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Strengthening Corporate Governance In Government-Linked Companies (GLCs)

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Government-Linked Companies (GLCs) occupy a distinctive position within Malaysia's corporate landscape. As defined by the government, GLCs are companies that have a primary commercial objective, but where the Malaysian government has a controlling stake in major decisions, such as appointment of management positions, contract awards, strategy, restructuring and financing, acquisition and divestments.[1] Unlike privately owned corporations, GLCs are entrusted not only with generating commercial returns but also with advancing broader national economic and social objectives.[2]

They operate in strategic sectors ranging from banking and telecommunications to energy, healthcare and infrastructure, with GLCs listed on Bursa Malaysia accounting for 52% of assets, 38% of revenue and 43% of total market capitalisation of all listed companies on the exchange.[3] Government-Linked Investment Companies (GLICs), on the other hand, oversee RM1.7 trillion in assets, equivalent to over 120% of Malaysia's GDP, and represents more than 25 per cent of Bursa Malaysia’s entire market capitalisation. [4] Thus, their governance is not only critical to shareholders but also to the wider public interest.

[1] https://www.ideas.org.my/wp-content/uploads/2021/04/PI45-Government-Linked-comapnies-and-its-Impacts-on-the-Malaysian-Economy-V5.pdf
[2] https://ir.uitm.edu.my/id/eprint/68420/1/68420.pdf
[3] https://theedgemalaysia.com/node/799426
[4] Page 5, PERKUKUH BOOKLET 2021, https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry617bfd2839fba20f54a06574/617f606f5b711a4d00edda47/files/PERKUKUH_Booklet_Final-2_Oct_2021.pdf

This unique role, however, presents a recurring governance challenge. As the Government is often a significant shareholder, questions inevitably arise as to where legitimate shareholder oversight ends and political influence begins. Public debate frequently intensifies following changes in government, particularly when boards and senior management are reconstituted or strategic priorities appear to shift in tandem with political developments. Such episodes have reinforced concerns regarding the independence, stability and long-term effectiveness of governance within GLCs.

The Governance Of Political Influence

Government ownership does not, in itself, undermine good corporate governance. Like any shareholder, the Government may appoint directors, approve major corporate decisions and establish strategic expectations through appropriate governance channels. These rights arise from ownership and should not be viewed as inconsistent with sound corporate governance.

The governance concern however arises when political influence compromises the board's ability to exercise independent judgment, especially when political considerations begin to influence operational decisions such as decisions regarding procurement, executive appointments, investments or commercial strategy instead of it being made in accordance with the company's long-term interests. In such instances, opportunities may be pursued or abandoned for reasons unrelated to value creation and directors may become reluctant to exercise independent judgment where political preferences are perceived to outweigh objective analysis.

Over time, this can weaken board accountability, discourage robust debate and affect the board's ability to discharge its fiduciary duties in an objective and impartial manner. These risks may even snowball into an enterprise-wide reputational crisis as stakeholders start to lose confidence in the GLC's ability to efficiently allocate resources.

Ultimately, it is not the legitimacy of government ownership that is in question, but the challenge in ensuring that the board's decision-making remains anchored in the interests of the company and guided by sound governance principles. In essence, good corporate governance is not judged solely by the outcome of decisions, but by the integrity, transparency and independence of the decision-making process.

Regulatory Developments

Malaysia's corporate governance frameworks do recognise the importance of independent and effective boards. For example, the Companies Act 2016 (CA 2016) outlines essential provisions regarding the roles and responsibilities of directors, shareholders' rights and the operational procedures for corporate decision-making which applies to all companies registered in Malaysia, including GLCs.

Section 213 of the CA 2016 and other new developments, such as the Companies (Amendment) Act 2024 (Amendment Act) also establishes fundamental duties owed by directors to the company such as requiring directors to exercise their powers for a proper purpose and discharge their responsibilities with reasonable care, skill and diligence, which apply equally to directors of GLCs regardless of whether they are appointed by the Government.

The Amendment Act emphasises corporate transparency and strong governance practices through a comprehensive beneficial ownership reporting framework, requiring companies to maintain and report accurate information on their beneficial owners. By increasing transparency over corporate ownership structures, the amendments seek to improve accountability, reduce opportunities for opaque ownership arrangements and align Malaysia's corporate governance framework with international standards.

Similarly, the Malaysian Code on Corporate Governance (MCCG) places considerable emphasis on board independence, objective decision-making, board effectiveness and long-term value creation. The Code reinforces that directors are expected to exercise independent judgment, provide effective oversight of management and avoid undue influence that may impair their ability to act in the company's best interests. As an example, Guidance 5.8 of the MCCG discourages the appointment of active politicians to the boards of companies, recognising that such appointments may give rise to conflicts of interest, compromise board independence or undermine public confidence in the integrity of corporate decision-making.

This regulatory environment has also been complemented by a directive *‘Tatakelola Syarikat Berkepentingan Kerajaan (SBK) dan Syarikat Berhad menurut Jaminan’* issued by the Prime Minister's Office, to strengthen governance within GLCs by regulating its board appointments, independence, performance evaluation and director competency. The directive, among others, requires at least one-third of the board to comprise independent directors, a three-year cooling-off period for former officers or advisers seeking appointment as independent directors, and prohibiting the Chairman from sitting in any board committees.

However, it is worth noting that when it comes to the appointment of politicians as Chairman and/or Board Members, an official consent from the Prime Minister may be obtained, which appears to sit uneasily with the Malaysian Code on Corporate Governance that explicitly discourages such appointments in view of the potential risks to board independence. This raises questions about whether true political insulation is achievable when the Prime Minister is directly involved in the appointment process.

Beyond Compliance: Building Institutional Independence

While statutory duties provide an important legal safeguard, governance ultimately depends upon institutional design. Boards should therefore adopt governance practices that reduce the likelihood of undue political influence while strengthening organisational resilience.

This begins with transparent and merit-based board appointments: directors should be selected based on the competencies, experience and diversity of perspectives required by the organisation rather than political affiliation or personal relationships.

This may be facilitated by independent nomination processes, structured board skills matrices and periodic board evaluations.

Equally important is maintaining a clear separation between the responsibilities of shareholders, boards and management. Shareholders should establish strategic expectations and hold the board accountable for performance, while the board should oversee management without direct political interference in operational matters. Respecting these governance boundaries strengthens accountability by ensuring that decisions are made by those best positioned to discharge the responsibilities assigned to them.

Transparency As A Safeguard

Transparency also plays an important role as effective mechanisms for strengthening governance within GLCs. Robust disclosures regarding board appointments, director competencies, related-party transactions, remuneration frameworks and major strategic decisions enable stakeholders to assess whether governance processes are being exercised independently and objectively.

Relevant measures such as regular board evaluations, independent assurance functions and effective whistleblowing mechanisms contribute to a governance culture in which concerns can be raised without fear of retaliation. Where decision-making processes are transparent and subject to appropriate scrutiny, the risk of undue influence whether political, commercial or otherwise, is significantly reduced.

All things considered, as custodians of significant national assets and public investments, GLCs are expected to demonstrate governance standards that are at least equivalent to, if not higher than, those of private sector organisations. Achieving this requires more than compliance with statutory requirements, it demands a governance culture that enables GLCs to fulfil both their commercial objectives and their broader public responsibilities without compromising either.

Conclusion

Overall, the governance challenge facing Malaysian GLCs is not the existence of government ownership, but the potential for governance structures to become influenced by considerations that are inconsistent with the long-term interests of the company. Public ownership and good corporate governance are not mutually exclusive. Indeed, when supported by independent boards, transparent decision-making and clearly defined governance boundaries, they can complement one another in promoting sustainable economic development.

As governance expectations continue to evolve, strengthening institutional independence within GLCs will become increasingly important. Directors must remain guided by their fiduciary duties, management must operate with professionalism and accountability, and shareholders, including the Government, must exercise their rights in a manner consistent with sound governance principles.

In summary, the strength of a GLC should not be measured by its proximity to government, but by the confidence that its governance inspires. Effective corporate governance is achieved not by removing public ownership, but by ensuring that public ownership is exercised through institutions that are independent, ethical, accountable and committed to creating sustainable long-term value.

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