6. CONCLUSION

Political ownership could be found in almost any country. But the size of political ownership may vary among the countries. In developing countries in usually involves large firms and monopolies. Due to the undeveloped capital market and the size of the capital needed, local capital was not able meet the requirements, hence the need for public funding. Public enterprises are said to be highly inefficient and their inefficiency is a result of political pressures from politicians who control them. Politicians encourage public enterprises to employ excess labour; produce goods desired by politicians themselves and locate their production in a politically desirable location rather than an economically attractive location. The beneficiaries are often the political supporters of the government.

In order to reduce public funding, privatisation was carried out, but it only reflects a small portion of the state holdings for some countries. Political ownership after privatisation stems from the reluctance of the politicians to give up the firm as well as the inability of the local market to absorb such as large divestment. A rational politician would not want to lose control of public enterprises especially monopolies, which tend to be large because of the benefits gained from control.

Therefore privatisation of these public enterprises is designed to keep the politicians in full control. The most important example is the special rights preference share that allocates control rights to the politicians. Politicians always prefer to control because it gives them better bargaining opportunities to achieve their political objectives. It brings them political benefits and bribes. Higher management ownership makes manager more difficult to control.

The inability of the local market to absorb the divestment will not arise if the government is willing to give up control. First of all, the divestment can be done in stages over several years as in the United Kingdom or Australia. Second, a foreign investor could be brought in. The privatisation of Qantas for example involved a sale of 25% to British Airways and the remainder to the public over five years.

Anyway, even though political ownership is strong after privatisation it does not mean that performance will not improve. The results show that performance of the firms after privatisation have improved during the initial stage. The performance improvement at the time of privatisation is recorded when the economy is growing rapidly. All five companies studied showed improvement in operating efficiency and debt levels after privatisation. However the results from year 2000 showed that the performance have fallen back to the pre-privatisation levels. This suggests that the benefits from privatisation are not sustainable.

The performance could be better if there is better corporate governance. Corporate governance can help support the benefits brought about by privatisation. If the slowing economy is the only reason for bad performance by the firms, then good firms should be able to survive the slowdown and there is no need for drastic action like the buy back of MAS by the government. Corporate governance in these privatised firms is lacking in many areas. For example the board is dominated by directors appointed by the government. These directors are not elected by the shareholders and cannot be voted out if they perform badly. Therefore the basic rights of the shareholders is compromised.

A consequence of political ownership is the lack of a market for corporate control. In the firms studied, concentrated share ownership is apparent. On top of that limits on individual shareholding and limits on foreign shareholding have been imposed. Furthermore the holder of the 'golden share' has the right to veto any take-over proposals even if the board of directors approves it. All these factors form a market barrier for take-overs to proceed.

The lack of competition in the product market also poses another problem. Some of the firms studied such as TNB and PGAS are operating as a virtual monopoly in the domestic market. These firms may not be a problem even if governance is poor because they have strong market share and their market is protected. Entry and exit is regulated by the state. Complication will arise when a poorly governed firm operates in a competitive market. MAS for example operate in a very competitive market especially the international routes. Good governance here is crucial because MAS will be competing with highly disciplined international airlines. Bad management will cost the firm dearly. Therefore privatisation is not an end in itself. Privatisation must be accompanied by good corporate governance in order to achieve the best results.

However, the involvement of private funds in the regulated firm could mean that these investors are paying for the inefficiencies. This is because one of the reasons for privatisation is to reduce its burden on the budget. This means that it is becoming politically costly to continue subsidising these firms. In a regulated firm, a politician can force the private sector to pay for the inefficiency. This is one of the dangers of privatisation without deregulation (Shleifer and Vishny, 1994). But after the 1997 crisis which reveals poor management and inefficiencies, investors are increasingly unwilling to pay for the inefficiencies. As such the government had to renationalise the privatised projects. These include two light rail projects, MAS, a sewer system and the national car company, PROTON thus far (AWSJ, 27/12/2000).

Employment is an important political goal. It is not surprising that the five companies studied do not indicate a marked decline in employment. Therefore growth in the firms can be attributed to the general improvement of the economy rather than within the individual company. The excess employees may be union members. They are also a source of votes for politicians. It is unlikely that politicians will allow jobs to be loss. Monopolies tend to be large. Hence politicians can have more political allies. It also allows politicians to control prices. Even if managers control the right to employ, politicians can use subsidies to bribe the managers to employ excess labour. In the case where the board is control by politicians, subsidies could be used to bribe other minority shareholders.

The bribes can be in the form of good dividends, bonus issues or maintaining a strong and stable share price through the intervention of government controlled funds. In order to counter negative sentiments the government appears to support the market by propping up the three blue chip stocks, Maybank, TNB and Telekom (FEER, 29/3/2001). The politicians could also offer subsidies to management such as soft loans, government contracts and other favours in return for pursuing political goals. Politicians can also replace the management with one of their own. A prominent example is the replacement of Mr. Ahmad Tajudin Ali the head of TNB with Mr. Jamaludin Mohd Jarjis a politician and MP for Rompin (Financial Times, 17/1/2001).

Subsidies may be valid when given to a loss-making firm because politicians can claim that it is saving jobs. But subsidies do not seem plausible for profitable firms as it can be viewed by voters as politicians enriching their friends. On the other hand, management can also bribe politicians. Corruption is not necessarily bad. In fact Shleifer and Vishny (1994) argued that corruption in their model increases efficiency. They reasoned that corruption enables private agents to buy their way out of politically imposed inefficiencies. It undoes the detrimental effect of political control. Therefore corruption goes hand in hand with political control. But in firms where the political control is so strong there is no need for politicians to accept bribes from management.

Governments should ideally be interested in welfare. However in many cases it is the politicians that decides. The politician's decision reflects his political goals. By using public funds to take-over weak firms, politicians may benefit. However this is done at the expense of corporate governance. The take-over mechanism should be open to whoever is capable of running the firm better and it should include foreigners. The media also has an important role to play. As such the media should not be restricted. However the media can be used by politicians to support political objectives.

Society benefits if governance works. When it works, boards evaluate managers' reactions to problems before market competition seriously hurts the firm. Governance will be more difficult with political involvement. Political goals may not be similar with organisations' goal. In the 'Darwinian evolution', the fittest firm survived because it reduced the severity of its weakness and balancing off the problems of managerial control, risks sharing and capital needs. Therefore if a firm is weak it should be allowed to be taken over or close down. Other better-managed firms will take its place in the market. There will be no need for bailouts or nationalisation. However the political consequences can be damaging for politicians whose support comes from those directly affected. Therefore it can only happen if there are major changes like a change of government.

It is clear that in these privatised companies reviewed, political control is very strong. Political ownership can negatively affect corporate governance. Since the political linkages cover both the external and internal environment therefore, no matter how good the system is complying with the required standards it will come down to the individual involved in the governance. The individual must be highly principled. The only way to have good governance in a system of political ownership is to have greater transparency in governance, regulation and enforcement. To ensure transparency, it would be better to de-link the political and corporate relationship to an arm's length relationship. Politicians should concentrate on governance not business.

"To tolerate a poor system is to impose upon oneself an unnecessary competitive handicap" (Charkham, 1994). Blaming international rating agencies for the weakness shows that the policy makers are tolerant of bad corporate governance. Only a change in the mindset of the policy makers will good corporate governance be able to flourish. The move by Morgan Stanley Capital International to weigh companies on its indices base on the availability of their shares for open trading rather than market capitalisation will help enhance corporate governance. Recently the government has taken a more serious view of corporate governance. But as long as politicians continue to get involve in business, good corporate governance will be difficult to enforce.