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CORPORATE GOVERNANCE

OF

TENAGA NASIONAL BERHAD OF MALAYSIA

CLOSED STACKS

By

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ABSTRACT

Companies want to flourish and grow in such a way to provide employment, wealth, and satisfaction, not only to improve standards of living materially but also to enhance social cohesion. These aspiration cannot be met unless companies are competitive not only locally but internationally in a sustained way in the medium and long term perspective.

To flourish and grow the managers must be free to drive their companies forward without overdue constraint covered by government interference, fear of litigation, or fear of displacement, but this freedom - to use managerial power and patronage - must be exercised within a framework of effective accountability. The system that prevails in companies by which they are directed and controlled is its corporate governance. The corporate governance of companies can determine the result whether they will prosper or decay to oblivion.

A careful study by taking a long hard look at the corporate governance of Tenaga Nasional Berhad is very important because being among the biggest formerly government statutory body that have been privatised, its effectiveness, performance and existence are vital to the Malaysian economic and industrial development. The change from being a statutory public utility company to a public listed company must ensure that all stakeholders benefit from it. Its effectiveness, reliability, efficiency, service, profitability and other performance criteria must improve. The privatisation exercise must ensure all of the above, but not to benefit only a certain groups of people or individuals. There is a

need, now, 5 years after privatisation, to take stock on whether the corporate governance of Tenaga Nasional Berhad is better or worse than what it was before. From this exercise, perhaps, the management can be given the direction and the freedom it needs in order to drive the company further forward for the benefit of the society at large. If it is worse, perhaps, it is not too late to take corrective action.

The study started off by carrying out an extensive literature search on the subject of corporate governance. Corporate governance models from United States, United Kingdom, France, Japan and Germany were studied but finally, the model from the United Kingdom, closely similar to the United States model, was adopted in order to make a comparison to Tenaga Nasional Berhad's governance. Literature, reports, circulars, press reports and also results from informal interviews held, were used to determine what Tenaga Nasional Berhad was before and what it was at the time of writing this study. From those results the state of the corporate governance of Tenaga Nasional Berhad, and also in which direction it was heading going, was determined

From the study it was found that the management of Tenaga Nasional Berhad were worse off than what it was before in terms of having the freedom and flexibility to make the organisation a thriving business enterprise. Major decisions were forced onto it by the government who made decisions or passed directives based on supposedly for national interest, even at the expense and disadvantage to the well being of Tenaga Nasional Berhad as a business concern. It was constrained by the government regulatory body as well as its major shareholders who were linked to the government who had other

interests to take care of besides the well being of Tenaga Nasional Berhad. However, it was found that the management was well governed within a strong accountability framework. Within its terms of reference and purview, the board of directors were more involved, more committed, spent more time and better qualified in ensuring that all the directors functions were carried out effectively as recommended. This included close monitoring of the management's performance.

When the study was carried out a lot of time was spent trying to understand the subject which was not taught in the Masters in Business Administration classroom lectures. There were many models, ideas and suggestions that were sometimes conflicting. To arrive at an ideal model was difficult. In the end only one model was used and tested - the United Kingdom's model based on the recommendations of the Cadbury's Committee set up in 1991, published on 1 December 1992, by the Financial Reporting Council, the London Stock Exchange and the accountancy profession to address the financial aspects of corporate governance. A lot of the information about Tenaga Nasional Berhad's corporate governance before privatisation were found unexpectedly in one of the literature read. The questionnaire drafted earlier for interviewing past general managers and directors was found unnecessary and therefore discarded. Casual interviews were conducted but due to the possibility that some of the views raised could be controversial or sensitive, the names of the sources have not been revealed. Furthermore, no firm evidence could be obtained to substantiate some of the views expressed. Some interviews originally planned were not conducted, especially with the outside directors, due to the timing of the study which was not favourable after the appropriate questions have been drafted out.

Lastly, since I am a member of the management of Tenaga Nasional Berhad, it could be inevitable but not intentioned, that this study may lack the element of independence. In spite of the shortcomings, there are enough material in this study to enable a better planned and executed study to be pursued on a subject of such great importance. The corporate governance of other public listed companies should also be studied for the benefits spelt out above.

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To my wife, I am sorry that you have to make the sacrifice of not being able to go 'balik Kampung' with the children just to be with me and help me type out a few chapters of this study during that festive period. I thank you very much, for that was the most crucial period of writing this report when most of the work was done.

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ERRATA

(Typographical errors)

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