures in its overseas operations, this basically underlined

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<sup>12</sup>TM managed the national project KL Tower, through its subsidiary company, Menara Kuala Lumpur, of which it held 90% of the shares, the remaining 10% being owned by a German company, Wayys and Freytag. The main development of the project was being handled by the German company through a build, operate and transfer system (BOT). The value of the project is MYR 270 million and its principal purpose is a blend of tourism and telecommunications.

government's cautious approach and doubt as to the corporation's ability to manage overseas operations.

#### **5.10 Executive Shares Option Scheme (ESOS)**

TM's top management could be strongly influenced by the benefits received under the ESOS.<sup>13</sup>

The ESOS was approved for implementation at an Extraordinary General Meeting of the company held on 10 December, 1991. Under the scheme, a total of 27.93 million ordinary shares of MYR 1 each were allocated or granted to "eligible executive employees including full-time executive directors" (TM 1991 Annual Report, p.84) (note that non-executive directors were not eligible for the ESOS). It was stated that the ESOS shall be enforced until 11th December, 1996 and the options are exercisable at MYR 9.35 per share (TM 1991 Annual Report, p.84).

The allotment of shares approved to the eligible executives and full-time directors was based on the position held by them in the corporation as follows (TM Prospectus, September 26, 1990, p.22):

- (I) Executive Chairman - *300,000 shares*,
- (ii) Executive Director and Executive Director of Finance- *200,000 shares*,
- (iii) Director of marketing & Customer Services and Director of Network Services - *150,000 shares*,
- (iv) Senior General Manager (SGM) - *100,000 shares*,
- (v) General Manager (GM) - *70,000 shares*,
- (vi) Assistant GM and Managers - *30,000 shares*,

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<sup>13</sup> This was in addition to 70.5 million shares from the 470.5 million shares of the public issue allocated to all employees and the executives/directors at the time of the flotation of the company shares in 7 November, 1990 (Annual Report, 1990, p.10).

(vii) Assistant Managers - *10,000 shares*.

Senior executives of TM and MoF senior officials regarded the ESOS as the most lucrative benefits given to executives, including the executive directors.

Further, a new salary scheme was also approved by Ministry of Finance during the flotation year of 1990. The revised salary scheme was based on a two-year study by a local consultant, and the CEO rationalised its purpose as "...to attract, motivate and retain high calibre employees." (TM 1990 Annual Report, p.21).

However, executives of the Human Resource Division disclosed that the ESOS had also received much criticism particularly from the leaders of NUTE (National Union for Telecommunications Employees), which is an in-house Union representing TM's non-executive employees. It was said that between 1990 to 1993 Union leaders had expressed their dissatisfaction with the management and accused the company of only distributing privatisation benefits among executives and not lower grade employees represented by the Union.

The benefits accrued to executives and executive directors were based on the expected capital gains to be realised by them, arising from the difference between the option price of the shares at MYR 9.35 and the current price of the company shares traded on the KLSE, which had reached above MYR 20.00 at the end of 1993. Under terms of the ESOS, the share options would be effective within a period of five years (i.e. December, 1991 - December, 1996) and exercisable at MYR 9.35 per share.

Based on the company's Annual Reports 1991-94, a total of 18.9 million shares or 68 per cent of the approved 27.93 shares had already been issued to eligible executives at the financial year ended December 1994. According to the Human Resources division, those who exercised their option recently and decided to retain the

shares had taken up personal loans, while others had sold part or all of their allocated shares and earned substantial capital gains as a result of the high market price of the shares when they exercised their shares option.<sup>14</sup> In this regard, they claimed, MCM members, without having to pay a single cent, have been able to become millionaires or half millionaires by exercising their share option".

In the above regard, TM executive directors and MCM members as shareholders of TM would be expected to give higher priority to achieving profit, as this would benefit them in terms of higher profit sharing through annual dividends declared by the company and its influence on the share price. Further, in the context of Malaysian culture, ESOS would make the senior executives still more loyal to the government. They would be expected to accept passively government decisions, to avoid being labelled ungrateful for what they had received under the scheme. Since the CEO is the chairman of the implementation of ESOS, MCM members would be likely to adopt whatever decisions he made in the corporation.

### **5.11 A Survey of Strategic Priorities**

A survey of perception of major interest groups in the privatisation of TM was carried out regarding what they perceived as the desired order of priorities among the five stated privatisation goals or objectives, for achieving TM's desired performance. These include senior government officials, top management of TM and bumiputra executives.

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<sup>14</sup>The market price of TM shares had risen considerably from its debut price of MYR 6.15 at the end of 1990 when the shares of the company were first listed on the KLSE to about MYR 14.60 at the end of 1992 and then rise again to MYR 22.10 at the end of 1993 (TM Annual Reports of 1990-93).



In the absence of a government prioritisation of the five stated privatisation goals or objectives, the main aim of the survey was to identify what would be the established views or general perception of major interest groups, especially among senior government officials and top management of TM regarding what they considered as the order of priorities most conducive to achieving TM's long-term performance.

The respondents of the survey comprised a total of seventy-five individuals comprising forty-seven senior government officials from the various Ministries and government departments, three government research officials, seven previous and current non-executive board of directors of TM, especially the representatives of the MOF and METP, two executive directors of TM, seven senior executives who had later been promoted to become members of the MCM, and nine senior executives from selected bumiputra-owned firms operating in the sector.

Significant terms used in the survey to assist in the ranking of the order of priority were as follows:

- (i) profit/growth: published profits; sufficient return to shareholders;
- (ii) greater efficiency: technical and cost efficiency in meeting demand;
- (iii) facilitate economic growth: meeting immediate and long-term demand;
- (iv) equity - wider participation, not necessarily based on or contradict with cost and efficiency.
- (vi) reduce public sector - government selling TM shares to private parties.

For the purpose of the analysis, the respondents were classified into ten major interest groups, top management of TM being divided into two separate groups, namely, Senior Officials A and Senior Officials (see Appendix.10 and 11 respectively).

The ten groups were as follows:

Government Officials from :

- 1) Treasury or Ministry of Finance (MoF).
- 2) Economic Planning Unit (EPU).
- 3) Ministry of Energy, Telecommunications and Post (METP).
- 4) Malaysian Telecommunications Department (or JTM Regulator).
- 5) Ministry of International Trade and Industry (MITI).
- 6) Public Services Department (PSD).

TM's Top Management

- 7) Senior Officials (A), comprising previous and existing executive and non-executive BoD and their alternates.
- 8) Senior Officials (B), comprising MCM members and their supporting officials.

Independent individuals

- 9) Officials in government research organisations
- 10) Senior executives of Bumiputra-owned firms

The overall findings of the survey on the perceived order of priorities of major interest groups regarding the five privatisation goals are summarised in Appendices 9, 10 and 11. Appendix 9 shows the overall order of priorities of TM's previous and existing BoD members and their alternates (SOF A); Appendix 10 shows the overall order of priorities of MCM members and their supporting officials (SOF B); and Appendix 11 shows the overall order of priorities of all major interest groups, which significantly represents TM's external environment.

The five stated goals were ranked in ordinal ranking as follows:

- (i) Any goal ranked as first priority is given 1 point; 2 points is given to the goal ranked as second in priority; 3 points given to the goal ranked as third in

priority; 4 points to the goal ranked as fourth in priority; and 5 points to goals ranked as fifth in priority respectively.

(ii) Total average points for each goal are then calculated by adding number of points scored by that particular goal and dividing it by the number of officials or executives who participated in the ranking of the five stated goals.

As shown in Appendix 9, based on the total average points scored, the SOF (A) of TM ranked profit as first priority (1.0 points average); economic growth was ranked second (2.57 points average); bumiputra equity was ranked third (2.86 points average); efficiency was ranked fourth (3.57 points average); and reduced public sector was ranked fifth (5 points average). There is significant disagreement between TM's Board of Directors (Appendix 9) and the MCM (Appendix 10): in terms of ranking the priorities, one cannot reject the null hypothesis that the rankings are not associated.<sup>15</sup>

Appendix 10 shows that, based on the total average points scored, the SOF (B) of TM ranked profit as first priority (1.33 points average), efficiency was ranked second (2.44 points average), economic growth and bumiputra equity were both ranked third (3.0 points average), and reduced public sector was ranked fifth (5.0 points average).

As shown in Appendix 11, based on the total average points scored, the various major interest groups (which also incorporate TM's Senior Officials A and Senior Officials B) ranked profit as first priority (2.1 points average); efficiency ranked as second priority (2.2 points average); economic growth as third priority (2.4 points average); bumiputra equity as fourth priority (3.0 points average); and reduced public sector was ranked fifth priority (5.0 points average). There is significant disagreement

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<sup>15</sup> Spearman rank correlation coefficient = 0.66; Kendall rank correlation = 0.5 (ref S.Siegel (1956), "Non Parametric Statistics for the Behavioural Sciences". McGraw-Hill.

between the different Government parties as to the ranking of priorities<sup>16</sup> which provides scope for TM to be more proactive in its dealing with Government officers, and the opportunities to move from Hafsi and Thomas' cluster one organisation to a cluster two organisation

The analysis also shows that, on a group basis, a majority of five interest groups ranked profitability as first priority, four interest groups ranked efficiency as the second order of priority, four interest groups ranked bumiputra equity as third, four interest groups ranked economic growth as the fourth order of priority, and all of these groups ranked reduced public sector as the last order of priority for achieving TM's long-term desired performance. It was noted that there was a close ranking between economic growth and efficiency for second order of priority.

On the individual level, there existed differences of views among the individual members within each major interest group, as to what ought to be the priority among the privatisation goals for achieving TM's long-term desired performance. For instance, there were differences of priorities among TM's executives (both Senior Officials A and B) as to whether efficiency or economic growth or equity should be ranked second priority after profitability. Similarly, senior government officials in most Departments and Ministries ranked differently efficiency, economic growth and equity.

In this respect, the diversity of priorities among major interests groups in its external environment and the split of views at the TM corporate level regarding what ought to be the strategic priorities for achieving TM's long-term goal argue for the need for the adoption of a stakeholder approach to strategic management. By adopting this framework, top management would be able to act as an independent group more

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<sup>16</sup> Kendall coefficient of concordance = 0.574 (Ref. S.Siegel op cit.)

effectively to meet the various stakes of its major stakeholders and achieve its long-term goal by 2005.

### **5.12 Conclusion**

TM has not evolved to a stage where it is able to make the type of strategic decisions normally associated with private enterprise. Its major decisions are being constrained and restricted within the clear boundary of the Ministry of Finance. In this regard, top management is required to carry out strategic decisions approved or initiated by Ministry of Finance. Moreover, there have been several occasions where the government had made decisions not based on efficiency, which contradicts the government's basic principle in adopting privatisation.

TM's Board has not evolved as an independently thinking group since it is still dominated by ministerial and political appointees, which is contrary to the recommendations made by consultant studies. Also, TM's Tender Board is a subsidiary of MoF's Tender Board as it has to obtain the latter's approval with regard to selecting major contractors to implement major projects. Further, the planning system of TM has not evolved from the first phase of basic financial planning, where long-term planning is confined to financial planning based on using primarily limited internally generated funds and project allocation is subjected to strict financial criteria of the Corporate Finance division to ensure that annual profits are secured. If strategic planning ever existed in TM, it was imposed by the Ministry of Finance to achieve specific goals.

While TM had planned to pursue an ambitious mission of Telecommunications Vision 2005, which is to assist government in realising its Vision 2020, it was not accompanied by an appropriate financial and investment policy. The adoption of a rather short-term financial and capital investment policy based largely on using internally

generated funds to develop long-term capacity would prevent it from effectively achieving its ambitious mission by 2005.

Moreover, the survey as to what ought to be the strategic priorities of the various interest groups at the government as well as at the corporate level suggests the need for top management to adopt a stakeholder approach to negotiate effectively and influence major stakeholders, particularly the Prime Minister and Minister of Finance, to adopt an approach more compatible with achieving TM's long-term goal based on long-term efficiency, growth and equity. This would, however, require TM in the first place to evolve to operate as an independent decision-making body in order to be able to adopt the proposed stakeholder approach.

## Chapter Six

### Marrying Strategic Management Theory and Practice

#### **6.1 Introduction**

The basic objectives of this study were both, to evaluate whether the government and top management of a privatised entity have behaved in a manner that is consistent with their stated goals and objectives, and to develop top management capability in executing a strategy to achieve its stated corporate objectives, within the context of balanced achievement of long-term profitability, efficiency, economic growth and equity.

In order to achieve this, it was necessary to examine and discuss the whole issue of what is privatisation as an instrument of economic development in both developed and developing economies, how it has been pursued in Malaysia, particularly in the privatisation of Telecommunications Malaysia (TM), for what purpose it was implemented, and in what way the government, as owner of the privatised entity, and the top management, as its appointed professional managers, have acted at national and corporate levels in the telecommunications sector.

#### **6.2 Privatisation Framework**

The study began with a review of the current literature on privatisation, emphasising the fairly wide division of opinion defining the term privatisation, and explaining why privatisation is implemented in both developing and developed countries, as part of a package of economic reforms. It was revealed that multiple objectives were pursued, requiring prioritisation in order to achieve the desired, balanced achievement of the various objectives. Further, the different modes of

privatisation were examined. A distinction was highlighted between partial privatisation, which has been favoured in the Southeast Asian economies, and full privatisation, as practised in the U.K. The former is characterised by government presence and retention of effective control, while the latter means government withdrawing completely from the privatised company to enable the corporation to operate as a fully-fledged private sector entity, free from direct imposition of government policy priorities.

The basic premise underlying privatisation in Malaysia was government belief in the superiority of decisions based on market forces over those based on administrative rules. The Malaysian Prime Minister, on launching the policy in mid 1983, stated that privatisation was an alternative approach to development, being adopted as a result of the failure of public enterprises to achieve a desired level of economic performance. It appeared to represent a dramatic change in the New Economic Policy, introduced in 1970, which essentially had supported the establishment of a large number of PEs, through which the government was able to pursue one of the principal objectives of the NEP, namely the redistribution of income in favour of the bumiputra community. Dissatisfaction with the performance of the state enterprises was explained as a major reason for the policy switch to privatisation.

The government emphasised that privatisation implementation must be seen and considered as part of a wider process of economic reform, whereby market signals are allowed to govern economic activity. In this regard, the five objectives of privatisation announced by the government were examined. The first four of these objectives can be identified with the concept of privatisation as espoused within the wide range of literature, which has increased dramatically over the last fifteen years or so. However, the inclusion of the redistribution objective as the fifth objective makes privatisation in



Malaysia, if not unique, at least markedly different from the generally established views. This is what prompted Milne (1986) to emphasise the uniqueness of the Malaysian privatisation policy.

It was argued that having multiple goals may create problems for strategic management in the sense that trade-offs may be necessary in order to take account of all the stated objectives. The problems of incompatibility may be minimal where the multiple objectives pursued are generally and mutually supportive. However, in the Malaysian case, promoting bumiputra contractors is likely to hinder both growth and efficiency goals, as the organisation or privatised corporation is compelled to develop the technical incompetence of the new suppliers, which are also most unlikely to be the lowest cost bidders. Even if mutually conflicting goals are treated as short-term constraints, they will tend to limit strategic decision-making so severely that it would be difficult for a strategy to evolve, since decision-making would either be paralysed or would result in pragmatic opportunism, and thereby long-term sustainable growth would be neglected. For a clearly defined policy to emerge, there needs to be some prioritisation of objectives, at least implicitly if not explicitly.

In the case of Malaysia, as discussed in Chapter Two, despite the potential conflict of its privatisation objectives, there has been no explicit prioritisation of its privatisation goals. In fact, the government has on various occasions placed emphasis on all five objectives. As a result, as emphasised in Chapter Five, the survey conducted during this study revealed that individual senior government officials and top management of TM have conflicting views on the strategic priorities among the privatisation goals, in particular, between equity and efficiency, for achieving TM's long-term goals.

### 6.3 Strategic Management Framework for Privatised TM

The current literature on strategic management was reviewed, as one of the key issues of privatisation of TM revolves around corporate management and strategic decision-making. This is on the assumption that TM, as a private sector entity, should be free from politically motivated decisions and able to adopt a long-term view within the framework of its strategic planning. Thus, discussion on strategic management as an appropriate framework for the formulation of corporate strategy aimed specifically to identify the strategic management capabilities of TM and then to suggest the appropriate strategic management framework relevant for its top management to adopt in order to achieve long-term goals. The stakeholder approach was stressed as appropriate and suitable for top managers of TM, which operates in a mixed environment of private and public sector, to identify, analyse and satisfy the preferences of those various key individuals or major interest groups, both in the government and in the private sector, which can affect or be affected by the realisation of corporation goals.

In particular, it was argued that top management of TM, by using the stakeholder approach of strategic management, would be able effectively to satisfy the preferences or stakes of those major stakeholders, particularly the PM and the Minister of Finance, better than their market competitors or group of individuals within or outside the corporation, in the process of achieving their long-term goals. The application of the stakeholder concept would enable top management to surface the trade-offs that the corporation faces, and thereby enable them to influence and negotiate effectively with political executives, for satisfying their long-term as opposed to short-term growth with equity, and at the same time achieve the long-term goals of the corporation.

Discussion of the study by Gluck et al. (1980) on the evolution of planning

systems in large companies, was undertaken to identify exactly where TM is on the evolutionary chart. Gluck et al. found that formal strategic planning systems do indeed evolve along similar lines in different companies, albeit at varying rates of progress. The evolution of corporate planning systems was seen as taking place in four sequential phases, each marked by clear advances over its predecessor in terms of explicit formulation of issues and alternatives, quality of preparatory staff work, readiness of top management to participate in and guide the strategic decision-making process and effectiveness of implementation. The four-phase evolution model is stated as follows - Phase 1: basic financial planning; phase 2: forecast-based planning, phase 3: externally oriented planning and; phase 4: strategic management, where the stakeholder concept can be part of the management framework used by top management.

After the reorganisation of STM/TM at the end of 1989, the corporation's strategic planning did not evolve from phase 1 of this model. TM appears to have remained stuck in the basic financial planning phase, four years after being privatised. TM's formal planning system was entirely based on achieving short-term profits or, in terms of Gluck et al's (1980) description of phase 1, TM's formal planning can be stated as primarily based on the annual budgeting process - "where everything is reduced to a financial problem." The importance of the finance division emerged when the Minister of Finance appointed the Executive Director of Finance to head the division, just a few days before the flotation and privatisation of the corporation in November, 1990. The finance division was not only a functional division represented in the board but also headed by an executive director who in June, 1993 was given the task of covering the position of the executive director (ED) (formerly known as chief operating officer), which was left vacant after the former ED resigned due to dissatisfaction with the CEO. Hence, top management of TM would be biased towards financial performance in its long-term expansionary and modernisation programme as

the ED of Finance handles two important positions in the corporation.

It was stated by Gluck et al. that in this phase "strategy depends largely on the CEO and top management." In the case of TM, it is the executive chairman, the executive director of finance, who also covers the position of the executive director, and members of the board of directors dominated by the representatives of the Minister of Finance. However, since the existing CEO's tenure of service is renewed annually by MoF, the composition of the board of directors is dominated by civil servants and political appointees, and TM's strategic decisions are independently determined by the Ministry of Finance, it is certain that TM's strategic planning cannot evolve to phase four - Strategic Management, where "strategic planning and management is in a single process".

In this regard, TM is likely to remain in phase 1 of corporate planning which is based on basic financial planning, unless independent strategic decision-making exists in TM.

#### **6.4 Preparation for the Privatisation of TM**

Examination of the pre-privatisation period of TM, in particular, the preparation for the privatisation of TM (1987-1990), revealed that several major decisions were taken by top management and government which affected the operational status of the corporation in post-privatisation. For instance, during the initial period between 1984-1988, the government and top management of TM had both commissioned several studies by international and local consultants to advise on the privatisation of the government telecommunications department, JTM. It was noted that the main objective of these studies was to make JTM, on privatisation, an efficient and innovative private sector entity, capable of building an effective and efficient telecommunications system

for the country.

The recommendations of these studies included the appointment of members of the board of directors and senior executives based on private sector expertise and experience, installation of an effective management and corporate planning system, a market-oriented organisation structure as opposed to a government bureaucratic structure, top management removing any remnants of bureaucratic constraints that could hinder effective market response, government ensuring top management discretion, and restructuring of the organisation to make it a market-driven and consumer-oriented organisation.

In addition, the government (EPU) stated that during the corporatisation stage, several changes would be carried out to enhance the productivity and efficiency of the 'corporatised' entities in preparation for privatisation. Specifically, the government announced its intention to: (1) replace bureaucratic administration with commercial management; (2) introduce clear financial and operational performance targets and commercial accounting; (3) place the enterprise distant from undue political intervention; and (4) replace centralised production-oriented decisions with consumer and market driven decisions.

However, in examining the overall decisions and behaviour of both government and top management in the transitional or corporatisation stage, it was found that certain of the above recommendations were not carried out fully, either by the government or top management themselves. Opportunities to establish a management structure and corporate planning system based on private sector expertise and experience were largely ignored by both the government and top management of TM. For instance, the board of directors comprises and is dominated by senior Ministry officials and political appointees. This raised doubts as to commitment to achieve the stated government

objectives of corporatisation, in particular, those related to replacing bureaucratic administration with commercial management, and placing the enterprise distant from undue political intervention. Therefore, when reorganisation was undertaken based on a consultant's study in 1988, with the aim of making TM a market-driven and consumer-oriented organisation, it did not strategically alter the position of the corporation in the sector. TM still remained within the effective control of the Ministry of Finance and top management decision-making was still subject to the administrative rules of the Ministry of Finance, in particular with regard to its tendering procedures.

The overall preparation undertaken by both the government and top management for the flotation and privatisation of TM scheduled at the end of 1990 was mainly to fulfil the requirements of reasonable profits for at least three financial years prior to application to the CIC for the flotation of the shares on the stock exchange. Also, it was tailored to suit the objective of the then Minister of Finance to strengthen the financial situation of the government which led to a significant diversion of flotation proceeds to repay outstanding government debts.

Undoubtedly, during the run-up to privatisation short-term financial achievements of TM were improved drastically within a short period of time. For instance, profits rose by 360 per cent from MYR 5 million in the initial corporatisation year of 1987 to MYR 180 million in the following financial year. This amount increased further by another 100 per cent to MYR 366 million in the financial year 1989, and further by another 75 per cent to MYR 564 million in the flotation year of 1990.

Critics responded spontaneously to the immediate financial achievements of TM during the run-up to privatisation. They strongly pointed out that the sharp increase in annual profits within such a short period of time, was as a result of severe cost-cutting measures and deliberate reduction of capital expenditure. Further, as stated in Chapter

Four, Kennedy (1990, p.226) emphasises that financial improvement of such magnitude "... must be, in part, a phenomenon of bookkeeping." Also, the financial achievement was found to be a result of curtailing capital investment and postponement of projects during the run up to privatisation. For instance, capital investment or expenditure was reduced systematically by both the CEO and ED in order to control operating expenditure and increase profit during the transitional period. The amount of capital expenditure was reduced from MYR 718.9 million in 1988 to a record low of MYR 392.1 million in the financial year 1989, even though the economy was growing at a GDP growth rate of 9.2 per cent, compared to 8.9 per cent in the previous year. Further, capital expenditure was a residual of internally generated funds after repaying government loans during the period.

Looking at the growth of subscribers during the transitional or corporatisation period from 1988-90, it reached just over 12 per cent per year, which is slightly higher than the 10 per cent growth per year achieved during 1984-87. However, the growth of the exchange capacity was found to be very volatile, falling from an average growth rate of 17.5 per cent during 1984-87 to about 2.5 per cent in 1988-90. This indicates that development of capacity was not carried out in a consistent manner and was subordinated to short-term financial enhancement.

As emphasised in Chapter Four, the above short-term approach to privatisation adversely affected the ability to meet demand on request. The waiting list for services showed a steady increase from 84,639 in 1987 to 140,000 immediately after flotation in year 1991. TM's senior officials admitted that the rising waiting list was inevitable due to postponement of maintenance and development projects. In addition, the postponement of maintenance works in the run-up to privatisation had caused unnecessary delay and subsequently raised the cost of maintenance when repairs and

maintenance works were carried out later, after privatisation. Further, it was said that the postponement of maintenance works adversely affected the quality of the network, prompting the Director-General of JTM Regulator, based on a survey of TM's major customers, to criticise TM for failure to meet customers' expectations in terms of quality of services provided.

### **6.5 Post Privatisation of TM**

In examining the post privatisation period (Chapter Five), one would expect that privatisation of TM would have followed the example of British Telecommunications (BT), as the government appointed and sought the advice of the same consultant companies which had been involved in the privatisation of BT. In the case of the privatisation of BT, the government within a specific period of time bowed out and the privatised company operated independently of the government. However, clearly in the case of Telekom Malaysia (TM), it has been revealed that government still retained effective control of TM's strategic decision-making, and gave no indication when it would withdraw from the company completely to allow professional managers to decide and act independent of government bureaucratic procedures and political executives' mandatory priority of promoting privileged bumiputra entrepreneurs, at the expense of realising long-term efficiency and profitability.

Four years after flotation, the government still retained a majority holding of 71.67% registered under the Minister of Finance (Incorporated). It was for this reason that the government felt that it had the legitimate right to be the major decision-maker. The revenue from the privatisation flotation was considerably diverted towards repaying government loans rather than to finance capital expansion. Further, there is little evidence to suggest that TM has gained any significant degree of autonomy other than,



perhaps, in day-to-day operational management. Although the Board appears to be an independent decision-making body, in reality they are ministerial and political appointees who are obliged to accept directives from the government. Further, the TM Tender Board comprising only TM and MoF officials instead of the Board of Directors are involved in handling the selection of contractors with the Minister of Finance.

The role of the Executive Chairman or CEO is to manage the interface with the government. He is required to attend the weekly post-cabinet meetings chaired by the Minister of Finance - to ensure that he understands and is personally involved in the implementation of any particular directives made at the Cabinet level. Examples of such include the TM's commitment to national projects such as the KL Tower, and the training of bumiputra entrepreneurs in telecommunications through the newly established Institute of Telecommunications and Information Technology (ITTM). Further, the Executive Chairman is obliged to adopt a short-term pragmatic view, as his contract has not been confirmed and is renewed on an annual basis with the Prime Minister and the Minister of Finance.

The study has revealed, further, that there is little evidence that TM has changed its behaviour to that of a private enterprise. TM is still accused of being over-staffed and under-managed. This may be as a result of a lack of learning or evolution - or it may be that it has not been allowed to evolve. There is little indication to suggest that the government has in fact reduced its involvement. Indeed, the privatisation of TM, which resulted in the shift of ministerial responsibility from the Ministry of Energy, Telecommunications and Post to the Ministry of Finance seems, if anything, to have centralised decision-making in that Ministry.

Although the main aim of reorganisation was ostensibly to make TM a market-driven and customer-oriented organisation, the management structure of TM after four

years of privatisation was still not based on private expertise and experience. Opportunities to establish a management structure based on private sector expertise and experience continued to be ignored by the government, and the composition of the board of directors raised doubts as to its commitment to full privatisation. This was also aggravated by the government holding a golden share, enabling the government irrespective of its shareholding, to ensure that corporate decisions are made consistent with the government policy priorities.

The board currently comprises two executive directors, including the Executive Chairman (the CEO), senior officials of the Ministry of Finance, and the Ministry of Energy, Telecommunications & Post (METP); four political representatives from the ruling National Front coalition; and two private sector representatives - one of whom is a former JTM Deputy Director General and is the only board member with technical experience in the sector. The various executive directors were chosen for their experience in managing large private sector corporations with a majority government equity, and the CEO, in particular, had most experience in the plantation-based companies; they were selected to assist the government in managing commercial, financial and technical issues to achieve a balance between profitability, efficiency, and social responsibility. The selection and the lack of technical experience of the executive directors, in particular, and non-executive board members, in general, has caused problems of low morale in the organisation. For instance, one member of the Management Committee Meeting (MCM) of the corporation complained that, "most of the Board of Directors had no idea what telecommunications was all about and even our Executive Directors are mainly from the plantation sector."

Contrary to the recommendations of studies conducted by consultants, commissioned by both the government and TM itself, extension of bureaucracy into TM

still exists in the post privatisation period. The Ministry representatives spoke of their role in the board as "an extension of their civil service duties" and said that decisions made by them at the Board level were made in consultation with their respective Ministers and subject to any further decisions made by their political masters as and when they considered it appropriate. Also, not only does the MoF's board representative sit on TM's Tender Board chaired by the CEO, but the Tender Board also has to submit recommendations to the Ministry of Finance's Tender Board for final approval on the selection of its major contractors.

In the above regard, top management strategic decision-making is still subject to the administrative rules and procedures of the MoF. Further, top management has to seek clearance from the Minister of Finance (Incorporated) and the Minister of Energy, Telecommunications and Post to expand into new growth areas. Approval of the MoF is required for the financing and implementation of major development projects above MYR 15 million, while the Minister of Energy, Telecommunications and Post decides on whether TM can participate and compete effectively in the mobile services, which is the fastest growing market segment in the telecommunications sector.

As stated earlier, the reorganisation of TM, supposedly based on the ADL study which aimed at making TM a market-driven and consumer-oriented organisation, has given prominence to the finance division. Despite the stated priority of making TM a market-driven and consumer-oriented organisation, the marketing function is not directly represented in the board. Further, under reorganisation, the marketing department is headed by a former Director-General of JTM who had no previous practical marketing experience.

The Management Committee Meeting (MCM) chaired by the CEO and comprising the Executive Director, the Executive Director of Finance and eight Senior

General Managers has no executive power to approve strategic decision-making but has only been given an advisory role to the Board to achieve corporate objectives. Similarly, the corporate planning division which is responsible for articulating the corporate strategy of TM is not directly represented in MCM. The MCM is represented by the two Executive Directors, the Director of Marketing and the Director of Customer Services and Director of Network Services (though having the title of director, they are not Board members) plus six SGMs who head several departments and divisions. Corporate Planning, despite consultancy advice to the contrary, is not seen to warrant an SGM, only a General Manager (GM) who is not a full member of the Committee.

TM's planning system has not evolved and is still in the first phase - basic financial planning. Failure to evolve to phase 4 - the strategic management phase hinders its ability to adopt the stakeholder approach which has been suggested as an appropriate and suitable framework for top management to satisfy effectively the various stakeholders' preferences and achieve long-term corporate goals.

TM's Tender Board rather than TM's Board of Directors are involved in submitting proposals regarding selection of major contractors. In this regard the non-executive directors, apart from the MoF's representative to the board, have been excluded from another aspect of strategic decision-making of TM, where the BoD was expected to adopt what was proposed by TM Tender to MoF Tender Board. The BoD are also expected to accept the final decisions decided by MoF Tender board to be implemented by TM Tender Board.

The sudden departure of the ED from the number two post in TM because of personal conflict and disagreement with CEO's style of management, particularly on the handling of government directives, is seen as a weakening of top management's position. The ED had been the only executive director who was an electrical engineer by

profession and had worked for a short time in JTM, pre-privatisation. Combining this with his previous experience as a former director of corporate planning of a large and established company, Sime Darby, he was able to earn a reputation among several MCM members as "an efficient and no-nonsense manager". His resignation was considered as a loss to TM by most MCM members who had served under him, and the covering of the ED post by ED of Finance was considered by most MCM members as inappropriate as he had no practical experience in telecommunications, but had been brought into TM by the former Minister of Finance just before privatisation of the entity because of his specific expertise in managing government financial interests in several government controlled companies, including the Bank Bumiputra. Moreover, what was initially seen as a temporary post, had been extended to more than a year.

Since then, the ED of Finance has been responsible to the CEO for performing a double task, one as ED of Finance, responsible for the financial affairs and the other as ED, responsible for overall operational matters, especially the engineering, technical and day-to-day operations of the entity. In this respect, several senior engineers who had served under the former ED were quick to describe the ED of Finance's new position and role in TM as contradictory, as he is charged with two different fields, finance and engineering, which were previously performed by two different professionals with different backgrounds and experience and operating at different levels of management responsibility. The engineers claimed that the ED of Finance would naturally seek to accomplish first his primary task and that for which he was qualified, i.e. managing the financial affairs of the corporation, including ensuring an increased trend of published profits. They argued that his other role would be seen as a secondary mission in TM, therefore, raising the question of whether he was capable of handling the technical matters relating to long-term development of technological capabilities and competitive advantage of TM, consistent with achieving the

Telecommunications Vision 2005.

Further, the ED of Finance has distributed the job responsibility of the ED among several senior engineers previously supervised by the former ED. This was obviously done ad hoc, rather than to be consistent with long-term strategic decision-making of TM, even if such exists. Senior engineers who worked under the supervision of the ED of Finance raised issues relating to whether TM could achieve its bold mission as they had been subject to strict compliance in terms of corporate finance, especially regarding immediate return on investment criteria, despite the fact that major projects would require long-term commitment to investment, where the pay-back period could range from five to ten years. The emergence of the Corporate Finance Division as the most influential division in TM in terms of having the upper-hand in deciding long-term projects implementation, further reflects that long-term strategic decision-making of TM is subject to a cautious financial policy, based on a low gearing ratio and insufficient commitment to investment, to ensure attainment of annual profits.

On the part of the CEO, there has been no real attempt to initiate systematically a management development programme for the top management team. Further, the chief executive took no immediate steps to strengthen TM's position when his key assistant suddenly resigned from the number two post. As for the Ministry of Finance, it remained silent, though senior officials of MoF were surprised at the sudden departure of ED whom they had considered a suitable candidate to take over CEO position when he retired. Thus, it seems that on ED's sudden departure, the CEO's lack of initiative in filling the post immediately may have reflected the CEO's own ulterior motive, being concerned only with his position as number one in the TM, and reluctant to allow anyone to challenge his integrity and position until he decided to retire.

TM attempted to change in the initial stage of post privatisation, but when it was

blocked by the government, there was no further effective attempt to change. For instance, evidence of the restrictive attitude of the government prevailed when the Ministry of Finance refused to grant TM authorisation to approve project expenditure and contracts in excess of MYR 15 million. This sum represents less than one percent of its capital expenditure budget of MYR 12.9 billion for the five year plan 1991-95, but it is a Treasury ruling applied to all government departments. TM's attempts, on grounds that it is already a private sector entity, to have this expenditure ceiling removed or raised were rebuffed with the reply that it would set a precedent for other government departments and corporations which would also seek similar discretion.

The inflexible attitude of the government as regulatory authority also persists. For instance, TM's intention to expand into new growth areas, in particular, the mobile services was blocked by the Minister of Energy, Telecommunications and Post, while new private operators were given licences to operate. The promise to award the third mobile network licence exclusively to TM in return for its divestment of Celcom was not honoured by the METP. Instead, the licence was given to Mobikom. Not only has TM to share the licence with other operators, but TM's stake in Mobikom has been confined to 30 per cent only. Another sixty per cent of the stake is owned equally by two government-controlled companies, neither of which had prior technical experience in telecommunications, and the remaining ten per cent by Sapura Holdings, a bumiputra-owned company which has a subsidiary that was given a licence to operate pay-phone services in the lucrative urban areas, as against TM which operates mostly in the rural areas as part of its imposed social responsibilities. Further, TM was given the responsibility to provide the expertise in Mobikom at the expense of TM's infrastructure and expertise. There was also growing concern among senior executives that TM's future stake in mobile services and radio paging and voice messaging services would either be divested to potential bumiputra concerns with strong political connections or

be restricted to a minority joint-venture. In addition, TM has met with rejection of its recent proposal to charge lower rental rates for rural areas and higher rates for urban areas, as part of its marketing strategy to expand sales and increase profit margin before the advent of competition in the fixed lines.

Further, TM is obliged to participate in national projects such as KL Tower and training of bumiputra entrepreneurs through its ITTM, on the basis of social responsibility rather than profitability. Its expansion abroad has also been subject to PM and Minister of Finance approval, reflecting the governments' cautious approach towards the corporation's ability to achieve success in its overseas ventures.

In the above regard, TM's strategy rests with the PM, Minister of Finance and Minister of Energy, Telecommunications and Post. As such, there does not appear to be a deliberate or even emergent strategy, but rather a pragmatic political opportunism suited to political parties rather than the economic or competitive performance of TM. As for the CEO, he is obliged to adopt a short-term pragmatic view, as his contract has not been confirmed and is renewed on an annual basis by the Minister of Finance and PM. Therefore, he will be more cautious in pursuing long-term investment in order to ensure adequate annual published profits to support annual dividends to both government and top management, who are shareholders under the lucrative ESOS.

The Ministry of Finance continues to treat TM as a government department. Of particular importance in this respect, is the imposition of Treasury Regulations, particularly regarding tendering procedures. This is despite the assurance by the government that its intervention in top management's decisions would be minimal and would only be considered if necessary to achieve national objectives. It was emphasised by the PM himself that [in the context of privatisation] "government has no business in



business."

The Minister of Finance's decision which overruled top management's choice of contractors for the supply of digital switching equipment valued at more than MYR 2 billion, in early 1992, displayed clearly that TM has little if any strategic decision-making autonomy. Top management's proposal to appoint three contractors was made on the basis of lowest cost tenders: Perwira Ericsson, the lowest bid was to supply 2.5 million lines, with Siemens and Pemas NEC to supply 750,000 lines each. This was changed by MoF to five contractors, excluding Siemens (which was the second lowest bid), supplying 800,000 lines each. Apart from increasing the average cost of the new exchanges, expansion in the range of equipment to be installed and technical requirement to make the five systems compatible escalated the maintenance and serving costs, with consequent effects on profitability, and a five month delay. It was claimed by experts and agreed by senior engineers in TM that MoF's decision could increase the cost to TM by 15 per cent or MYR 15 million.

#### **6.6 TM's Approach and Performance Towards Telecommunications Vision 2005**

Immediately on privatisation, TM set a target of elevating the nation by year 2005 to the ranks of countries advanced in telecommunications. This was expressed in its Telecommunications Vision 2005 - to establish a world class company and to provide services at par with those existing in advanced nations by the year 2005. Importantly, this was a response to the PM's bold mission stated in the government long-term policy of 'Vision 2020' announced in early 1991 to transform Malaysia into a fully industrialised nation by the year 2020. Further, 'Vision 2020' had stated that privatisation would be pursued as a national efficiency strategy.

Assessing TM's approach towards its Telecommunications Vision 2005, evidence shows that it has pursued a very cautious financial policy. It has been much more concerned with short-term profitability rather than sustainable competitive advantage. The profitability of TM has been maintained - as reflected in its share price. The share price on flotation was MYR 6.15, which reached MYR 14.6 at the end of 1992, and had further risen to MYR 22.1 at the end of 1993. The priority of financial targets to top management is not surprising as the privatisation process involved a generous executive share option scheme for executive directors and MCM members, from which they have made substantial capital gains. As stated in the thesis, a total of five per cent of issued shares were reserved for employees and senior executives and the option price per share under the ESOS was MYR 9.35 approved in 1991, and MYR 13.33 approved in 1994. By the end of 1994, a total of 18.9 million shares or 68 per cent of the approved 27.93 shares had already been issued to eligible executives at the financial year ended December 1994.

TM's expansion into new growth areas has been found to be insignificant, if not stagnant, based on the low and declining contribution of its value-added services, namely, mobile services and data services, to total operating revenue. From these figures, it is not clear that privatisation has led to an increase in growth or efficiency. Further, the waiting list rose to 170,000 in 1993. However, there has been an improvement in the penetration rate or lines per 100 population, with the annual growth rate increasing to 14 per cent from just under 10 per cent. TM is likely to meet the target of 15 lines per 100 population by the middle of the decade, but this still compares poorly with penetration rates for South Korea, Hong Kong, Taiwan, and Singapore of 45-55 lines per 100 population.

As regards growth, TM is missing out on the fastest growing segment of the

market - mobile digital network, and has been limited to its original ATUR network, which is not suitable for city areas. Recently, it was restricted to a minority shareholding in the third mobile licence, where there was already anticipation that it would be sold to any potential bumiputra entrepreneurs with strong political connections, once the company could function on its own without depending any more on TM's expertise.

Growth depends on investment and financing. Looking at the financial performance of TM from 1987-94, the revenue from the flotation at the year end 1990 amounting to MYR 2.35 billion, was being used primarily to repay government debts before the former Minister of Finance returned to the private sector in early 1991. This suggests the goal of reducing the size of the public sector or at least the public finances of telecommunications infrastructure was a higher priority than growth. Over the period 1987-93, TM repaid a total of MYR 3,747 million, primarily as early repayment of government loans, representing 44 per cent of its capital expenditure for the same period. Further, the privatisation date was brought forward to allow the incumbent Minister of Finance to improve the government's financial standing. Former JTM senior engineers claimed that the privatisation was implemented too early and without considering the time needed for TM adequately to prepare its employees to face the new privatisation environment. In essence, this means that as privatisation of TM is not based on TM's readiness and ability to operate as an effective and efficient private sector entity, the privatised entity's capability of achieving an ambitious mission of developing a long-term modern telecommunications system comparable with those existing in advanced economies is at stake.

Short-term financial policy:

Sources of funding include retained profits, government loans, commercial loans and new equity. The financial policy of the company is excessively cautious: the level of corporate debt has been kept extremely low, even considering the additional funds raised through convertible bonds amounting to MYR 898.3 million or about 7 per cent of the MYR 12.9 billion capital expenditure for 1991-95. In contrast, its payout ratio has increased, meaning that its sustainable growth rate in asset terms has been well below ten per cent.

It has been argued that TM underestimated its capital investment for 1991-95 and needed to raise and commit more funds to pursue an aggressive investment policy to achieve its ambitious Telecommunications Vision 2005. The telecommunications business is highly capital-intensive and subject to rapid technological changes, and there is emerging competition from fully-fledged private sector corporations, free from imposition of government control and able to respond to the market more quickly. Further, senior engineers in the network services pointed out that TM, under the existing plan period, should have placed more emphasis on modernising the network. They argued that at least 30% rather than 20% of total capital expenditure should be diverted for the modernisation of the network if TM seriously wanted to achieve its Telecommunications Vision 2005.

It was estimated that TM would need to invest MYR 15.8 billion, which is 22.5 per cent higher than the MYR 12.9 billion, actually invested in the expansion and modernisation of its core network, based on achieving 15 per cent average annual growth rate of DEL and upgrading the network for the five-year plan 1991-95. However, to achieve 17 per cent average annual growth rate of DEL and modernisation of the network in the five year period in order to be able to achieve a 65 per cent

penetration rate and quality of services at par with those existing in the advanced nations by year 2005, a higher capital investment of MYR 18.6 billion or 44 per cent more than the current allocation of MYR 12.9 billion would have to be put aside by TM. This would reflect a more appropriate long-term policy necessary for achieving its long-term goal by 2005.

### **6.7 Government Priorities in Telecommunications Sector**

Moving from an analysis of TM to the telecommunications sector as a whole, the Malaysian government has introduced competition into the sector by actively encouraging new entrants into the industry. Further, as JTM Regulator is under the ministerial supervision of the METP, this raises the question of whether government regulation of the partially privatised TM and encouragement of privileged bumiputra operators is consistent with the protection of consumers' welfare and interest.

It is evident that a major priority in the post-privatisation period within the sector has been the promotion of bumiputra interests. Since 1990, several companies have been awarded licences to operate and compete freely within the mobile services sector, and one of these companies, had been granted permission to launch the first Malaysian satellite into orbit. These include Celcom, Binariang, Mobikom, (in which TM has a 30 per cent stake), Sapura Holdings, Time Engineering, and Malaysian Resources. Also, more recently the government widened the playing field in the supply of cables, when two relatively unknown companies, both lacking facilities to make telephone cables, were awarded one-third of TM's five-year supply contract. Critics of the emerging telecommunications structure suggests that privatisation is taking place on an *ad hoc* basis. There are too many licences for a country as small as Malaysia, and the lack of regulatory transparency will result in poor investment and low returns. Nevertheless, since its entry into the sector in 1989, Celcom has achieved impressive growth,

increasing the number of mobile subscribers from 12,500 or 18 per cent of the total market share dominated by TM's first mobile network of ATUR 450, to approximately 300,000 or 75 per cent of the market share in 1994, thus taking over the lead in the fastest-growing market segment of the sector.

Unlike TM, Celcom and other operators of telecommunication services have the obvious advantage of being able to operate without government restriction in their internal affairs. In particular, Celcom by pursuing an aggressive financial policy and investment on the expansion and modernisation of its network appears set to become a major competitor in the sector. Not surprisingly, controversy associated with government licensing decisions, and its awards through TM, have triggered accusations of favouritism since several companies involved are, or have been associated with either UMNO, the PM, or the Minister of Finance. Further, restrictions on TM's internal affairs by the Ministry of Finance and its expansion into new growth areas, particularly mobile services, would significantly affect its potential to raise future revenue for new ventures. This situation would force TM to depend entirely on expanding its fixed line services, which contributed almost 85 per cent of the total revenue at the end of 1994.

## **6.8 Strategic Priorities**

The survey undertaken during the study revealed that both government officials and top management of TM agreed that profit should be the first order of priority and reduced government or public sector role as the last order of priority. However, the senior politicians, government officials, TM senior executives and bumiputra business executives differ significantly in the ranking of other growth-and distribution related goals such as efficiency, economic growth and bumiputra equity for achieving TM's long-term performance.

On the basis of group opinion, it was considered generally insignificant whether there is too little or too much government presence in TM, as a trade-off between efficiency and equity is inevitable in either situation. What is generally considered important, is that a trade-off between growth and equity should be conducted in such a manner that profitability and efficiency goals should override the equity goal in the process of achieving TM's long-term goal and performance.

As summarised in appendix 9, based on the total average points scored, the SOF (A) of TM ranked profit as first priority (1.0 points average), economic growth was ranked second (2.57 points average), bumiputra equity was ranked third (2.86 points average), efficiency was ranked fourth (3.57 points average) and reduced public sector was ranked fifth (5 points average).

Appendix 10 shows that, based on the total average points scored, the SOF (B) of TM ranked profit as first priority (1.33 points average), efficiency was ranked second (2.44 points average), economic growth and bumiputra equity were both ranked third (3.0 points average), and reduced public sector was ranked fifth (5.0 points average).

Appendix 11 shows the overall diversity of views in the environment of TM. This diversity of views surrounding TM regarding what ought to be the strategic priorities of TM argues for the necessity for top management of TM to adopt the stakeholder approach in order to achieve effectively its long-term goals based on long-term growth with bumiputra equity.

Further, the analysis shows differences of perception within each interest group which justify TM adopting the stakeholder approach to achieve long-term goals. The conflicting views among individual members of TM senior executives, especially regarding efficiency, economic growth and bumiputra equity also reveals that weak

leadership exists at the corporate level. This is also probably due to cultural factors such as feeling obliged to the government for the generous reward received under the ESOSs. However, the lack of an effective management framework in the corporation would obviously give rise to such lack of understanding of the various stakes of the government and hence the lack of confidence among top management to initiate any form of effective negotiation with the government to take a long-term approach towards TM. TM has remained passive and non proactive to government directives in the post privatisation period.

## 6.9 Conclusion

The inescapable conclusion of the study, based on the present status of TM, is that the Malaysian government has not been able to achieve or reconcile all its stated objectives. The bumiputra redistributive goal has been clearly favoured at the expense of other stated objectives. Moreover, the government as regulator and majority shareholder has used TM as a platform to implement its strategy to promote privatised bumiputra entrepreneurs in the sector. This has been mainly through internal regulation of its corporate affairs, which runs contrary to the most widely accepted views of privatisation. Perhaps taking note of earlier widespread criticisms that the NEP had merely created a small wealthy Malay elite, the government through privatisation of TM has deliberately enabled more companies to compete within the sector. The problem here is that too many companies with too little expertise and experience will be competing within a relatively small market. In the longer term, consolidation is likely to happen, but there has been no clear indication from the government of its future intentions regarding a partially privatised TM, and in the absence of a transparent regulatory structure, considerable uncertainty must remain. This is also consistent with Jomo's (1992) conclusion that privatisation in Malaysia has probably been "most



successful in contributing to the government's NEP objectives, particularly bumiputra wealth acquisition." This especially benefited those with strong political connections either with the Minister of Finance or UMNO.

Several years after privatisation, TM's strategic decision-making is still subject to approval of Minister of Finance and the Prime Minister. Moreover, the Executive Share Option Scheme (ESOS), which overwhelmingly favoured top management particularly executive directors including the Executive Chairman, seems to encourage short-term enhancement, at the expense of long-term development, since it allowed capital opportunities for capital gains.

TM's profits have increased by almost 2.5 times - an increase from MYR 564 million at year end of 1990 to MYR 1,398 million at year end of 1994. However, the emerging competition in the fixed lines and cautious financial policy and lower commitment to investment in long-term technological capabilities have raised doubts whether the corporation could sustain these profits, establish a competitive advantage over its competitors in the long-term, and most important, achieve its own bold mission by year 2005.

TM lacks strategic autonomy, not only to expand into new growth areas but also to change prices, reflected in Government's refusal to accede to TM's request in early 1994 for an adjusted tariff rate which affected its marketing strategy to expand and increase revenue before the advent of competition in the fixed lines. The request, based on cost, involved reducing monthly rental rates in rural areas to be subsidised by higher rental rates in the urban centres. This could have been an effective strategy to promote growth in the rural areas and increase the penetration rate and utilisation of exchange and ECP capacities.

The government has not changed its approach towards TM. It continues to impose decisions on the selection of contractors, as it did in the case of "turnkey projects" during the pre-privatisation period. While one can argue that the government has not abandoned its NEP objectives, the fact is that it has pursued two strategies, one specifically applied to TM, and essentially restrictive, another to new entrants which allows them almost unfettered freedom in terms of corporate management.

Whilst the government has allowed more competition in the telecommunications sector, it has contained TM's efforts to compete, particularly in the mobile services - the fastest growing market segment. TM has also been directed to establish joint-ventures with privileged bumiputra enterprises in new sectors of the market. At present, speculation already exists among TM's senior executives that TM will be asked to sell its major stakes in its subsidiaries and associated companies to potential bumiputra partners who have the ability and connections with those in power to run these joint ventures independent of TM's expertise and financial support.

Contrary to the recommendations of the consultant, to make TM a marketing driven entity, the new structure of TM in the post privatisation period has not altered its strategic position. TM still remains within the effective control of the Ministry of Finance. The marketing division is not headed by a marketing professional and it is not represented on the board. The former Director General of JTM who was made the Director of Marketing and Consumer Services had no practical experience in marketing. Thus, this appointment to senior management was not made on the basis of ability and experience.

The finance division is the only functional division represented in the board. This is consistent with the observation that TM is pursuing a cautious financial/capital policy which places higher priority to short-term financial enhancement. As declared by

the CEO, the capital financing of the current five year plan would be based primarily on internally-generated funds. This restrictive policy which was to avoid higher interests being incurred by TM has curtailed particularly the modernisation programme and will adversely affect TM's ability to achieve its bold mission by 2005 and maintain a long-term competitive advantage over its competitors in the sector.

The CEO could be blamed for the weakening of top management's position as no urgency has been shown in seeking a replacement after the departure of the ED in 1993. The temporary coverage of this post by ED of Finance displayed only an ad hoc decision by CEO, rather than a strategic decision that would be supportive of achieving its Telecommunications Vision 2005. Further, evidence shows that while CEO had been primarily involved in fulfilling government directives, he had neglected his most important task, that is, a systematic development of top management team capabilities (the MCM).

The chief executive also made no attempt to initiate systematically a management development programme for MCM members, and hence MCM under the corporate leadership has reacted as a passive and non pro-active top management team towards major government decisions. This is due to MCM members' lack of understanding of how to react effectively to government's decisions to achieve TM's long-term interests. The ED who was generally considered as 'an efficient and no-nonsense manager' and had openly called for a long-term approach to government directives, when he expressed dissatisfaction with CEO's handling of government directives had to resign as the CEO did not appreciate his advice. Instead, ED's stance was regarded by CEO as challenging his integrity as the number one executive of the entity.

Without any systematic Management Development programme for top

management, MCM displays a lack of understanding and confidence to pursue a proactive stance based on constructive negotiations with the government. Thus, both MCM and the Board led by the CEO continue passively to accept government directives, which are not without implications for TM's long-term interests. This can be seen in cases of TM compliance with the Treasury Instructions on tendering procedures; selection of major contractors not based on least cost but rather on other factors such as expected technology transfer to the appointed contractors; joint ventures with privileged bumiputra, where TM's interests would be transferred to the privileged bumiputra when those ventures were profitable and could function independent of TM's expertise; participation in national projects such as KL Tower, training of bumiputra contractors through TM's newly established training centre CITTM; and building of its new Headquarters office to support government preparation for the Commonwealth Games, based on social responsibility rather than profit and not without substantial cost implications for TM.

#### **6.10 Recommendations.**

Based on the findings of the study, the following recommendations are made for both the government and top management of TM, to achieve long-term goals based on a balanced achievement of the privatisation goals and 'Vision 2020' objectives which stress higher efficiency.

##### **6.10.1 Recommendations for Government:**

- (1) initiating further privatisation of TM.

The partial privatisation of TM shows that the entity has not evolved and it remains within Ministry of Finance decision-making. In this regard, it is therefore

imperative for government to divest further its present ownership in TM, so that government is no longer a single majority shareholder and the corporation is able to become a fully-fledged private sector corporation. For instance, government could divest its major interest in the corporation to some influential private but innovative bumiputra entrepreneurs, thereby consistent with the government objective of creating a viable BCIC in the industry. The new owner could then appoint a new top management team or retain existing members who had displayed a long-term view of achieving TM's bold mission.

Therefore, an effective way to achieve this would be strategically to encourage leading bumiputra entrepreneurs with sound knowledge of the sector to negotiate with the MoF or PM with regard to acquiring a portion of the government equity, so that government would completely withdraw from the entity. National interest, including the security of the country, could be served and ensured by the government through other policy instruments, which would not affect the long-term investments and profitability of the entity.

(2) : reviewing ESOS and short-term duration of CEO's contract to influence top management team under his control to adopt pragmatic and long-term decisions.

ESOS must be revised, based not on seniority of position in the corporation alone, but rather on performance. Also, the CEO's short-term contract must be replaced with one which is more long-term in duration, to ensure his commitment to long-term decisions. Further, his contract must be evaluated not on the basis of annual profits or annual dividends and higher payout ratio, but more importantly, on the future profitability of the corporation, and its ability to achieve long-term goals such as Telecommunications Vision 2005. In essence, evaluation of CEO's performance must

be based on his effectiveness in pursuing a long-term investment policy.

### (3) Appointment of qualified and suitable top management

Appointment of CEO and government directors based on experience and skills of the sector, rather than a former government servant, as at present, to lead TM as an innovative and future oriented organisation. Only through an innovative CEO can TM initiate an 'opening' or 'window' for long-term joint ventures and strategic alliance with other influential bumiputra firms to achieve a common long-term objective based on higher efficiency and profitability. Strategically, this must be pursued in a way that would enable TM to attain a lead and maintain its competitive edge in the sector.

### (4) Installing a Proper Control System.

Government should install an appropriate control system to monitor progress as against stated objectives to be achieved by TM. Particular emphasis should be placed on comparing TM's performance with those of other telephone companies in advanced countries, in order to determine whether TM is on the right track to achieve its long-term goal - Telecommunications Vision 2005. This is to replace the existing control system that is biased towards strict financial control.

The proposed control systems must be designed towards educating and influencing politicians and government supporters (e.g members of parliament) for their support to achieving TM's long-term goal. By reporting on TM's existing and future path to be taken towards its desired goal, the government and major stakeholders and their supporters will be informed of whether TM is actually on the right track. This also means the government will be able to assess TM's performance fairly, in terms of achieving its stated long-term goals rather than based on short-term goals such as annual profits.

### **6.10.2 Recommendations for Top Management of TM**

- (1) Top management pursuing a more aggressive investment policy.

It is argued that TM's present rate of investment on its future network is inadequate, and that more investment would raise TM's sustainable growth rate in asset terms from the 1994 rate of 8.43 per cent to above 10 per cent, to reflect a more investment oriented organisation in a highly capital intensive sector. As stated in chapter 5, TM has been under-investing, particularly in the modernisation of its network to catch up with the technology used in the advanced countries. This under-investment, if continued, will cause TM to be left behind in application of telecommunications technology by the advanced countries or even by its emerging competitors, which are highly innovative.

A more aggressive financial policy would therefore mean both higher reinvestment of internally generated funds and higher injection of external funds through long-term loans secured at competitive interest rates for the expansion and modernisation of the network. This is clearly opposed to the existing cautious financial policy, which is characterised by low gearing ratio and lower external funds committed to expand and modernise its future network. The proposed approach would reflect TM's overall commitment to maintain long-term competitive advantage in the sector and achieve its Telecommunications Vision by year 2005.

Raising the sustainable growth rate could be achieved by, *ceterus paribus*, raising prices which will push upwards the rate of return on assets (ROA). However, this has not met with approval by METP. Alternatively, it could be achieved through increasing the debt-equity ratio by seeking low cost external funds. The low sustainable growth rate could be increased by: (i) raising the value  $p$ , i.e. higher reinvestment of internally generated funds (retained profit as a fraction of profit before tax &

extraordinary items), (ii) raising external loans to be invested in productive capacity (obtained at competitive interest rates) to raise debt/equity ratio (gearing ratio) and (iii) increasing ROA (through raising profit margin either by higher efficiency or higher prices at any level of output). Therefore, an aggressive investment policy to raise productive capacity would result in a higher sustainable growth rate for TM, which is more reflective of the capital intensiveness of the telecommunications nature of business and a serious attempt to achieve Telecommunications Vision 2005.

- (2) Employing more private sector management to strengthen top management capabilities.

TM must bring into the corporation sufficient private sector management skills to enhance overall corporate effectiveness in achieving its long-term goals. This particularly includes recruiting more marketing professionals to lead the marketing division of the corporation in the face of rising competition. Another division which requires further strengthening is corporate planning and this warrants the appointment of a private sector professional to head the division which is currently headed by a former JTM engineer who, though having academic training in the field of corporate planning, lacks private sector experience. This is necessary to support the evolution of TM planning system to phase four, where the main function and role would be to facilitate the adoption of a stakeholder approach and the formulation of corporate strategies.

- (3) Adoption of Stakeholder Approach.

The diversity of views or perceptions of the strategic priorities for achieving TM's desired corporate performance in the external environment strongly argued for the adoption of a stakeholder approach. This would enable top management to effectively



satisfy the different stakes of its major stakeholders to achieve long-term goals. Further, the adoption of the stakeholder approach would be likely to enhance understanding of senior executives of the different stakes of the major stakeholders and hence narrow their differences of opinion regarding how to manage their environmental challenges and opportunities, particularly government directives and competition to achieve long-term goals.

(4) **Setting up Management Development Programme for Top Management.**

Top management should not only seek the advice of management consultants but also employ and work with them in the setting up of a management development programme for its members. This programme must be oriented towards a comprehensive and long-term approach to developing top management's capability. The management development programme must be allowed to evolve around the concept of supporting top management to adopt the stakeholder approach in the process of achieving long-term goals.

(5) **Top management displaying more strategic and pro-active behaviour towards government and competition.**

Top management must ensure that TM is able to evolve systematically to the strategic management phase of planning systems as discussed in Gluck et al.'s model of the planning system of large corporations. Only by adopting this stakeholder concept will top management of TM be able to pursue effectively a strategy based on satisfying the stakes of its major stakeholders and at the same time realise its Telecommunications Vision 2005.

### **6.11 Future Research.**

This study has not explored the total costs and benefits of government's presence and decisions, particularly on the corporation's process of developing an

efficient and effective telecommunications infrastructure towards year 2005. This would assist the government to evaluate whether it should embark on full privatisation by divesting all its interests and withdraw completely from TM. By doing so, the entity would be able to operate as a fully-fledged private sector entity, without government imposition of conflicting policy objectives of greater economic efficiency and higher equity. As shown by the study, the government's presence has somewhat curtailed the potential of TM to evolve as an independent entity with ability to pursue its own strategic decision-making. Thus, another area of study would be on the evolution of corporate decision-making, in particular on the evolution of its planning system since its partial privatisation based on Gluck et al.'s four-phase model of evolution of planning systems in large corporations. This would assist both top management and government to assess whether its presence and withdrawal from TM would be accompanied by the evolution of a corporate planning system which is supportive of achieving its long-term goals effectively.

Other possible areas for future research are those related to a systematic study, exploring the extent of government's presence and role in other privatised industries, e.g. in transportation, postal services and energy and its impact on the level of efficiency and growth in those industries. Further, future research may also be relevant in areas related to exploring the networking and relationship of board of directors and senior executives of government-owned privatised entities as compared to their emerging private competitors introduced by government throughout the privatisation process. This would serve to evaluate the actual context and effectiveness of decisions made by government-controlled companies as compared to their competing private sector entities which would shed some light on the impact of government's presence in the companies concerned.

## POSTSCRIPT

Since December 31, 1994, TM has faced an emerging new environment in the telecommunications industry. Both the government and top management of TM have initiated certain major decisions and corporate strategies as discussed below. They can be seen as initiating moves towards implementing those specific measures as proposed in this thesis to achieve TM's long-term corporate goals.

The Seventh Malaysia Plan (1996-2000) launched by the government in 1986 emphasised raising productivity and long-term growth (Navaratnam, 1996). The government have now already implemented several major infrastructure projects in the Sixth Malaysia Plan period apart from developing the telecommunications industry, which is sufficient to create ample opportunities for the realisation of the long-term Bumiputra Commercial and Industrial Community (BCIC) towards the year 2020. These projects include the New City in Gelang Patah Johor (value of project: MYR 32 billion), Bakun Hydroelectric project, Sarawak (value of project: MYR 15 billion), Independent Power Plants (value of project: MYR 12 billion), Gas Pipe Line (value of project: MYR 7.3 billion) (Heibert, 1995).

Therefore, in such an environment in the economy, where government have initiated various opportunities that could promote ample bumiputra entrepreneurs through the development projects, TM would not be the sole focus for government intervention to promote short-term bumiputera entrepreneurs at the mere expense of long-term growth and equity. Even if it continues to pursue equity in the telecommunications industry and also in TM, it would be incompatible with the main thrust of the Seventh Malaysia Plan, which is long-term productivity. In this regard, TM's top management in such an emerging environment would be able to craft an independent and effective strategy to achieve its long-term corporate goals.

The emerging environment that prevails in the telecommunications industry has already encouraged government and top management of TM to pursue long-term growth with equity supportive of realising TM's Telecommunication for Vision 2005. The following are examples of long-term decisions made by both government and top management of TM which are in line with the recommendations of the thesis:

1) Government rationalising of the telecommunications industry:

In 1995, the government announced that it would rationalise the existing telecommunications industry (Shuang, 1996). The newly appointed Minister of METP, Leo Moggie, a senior Sarawakian politician, who took over the ministerial post from the former Minister in 1995, obtained the approval of the Prime Minister to rationalise the industry. This involves reducing the existing nine licenced telecommunication operators to three main operators, which means the nine existing operators, including TM, had to form strategic alliances (Shuang, 1996). The government rationale for it being that Malaysia could only support three fully-fledged telecommunication operators.

The above step was necessary since the government cannot legally revoke the licences it had issued to the privileged entrepreneurs. Therefore, the only way to ensure a long-term sustainable growth in the industry was to pursue the proposed rationalisation scheme.

The existing nine operators in the industry as at mid-1996 included those which were licenced to operate nation-wide fixed-line, cellular, long distance and international services.

Though the government has not named the three operators for the industry, a senior METP official has indicated that based on the status of licences issued, the

future operators would be Telekom Malaysia, Celcom, and Binariang, which has just launched and operated its own communications satellite, MEASAT-1 in early 1996.

In this regard, six other existing operators would need to merge with the above three main operators. Thus, whatever kind of deal emerges, this gives TM the opportunity to articulate the right strategy to acquire the most suitable companies in order to sufficiently increase its transmission capacity and achieve its Telecommunications Vision 2005.

The existing operators which could be targetted by TM for acquisition under the rationalisation scheme were as follows:

1) Time Telecommunications: It has already developed a fixed-line network. According to METP officials, it has to date invested about MYR 2 billion in a fibre-optic network which spans 4,000 kilometer within the peninsular. It proposed between 1996-98 to spend another MYR 3.75 billion to upgrade its network. Hence, it could offer an alternative to long distance and international calls and thus could pose a threat to TM's growth. It is a wholly-owned subsidiary of Time Engineering, which is a member of Renong Group controlled by UMNO.

2) Mobikom: It is operating analogue and digital cellular services. TM has a 30 per cent stake in the company.

3) Malaysian Resources Corporation Berhad Telecommunications: It is operating personal communications network cellular phone service under the brand name of Emartel. It is run by supporters of the Minister of Finance, thus representing another UMNO controlled company (Jayansakaran, 1996).

4) Sapura Digital: It is operating digital cellular services. It is a subsidiary of Sapura Telecommunications controlled by Shamsuddin who has developed a close personal relationship with the Prime Minister since the pre-privatisation period.

5) Mutiara Telecommunications: It is operating digital cellular services. It is owned by a Chinese businessman who also has connections with the former Minister of METP. It is noted that in May, 1996, Swiss Telecom, a foreign party, bought 30 per cent of Mutiara Telecommunications for MYR 750 million, even though Mutiara was not licenced to begin international services.

6) Syarikat Telekom Wireless: It is operating wireless domestic fixed lines.

Since the government revealed its rationalisation scheme in 1995, TM has been the first to conclude a deal by acquiring Emartel on 10th June, 1996. The agreed price was MYR 840 million and in addition TM will also take-up Emartel's debt of MYR 180 million. It was argued that TM was paying too much for the loss-making cellular-phone service of Malaysian Resources Corporation Berhad Telecommunications. However, it could also be argued that as this would be the first deal to be concluded by TM, the acquisition was more for the MRCB's licence in order to compete in the mobile services sector using the latest technology. A senior official of the Ministry of Finance said that the Ministry would support TM to acquire existing operators, including Time Telecommunication, to increase its long-term growth and competitive edge.

In the above regard, in early 1996, both TM and Celcom had independently competed to bid for the acquisition of Time Telecommunications owned by Time Engineering. TM had made an offer believed to be around MYR 2.5 billion for Time

Telecommunications, but said Time Engineering was asking for another billion ringgit.

It is clear that if TM successfully acquired Time Telecommunications, which has a fibre-optic infrastructure that linked major cities in the Peninsular Malaysia, TM would strongly reinforce its role as the major player compared with other main contending operators such as Celcom and Binariang, as it would enable the corporation to increase its transmission capacity and increase its market share in the future, particularly in the value-added services.

## 2) Government revising the regulatory framework

Between 1995-98, following the government rationalisation scheme, METP took further steps in setting up the National Telecommunication Council. According to a senior METP official, the council's main function would be to ensure "a long-term development and proper regulation of the industry". This is also to protect consumer interests in the emergence of increased competition.

The council would be chaired by the Prime Minister and its members would comprise both private sector professionals and senior government officials. The METP had also recently appointed a consultant to undertake a study on the requirements and details of the proposed Telecommunications Master Plan scheduled for launch in 1997. The written plan would provide the new ground rules for the main players after the implementation of the rationalisation scheme to achieve long-term development and effective regulation of the industry.

Further, the senior METP official indicated that the current revising of the regulatory framework by the government, which was in favour of an independent regulatory body as compared to the present where it was placed directly under a government ministry, is a clear signal that the government is considering a further

privatisation of TM. This was to create a fully-fledged private sector entity competing on the same level playing field as provided by the new proposed regulatory structure.

### 3) Government reducing its shareholding in TM

Government shareholding in TM has been further reduced from 71.67 per cent as at end of February, 1994 to 67.09 per cent as at end of February, 1996. Though this is a slight reduction of government shareholding by only 4.5 per cent, a senior official of the Ministry of Finance said such gradual reduction of government shareholding in TM could be linked to the purchase of TM shares by influential bumiputra which were held under nominees. This is supported by the fact that, based on the "List of TM top 20 major shareholders" as at end February, 1994 and February, 1996 respectively, TM shares owned and registered under nominees continued to increase as the government shareholding decreased.

Also, there is a general view held among TM executives and senior officials of the MOF and METP that government shareholding in TM in the near future will be sold to certain innovative bumiputra entrepreneurs, thus enabling TM to become a fully-fledged private sector entity capable of competing effectively with Celcom and Binariang.

### 4) TM initiating long-term changes

In 1995, TM upgraded the post of head of corporate planning to Senior General Manager and a full member of the MCM, the advisory committee to the Board of Directors. In the same period, the Ministry of Finance reorganised the Board of Directors, where the existing post of the Executive Chairman (as the CEO) held by Rashdan Baba was changed to just Chairman of the Board of Directors,



without the executive power in TM. The post of Executive Director (ED) was upgraded to a CEO post of the corporation. In this regard, Mohammad Said who was acting as the ED since the resignation of Syed Hussein from the number two post in June, 1993, was made the new CEO.

In 1996, TM initiated a major reorganisation exercise, where the corporation was divided into four main divisions (Zainal Ariffin, 1996). These divisions headed by MCM members were designated as: (i) "Corporate Centre", which is responsible for guiding the strategy towards Telecommunication Vision 2005; (ii) "NewCo", which is responsible for developing new technical and commercial capabilities; (iii) "TelCo", which is responsible for transforming the core business to achieve world class levels including undertaking major strategic initiatives in pricing, investment and organisation, and (iv) "ServiceCo", which is responsible for bringing all services function into commercial accountability and driving down costs in TelCo and also building general management skills.

In such an eventuality of TM being a fully-fledged private sector entity, where it probably will be taken over by innovative bumiputra entrepreneurs, there exists now a requirement for the top management of TM to initiate a specific training and development programme for the senior management team. This would develop an understanding within the top management team in facilitating the actual evolution of the corporation's planning system towards the strategic management phase. It is only through a proper top management development programme that the members of the top management as a team, can effectively adopt the proposed strategic management stakeholder approach to achieve its long-term corporate objectives in the face of increasing competition.

**Appendix 1**  
**List of Organisations and Corporations Whose**  
**Officials Were Interviewed During the Study.**

1. Economic Planning Unit (EPU)
2. Implementation and Coordination Unit (ICU)
3. Ministry of Finance (MoF)
4. Ministry of Energy, Telecommunications and Post (METP)
5. Ministry of International Trade and Industry (MITI)
6. Malaysian Telecommunication Department  
(Jabatan Telekom Malaysia) (JTM)
7. International Institute of Strategic Studies (ISIS)  
Kuala Lumpur
8. Sapura Holdings, Celcom, Binariang and  
Time Engineering.
9. Telekom Malaysia (TM)

## Appendix 2

### Major Players in the Malaysian Telecommunications Sector

1. Cellular Communications Network Sdn. Bhd. (Celcom)

(Services in operation)

Licences to operate cellular and mobile services, international services, and value added services. Celcom have announced its intention to set up a fibre optic cable network.

2. Binariang Sdn Bhd:

(Will commence services in 1995).

Licences to operate basic network services, (telephony, data, voice, broadcasting, and satellite), and international services (including telephony, facsimile, telex, GSM, cellular roaming, packet/circuit switched data, television and radio broadcast transmission communications and ISDN).

3. Mobikom Sdn. Bhd.

(Services to be operational in 1994/95)

Licence to operate cellular services only.

4. MRCB Telecommunications Sdn. Bhd.

(Services to be operational in 1995/96)

Licence to provide PCN services using the DCS 1800 Mhz system.

5. Time Engineering Berhad.

(Services expected to be operational by the end of 1994).

Licence to set up and operate voice, data, and video via fibre optic network

along highways, designated roads and coastal areas throughout Peninsular Malaysia. The main network along highways would be operational by the end of 1994.

6. Uniphones Telecommunication or Uniphone Sdn. Bhd (USB)  
(Services in Operation)

Licence to operate pay phones since pre-privatisation era. JTM had supported Uniphone's infrastructure in the installation of its existing public phones. Uniphone is licensed to operate in profitable densely populated urban areas while TM has been forced to concentrate on providing payphones to the rural areas as part of its social responsibilities. Under this arrangement, USB pays TM for the installation of the payphones in return for a fixed rental charge which TM claims does not cover its installation cost.

**Appendix 3**  
**Analysis of Board of Directors of**  
**Telekom Malaysia**

Executive Members of Board of Directors	
Present Position in TM	Status/Related Experience
1. Tan Sri Rashdan Baba  Executive Chairman (Since December 1987)	<i>Administrator/Manager</i> of a majority government-owned company. Founding vice-chancellor of National University of Malaysia and University of Agriculture of Malaysia. Board member of several public listed companies, where government has major interests.
2. Dr. Syed Hussein Mohammed  Executive Director (Since December 1987, Resigned June 1993, Position left vacant).	<i>Chartered Professional Engineer/Manager</i> of a majority government-owned company. Board member of several public listed companies, where government has major interests. Council member of University of Technology of Malaysia.
3. Mohammed Said Mohammed Ali  Executive Director of Finance (Since November 1990, also covering position of Executive Director.	<i>Financial Manager/Administrator</i> of government organisation. Board member of several public listed companies, where government has major interests
Non-Executive Members of Board of Directors	
Position in Government/Politics/Business	Status/Related Experience
1. Representative of Ministry of Finance (Deputy Secretary General of MoF)	<i>Senior Civil Servant</i> reporting directly to the Minister of Finance. Also sits on the board of other government companies
2. Representative of METP (Secretary-General of METP)	<i>Senior Civil Servant</i> reporting directly to the Minister of Energy, Telecoms and Posts. Also sits on the boards of other government-owned companies in the utilities industry

<p>3. Representative of a Political Party in Sarawak Joseph Salang Gandum (Presently active in a political party based in the State of Sarawak)</p>	<p><i>Politician</i> Also sits on B.o.D committees and Subsidiaries in the Telekom Malaysia Group. Appointed to the board in January 1987.</p>
<p>4. Representative of UMNO Nasruddin Alang Saidin (Presently serving on board of several statutory bodies)</p>	<p><i>Politician (Member of Parliament)</i> Appointed to the board in October 1988</p>
<p>5. Representative of MCA Soong Siew Hoong (Active in Politics and Business)</p>	<p><i>Politician (Senator)</i> Appointed to the board in October 1988. Chairman and Managing Director of several private companies involved in manufacture and supply of equipment for natural rubber and palm oil mills. Also a member of various Board Committees in Telekom Malaysia Group.</p>
<p>6. Representative of MIC G.Palanivel (Active in Politics and in Consumers Association).</p>	<p><i>Politician (formerly Press Secretary to Minister of Energy, Telecommunications and Posts).</i></p>
<p>7. Representative from Professional Group. Ahmad Kamal Abdullah Al-Yaffi</p>	<p><i>Professional Accountant</i> Appointed to board in October 1989. Senior Partner with an accounting firm also Executive Secretary to the Islamic Foundation for Economic Development (Malaysia) and on Board of various Subsidiaries in Telekom Malaysia Group.</p>
<p>8. Representative from Professional Group. K.P.Ramanathan Menon (Currently acting as Consultant/Advisor to various telecommunications/aviation bodies abroad.</p>	<p><i>Professional Consultant (Telecommunications)</i> Appointed to the board in October 1988. Former JTM Deputy Director-General (Retired in 1985)</p>

**Appendix 4**  
**Telekom Malaysia (TM)**  
**The Management Committee Members (MCM)**

**A. Senior Officers: reporting to MF/CEO/ED**

<b>Positions</b>	<b>Job Responsibilities</b>
<p><u>1. Executive Chairman</u></p> <p>Appointed by MF</p> <p>A former Government Administrator and CEO of a Government Controlled Corporation.</p>	<p><u>Chief Executive Officer</u></p> <p>Responsible to MF on the overall performance of TM. Directly in charge of several departments and divisions, these include departments of Finance, Corporate Planning and Human Resource which are also represented and provide secretarial support services to MCM</p>
<p><u>2. Executive Director (ED)</u></p> <p>Appointed by MF.</p> <p>Resigned in mid 1993 as a result of conflict with CEO. (Post left vacant since mid 1993).</p> <p>An engineer with vast corporate experience</p>	<p><u>Managing Director</u></p> <p>Directly responsible to CEO on the overall operations of TM. In charge of several departments, namely, Marketing and Customer Services, Network Services, Support Services and International which being represented in MCM</p>
<p><u>3. Executive Director (Finance)</u></p> <p>Appointed by MF</p> <p>Covering the post of ED since mid-1993. Accountant</p>	<p><u>Head of Finance</u></p> <p>Directly responsible to CEO on financial matters and performance of TM. In charge of Finance department which controls two important divisions, namely, accounts and corporate finance which are represented on MCM</p>
<p><u>4. SGM of Human Resource</u></p> <p>Appointed by CEO</p> <p>Former government administrator</p>	<p><u>Head of Human Resource</u></p> <p>Directly responsible to CEO on organisational development, personnel, training and security. Directly in charge of two important departments, Personnel and Training, and three important units, Organisational Development, General Administration and Security</p>

## A. Senior Officers: reporting to MF/CEO/ED (Continued)

<p>5. <u>Director of Marketing and Customer Services</u></p> <p>Appointed by CEO</p> <p>Former JTM Director-General and Engineer.</p>	<p><u>Head of Marketing</u></p> <p>Directly responsible to ED for product planning and developing marketing strategies and satisfaction. Directly in charge of Marketing and Customer Services Department that controls Business Marketing Division represented in MCM</p>
<p>6. <u>Director of Network Services</u></p> <p>Appointed by CEO</p> <p>Former JTM Engineer</p>	<p><u>Head of Network Services</u></p> <p>Directly responsible to ED for planning, developing, operating and maintaining STM's trunk, junction and switch networks. Directly in charge of Network Services Department which controls Network Operations Division represented in MCM.</p>
<p>7. <u>SGM of International</u></p> <p>Appointed by CEO</p> <p>Former JTM Engineer</p>	<p><u>Head of International Services</u></p> <p>Directly responsible to ED for the planning and operations of international network. In charge of International Network Management department which controls three divisions, International Network Planning and Operations, Satellite Systems Development and Operations Development, and Cable Systems Development and Operations</p>
<p>8. <u>Senior GM of Support Services</u></p> <p>Appointed by CEO</p> <p>Former JTM Engineer</p>	<p><u>Reporting Directly to ED</u></p> <p>Directly responsible to ED on Property Management, Engineering Services, Material Management, and Risk Management</p>



B. Supporting Officers - Reporting to Another MCM Member

9. <u>Senior GM of Corporate Finance</u> Appointed by CEO Recruited from private sector.	<u>Reporting directly to Head of Finance</u> Directly in charge of Corporate Finance Division which controls several units, namely, Treasury, Taxation, Management Accounts and Budgets.
10. <u>GM of Corporate Planning</u> Appointed by CEO Former JTM Engineer	<u>Reporting directly to Head of Network Services</u> Directly in charge of National Network Operations of the various regions

C. MCM Secretariate

11. <u>GM of Corporate Planning</u> Appointed by CEO Former JTM Engineer	<u>Reporting to CEO and also ED</u> Directly in charge of Corporate Planning Department. Provides secretarial support services to MCM
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Abbreviations: SGM = Senior General Manager  
GM = General Manager.

**Appendix 5**  
**TM Key Officials**  
**Private Sector Recruitment**

No.1 Post (CEO):

Executive Chairman of TM,  
 Chairman of TM Tender Board  
 Chairman of MCM,

Reporting directly/accountable to Minister of Finance and Prime Minister.  
 (Appointment as CEO approved by PM and Minister of Finance in 1987)

No. 2 Post (ED):

Member of the BoD,  
 Member of TM Tender Board and  
 Member of MCM

Reporting directly to CEO, and as board member, accountable directly to Minister of Finance. (Proposed by CEO and appointment approved by PM and Minister of Finance in 1987). Also, the ED was an engineer by profession and had worked for a short term in JTM before privatisation. Thus, he had technical experience to supervise former JTM senior executives who had wide technical experience of the sector.

No. 3 Post (ED Finance)

Member of BoD,  
 Member of TM Tender Board,  
 Member of MCM.

Reporting directly to CEO, and as board member, accountable to Minister of Finance. (Proposed by CEO and appointment approved by Minister of Finance and PM in November 1990 prior to flotation).

**Appendix 6**  
**Senior Executives**  
**From Former TM Engineers**

No. 4 Post     (Director of Marketing and Customer Services)

Member of TM Tender Board  
Member of MCM

(Former JTM Director-general and an engineer by profession) Reporting directly to ED but appointed to MCM by CEO

No. 5 Post     (Director of Network Services)

Member of TM Tender Board  
Member of MCM

(Former JTM director and an engineer by profession). Reporting directly to ED but appointed to MCM by CEO.

**Appendix 7(a)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1987**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - i)]$$

Where:  $p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$  <sup>1</sup>

$$i = \text{Average Interest Rate}$$

$$DE = \text{Debt/Equity Ratio}$$

$$p = \frac{-96,629^*}{4,907} = 19.69$$

$$ROA = 0.1\%$$

$$i = 6.85\%$$

$$DE = 2.3$$

$$\begin{aligned} g &= -19.69 [0.1\% + 2.3 (0.1\% - 6.85\%)] \\ &= -19.69 [0.1\% + 2.3 (-6.75\%)] \\ &= -19.69 [0.1\% + (-15.525\%)] \\ &= -19.69 [-15.425\%] \\ &= \underline{+303.71\%*} \end{aligned}$$

\* The figure was extremely high because of negative retained profit for the year.

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<sup>1</sup> Zakron (1976)

**Appendix 7(b)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1988**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - i)]$$

Where:  $p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$

$i$  = Average Interest Rate

$DE$  = Debt/Equity Ratio

$$p = \frac{172.7}{180.4} = 0.957$$

$ROA = 2.3\%$

$i = 5.275\%$  (Interest bearing loans at 2.5% to 8.05% per annum - average = 5.275%)

$DE = 2.0$

$$\begin{aligned} g &= 0.957 [2.3\% + 2.0 (2.3\% - 5.275\%)] \\ &= 0.957 [2.3\% + 2.0 (-2.975\%)] \\ &= 0.957 (2.3\% - 5.95\%) \\ &= 0.957 (-3.65\%) \\ &= \underline{-3.5\%} \end{aligned}$$

**Appendix 7(c)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1989**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - I)]$$

Where: 
$$p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$$

$i$  = Average Interest Rate

$DE$  = Debt/Equity Ratio

$$\begin{aligned} p &= \frac{367.1}{365.5} = 1.004 \\ ROA &= 4.8\% \\ i &= 5.275\% \\ DE &= 1.5 \end{aligned}$$

$$\begin{aligned} \} g &= 1.004 [4.8\% + 1.5 (4.8\% - 5.275\%)] \\ &= 1.004 [4.8\% + 1.5 (-0.475\%)] \\ &= 1.004 (4.8\% - 0.7125\%) \\ &= 1.004 (4.0875\%) \\ &= \underline{4.10\%} \end{aligned}$$

Appendix 7(d)  
Telekom Malaysia  
Sustainable Growth Rate for the Financial Year 1990

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - I)]$$

Where: 
$$p = \frac{\text{retained profit for the year}}{\text{profit before tax + extra ordinary item + dividend}}$$

$i$  = Average Interest Rate

$DE$  = Debt/Equity Ratio

$$p = \frac{5095}{5637} = 0.90$$

$$ROA = 6.8\%$$

$$i = 5.275\%$$

$$DE = 0.3$$

$$\begin{aligned} g &= 0.9 [6.8\% + 0.3 (6.8\% - 5.275\%)] \\ &= 0.9 [6.8\% + 0.3 (1.525\%)] \\ &= 0.9 (6.8\% + 0.4575\%) \\ &= 0.9 (7.2575\%) \\ &= \underline{6.53\%} \end{aligned}$$

**Appendix 7(e)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1991**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - I)]$$

Where: 
$$p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$$

$i$  = Average Interest Rate

$DE$  = Debt/Equity Ratio

$$p = \frac{927.4}{1079.6} = 0.86$$

$$ROA = 11.5\%$$

$$i = 7.45\%$$

$$DE = 0.2$$

$$\begin{aligned} g &= 0.86 [11.5\% + 0.2 (11.5\% - 7.45\%)] \\ &= 0.86 [11.5\% + 0.2 (4.05\%)] \\ &= 0.86 (11.5\% + 0.81\%) \\ &= 0.86 (12.31\%) \\ &= \underline{10.59\%} \end{aligned}$$



**Appendix 7(f)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1992**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [\text{ROA} + \text{DE} (\text{ROA} - i)]$$

Where:  $p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$

$i$  = Average Interest Rate

$\text{DE} = \text{Debt/Equity Ratio}$

$$p = \frac{7266}{9198} = 0.79$$

$$\text{ROA} = 8.8\%$$

$$i = 7.40\%$$

$$\text{DE} = 0.2$$

$$\begin{aligned} g &= 0.79 [8.8\% + 0.2 (8.8\% - 7.40\%)] \\ &= 0.79 [8.8\% + 0.2 (1.4\%)] \\ &= 0.79 (8.8\% + 0.28\%) \\ &= 0.79 (9.08\%) \\ &= \underline{7.17\%} \end{aligned}$$

**Appendix 7(g)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1993**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - I)]$$

Where:  $p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$

$i$  = Average Interest Rate

$DE$  = Debt/Equity Ratio

$$p = \frac{10161}{12094} = 0.84$$

$$ROA = 10.3\%$$

$$i = 7.4\%$$

$$DE = 0.1$$

$$\begin{aligned} g &= 0.84 [10.3\% + 0.1 (10.3\% - 7.4\%)] \\ &= 0.84 [10.3\% + 0.1 (2.9\%)] \\ &= 0.84 (10.3\% + 0.29\%) \\ &= 0.84 (10.59\%) \\ &= 8.895\% \\ &= \underline{8.90\%} \end{aligned}$$

**Appendix 7(h)**  
**Telekom Malaysia**  
**Sustainable Growth Rate for the Financial Year 1994**

$$\text{Sustainable Growth Rate (Without Raise of Equity)} = g = p [ROA + DE (ROA - I)]$$

Where: 
$$p = \frac{\text{retained profit for the year}}{\text{profit before tax} + \text{extra ordinary item} + \text{dividend}}$$

$i$  = Average Interest Rate

$DE$  = Debt/Equity Ratio

$$p = \frac{11884}{13957} = 0.85$$

$$ROA = 9.5\%$$

$$i = 7.4\%$$

$$DE = 0.2$$

$$\begin{aligned} \} g &= 0.85 [9.5\% + 0.2 (9.5\% - 7.4\%)] \\ &= 0.85 [9.5\% + 0.2 (2.1\%)] \\ &= 0.85 (9.5\% + 0.42\%) \\ &= 0.85 (9.92\%) \\ &= \underline{8.43\%} \end{aligned}$$

## Appendix 8

Selection of Contractors for Digital Switching Equipment  
of MYR 2 Billion (1992/93)

TM Tender Board's Proposal		
Contractors	Major Bumiputra Partner	Remarks
1. Perwira Ericsson	LTAT (The Armed Forces Provident Fund)	Lowest Tender
2. Siemens*	Electcom (Bumiputra Company)	Second Lowest Tender
3. Pemas NEC	Pemas (Government Owned Company)	Third Lowest Tender
MOF Tender Board's Approval		
1. Alcatel Alsthom	Yawasan Bumiputra Pulan Pinang. (Formerly Chaired by MOF)	Not recommended by TM
2. Fujitsu	Koperasi Usaha Barsatu (KUB) (Investment Cooperative Arm of UMNO)	Not recommended by TM
3. Nokia	Sapura Holdings - A Bumiputra Company	Not recommended by TM
4. Pemas NEC	Pemas - A Government owned Company	Recommended by TM
5. Perwira Ericsson	LTAT (The Armed Forces Provident Fund)	Recommended by TM

Note: All contractors are required to use locally manufactured components.

\* Siemens of Germany not approved by MOF, it previously had business links with Sapura Holdings

Source: TM Asia-Pacific Telecommunications, Vol 4, Issue 3, 1992.

**Appendix 9**  
**Telekom Malaysia The Perceived Order of Priorities of Privatisation Goals**  
**(Senior Officials A)**

Privatisation Goals	Respondents	Top Priority			Secondary Priority	
		First	Second	Third	Fourth	Fifth
1. Profitability 2. Higher Efficiency 3. Facilitate Economic Growth 4. Bumiputra Participation (Equity) 5. Reduce Public Sector Role/Presence	SOF <sub>1</sub>	Profit	Bumiputra (Equity)	Efficiency	Economic Growth	Reduce Public Sector
	SOF <sub>2</sub>	Profit	Economic Growth	Efficiency	Bumiputra (Equity)	Reduce Public Sector
	SOF <sub>3</sub>	Profit	Economic Growth	Bumiputra (Equity)	Efficiency	Reduce Public Sector
	SOF <sub>4</sub>	Profit	Bumiputra (Equity)	Economic Growth	Efficiency	Reduce Public Sector
	SOF <sub>5</sub>	Profit	Bumiputra (Equity)	Economic Growth	Efficiency	Reduce Public Sector
	SOF <sub>6</sub>	Profit	Economic Growth	Efficiency	Bumiputra (Equity)	Reduce Public Sector
	SOF <sub>7</sub>	Profit	Economic Growth	Bumiputra (Equity)	Efficiency	Reduce Public Sector
	Total Points Average	Profit = 1.0	Economic Growth = 2.57	Bumiputra Equity = 2.86	Efficiency = 3.57	Reduce Public Sector = 5.0

Note: Total points given is based on: Rank 1=1 point, Rank 2=2 points, Rank 3=3 points, Rank 4=4 points, Rank 5=5 points.

**Appendix 10**  
**Telekom Malaysia The Perceived Order of Priorities of Privatisation Goals**  
**(Senior Officials B)**

Privatisation Goals	Respondents	Top Priority			Secondary Priority	
		First	Second	Third	Fourth	Fifth
1. Profitability 2. Higher Efficiency 3. Facilitate Economic Growth 4. Bumiputera Participation (Equity) 5. Reduce Public Sector Role/Presence	SOFA	Profit	Efficiency	Bumiputera (Equity)	Economic Growth	Reduce Public Sector
	SOF <sub>B</sub>	Economic Growth	Bumiputera (Equity)	Efficiency	Profit	Reduce Public Sector
	SOF <sub>C</sub>	Profit	Bumiputera (Equity)	Efficiency	Economic Growth	Reduce Public Sector
	SOF <sub>D</sub>	Profit	Bumiputera (Equity)	Economic Growth	Efficiency	Reduce Public Sector
	SOF <sub>E</sub>	Profit	Efficiency	Economic Growth	Bumiputera (Equity)	Reduce Public Sector
	SOF <sub>F</sub>	Profit	Efficiency	Economic Growth	Bumiputera (Equity)	Reduce Public Sector
	SOF <sub>G</sub>	Profit	Efficiency	Economic Growth	Bumiputera (Equity)	Reduce Public Sector
	SOF <sub>H</sub>	Profit	Efficiency	Economic Growth	Bumiputera (Equity)	Reduce Public Sector
	SOF <sub>I</sub>	Profit	Efficiency	Economic Growth	Bumiputera (Equity)	Reduce Public Sector
	Total Points Average	Profit = 1.33	Efficiency = 2.44	Bumiputera Equity = 3.0	Growth = 3.00	Reduce Public Sector = 5.0

Note: Total points given is based on: Rank 1=1 point, Rank 2=2 points, Rank 3=3 points, Rank 4=4 points, Rank 5=5 points.

**Appendix 11**  
**Telecommunications Environment**  
**Overall Perceived Order of Priorities of Major Interest Groups**  
**Of the Privatisation Goals**

Major Interest Groups	Top Priority			Secondary Priority	
	First 1 point	Second 2 points	Third 3 points	Fourth 4 points	Fifth 5 points
TM Senior Officials (A)	Profit	Economic Growth	Efficiency	Bumiputra (Equity)	Reduce Public Sector
TM Senior Officials (B)	Profit	Efficiency	Economic Growth	Bumiputra (Equity)	Reduce Public Sector
Government Officials (Department A)	Profit	Efficiency	Economic Growth	Bumiputra (Equity)	Reduce Public Sector
Government Officials (Department B)	Efficiency	Economic Growth	Profit	Bumiputra (Equity)	Reduce Public Sector
Government Officials (Department C)	Profit	Economic Growth	Bumiputra (Equity)	Efficiency	Reduce Public Sector
Government Officials (Department D)	Economic Growth	Efficiency	Bumiputra (Equity)	Profit	Reduce Public Sector
Government Officials (Department E)	Economic Growth	Efficiency	Bumiputra (Equity)	Profit	Reduce Public Sector
Government Officials (Department F)	Profit	Bumiputra (Equity)	Economic Growth	Efficiency	Reduce Public Sector
Government Officials (Department G)	Efficiency	Profit	Bumiputra (Equity)	Economic Growth	Reduce Public Sector
Bumiputra Executives	Efficiency	Bumiputra (Equity)	Profit	Economic Growth	Reduce Public Sector
Total Points Average	Profit = 2.1	Efficiency = 2.2	Economic Growth = 2.4	Bumiputra Equity = 3.0	Reduce Public Sector = 5.0

Note: Total points given is based on: Rank 1=1 point, Rank 2=2 points, Rank 3=3 points, Rank 4=4 points, Rank 5=5 points.

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