

## **STATE-OWNED ENTERPRISES: A COMPARISON BETWEEN THE UK, JAPAN, AND MALAYSIA**

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### **Abstract**

*State-owned Enterprises (SOEs) played a crucial role in developed and developing countries as a tool for promoting the social and economic development. Although the objective is similar to an agency, SOEs activities are more commercial and they view profit as their objectives. In comparing with private companies, SOEs social obligations is the important element that distinct them from private companies. SOEs are commonly argued for its lack of corporate governance, unclear objective, underperformance and crowding out of private investment. From comparison made on SOEs in developed (the UK and Japan) and developing countries (Malaysia), this study found that government in the UK and Malaysia has a broader scope in defining its control on SOEs, as compared to Japan. This include control exercise through regulations imposed on SOEs and the ability to decide on major decisions of SOEs. In terms of shareholders arrangements of SOEs, the UK and Malaysian type is centralized and oversees and managed by company-type entities while Japan has a decentralized model, monitored by the respective ministry, showing that the Japanese SOEs is closer to the central government than SOEs the UK and Malaysian SOEs.*

*Keywords: SOEs, UK, Malaysia, Japan, governance, control, shareholder*

### **INTRODUCTION**

In most countries, Public Corporations (PCs) is an entity with the aim of providing good and services for the market (Lienert, 2009, p.10). PCs has a diverse range of legal status and control structure, and are also known by many different names such as state-owned enterprises (SOEs), government corporations, government-linked companies (GLCs), state enterprises,

parastatals, publicly owned corporations, government business enterprises, crown corporations, and nonprofit organizations (World Bank, 2006, p.1). Consistent with the terminology of SOEs used by the Organization for Economic Cooperative and Development (OECD) and the World Bank, this study uses the term SOEs for simplicity.

There is a high incidence of SOEs in the world's rapidly developing economies. The Economist in 2012 surveyed on the state advances and found that SOEs represent 80% of China's stock market capitalization, 62% of Russia's, and 38% of Brazil's (The visible hand, 2012). Some examples of these SOEs include the world's largest natural-gas company, Russia's Gazprom, the largest oil companies in the world based on oil reserves, and the world's largest mobile-phone operator, China Mobile (The visible hand, 2012). SOEs also contribute approximately 10% of the world GDP (Peng, Bruton, Stan and Huang, 2016, p.1). Due to this, there often arguments on the advantages and disadvantages of SOEs in terms of its role in the social and economic development lack of governance, underperformance, unclear objectives, and crowding out of private investment due to SOEs presence.

SOEs definition differs from country to country. For example, Malaysian SOEs is defined as 'business entities that the government has a controlling stake' (Ministry of Finance (MOF), 2007, p.92). The controlling stake is where the government could exercise control in terms appointing the board of directors or other major decisions regardless of the percentage of shares (Putrajaya Committee on GLCs High Performance (PCG), 2005, p.18). While in the UK, Millward (2000, p. 158) studied on the rise and fall of SEOs in the UK and defined SOEs as 'enterprises that aim at least to break even financially and that sell goods and services to large numbers of buyers'. While in Japan, it is as chartered companies that has a strong link to the public benefit (Tamamura, p.20).

There was no comprehensive study that compared the country model of SOEs with other countries in one paper, so far as known to date. Therefore, the first objective of this study is to review major arguments on advantages and disadvantages of SOEs. Secondly, this study explored SOEs in the UK, Japan and Malaysia as proxies of developed and developing countries. The basis for comparing the model of Malaysian SOEs with the UK is because there is a historical linkage in terms of the administrative system between Malaysian and the UK due to the long colonization by the British period from 1824 until 1957. On the other hand, the reason for comparing with the Japanese model is due to the similar developmental state category that both countries are categorized in. The characteristics used for comparison are the definitions, type of organizations, legal and governance structures and shareholders arrangements.

The rest of the paper is organized as follows: Section 2 described SOEs and compares them with an agency and private companies. Section 3 explains major arguments on advantages and disadvantages of SOEs. Section 4 discusses countries comparison between the UK, Japan, and Malaysian SOEs. Section 5 concludes the study.

## OVERVIEW OF SOES

In many countries, the government has ownership in a number of companies (La Porta, Lopez-de-Silanes, and Shleifer, 1999, p.474) and can be perceived in some cases as an aggressive entrepreneur wanting to develop its owned companies, while in other cases giving a patronage of troubled companies, stepping in when it fails as in the case of Germany SOEs (Wengenroth, 2000, p.123-125). The International Monetary Fund (IMF) defined these companies as 'commercial entities owned or control by the government' (IMF, 2016, p.1). Another definition from OECD is 'enterprises where the state has significant control, through full, majority or significant minority ownership' (OECD, 2005, p.11). In other words, the basic criteria for SOEs are a business entity and controlled or owned by the government.

Fang, Qian and Tong (2004, p.5) defined Singaporean SOEs as companies in which some shares are owned by the government. They used a minimum of 20% as a threshold for government effective ownership, which is also used by used by researchers that studied on Malaysian SOEs (Lau and Tong, 2008; Muhamed, Stratling and Salam, 2014, p.453, 462-462). However, another study on by Ramirez and Ling (2003, p.7) classifies a company as Singaporean SOEs if the government, its proxies or a statutory board is one of the substantial shareholders in the company. Another study by (Claessens, Djavkov and Lang (2000, p. 91) used shareholders who control over 5% of the votes in determining the control rights of companies.

Apart from government shareholding in ordinary shares of SOEs, the government could exercise control through the provision of golden share. This is common for privatized SOEs in Australia, Sweden, and the UK, where the government exercises the provision in the golden share in order to retain control in privatized SOEs (Bortolotti and Faccio, 2007, p.4). Another criterion to determine SOEs is when the government has controlling power in companies, as in the definition used for the UK and Malaysian SOEs (Ministry of Finance, 2007). The control could be in the form of regulations, as been exercised by the UK government or the ability of the government to decide on the major decision of companies, as in the case of Malaysia.

The purposes of setting up or investing in SOEs are varied across countries. In general, SOEs have become tools for the development of some countries (PwC, 2015,p.6). As be pointed by the World Bank (2006, p.1), SOEs are created to support government policy such as

building physical infrastructure, providing finance, water, and electricity, generating revenue for the treasury, achieving self-sufficiency in the production of basic goods and services, controlling natural resources, addressing market failures, curbing oligopolistic behavior; and promoting social objectives such as employment generation, regional development, and benefits for economically and socially disadvantaged groups.

With regard to Malaysia, the initial establishment of SOEs is to takeover Colonial companies after independence. Other than this, the government or through its proxies called Government-linked Investment Companies (GLICs) may make a substantial investment in companies to allow them to have a controlling. The objectives of these investments can be divided as profit-oriented and non-profit oriented (Muhammed, Stratling and Salama, 2014, p.453, 462; Rasli, Goh and Khan, 2013, p.239). In addition to this, SOEs were derived through the corporatization of some government departments, where the government exercises its control rights through golden share provision. After the Asian Financial Crisis, the government plays a role in aiding recovery from the crisis where some SOEs were recapitalized and restructure. To date, Malaysia SOEs remain the main service providers to the nation in key strategic utilities and services including electricity, telecommunications, postal services, airlines, airports, public transport, banking and financial services (PCG, 2015, p.193).

The legal status of SOEs varies countries to countries, depending on the factors such as the level of government that owns SOEs, mechanism of its establishment, position in the public service, its purpose and current status, whether it is going to be privatized (PwC, 2015, p. 8). The most common are company governed by the Companies Acts, with the management and board of directors structure, as in the case of Malaysian Government-linked Companies (GLCs) and Japanese Special Companies. However, in some countries like in the UK, SOEs also consists of other public bodies and stock companies in which its shares not held by the government, as shareholding is not the only criteria in determining SOEs in the UK (List of company names that have the UK taxpayer as a shareholder). The government regulations imposed on companies may result in the company being categorized as the UK SOEs. Accordingly, the governance structure of a company-type SOEs in the UK is similar with the one in Japan and Malaysia. On the other hand, the governance structure of public bodies type SOEs depends on the governance structure of the public bodies.

The World Bank has identified four ownership arrangements of SOEs; the decentralized model, where ownership responsibilities are dispersed among different line ministries, the dual model, in addition to line ministries a second ministry, such as the ministry of finance, may also have certain responsibilities, the advisory model, where ownership remains dispersed but an advisory or coordinating body is created to advise ministries on ownership matters and the

centralized model, where ownership responsibilities are centralized in an entity or entities that may be independent or may fall within government (The World bank, 2014, p. 70).

To obtain in-depth understanding about SOEs, comparisons with other government-related corporations such as agencies and with the private companies are worth to be studied. These include difference and similarities in ownership, the purpose of establishment or possession, legal status, function and objective, funding, distance from government controls, organizational forms, funding, accountability and relationship with stakeholders. For the purpose of comparing SOEs with an agency and the private companies, this study regards SOEs as company-type entities that have distinct legal status, controlled by the government through its percentage of shareholding.

### **Comparison with Agency**

Talbot (2004) employed criteria of an agency as an organization that at arm's lengths from the main ministries, carrying public task, staffed by public servants, financed by the government budget and subject to at least some public/administrative law procedures. The government transferred some of its activities to the agency (Pollitt, Talbot, Caulfield and Smullen (2004, p.271) on the ground of efficiency Taliercio (2004, p.265). Agency subsisted in most of the countries, such as in the OECD countries like the United Kingdom (UK), United States (US), Netherlands, Sweden, Japan, Germany and Canada (OECD, 2002, p.11), in middle income country like Malaysia (various ministries websites) and in less developing countries such as in Jamaica and Tanzania (Pollitt, Caulfield, Smullen and Talbot, 2001). However, they are known and differently across countries such as *quangos* in the UK (Pearson, Gash and Rutter, 2015, p.1), agencies in Malaysia (various ministries websites) and Special Corporations in Japan (Tamamura). Although an agency has a long history in many countries, some of the new types of agency were derived from national economic reform and their existence has been diffused around the world (Pollitt et al. (2001). For instance, the creation of agencies through reforms was inspired by the New Public Management, originated from the UK, such as the establishment of the Executive Agencies and Independent Administrative Agencies in Japan (Kaneko, 1999, p.5; Yamamoto, 2003, p. 17-18).

Agency and SOEs are similar in terms of its purpose of establishment, as both entities are created in order to address potential market failure (IMF, 2015, p.2) and to support government policy; for the social and economic development of a country. Despite this, the main difference between SOEs and agency is in their objectives and functions. While an agency is required to perform public task (Pollit et al., 2004, p. 271), SOEs are linked to commercial activities (OECD, 2005, p.11; IMF, 2016, p.1). Other than this, as mentioned previously, an

agency is at arm's length from ministry, though some of them do not have any legal status, as in the case of the UK Executive Agencies, as in the case of Companies House (List of company names that have the UK taxpayer as a shareholder). On the other hand, a company-type SOEs has a distinct legal status and is not part of the ministry.

While SOEs activities are regarded as commercial, SOEs may view profit as one of its objectives whilst an agency required to perform public duties thus do not view profit as its objective. An agency is financed through the government budget, while in SOEs, no yearly budget is provided by the government. However, SOEs could obtain external financing from financial institutions, which this is not the case of an agency. With regards to accountability, agency is accountable to parent ministries, whilst SOEs are accountable to its shareholders and other stakeholders such as employees, supplier, community and government.

### **Comparison between SOEs the private companies**

La Porta, Lopez-de-Silanes and Shleifer (1999, p. 476) categorizes companies according to ultimate owners into four groups; a family or individual, the government, widely held financial institutions, and widely held corporations. Accordingly, private companies are companies who owned by private shareholders; family and individual, financial institutions or corporations. SOEs and the private companies have a similar governance structure, which consists of the shareholders, the board of directors and the management. The main difference is the government is the shareholder of SOEs. Due to this, SOEs have different purpose, mission, and objective with regards to some aspects of public service or social obligations. SOEs may have twin goals, to be profitable and discharge its social obligations. On the other hand, private companies purpose, mission objectives are to be profitable and maximizing their shareholder's value. SOE are more regulated than the private companies as to align their objectives with the government agendas. These regulations may not favor SOEs objective of maximizing profit. For example, monopoly SOEs is obliged to the government regulation on pricing its products or services. This prevents SOEs from being profitable, which this is not the case for private companies.

### **MAJOR ARGUMENT OF ADVANTAGES AND DISADVANTAGES OF SOES**

There are several major arguments on the advantages and disadvantages of SOEs. The main advantage is regarding SOEs role in the social and economic development of a country. On the other hand, SOEs are commonly argued for its lack of governance, having unclear objectives, less regulated in terms of monopoly SOEs and its presence crowd out private investment in some countries.



## **SOEs role in the Social and Economic Development**

As mentioned previously, SOEs have become tools to support government policy in social and economic aspects for the development of some countries (PwC, 2015, p.6; The World Bank, p.1). With regard to the social aspect, Malaysian case can be good example. In the late 80s and early 90s, Malaysian high economic growth was due to the extensive role of the government in promoting political stability. This has been achieving, among others through the establishment by few SOEs to support the government policy at that time.

Other than this, SOE have been a major player in the economic development in many countries. For example, in the western, SOEs role is crucial in supporting industrialization between the late 1960s and the early 1980s. This situation led to the creation of big SOEs such as British Petroleum (Toninelli, 2000, p.15). In another region such as in Singapore, Ramirez and Tan (2003, p.4,14) conceded commercial SOEs spearheaded the development in key sectors of the economy.

## **Lack of corporate governance**

Corporate governance is defined as 'the system by which companies are directed and controlled' (The Financial Aspects of Corporate Governance (1992). The ultimate objective of corporate governance is to realize the long-term shareholder's value whilst taking into account other stakeholders' interest. Thus, corporate governance is meant to come up with reasonable assurance on the right manner of managing company's resources. In an organization where there is a separation between decision making and residual risk bearing, the top level of decision control device in financial mutual is the board of directors (Fama & Jensen, 1983, p.318). However, distinct types of owners have different objectives and motivations, which has an impact on the way they exercise their control rights over their portfolio companies (Chen, Firth and Xu, 2009, p.180).

In the case of SOEs, Wicaksono (2009, p.82) explained that the key difference in the governance of SOEs is its ownership structure whereby the government is the owner. One of the ways for the government exercises its control in SOEs is by appointing its nominee on the board of directors of SOEs. Through appointed directors, the government is able to pursue their own interests at the expense of other shareholders by reducing the effectiveness of the monitoring capacity of the board. For example, Yu and Zheng (2014, p. 203) found that government is prone to appoint politically connected directors without professional backgrounds in Chinese SOEs. As discovered by Fan, Wong, Zhang (2007, p. 353), politically connected Chief Executive Officers do not enhance a firm's efficiency but rather confirms the goals of the

politicians. Yeh, Shu and Chiang (2010) concluded that the quality of corporate governance is negatively associated with the likelihood of firms engaging in political connections in China.

### **Unclear Objective**

The objective of establishing SOEs are not clear enough, as most of them were created with a broad objective with multiple activities to be implemented to achieve such objectives. Apart from that, Wong, (2006, p.8) argued that SOEs have conflicting objectives between the social and financial objectives that constraint the ability of insider and outsider to know the ultimate goal of SOEs. This may create excuse by the insider to perform at their best due to social objective mandated to SOEs. At the same, the outsider will be curious if SOEs is performing well as these entities are expected to discharge its social obligations.

### **Performance of SOEs**

Poorly managed SOEs can impose substantial economic and fiscal costs to a country. However, the arguments on the performance of SOEs lie in 2 schools of thoughts. The first argument is linked to its underperformance and lower governance quality due to political interference, conflicting objectives, boards issues, lack of performance management and inactive shareholders. Many researchers found that government ownership undermines the company's performance because of lower incentivizing or inefficient management in meeting the politicians' needs (Boycko, Shleifer and Vishny, 1996, p. 309; Shleifer, 1998, p.17; Fan et al., 2007, p.353; Boubakri, Cosset and Saffar, 2008, p.28). Another study on ownership structure found that privatizations of SOEs/private companies are more competitive, innovative and more costs conscious (Boycko et al., 1996; Boubakri and Cosset, 1998; Shleifer, 1998; Dewenter and Malatesta, 2001, p.332; Sun and Tong, 2002, p.79)

Other literatures suggested that companies with government ownership are better governed (Kole and Mulherin, 1997, p.1; Ang and Ding, 2006, p.85-86; Lau and Tong, 2008, p. 10; Najid and Rahman, 2011, p.42) and strong political connections are alternative means to create firm value. However, these connections create uneven playing field between SOEs and private companies that have a negative effect on the private investment that will be discussed in the next section.

### **SOEs Presence Crowd-out Private Investment**

Crowding out or crowding in is the response of private investment to the government investment (Mitra, 2006, p.337; Furceri and Sousa, 2009, p. 518; Xu and Yan, 2014, p.1; IMF, 2015, p.4) Government investment stimulates significant important crowding out effects by negatively



affecting both private consumption and investment, as been found by Furceri and Sousa (2009, p.517), who used panel data set of 145 countries from 1960 to 2007. In China, Xu and Yan (2014, p.1) concluded that government spending on public goods and infrastructure crowd in private investment, while spending them through Chinese SOEs crowd out private investment significantly.

Due to government controlling stake in SOEs, they hold a vested interest in ensuring that SOEs succeed. Menon (2012, p.10) argued that due to the GLCs significant market capitalization, they possess market power that discourages the entry of private investment. Further empirical study by Menon and Ng (2013, p.14) found that some of Malaysian SOEs are crowding out private investment, due to SOEs obtaining preferential treatment and less credit constrained than private competitors. This allows SOEs to profitably increase its investment in sectors where they already have a significant presence (Menon and Ng, 2013, p.9)

## **COMPARISON BETWEEN SOES IN DEVELOPED AND DEVELOPING COUNTRIES**

Comparing SOEs in developed and developing will give more understanding on the similarities and difference in criteria of SEOs This study compares Malaysia, a developing country with the UK and Japan, both categorized as developed countries. The reason to compare with the UK is because of the historical linkage between these two countries that led to the similar administrative system. This historical linkage derived from the long colonization by the British period from 1824 until 1957. On the other hand, this study compared Malaysia and Japan SOEs as both Malaysia and Japan is categorized as a developmental state. In comparing SOEs in the UK, Japan and Malaysia, the Malaysian GLCs understudy excluded the one owned by the Ministry of Finance (Incorporated) (MOF (Inc.)), because MOF(Inc.) not a full-fledged entity where control on its GLCs are manage by a division of Ministry of Finance. Other than this, GLCs under MOF Inc. are solely charged for social obligations.

### **The UK**

With regard to SOEs, there is a consistent definition by the OECD and the IMF in its commercial and government control aspects. However, definitions used in the UK, Japan and Malaysia are different. Millward (2000, p. 158) studied on the rise and fall of SEOs in the UK where he defined SOEs as 'enterprises that aim at least to break even financially and that sell good and services to large numbers of buyers'. He further concluded that the intention of the UK government in establishing SOEs/take over companies is to regulate some important sectors such as infrastructure (Millward, 2000, p.179).The UK SOEs is not part of the UK public bodies as the type of organizations in the UK SOEs varies, from public bodies to stock companies

without government shareholding but regulated by the government (List of company names that have the UK taxpayer as a shareholder). The public bodies can be in the form of Executive Agencies (EAs), Non-Departmental Public Bodies (NDPB), public corporations or ministries. The process of creation a new SOE varies, depending on the type of entities (OECD, 2015, p. 43). Therefore, in order to have a comprehensive understanding on the UK SOEs, one has to have some understanding of the criteria of EAs, NDPB, ministries and public corporations in UK.

EAs is a well-defined business unit with a clear focus on delivering specified outputs within a framework of accountability to ministers to perform executive functions within government (Cabinet Office, 2006, p. 2). Despite this, EAs enjoy considerable freedom from government intervention (James, 2003). It does not require any new legislation to be created and is part of the ministries/departments. Another public bodies type of SOEs is NDPBs, which is defined as 'a body which has a role in the process of national government, but it is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers' (OECD, 2002, p. 227). Their sources of income are from the department in the form of grant in aid and internal income from levy powers and charitable donations (Cabinet Office, 2006, p.13). On the other hand, NMDs are similar to the normal government department in terms of its functions (usually more specialized). However, in a certain condition, NMDs report directly to Parliament, instead of having a sponsoring ministry as their representative.

Another type of SOEs is known as Public Corporations, defined as a market body controlled by the government but has a day-to-day operating independence. It is funded by the license fee by UK household as in the case the BBC, PC in the Department of Culture, Media and Sport (Cabinet Office, p. 29). Lastly, the UK government consider normal stock companies as SOEs in the event they are able to control these companies through regulation and golden share provisions, that has been placed in some British privatized companies since early 1980s (Bortolott and Faccio, 2007, p.14). This golden share is defined as 'system of the state's special powers and statutory constraints on privatized companies' (Bortolott and Faccio, 2007, p.11).

In terms of the UK shareholders arrangement, it is centralized by a company-type entity wholly owned by the HM Treasury, the UK Government Investment (UKGI) (UKGI, 2015-2016, p.3). UKGI act as a shareholder for those arm's length bodies of the UK. UKGI are structured to allow a meaningful shareholder function and for other UK Government (UKGI, 2015-2016, p.3).

## Japan

With regard to the brief history of Japan, its high economic growth is commonly described as due to the role of the developmental state (Johnson, 1982, p.17). A developmental state is

defined as 'a state that puts economic development as the top priority of governmental policy and is able to design effective instruments to promote such a goal' (Bagchi, 2000, p.398). The Japanese government is commonly argued for its continuing intervention across all the administrative system that is manifested in the form of legislation (Mulgan, 2005, p.1-3, 14), where the laws permit ministries to exercise power in particular economic and social sector (Mulgan, 2005, 14).

Japan SOEs is known as Special Companies (*Tokushu Kaisha*), which refers to a chartered company that has a strong link to the public benefit (Tamamura, p.20). Due to the Japanese government shareholding in these companies, they are considered part of public bodies, different from the UK SOEs that do not consider its SOEs as part of the UK public bodies. Other than this, Special Companies is established by laws in the form of company-specific legislation and governed by the Companies Act, similar to public corporations legal status in the UK. Special Companies are also subject to the supervision and control of ministers through the means of appointment of directors and financial supervision.

To understand Special Companies, one has to differentiate it with Japanese agency called Special Corporations based on special legislation (*Kosha*). While this *Kosha* is also established for public purposes and have to acknowledge the importance of being a profit-oriented entity (Mizutani and Uranishi, 2006, p.5), Special Companies businesses are more commercial-oriented than *Kosha*'s (Mizutani and Uranishi, 2006, p.5). Regardless of this, most Special Companies derived from the privatization of national *Kosha* in the 1980s (Masaharu, 2003, p. 3-4).

Examples of these companies are NTT, and Japan Tobacco Inc. (Masaharu, 2003, p. 4). With regard to government retaining control in privatized SOEs, Japanese government remains the sole or primary shareholders in these companies after privatization (US Department of State, 2014, p.5). This is different with the UK government that retains control through golden share provisions.

While the UK shareholders arrangement is centralized by a company-type entity, the Japanese model of SOEs is a ministry-type structure, owned and monitors by ministries. Most Special Companies are owned by the Ministry of Finance. However, other Ministries can also own share in Special Companies, for example, Ministry of Transport owns shares of railways companies. Special Companies can have mix shareholdings between the government and the private entities, as in the case of companies that are listed on the stock exchange. The government through the ministries exercise controls in accordance with the percentage of shares they held in Special Companies.

## Malaysia

With regard to Malaysia, as mentioned previously, the British colonization has transformed the social and economic of Malaysia. The lasting British influenced include a parliamentary democracy, English common Law, and administrative system. In social aspect, the colonization has help to ship thousand of immigrants from China and India to work in the rubber, tin, and oil industries. Then after, British has used race and religion in their divide and rule policy with the goal to quash any attempt at a political uprising against British rule in Malaya.

Malaysia high economic growth in the late 80s and early 90s was due to the extensive role of the government in promoting political stability. In this case, the government developmental role is done through policies and regulations. Following the 1969 race riot, the government has extensively intervened in the economy by introducing the National Economic Policy (NEP), the core policy that was aimed to eradicate poverty irrespective of race as well as to eliminate the identification of occupation with race (New Economic Policy). Though this policy, the government had created few agencies to support NEP (New Economic Policy). The agency includes the Statutory Body, which is defined by the Statutory Bodies (Accounts and Annual Reports) Act 1980 [Act 240] as 'Federal Statutory Bodies, incorporated pursuant to the provisions of Federal Law and which became public authorities or agencies of Malaysia government' (Statutory Body Act).

Some Statutory Bodies have transformed their status to become stock companies owned by the government (SOEs) (National archives website). This is one of the evolutions of Malaysian SOEs, where the government defines it as 'business entities that the government has a controlling stake' (PCG, 2005, p.18). After Malaysian gained independence from the British in 1957, GLCs are linked with the takeover of Colonial companies to assume control. Other than through nationalization, companies are also classified as GLCs when the government or through its proxies called Government-linked Investment Companies (GLICs) made substantial investment thus allowing them to have a controlling stake in these companies. On the than this, in the 1980s, the corporatization of some government departments has transformed them to become GLCs, where the government also exercises its control rights through its golden share in the corporatized companies, on top of the percentage of shares held by other GLICs. As an illustration, Tenaga Nasional Berhad (TNB) is a GLC derived from the privatization exercise of the National Electricity Board. Although the government retained control in this company by having a golden share, other GLICs, Khazanah Nasional Berhad, a GLIC has substantial shares in TNB.

After the Asian Financial Crisis in 1997, the government plays a role in aiding recovery from the crisis where some GLCs were recapitalized and restructure, such as Malaysian Airline

System and MRCB and restructuring of financial institutions ((PCG, 2015, p.193). Currently, there are seven GLICs with different legal status, governance structures, and investment objectives. Despite the difference in the legal structure, these GLICs are similar in their company-type structure that consists of management and the board of directors.

Similar to the Japanese Special Companies, Malaysia GLCs is a company-type entity, governed by the Companies Act. However, while the Japanese government control exercise is linked with the percentage of shareholding in Special Companies, Malaysian GLCs is said to be controlled by the government when the government has the controlling stake in the major decisions such as in the appointment the board of directors of GLCs, regardless of the percentage of the shares. This control includes the golden share provision in the privatized GLCs. In this respect, the control element for the government in the UK and Malaysia in their respective SOEs is not confined to the percentage of shareholding but also includes other elements such as regulations, as in the UK and the ability to decide on major decisions, as in the Malaysian GLCs. Other than this, the golden share provision is also exercised in the UK and Malaysian privatized SOEs, whereas, in Japan, the government retains its control in its privatized Special Companies through the percentage of shareholding.

Malaysian government ownership in GLCs can be categorized as centralized, oversee and manage by company-type structures entities called GLICs, a similar arrangement with Singapore and Hungary (The World Bank, 2014, p.82). Similar to Malaysia, The UK government has implemented a company-type structure since the establishment of UK Government Investment (UKGI), a company wholly owned by HM treasury in April 2016 (UKGI homepage). On the other hand, the Japanese model of SOEs is a ministry-type structure, most shares of Special Companies are owned by the Ministry of Finance with a few exceptions of other Ministries and a mix shareholding between the government and private entities.

## CONCLUSION

Despite the substantial role of State-owned enterprises in social and development of a country, there are arguments on SOEs pertaining to its lack of corporate governance and unclear objectives that lead to the underperformance. In other situation, some dominant SOEs in the market are argued to crowd-out private investment. SOEs have existed in developed and developing countries as a government tool for development. There are different definitions, types, governance structure, and shareholders arrangements of SOEs in the UK, Malaysia, and Japan. The Japanese and Malaysian SOEs is a company-type entity, while the UK SOEs has a diverse set of organizational forms, from ministries to regulated stock companies. While the percentage of shareholding is the main criteria for the Japanese government to control its

Special Companies, the UK and Malaysian government control element is not confined to the percentage of shareholding but also includes the ability to regulate or decide on the major decision of SOEs. Despite this, shareholders arrangement in both the UK and Malaysia is company-type entities, where in this case, SOEs in both countries have a distance from the central government. This evidenced the similarity in the government control in SOEs for both in the UK and Malaysia that could be due to the similarities in government administrative system. On the other hand, Special Companies are placed under the purview of ministries, displaying that Japan Special Companies is closer to the central government, as compared to the UK and Malaysian SOEs.

Regardless of the type and governance structure of SOEs in developed or developing countries, their role and presence are crucial in the social and economic development. Therefore, reforms of SOEs need to be taken in acceptable intervals so that improvements in its performance can be introduced while rationalizing the government role in business in order to avoid market distortion due to SOEs presence.

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