

CORPORATE GOVERNANCE
OF
TENAGA NASIONAL BERHAD MALAYSIA

10,974 WORDS

1. INTRODUCTION

1.1 Purpose and significance of study

Corporate governance is defined as the system by which companies are directed and controlled.

The two basic principles which underlie corporate governance common to all countries; *they [i.e. the managers] must be free to drive their companies forward but exercise that freedom within a framework of effective accountability.*

'Good corporate governance is vital because firms 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 firms are competitive locally and internationally in a sustained way in the medium and long term perspective.

A careful study is important including taking a long hard look at the way other systems work and keep Tenaga Nasional Berhad's under review. To tolerate a poor system is to impose upon oneself an unnecessary competitive handicap. (Jonathan Charkham-Keeping Good Company - A study of corporate governance in five countries-bibliography 6)

Tenaga Nasional Berhad is one of the many formerly government services and enterprises which have been privatised. The others include Malaysia Airlines, Hicom, Airod, Syarikat Telekom Malaysia Bhd., Malaysia International Shipping Corporation, Port Klang Container Terminal, Petronas Gas, Petronas Dagangan etc. The purpose of this study is to compare the corporate governance of Lembaga Elektrik Negara Tanah Melayu before privatisation and the current governance of the company in order to establish whether there were changes made, to ensure its effectiveness and improvement in its performance in serving the needs of power users towards achieving the Malaysian industrial and development objectives.

This study is important because after being privatised its stakeholders have higher expectations of the company. These expectations can manifest in various performance measures but lately there have been many occasions when doubts were raised in the ability of the privatised company to meet those expectations.

The performance of a company depends on how it is being governed. Changing the owners of a company alone will not change the performance of the company if the governance and management system does not change for the better. Everyone is to some

extent imprisoned by their history, social, political and economic environment. The way we think is the consequence of a long historical development which touches us throughout our lives without us understanding it. So, historical assumptions and features also need to be studied. Were there any changes? What were these changes? How does it affect the way the company do its business? How does the current system of governance and management compares with the system prevailing in big striving corporations around the world?

Once the above questions have been answered, perhaps, there are alternative ways to govern and manage a company like Tenaga Nasional Berhad that can be recommended so that it can be more effective in meeting the stakeholders expectations. To recommend such ways would require knowledge and familiarity with the best practices around the world which can either be adopted or adapted to Tenaga Nasional Berhad's needs.

There have been strong indications lately that the government, being the majority shareholder of these privatised companies, is very keen to sell of some of its stakes to capable individuals so that they can run the company more effectively as if it is their own. Malaysia Airlines is now controlled by Tan Sri Tajuddin Ramli and Hicom by Dato Yahya Ahmad. At the point of writing the government is seriously thinking of selling off Perwaja Steel Ltd. which it owns 81% of its shares. Even the Trengganu state government who owns 19% of Perwaja is considering to sell of its stake. Would it be suitable and good for Tenaga Nasional Berhad to following such trend in order to improve its performance? Is there any other better alternatives available on how Tenaga

Nasional Berhad should be governed and managed in order to meet the stakeholders expectations?

1.2 *Research Questions*

The primary aim of privatisation is as a tool for economic reform by expanding the capital market and the trimming the size of the public sector.

Dr. Mahathir, the Prime Minister of Malaysia defined privatisation as “ *the transfer of government services and enterprises to the private sector*” because “ *companies and services owned and managed by (the) government have been less successful or have run at a loss because the government’s management methods differ greatly from those of the private sector. The official objectives of privatisation were: to cut the number of public sector personnel; reduce the financial and administrative burden of the government; promote competition and improve efficiency; stimulate private entrepreneurship; encourage investment; and reduce the size and presence of the public sector.*

“(Gomez Edmund Terence(1994)” “Political Business: Corporate Involvement of Malaysian Political Parties” Privatisation -Bibliography no. 1)

How far have the privatisation of Tenaga Nasional Berhad contributed to the achievement of those objectives? What are the major differences in the management

methods currently practised in Tenaga Nasional Berhad compared to the former government methods which contributes to the improved performance if any?

Back to the question of Corporate Governance, does the Board of Directors of Tenaga Nasional Berhad have a say in the management? Is the Board's decision final? What is the best way for Tenaga Nasional Berhad to be governed should be recommended? Can it be implemented? At what cost? Who will benefit most from that change? Those were the questions asked when this study was conceived.

1.3 Scope of study

This study confines itself only to the question whether there is a difference between the governance of Tenaga Nasional Berhad now to the governance of its former organisation Lembaga Elektrik Negara since privatisation. If there are changes are they for the better?

Before proceeding deeply into the corporate governance of Tenaga Nasional Berhad it is important to have a clear understanding what corporate governance is in the contemporary business world. Ideas coming from United Kingdom and United States were studied for this purpose. What is the new thinking in this field? A wide and comprehensive study of the literature was carried out and have been included in this study so that the reader would appreciate the seriousness of this subject.

The historical development in the area of corporate governance in Central Electricity Board/National Electricity Board - the predecessor of the present Tenaga Nasional Berhad was also looked into deeply so as to see the evolution that has taken place since its inception in 1949 to the current day.

What is happening now is as a result of all the significant events in the past. In order to change into the form that is chosen requires a clear construction of the model and an effective strategy to control all the forces that can affect its change within the desired time frame.

1.4 Limitations of study

The only regret after this study was done is realising that a thorough literature search on this subject had to be done, trying to understand what is involved in corporate governance and what it is in other countries in order to formulate a suitable model and relevant questionnaire for this study. This is because corporate governance was not a subject taught in any of the MBA classes attended, although, I believe it is very crucial for any business organisation for it to be allowed to prosper.

Most of the historical data and evidence on corporate governance were found to be available in one of Tenaga Nasional Berhad's own publications but done for a different purpose.

It was realised that getting the basic information posed no problem at all because they appeared as a logical evolution of what had already happened in the past. However, when it came to getting new evidence to support all the commonly known allegation of interference by the Treasury, Ministers etc., and also the known conflicts between the Management and the Board, it was realised that confidential files of minutes and deliberation of recent Board meetings, letters and directives from the Ministries and the

Treasury would have to be opened up and examined. The sensitive nature of the subject when an informal discussion was opened up with targeted subject revealed this.

It was not the objective of this study to decide who was right or wrong. To do such things would have made this study exhaustive but the evidence obtained would not cause substantial change in the final outcome. It would require a lot more effort in planning, getting clearance which time did not permit as well as the scope originally intended. So, this study may be limited in evidence of current dealings between Management, Board and the controlling shareholder- the Government. The open questions put forward would be adequate to act as evidence of the issues.

Corporate governance practice in Germany, France and Japan was also studied thoroughly in the literature search but little is mentioned in this report so as not to lengthen the discussion in this report. They offer a different but reasonably effective alternative solution which are worth looking into. Their exclusion is regretted.

The professional background of all the recent board members was not filled up as intended, still due to the limited time available and the circumstances but is not significantly relevant anyway.

1.5 Organisation of the report

The most important part of this report is the literature search in Chapter 2. The first part consist of what is believed to be the most important aspects of corporate governance that need to be understood in order to formulate an effective model almost

similar to the ones adopted by many Malaysian companies. They are extracts from books and management articles recently published on the subject of corporate governance. Chapter 3 part is on the historical evolution of corporate governance in Central Electricity Board/National Electricity Board the predecessor of the current Tenaga Nasional Berhad, from 1949 to 1989, showing what it was like just before it was corporatised and privatised.

Current issues in the corporate governance of Tenaga Nasional Berhad are found in Chapter 4. Comparison is made between the current issues and the previous two sections from which an analysis and opinion is made and recommendations made in Chapter 7.