

**THE DYNAMICS OF STATE-OWNED ENTERPRISE (SOE):
A CASE STUDY OF JOHOR CORPORATION MALAYSIA, 1970-2014**

by

Fary Akmal Osman

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Abstract

The purpose of this study is to examine the performance of Johor Corporation (JCorp) and to understand their multi-role as a State-owned enterprise. This research is motivated by the common observation in many countries, and throughout Asia that state-owned enterprises (SOEs) have performed poorly or failed to perform at all. Observers have contended that public enterprises or SOEs have been poorly managed and are bureaucratic in nature, and have deemed nearly all SOEs as inefficient and unproductive, as well as heavily subsidised by the governments.

There are so little on Malaysian state-enterprise, thus this thesis presents the first comprehensive research on SOE in Malaysia with systematic historical analysis, broader framework and using a rich data for more than four decades. The paper also aims to explore the explanatory concepts and implications of such SOE related policy introduced by the government. This study would contribute much to the current work on SOEs, particularly in explaining the management behavioural aspects in an organization. Also, to study why some SOEs are better performers than others? This paper uses triangulation and the combination of several research methodologies to corroborate one set of findings with another commonly applied in the social sciences. Both the qualitative and quantitative approach are applied to the firm-level data.

The findings presented several distinct characteristics of JCorp which include excellence leadership, a strong element for entrepreneurship, highly bureaucratic and diverse organizational capabilities in JCorp. The many transformations and corporate restructuring performed by the Group had provided an impetus for its growth and higher performances at the domestic level, as well as expanding internationally. A major contribution of this study to the research on today's SOE is to demonstrate an exceptional case of a Malaysian SOE and the dynamism of highly diversified business group. Finally, this study suggests that there is a need to develop a new method and identified relevant or more suitable determinant to analyse SOE performances holistically.

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List of Abbreviations

BHD (Berhad)	Limited Company
BOD	Board of Director
CSG	Chief Secretary to the Government of Malaysia
CEO	Chief Executive Officer
CRMP	Corporate Restructuring Master Plan
CSO	Community Service Organization
EPP	Entry Point Project
ETP	Economic Transformation Programme
EXCO	Executive Committee
FDI	Foreign Direct Investment
FELDA	Federal Land Development Authority
GDP	Gross Domestic Product
GLC	Government-linked Companies
GTP	Government Transformation Programme
HRIS	Human Resources Information System
HSE	Health, Safety and Environment
IB	International Business
INTAN	National Institute of Public Administration
IPO	Initial Public Offering
JAKIM	Department of Islamic Development Malaysia's
JAWS	Investment Review Committee
JCORP	Johor Corporation
JSEDC	Johor State Economic Development Corporation
KCIS	KPJ Clinical Information System
KFC	Kentucky Fried Chicken
KLSE	Kuala Lumpur Stock Exchange
KPJ	Kumpulan Perubatan Johor
KPJUC	KPJ University College
KWAN	Klinik Wakaf An-Nur
MARA	Majlis Amanah Rakyat
MHTC	Malaysia Healthcare Travel Council
MNC	Multinational Corporation
MOF	Ministry of Finance, Malaysia
MP	Malaysia Plan
MSHQ	Malaysian Society for Quality in Health
MSOE	Multinational State-owned Enterprise
NEM	New Economic Model
NEP	National Economic Policy
NBPOL	New Britain Palm Oil Limited
NGO	Non-governmental Organization
NKEA	National Key Economic Area

OIC	Organisation of Islamic Conference
OEDC	Organisation for Economic Cooperation and Development
PLC	Public Limited Companies
PDC	Penang Development Corporation
PNB	Permodalan Nasional Berhad
RCA	Revealed Comparative Advantage
RDT	Resource Dependence Theory
REIT	Real Estate Investment Trust
RIDA	Rural Industrial Development Authority
RMK	Malaysian 5-year Plan (<i>Rancangan Malaysia</i>)
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SARS	Severe Acute Respiratory Syndrome
SDN BHD	Private Limited Company (Sendirian Berhad)
SEDC	State Economic Development Corporation
SEGAR	Service Excellence for KPJ Group Alignment and Re-engineering
SOE	State-owned enterprise
SPP	Standard People Practice
SWF	Sovereign Wealth Fund
TERAJU	Group Top Management Committee
TLP	Tanjung Langsat Port
UNCTAD	The United Nations Conference on Trade and Development

INTRODUCTION

i. SOE and New Challenges in the Twenty-first Century

This research is motivated by the common observation in many countries and across the region on the non-performance and even the total failure of State-owned Enterprises (SOEs). Observers have contended that public enterprises or SOEs were poorly managed and bureaucratic in nature, and have deemed nearly all SOEs as inefficient and unproductive as well as heavily subsidised by the governments. On the other hand, SOE is playing a different role in different economies and societies, also subject to multiple objectives which is conflicting with profit optimization (Wong, 2004). It has been observed that the existing view on SOE contradicts with the reality of some state enterprises. Moreover, there has been growing debate on the roles of SOE beyond national boundaries with a phenomenon of amplified globalization and liberalization. Looking at the evolution of SOEs since the 18th century, there has been major changes and reformation of state-enterprise, from privatization to corporatization, then transforming to various models such as solely owned, partial or mixed ownership, or sovereign wealth fund. It is seen that the study of SOEs are at a crossroad, as a more complex situation is observed in a new reality of the globalized economy.

Scholars have noted that SOEs have been established for two primary reasons: first, as a solution to overcome market imperfections, and secondly, as a political ideology or strategy of a government. Mazzolini (1980), identifies four broad reasons for the establishments of SOEs which includes maintaining a presence in certain key sectors of the economy; filling the gaps which were not covered by the private, rescuing or avoiding total disclosure of declining industries, and for ideology or nationalizations of key sectors. Also, the *industrial policy view* as the supporter of SOE argued that SOE or state investment companies have been established to promote the development of new industries beyond what is possible under the free-market, usually higher investment and risk. Meanwhile, Yu (2000) argued that the government is an institution that attempts to tackle the coordination failure in the market. In many cases, the goals of respective SOEs were complex and varied depending on its objectives when first established. It was found that many governments use

among the above arguments to justify the creation of SOEs for its national interest. As emerging market economies continue to develop and transform rapidly, more SOE was established by developing nations to act as important vehicles to achieve their national economic policy.

However, these SOEs are not just domestic players that drive its national economy but now becoming more active participating in the international market and investing abroad. According to the UNCTAD Report (2011, p.viii & p.28), there were at least 650 multinational State-owned enterprises (MSOEs) with more than 8,500 foreign associates, of which about 44 percent were from advanced economies, and more than 40 percent were majority owned by their governments. Furthermore, MSOEs now control approximately US\$2 trillion in foreign assets (Sauvant & Strauss, 2012) from both developed and developing countries. Thus, SOEs are becoming influential with growing participation in the international market. Additionally, over many years, some scholars claim that SOEs enjoy many advantages such as receiving government support, preferential markets and finance, as well as other protections and debt bailout. In recent year, Musacchio & Lazzarini (2014) showed the hybrid model of SOEs not just having full or majority ownership as traditionally, but with more varieties including minority or mixed ownership, or as an investor through the sovereign-wealth fund. The global investors of this millennium century are seen to be very critical to the global expansion of SOE and on the assumption that they are competing unfairly.

The foremost studies on SOE were conducted by Mazzolini and Vernon in the late 1970s. More recent SOE literature focusing on country-specific such as Italy by Amatori and Colli (2011), Brazil (Musacchio & Lazzarini, 2014), Chinese SOEs (He et.al., 2015), Norway (Einar Lie 2016) and India (Choudhury and Khanna, 2014). Renewed interest in SOE study has been actively performed by many scholars since the early twenty-first century, with most cases from Latin America and Scandinavian countries, China, and India. But, the study on SOE from Southeast Asian remains scarce, particularly Malaysia. Moreover, previous research on SOE in Malaysia is mostly focusing on the aspect of ownership and control, privatization of SOE or performances of government companies at a federal level. Hence, this thesis main role is to fill in the gap by presenting a case study from a middle-income country with a systematic analysis and broader framework on SOE at a state-level with new focus namely on corporate behaviour, leadership talents,

transformation, entrepreneurship as well as internationalization process and overall business strategy.

In short, there are three main research questions to be addressed in this thesis with several sub-questions discussed in each chapter. Among them, *what are the distinct characteristic of JCorp as an SOE and specifically on how the corporation promotes entrepreneurship; did JCorp adhere to their objective and mandate of establishment and why and how JCorp pursues internationalization*. The following section provides a brief literature background on the legitimacy, the traditional role of SOE and debates on its performances.

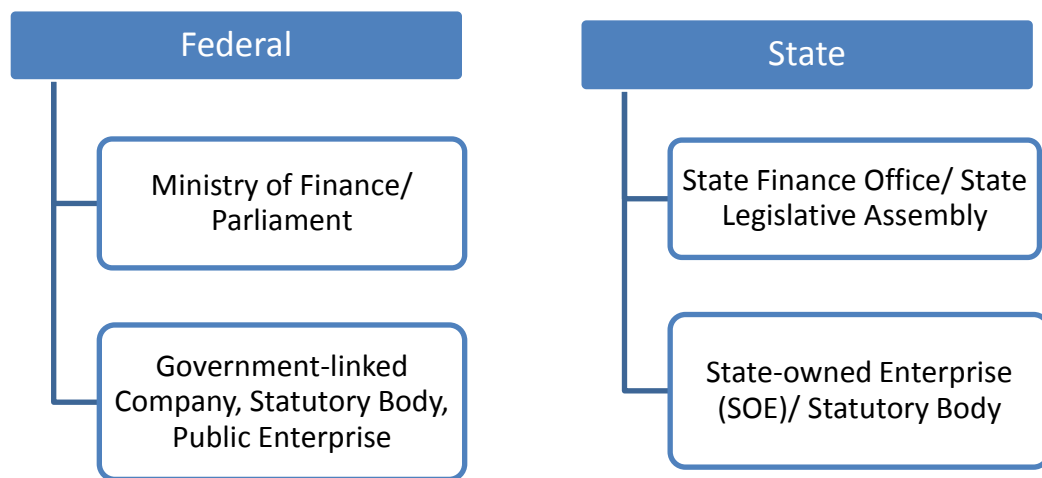
ii. SOE in Malaysia and Establishment of Johor Corporation

The State-enterprises in Malaysia

The landscape of SOE in Malaysia can be categories into four level, Federal, State, Regional and Local. SOEs in Malaysia were administered based on a dual system, federal and state government level known as the Federal Government-owned Enterprises, Federal Statutory Bodies' Subsidiaries and the State-owned Enterprises, which was established in all 13 states in Malaysia. The history of State participation in commercial and developmental activities actively began before Malaysia's independence in 1957. At that time, three types of enterprises were classified as public:

- i. Departmental enterprises that were required by law;
- ii. Public corporations & statutory bodies established by State Law and Federal Statutes;
- iii. State-owned companies established under the 1965 Companies Act. Although wholly or partly owned by the Government including the **State Economic Development Corporation (SEDC)** such as Johor Corporation for the State of Johor.

Figure 1: SOE Landscape in Malaysia.



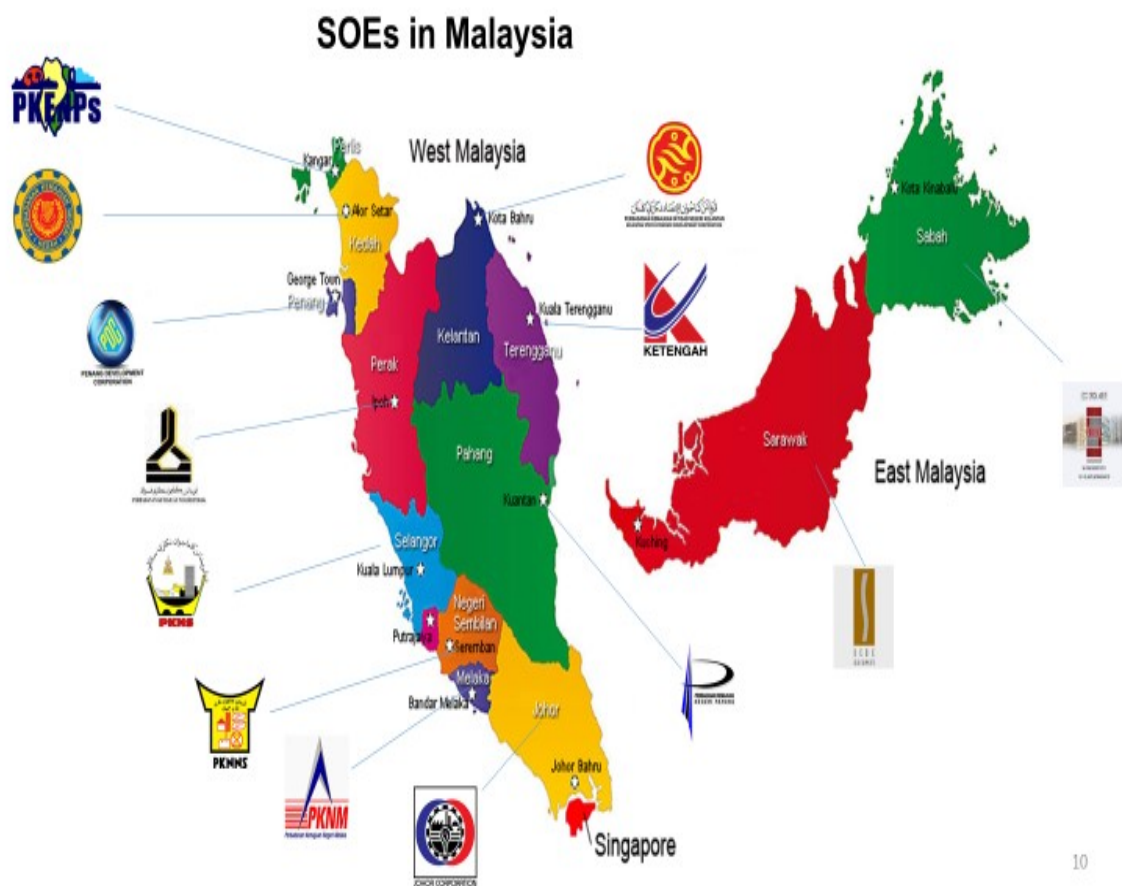
Source: Model by the author, data obtained from Ministry of Finance and JCorp, Malaysia.

Then, in the mid-1960s, many state development economic corporations were established across Malaysia to foster industrial and commercial development in all sectors of the economy. JCorp was first established in 1968 as **Johor State Economic Development Corporation (JSEDC)**, a public enterprise and a statutory body. It started operations on August 1, 1970, with a business loan of RM10 million (US\$3.3million) from the Johor state government (Financial Report, 1970, p.3). It played a major role in fostering economic growth in the state, particularly in strategic economic sectors including agro-business, industrial development, property, and logistics. Also, its main mission was to alleviate poverty and to provide business opportunities for the ethnic Malays, or Bumiputera, to improve their economic status.

Malaysia is a country with a Malay ethnic majority, which dominates politics, but a Chinese minority that holds more than 75 percent of its economic power. Thus, JCorp acts as a business commitment to increase the economic level of the Malays to be on par with other ethnicities in the nation (JSEDC, 1970). At that time, there were two major economic problems in Johor State, unemployment and an imbalance of economic power among the various ethnicities. By the end of 1970, a total of 22,724 unemployed labours had registered with the Labour Office seeking jobs, which represented about 14 percent of the nation's

(peninsular Malaysia's) unemployment statistics and ranked third for the same period (JSEDC, 1970, p.5). The poor economic development and imbalance of wealth distribution in the state, as well as throughout the nation, was also critical. Thus, the federal government introduced a top-down approach by announcing the New Economic Policy supported the establishment of state enterprises as economic agents to promote and expedite development. As such the model in Figure 1, showed the structure of both, federal and the state territory in the SOE landscape in Malaysia.

Figure 2: State Economic Development Corporation (SEDCs) in Malaysia.



Source: Graph by the author, data from Ministry of Finance Malaysia.

During the early era of public enterprises, several departments were established started with the incorporation of the **Majlis Amanah Rakyat (MARA)**, formerly the **Rural Industrial Development Authority (RIDA)** in 1950 and the **Federal Land Development Authority (FELDA)** in 1956 beckoned government policy on public institutions to spearhead Malaysia economic development. Later in the mid-1960s, **State Economic Development Corporation (SEDC)** were established to foster industrial and commercial infrastructure at the state level. Additionally, 11 Union banks owned by cooperatives were merged to form a government-controlled **Bank Kerjasama Rakyat Malaysia Berhad** in 1954. The financial institution played a complementary role in alleviating poverty and building rural and urban-based industries as well as improving the well-being of its members.

In Malaysia, the privatization of SOE in late twenty-century had a direct link to the emergence of partially of a state owned new type of SOE. The period of privatization took place in the mid-1980s and more so in 1990s under the leadership of the fourth Prime Minister Dr. Mahathir Mohamad. The downsizing of the public sector and the introduction of Privatization Master Plan in 1991 was based on two major objectives. Firstly, to swiftly achieve the **New Economic Policy's (NEP)** goal of providing more opportunities for Bumiputera (Malay ethnic and other indigenous groups) businessmen to participate in the economic activities. Secondly, to reduce the government's financial burden in providing core services to the public such as road construction, health services, energy, and power. The formation of **Government-Linked Company (GLCs)**, mostly at the federal level and under the jurisdiction of Ministry of Finance, and SOEs were carried out progressively through the process of privatisation and corporatisation with many government departments first privatised and later transformed into separate wholly-owned government companies. Specifically, GLC and SOE are defined as a company in which the government owns at least 20 per cent of the issued and paid-up capital and those established under the federal or state statutes or national law.¹

¹ Definition according to the Ministry of Finance, Malaysia (1993).

iii. Research Objectives

This study aims to contribute to the current literature on SOE. There are three main objectives of this thesis, firstly is to understand the objective and to study the multi-role of an SOE in national development, secondly is to examine the performance of JCorp and finally, to know why and how JCorp was venturing into the international market. In doing so, the research emphasis on providing comprehensive analysis why and how JCorp was established, what are the characteristics as an SOE, also how the corporation behaves and perform over the four decades. Insightful as this case study present, it is expected to compliment the understanding of Malaysian SOE as there is only a handful study focusing on SOE at a federal level, that rigorously examined its performances, ownership and/or policy implication, but the almost non-existence of detailed and systematic research on SOE at a state-level.

With the uprising of a new business landscape in the twenty-first century and extreme globalisation, SOE is increasingly competing with private firms in the global market making new way from the traditionally domestic oriented. Hence, this research also aims to address several crucial concerns emerged from these phenomena particularly from the multinational corporations, among others includes SOE are not on the fair level playing field, SOE have been granted many privileges by the governments, and competing in the international market as investors and traders. It is hoped that this research will help to shed lights on some of the important questions related to SOE which includes can SOE balance its social role with enterprise principle, is bureaucracy in SOE rationale, how and why SOE embarks on internationalization.

iv. Research Questions

There are three main research questions to be addressed in this thesis with several sub-questions discussed in each chapter. Among them, *what are the distinct characteristic of JCorp as an SOE and specifically on how the corporation promotes entrepreneurship; did JCorp adhere to their objective and mandate of establishment and why and how JCorp pursues internationalization.* As for the second tier of the research question includes what are the entrepreneurial characteristic developed in JCorp; is the business strategy and

investment decision in JCorp are based on strategic motives; how the corporation promotes entrepreneurship and what are the push and pull factors for internationalization of JCorp. These questions have been developed based on the JCorp case study embarked regarding the performance of SOE and thus aims to fill the knowledge gap identified.

In providing the answer to the research questions, there are four main topics to be focused on, first the role of SOE in carrying out its obligation on behalf of the government in social welfare and economic development. Second, entrepreneurship elements in JCorp and how it progresses over time and shape the corporation as it is now. Third, transformation within the JCorp in overcoming the challenges for the period under study from 1970 to 2014, the internal and external pressure in managing the highly diverse operation; and finally, internationalization strategy and the group operating as a multinational corporation. The finding of this research substantially contributed to the current academic debate to address the new phenomena of the SOE in the twenty-first century.

v. Research Methodology

As mentioned, this research employed JCorp as a unit of analysis, and before going further, several other important elements need to be defined for this thesis. First, definition of an SOE. There are several elements to be consider in defining an SOE including the relationship with the government, ownership structure, objectives as well as role and function (Haririan, 1989). In simple term, SOE can be defined as a legal entity created by the government to provide public goods and services, or to undertake commercial activities on behalf of the government. According to Ministry of Finance Malaysia, SOE are defined as a company in which government owns at least 20% of the issues and paid-up capital. In this case study, JCorp is defined as an SOE based on the ownership structure and its legal status upon establishment back in 1968 under the Johor Enactment Law.

Among the crucial characteristics JCorp as a holding company and parent companies to a huge number of its subsidiaries. JCorp defined subsidiaries as companies where it's equity interest is more than 50 per cent or the Corporation has the power to control the financial and operating policies of the management of the company. While associated companies are companies where it's equity interest is between 20 per cent to 50 per cent, and where the Corporation's participation in management through Board representation and

able to exercise significant influence in financial and business decision making (JSEDG, 1989, p.73). Since, JCorp Group venture into many different unrelated business sectors namely oil palm, healthcare, property, food and restaurant and intrapreneur ventures, as such it was deemed to be in a highly diversified operation. Meanwhile, on the geographical segments, JCorp Group operate beyond national borders and were managed on a worldwide basis. Also, a brief comparison will be undertaken between JCorp and other SEDCs in Malaysia to provide some basis parameter on the different performance level among them. As illustrated above in Figure 2, every States in Malaysia established its own SOE as a developmental and investment agent. As for the comparative purposes, among the States that have almost equal competitive environment includes Selangor, Penang and Negeri Sembilan. All these States operates its own port and logistic facilities except for Negeri Sembilan, nevertheless all these SEDCs were in among the nation top industrialised zone.

Why use case study? Case study method is used as it may offer insights that might not be achieved by other approaches. Case studies are rich, empirical descriptions of instances of a phenomenon that are typically based on a variety of data sources (Yin 1994). It also well suited for an exploratory research project, preliminary or new research area and emphasizes a real-world context in which the phenomenon occurs. Besides, case studies are one approach that supports more profound and more details investigation of research to answer how and why question of which the researcher has little or no control (Yin 1994). Also, Yin argued that a theoretical sampling of a single case study is straight forward and offer an unusual revelatory or opportunities for unusual research access. Cases are selected because they are suitable for illustration and extending relationship as well as providing logic among the objects analyse. The case sampled may result in several outcomes such as the revelation of interesting new phenomena, replication of findings or contrary findings, elimination of alternative explanations, and elaboration of emergent theory. Several scholars used single-case research to exploits opportunities to discover a significant situation under rare or extreme circumstances.

Thus, for this thesis, case study method was employed to analyse JCorp as the corporation that acts in an extreme approach and is completely different from the generally public enterprises and to provide analysis that average firm would not be able to deliver the required objectivity. Since there was no any similar research previously, it is with objectives to fill in the gap, revisit traditional theory and reawakening the characteristic of a well-

performer SOE in the millennium century. In the case of JCorp, it demonstrates an interesting business portfolio with more than 250 subsidiaries and multinational corporation status. It is rare for Malaysian State-enterprises to operate at this large scale with more than 65,000 employees and to operate beyond national boundary. The name Johor Corporation or JCorp will reflect the period after its corporation, and JSEDC is used interchangeably referring to a time period before 1995. At the initial phase of the research process, the achievement and performance of JCorp were unknown, but a simple comparison with other States-SEDC shown a huge gap in their performances even though their establishment was about the same time way back in the 1960s. Thus, it provides a merit to take JCorp which has exceptionally high performance as a case study for this research. Additionally, this case study is considered extraordinary for an SOE because of its high-performance and highly unrelated diversified operations as well as dual characteristics of SOE and multinational model. However, overall it was also highlighting a universal value for private enterprises with some unique characteristic embedded as an entity of state enterprise, also by applying the operating theory of a business group.

The explanatory nature of this study required for an approach capable of discovering and understanding the basic empirical concept in the new context of SOE. Conventional research focuses on public management, institutional and organizational as well as corporate governance. However, in this current thesis additional approach was employed such as international business, entrepreneurial and leadership elements adopting the business historical approach. This study involves a detailed examination of an SOE in Malaysia known as JCorp or Johor State Economic Development Corporation (JSEDC will be used interchangeably) by studying the company performance, organizational structure, and investment innovation as well as business model. In addition, this research also studies the international expansion and decision-making process within the company for a period of more than four decades, between the year 1970 to 2014. To address research aims in this thesis, the qualitative method is used to conduct a more comprehensive analysis and to achieve better narratives as well as understanding. Also, at some point of the research process quantitative method were also employed to support the analysis towards making a solid finding and conclusion.

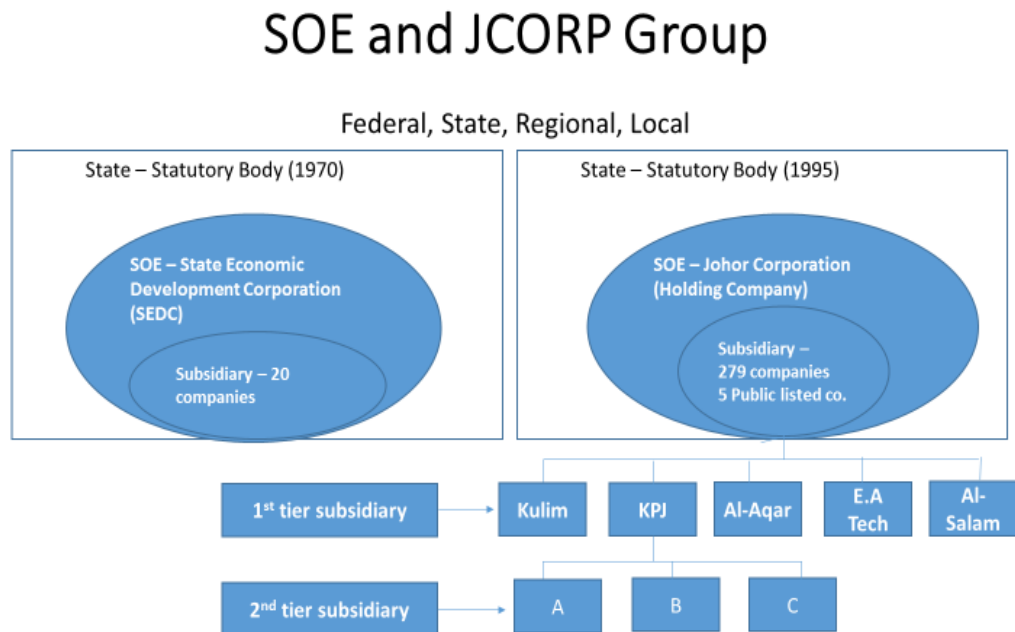
i. Sources.

As for the analysis, the study relies on archival records from the governments, public and private. These three different records are employed aims to corroborate the data from various sources or to perform as a source of criticism in historical approach. Data from government sources such as official written documents, minutes of Board meeting, auditor reports and annual report submitted to the Ministry of Finance are the major resources for this study. All these were collected from different departments which includes National Archive, Ministry of Finance and National Library of Malaysia. Also, public information such as newsletter, articles, press releases, websites and annual report related to JCorp and its subsidiaries were also gathered. But, there are some limitations as many of the government documents was not complete, many still being classified as confidential and some poor visibility. To analyse the performance of JCorp Group, a long historical firm-level data of 44 years was collected based on the annual reports from 1970 to 2014, except for the year 1971. It was discovered that before the 1990s, these reports are not publicly available, as such most of the data is exclusive and therefore presented in this thesis as originality of the study. These annual reports are considered as the primary source for this research. However, the challenges encountered was not able to secure an appointment for an interview session with the management team, as many times request for a meeting received a denial from the corporation.

ii. Framework of study

This thesis studies the four elements in JCorp namely the historical evolution of the business system, entrepreneurs, and firm, as well as their internationalization motives and strategy. Based on the research, it can be summarized that JCorp played several important roles, first as State Development Agent, second, Commercial entity, third, performing Corporate Responsibility, and finally, as a multinational Corporation. This business model is illustrated in Figure 3 below.

Figure 3: The Model of JCorp Group as an SOE



Source: Model by author, data obtained from Johor Corporation, Malaysia.

In specific, the focus of this study is the performances of JCorp as an SOE. Performance is the measurement of the progress of an organization over a period of time and often used for institutional, managerial or technical purposes (Townley, 2005). The *longue duree* performances are affected by many factors, internal and external. Additionally, performance is affected by actor's skills, talents, and knowledge. As the actor pursued the career development with various skills and knowledge, it then may change actor's need and intention (North 1990). For this, among the important determinant factor for measuring performance is efficiency level. Efficiency can be achieved through various process, and according to North (1992), efficiency is considered as the most equilibrium situation achieved when the distribution of benefits and resource allocation structures the economy where competition arises as part of achieving the market efficiency.

One challenging issue when evaluating performances of SOEs is that, limited specific tools and performance measurement indicators. Thus, to measure SOEs' performances, scholars often follow the common performance indicators which are used by

the private sector, or most rely on benchmarks set within similar industries (Morck and Stangeland 1996). Due to lack of knowledge about SOE sector, the government also relies on the benchmarking tool, even though these performance tools fail to accommodate SOEs' social welfare obligations. On top of that, as the industry matured various standard and industry regulation were introduced and required SOEs to obey to the standard, the so-called "efficiency or best practices". For this thesis, financial performance and best practices implemented by JCorp were employed in measuring the group performances. Although, the measurement is not the perfect one, these two factors are considered to be the most suitable determinant for this case study.

Next, the second important unit of analysis for this study changes particularly related to the organizational structure, objectives, and strategy of JCorp. However, the challenges were that the study of the organizational structure of SOEs were remained to uncork territory by scholars. To enforced changes, institutions or organization must make adjustment and adaptation to a new standard. As such, understanding of the changes of the market economy and government industrial policy is essential in developing the framework for the analysis of this thesis. A reviewed of current literature argued that the institution is a key factor for change, while the processes or evolution is an implication of institution changes. North (1995), further highlighted that the interaction between market and organization because of changes is a basic reference for institutional change theory. This thesis framework is developed based on institutional change theory and performance, as a reflection and implication of organizational change implemented by JCorp. Also, it is important to mention that one major reference for this thesis is associated with the author's article published in the BHC-online journal entitled "The Role of SOE in Nation-Building Efforts, 1970-2014", of which offer the opportunity for possible future work.

vi. Outline of Thesis

In the Introduction part, this thesis introduces background details on State-owned enterprises concept and overview on the topic as well information describes on the establishment of SOE in the Malaysian context. In addition, it also contains research objectives, the framework of study and conceptual framework under the section methodology, and finally, consist the chapter structure in this thesis.

Chapter 1 reviews the global conventional literature on SOEs related to legitimacy for the establishment of public enterprises, its role, function, and performances, entrepreneurship elements in a state-enterprises, diversification strategy leading to a formation of a business group, from local to internationalization and theory on an interfirm network. At the same time, new debates on SOE under the millennium era is also being reviewed.

Chapter 2 underlines the role of SOE and entrepreneurship model by analysing a specific case study of Johor Corporation Malaysia. In details, this chapter examines the business operation at the group level, the prominent leaders in top management as well as its strategic innovation implemented since 1970 to present. The research analysis is performed using the theory of entrepreneurship and leadership and reviewed some related literature.

Chapter 3 examines the transformation, evolution as well as best practices in Johor Corporation focusing on the aspect of what factors contributing to better performances of this corporation as a state-owned enterprise. It further looks at the diversification efforts, business group expansion, relations with subsidiaries and control mechanism. A review of the literature on a topic such as a scale and scope, speed as well as an organizational structure and strategy has been assumed.

Chapter 4 discusses the multiple roles and strategic interaction by Johor Corporation in dealing with its international businesses acting as a multinational state-owned enterprise. It highlights the capabilities of this corporation and illustrates how they are behaving differently from other SOE. For this chapter, literature review around the topic of foreign direct investment, resource-based and organizational capabilities was undertaken.

The conclusion discussed on the finding of the research study and summarizes factors that contributed to the better performance by JCorp; continuous transformation, leadership values, modern enterprise and organizational capabilities as well as act as the stimulus for its internationalization. Next, it discusses the challenges of SOE in this millennium era, elaborates on the unique new characteristics of SOE participating not only in domestic but also internationally, follows with some comprehensive lessons learned for sustainability and good corporate practices for global SOE.

Chapter 1

SOE Revisit and the New Debates

1.1 Historical Positions of SOE

State-owned enterprises started way back before the World War I in the West and Europe. It was common in the late nineteenth century for a government to provide subsidies for railway construction or promising minimum dividend for the shareholders of railway stocks. The early stage of state capitalism, government deemed to act as insurers, making sure that companies providing important public goods or social welfare were profitable or sometimes explicitly guaranteed their success (Musacchio and Lazzarini, 2014, p.24). However, because of the service inefficiency or project failure, for example in Germany, the government ended up owning these services from the private firm, and many of which acted as a bailout for failure. The situation worsens with the disruption of World War I, and the instability of the early 1920s as well as the slowdown of the Great Depression, as such governments have to be rescued through taking over many of these services and transfer of ownership.

The second stage of state capitalism goes from the 1930s to the 1980s, and “SOE peaked in the middle of the 1970s when European government nationalized firms in large numbers” (Musacchio and Lazzarini, 2014, p.25). The state’s presence in utilities accelerated after the World War II when the sector expanded rapidly with government owned and ran water, oil, gas, electricity, telecommunication, shipping, transportation and other companies. Thus, the state became an entrepreneur, venturing into a variety of firms across many industries beyond public services adopting different model either by fully, majority or minority owned. As the phenomena had a gradual spread globally, the government in developing countries follows suit either nationalized firms or created as state-owned in a larger scale, and as a consequence, by the end of 1970s SOE output to GDP reached 10 percent in mixed economies and close to 16 percent in developing countries (Ibid, p.6).

Around the same time, “between the 1970s and the turn of the twenty-first century, governments transformed the way in which they owned and managed firms” (Musacchio and Lazzarini, 2014). Throughout the 1980s, governments and multilateral agencies

experimented with reforms in SOEs to try to reduce the financial hardship both SOE and governments themselves were facing (Musacchio and Lazzarini, 2014). Officials tried corporate governance reforms, performance contracts for firms and managers, and training programs for SOE executives (Shirley 1989) or government ended up privatizing thousands of firms (Megginson 2005). Still, because of privatization was politically costly for many governments, some SOEs were only partially privatised. It was observed that, countries such as Australia, Austria, Belgium, Chile, Denmark, New Zealand, Slovenia, and the United Kingdom each had fewer than fifty SOEs controlled by the government circa 2005, while other such as Canada, Finland, France, Greece, Italy, Israel, Norway, and Sweden had between fifty and one hundred. Also, Czech Republic, Germany, Korea, Mexico, Poland, and Spain each had more than one hundred such firms (Musacchio and Lazzarini, 2014). OECD Report (Christiansen 2011, p.9) found that SOEs in emerging countries such as Russia and China had thousands of SOEs, and other like Brazil, India, Poland, and South Africa each had over two hundred SOEs at the federal level and much more at the provincial level. Having discussed the history of SOE in a global context, a detailed analysis of the emergence of SOE in Malaysia will be presented in Chapter 2 specifically related to the establishment of JCorp back in 1968.

1.2 Reason for the Establishment of SOE

SOEs were established for various purposes and objective such as social welfare, commercial driven, solving basic market failure and/or national interest. A review of the traditional literature highlighted that SOE main objective usually pertaining to specific socio-political. Also, the government often use SOE to pursue their social welfare function, including public good and services. For example, providing mail, water, transportation, electricity and communication services to the public. At the same time, many SOE plays a major role in supporting the development of the domestic market and industrialisation policy. In developing countries where the market fails to provide public utilities due to the level of economic development or lack of resources encountered by private enterprise and/or volition to participate in such projects becomes a reason for the government to establish and

control a larger number of SOE. Leroy (1975) identify a list of common goals of public enterprises as illustrated in Table 1 below.

Table 1: Public Enterprises' Common Goals Summarized by Leroy

1.	Increase employment	14.	Set “modernization” example
2.	Raise output	15.	Train skilled managers and technician
3.	Reduce income inequality	16.	Provide public services
4.	Promote regional development	17.	Promote national security
5.	Stabilize price	18.	Utilize resources efficiently
6.	Increase national self-sufficiency	19.	Control commanding heights
7.	Earn foreign exchange	20.	Implement government policy
8.	Save foreign exchange	21.	Prevent business failure
9.	Promote primary exports	22.	Counterbalance power of domestic capitalists
10.	Control monopolies	23.	Enhance national prestige
11.	Offset multinationals	24.	Offset externalities
12.	Achieve socialism	25.	Subsidize necessary commodities
13.	Earn profits for investment		

Source: Leroy P. Jones, *Public Enterprise and Development, The Korean Case* (Seoul: Korea Development Institute, 1975)

1.2.1. Legitimacy and the Role of SOE

Since the 1970s, SOEs were well established in mixed economies and developing countries including Malaysia. The reason for establishing SOE by the government are varied across countries, with a multiplicity of goals and objectives. Ramu (1986) has identified six goals of public enterprises which are to provide basic needs, employment, self-reliance,

economic growth, national prestige and regional development. Meanwhile, Mazzolini (1980) identifies four broad reasons for the establishments of SOEs:

- to maintain presence in certain key sectors of the economy;
- to fill gaps which was not covered by the private sector;
- to rescue or avoid total disclosure of declining industries; and
- ideology or nationalizations of key sectors.

Mazzolini analysis had emphasizes on the role played by SOEs as instruments of governmental or state policy ranging from economic efficiency and strategic importance. Hence, SOEs have become a trigger for economic development and increasingly important in the growth gross national product. In his research, which focuses on the operating trends of SOEs in Europe, the findings highlighted that while the forms and methods of control over SOEs appear to vary across European countries, the evidence points to the increasing adoption of commercial attitudes in the management of SOEs. SOE have become accepted as an alternative forms of government ownership in sectors of a country's industrial structure.

There are several different models of how this SOEs operates such as public enterprises, acting as subsidiary to private or foreign investors and sovereign wealth fund (SWF). Globally, the interest in SWF as key players in the financial market has grown rapidly over the last decades. The study on SWF showed that the institution serves various economic and political objectives such as budget stabilization, diversification from commodities, saving for the future generation, supporting domestic economy and controlling politically sensitive industries. SWF also served as "investor of last resort" during a crisis time, intervening to support their domestic financial markets (Clark and Monk, 2010, p.429). To have a better understanding of the definition of SOE, Gills. M (1980, p.248) provides three criteria which should provide adequate "litmus test" as follows:

- the government is the principle stockholder in the enterprise, can exercise control as well as appoint and remove enterprise management;
- the enterprise is engaged in the production of goods and/or services for sale;
- to bear some relations to its operation costs from the profit and may also need to satisfy its stated social functions assigned by the State.

The theoretical debates and literature reviews on SOE presented above, will be applied in discussing the case of JCorp in the following chapter, focusing on its role and reason for the establishment by the state government.

1.2.2 SOE and Traditional Theory

For this section, the literature review is mostly based on the recent book entitled “Reinventing State Capitalism” published by Musacchio and Lazzarini (2014). In addition, three more books related to the study of SOEs among others include “State-owned enterprises in a mixed economy”; “State-owned enterprise in the western economies” and “Reappraising State-owned Enterprise” were referred. The traditional literature mostly describes SOEs as inefficient, poorly managed, bureaucratic and heavily subsidised by the government. The prevailing view on SOEs was generally negative, and according to the Agency theory, SOEs are deemed to be inefficient because their managers lack high-powered incentives and proper monitoring. The Social theory contends that SOEs have social objectives which sometimes conflict with profitability, while the Political theory views politicians as taking advantage of the SOEs for their personal benefit or to benefit the politically-connected capitalists. In contrast, the Industrial Policy views the establishment of SOEs or state investment companies to promote development beyond what is possible under the free-market. With state holds majority ownership while aiming toward profits, the state will have better control of externality, shaping the spill-over in the market from their policy and would be in control of negative impact if any.

In the case of SOEs in Malaysia at some point, the managing and decision making is highly influenced by politician and state’s government (Suraiya, 2011; Morris and Jones, 1999; Abdul Hafeez, 1992). Therefore, further hindering SOEs from being efficient and productive. On the other hand, Wong (2004) also argued that most SOEs pursued multiple and conflicting objectives, while private enterprises focus exclusively on profit maximization. The goals of respective SOEs were complex and varied depending on its objectives when first established. The succeeding chapter elaborates on the establishment of SOE in the Malaysian context by analysing the legitimacy.

A recent theory described SOE as a “new varieties of State Capitalism” and was discussed by Musacchio and Lazzarini. This theory on new varieties of state capitalism differs from the more traditional model in which governments own and manage SOE as an extension of the public bureaucracy or also known as Leviathan as an entrepreneur. However, the new form of state capitalism was defined as the widespread influence of the government in the economy, either by owning majority or minority equity positions or by providing subsidized credit through development bank or other privileges to private companies (Ibid). It was further argued that the government or Leviathan as a minority investors model is prevalent and covers almost half the companies in which the government has equity, while the rest being a majority owned SOEs. The authors further illustrate that many observers view the rise of the forms of state capitalism with anxiety especially the private firms and investors. Another theory described SOE as a hybrid organization that operates in both socio-political objectives and market condition (Ramamurti, 1987 and Vernon, 1979). Additionally, Bruton et.al., (2015) argued that there is a lack of universally accepted definition and more often the mixed interface between the purely private and public entity, thus SOE should be considered as hybrid entities with a combination of both types of ownership. Interestingly, some scholars presented case evidence of “present-day competitive SOE and some have reached high levels of performance” (Flores-Macias & Musacchio, 2009, p.1 & p.7).

Next, reviewing the debates related to organizational behaviour, structure or management model of SOE less were available currently. To date, much of the debates on SOE have dwelled on ownership structure, managerial autonomy, commercialization as well as privatization. However, the quest in academic literature as well as in policy endeavours to explain SOE performance has not yielded much consensus, given the ability of certain theories to adequately explain SOE performance (Bozec et al. 2002). While empirical evidence exists, and elaborating on how well or poor SOEs have performed over the years, of equal importance is a systematic examination to explain what factors drive good SOE performance. Thus, these are the gaps this thesis intends to fill by adopting the analysis on JCorp for over more than four decades.

Now, it is equally important to understand what is the parameter for evaluating SOE performances. Ironically, in recent decades’ public enterprises and SOEs or any government agency faced pressure to become more efficient and scuffle to meet the private sector’s

performance levels of which to maximise profit. Even though these government agencies have been tasked with multirole and various social goals. Existing literature, identified several fundamentals to evaluate SOE performance and effectiveness in achieving various objectives such as social audit, management behaviour, decision-making process, internal organizational dynamics (Aharoni 1983 & 2000). In his research, Aharoni (1983) elaborated on the social audit as assessing performance in term of morale and satisfaction, the standard of living, distribution factors, contribution to externalities, and other attributes. Also, an SOE can be compared to other enterprises in the same sector (benchmarking), or its past and present achievements can be compared. Also, Ekaterina et al. (2014) suggested for social and economic effectiveness be used to evaluate the activity of SOE, whereby the ratio of socially significant effect which resulted from the achievement of the corresponding goal set by a government to resources spent on its achievement. Therefore, in measuring SOE performance not just “hard” measures such as economic effectiveness, profitability, productivity or growth rate, but also essential to apply different viewpoint or “softer” behavioural measurement includes employee’s satisfaction, legitimacy, or managerial incentives or adaptability (Aharoni 2000). It is one of the aims of this thesis to improve on current understanding of much-debated issue about SOE performances comparatively to privately owned firms.

1.3 The Concept of Entrepreneurship and Modern Enterprise

1.3.1 Bureaucracy and Entrepreneurial Theory

Reviewing literature on bureaucracy and entrepreneurship, a traditionally view in organizational theory holds that working in bureaucratic organization suppresses rates of entrepreneurship. A combined definition for bureaucracy or a bureaucratic organization based on organizational theory includes several characteristics which include a number of common processes, increased role differentiation and specialization within the firm, higher coordination and administration procedures, routine in nature for standard operating procedures, as well as opportunity for career advancement within an organizational hierarchy.

Based on Ritzer (2004, p.42), the author reviewed Weber's theory of rationalization and bureaucratization, whereby he identified four types of rationality namely practical rationality related to daily operational procedural; theoretical rationality involved logical and intellectual concepts, substantive rationality more on individuality values, and formal rationality is based on rules and concrete facts which are largely illustrated by bureaucratic type institution. The author further elaborates on five elements of bureaucracy or formal rationality, first, "efficiency, predictability, quantifiability, control through substituting nonhuman technology for human judgement, and irrationality of rationality" (Ritzer, 2004, pp.44). In the bureaucratic system, the operation is highly predictable as the manual described the procedures as detailed as possible. So much so, the tasks should follow the method prescribed by the organization. However, there is a setback of bureaucracy due to the red-tape or inefficient or unclear procedures from the employee's view point. If the positive side of bureaucracy being implemented successfully, perhaps the organization's performance could be positive and improved.

Another important factor and a key element to the growth and survival of firms is the entrepreneurship component. Entrepreneurship is much discussed in the context of a firm and economic. There are various theories related to entrepreneurship such as Alfred Marshall (1964), "who introduced the innovation function of an entrepreneur as someone who is continuously seeking opportunities to minimise costs and ultimately maintaining equilibrium in the economy"; Bula (2012, p.83) summarize that the neo-classical and Marshallian theory explained the equilibrium conditions in the market under the assumptions of perfect knowledge and information, perfect competition, the existence of homogeneous goods, and free entry and exit in the market. Then, followed by reviewed on the theory of entrepreneurship, where an entrepreneur is seen as the creative destroyer and discovery of opportunities leading to the introduction of new products and new processes via innovation. Interestingly, Schumpeter (1942) looks at the entrepreneur as an innovator and not as an imitator. According to McCraw (2006), he viewed Schumpeter's entrepreneurship concept of innovator as an economic and social leader who does not care much about economic profits, and that the only joy he gets is from being an innovator and a server to society, and as an entrepreneur moves the economy out of its static equilibrium.

Many existing literatures illustrates on the essential role of entrepreneurs in economic recovery, as the catalyst for technology, driver for economic development and

social growth. Entrepreneurs have introduced new technologies, creating jobs, improving the social and economic conditions of nations (Baumol 1986). Also, entrepreneurship has improved the quality of life (Baumol et al. 2007). As for the historical study of entrepreneurship, it has been particularly concerned with the understanding on how the structural change and development were taking place within economies. Specifically, business historians are more concerned with understanding the underlying character and causes of the historical transformation of businesses, industries, and economies.

Meanwhile, Harvey Leibenstein (1968) concept of entrepreneurial focus on two aspects, applying the theory of entrepreneurial economy and using this theory to explain the value of entrepreneurship within the economy. Leibenstein considered two approaches, what he calls routine entrepreneurship (well-defined markets) and N-entrepreneurship (Schumpeterian model). Also, he introduces ways and possibilities of how both elements can exist within the economy illustrating the entrepreneur as someone who brings gradual changes to existing products and processes through leadership, motivation, the ability to resolve crises, gap-filler, and risk-taking (Leibenstein, 1968, p.72). Jones and Wadhvani (2014, p.34), argued that “entrepreneurship research in business history today is rarely considered a single coherent field, but rather is dealt with as part of many different subtopics”.

1.3.2 Leadership and Competencies

Leaders are among one of the fundamental elements in organization whom chart the direction and lead the team to the future success. But, more importantly is the Leadership quality and its effectiveness in managing as well as enhancing corporate value, having all the credentials to handle all tasks, implementing a long and short-term strategy, and responsible for the overall performance of the entire organization. Study on leadership showed some momentum during the early of the twentieth century. It was observed that the early leadership theories focused on the qualities that distinguished between leaders and followers, and different perspectives were undertaken by the subsequent scholars who focused on talents and environment elements. There are many leadership theories that have emerged, and some of the most relevant for this study include contingency, participative, management and transformational theories.

Specifically, the contingency theories examine on variables related to the situation and determine leadership style that best suited for an organization. It suggested that there is no one leadership style best in all situation, since success would depend on other factors as well such as the leadership style, qualities of the followers, and aspects of the reality. On the other hand, participative theories assume that most leaders encourage participation and contribution from members of all level to be more involved and stay relevant in the day-to-day operation. While management theories are leadership base on a system of reward and punishment, which mostly implemented in the private sector. Also, these theories focus on the role of supervision, organization and group performance in implementing evaluation and appraisal procedures. Finally, on the transformational leadership theories, it emphasis on the relations between leaders and followers. These theories propose that great leaders motivate and inspire the entire team by helping the group members understand the importance and good value of the tasks. At the same time, these leaders often have high ethical and moral standards, although focusing on the group performance, but also eager to see the utmost potential of each and everyone in the organization.

Musacchio and Lazzarini (2014), recently studying the relationship CEOs of SOEs and their impact on firm-level performance with the aim to reconnoitre the role of CEOs in explaining some of the variation in performance of Brazilian firms. The authors highlighted the challenges faced by SOE in recruiting talents and stiff competition with the private firms. In the case of SOEs in Brazil and India, employees are recruited through civil service procedures. This scenario means that the SOE will only have the talent for top managerial trained in-house and that the initial recruitment process is the most essential and “has a dependence-effects on firm’s performance”. As such, in some situation when a system of lifetime employment generates negative consequences, then the SOEs would be underperformed in the long run. The authors in their study suggested that “it is important to give SOEs the flexibility to select talented managers, including outsiders such as smart managers with technical background” (Musacchio and Lazzarini, 2014). Moreover, another element from their study illustrates that corporate culture is not the impediment for CEO from outside to be well performed.

In addition, Hamel & Prahalad (1994), argued that organizations are formed and within it as bundles of resources which, depending on how they are unique combination to make one firm perform better than the others. Supportive of such idea, Grant (1991) holds a

view that firm's resources are its primary source of good performance. Makhija (2003) does confirm that resources provide a distinct competitive advantage catalyst to good organizational performance. Specifically, firm resources both tangible and intangible are a meaningful contributor toward firm performance only if they are "*valuable, rare, imperfectly imitable, and not perfectly substitutable*". Makhija (2003) add to the theory by further emphasizing on the concept of "competitive capability" of which he pictures that with three primary components: knowledge of underlying efficiency, entrepreneurial ability, and a firm's institutional network and administrative heritage. Evidently, the first and second components are tacitly residing within the firm's management itself and as such, constitute part of firm's intangible resources. Also, can be considered as important resources and often do provide above average performance if they are rare and imperfectly imitable (Mbo & Adjasi 2013).

1.4 Business Group and Diversification

1.4.1 Business Group and Interfirm Network Theory

Another topic of interest in this research is in the business group and interfirm network portraying solid and strategic cooperation and relations between firms. There are many different types of organized cooperation such as cartels, consortia, unions, joint-ventures, strategic alliances and industrial associations. As for business group and interfirm network, two eminent characteristics are, firstly, they possessed of legally distinct firms, and secondly, they remain for long period of time (Granovetter, 2005). Furthermore, business group plays an essential role in economic development while interfirm network in innovation aspects, particularly in a complex coordination situation engulf firms or also known as modern-firms. It was identified that these firms varied in term of size, scope, complexity and speed because of scale and scope of economies that linked to transportation and communication advances (Chandler 1990).

Most of business group will embark on diversification to achieve sustainability and to be competitive as well as in building a more capable organization. For a company to diversified its product lines, expand by adding new unit and operating in different regions is because of the additional new units permitted them to maintain a long-term rate of return on

investment and costs saving for production and distribution (Chandler, 1990). He further argued in the book entitled *Scale and Scope, The Dynamics of Industrial Capitalism*, that the costs of such transactions are reduced by a more efficient exchange of goods and services between units, whereas the economies of scale and scope are closely tied to the more efficient use of facilities and skills within such units (Chandler, p.17).

1.4.2 Why Firms Diversify?

There has been upsurge study on the reason and strategy of firm's diversification in the last decades especially related to the business group. Two aspects that were often considered are product diversification and geographic diversification. "These two diversification phenomena emerged as prominent strategies for firms during the 1970s and 1990s, a period of rapid development in many emerging economies in Asia and Latin America" (Delios and Ma, 2010). Why then a firm select to adopt one or both approach and how they embark on the diversification strategy. Interestingly to note that the research on this topic in emerging economies is treated as a subset research on product diversification mostly by scholars interested in strategy (Palich et. al, 2000).

Diversification strategies play an important role in the behaviour of a large firm. Recently, there are more new studies related to firms from emerging economies and their diversification strategy effects on corporate performances. As argued traditionally that, related diversification will increase the firm performance and financial results, but it applied to the case of a developed country. On the contrary, some scholars suggested different theoretical arguments for the case of developing and emerging economies, unrelated diversification is more appropriate particularly for the business group (Khanna and Palepu, 1997). The reason behind this is that these groups it expected to have the scale and scope to perform the economic function, add value to the society and to fill in the market gap. Generally, firm creates values for unrelated diversification through cost savings or efficient internal capital allocation and restructuring of acquired assets.

On diversification, Agency theorists suggested that executives in most cases are motivated to strive for a product diversification strategy as to increase their private benefits (Hoskisson and Hitt, 1990). Another central focus is about the relationship between product diversification and firm performance. A review of the literatures concludes that there are

some advantages namely economies of scale, optimization of internal resources, bigger market power and reduce risk. With a common finding of related product diversification tends to have positive corporate performance than the opposite. On the other hand, geographic diversification could have more complicated scenario hence the relationship with performance somewhat complex. According to Lu and Beamish (2004) the performance declines at the early phase of internationalization, later raises at modest levels and then declines again at a rapid geographic diversification. To this end, one crucial issue related to diversification is that can firm sustained their strategy either product or geographic diversification.

1.5 Towards Internationalization

1.5.1 SOE and Internationalization Theory

A well-known fact that SOE is created to focus mainly on domestic needs, however, in recent decades, SOEs particularly from emerging economies, have internationalized through a wide variety of approaches including Foreign Direct Investment (FDI) or Sovereign Wealth Fund (SWF). SWF has emerged as a new mechanism for channelling state investment in the global market (Sauvant et al. 2012). The globalization of Multinational-SOE (MSOE) has become an important phenomenon with its hybrid structure that is dual characteristics of both SOE and MNC. These new phenomena describe SOEs as a hybrid organization with both market orientation and socio-political goals (Vernon 1979, Ramamurti 1987). This thesis employed the definition of Cuervo-Cazurra et. al 2014, whereby “MSOE is defined as legally independent firms with direct ownership by the state have value adding activities (production facilities, sales subsidiaries or purchasing subsidiaries or design or R&D centre) outside its home country.” It has been observed that the public management theory has not discussed much on explaining the reason and factor why SOEs internationalize (Choudhury & Khanna, 2014). SOE’s internationalization dynamics are mostly driven by political factors and social welfare considerations, and yet the existing International Business (IB) theories were only focusing on efficiency-based motives for internationalization. At the same time, IB scholars’ study of the global expansion

of MSOE firms with hybrid structure has been limited until recently by scholars like Cuervo-Cazurra, Inkpen, Ramaswamy, Khandwalla, Musacchio and Lazzarini.

Historically, in the middle of the twentieth century some of the SOEs were in natural resource-based sectors like in mining and oil and gas had internationalized via exports, while others specializing in technology based such as nuclear power generation, automobile, and telecommunication equipment or in services such as banking, transportation, and construction have only recently expanded outside their domestic borders (Cuervo-Cazurra et. al 2014). Based on UNCTAD Report (2010, p.28), there were at least 650 MSOEs with more than 8,500 foreign associated, of which about 44 per cent of these MSOEs were from advanced economies and more than 40 per cent were majority owned by their governments. Of course, the number seems small if compared to the over 100,000 MNCs established in the world, but MSOEs are extremely large in term of size, with only 19 MSOEs they are among the largest 100 companies in the world (UNCTAD 2011, p.viii). Moreover, MSOEs now control approximately US\$2 trillion in foreign assets (Sauvant & Strauss, 2012) from both developed and developing countries. Thus, the internationalization of MSOEs on a massive scale is indeed a relatively new phenomenon, and study on their evolution from pure SOE to a multinational company is complex and challenging.

According to the market imperfections theory by Hymer (1970), firm's decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries. Hymer identified two major determinants of FDI, one was the removal of competition, and the other was the advantage which some firms possess in a particular activity. Meanwhile, the efficiency-based theory of internationalization (Uppsala model) or Dunning's Eclectic Paradigm have not discussed on the motivation of SOE to internationalized nor the managerial outcomes that internationalization can bring to hybrid organizations like the SOEs (Bass & Chakrabarty 2014). On the other hand, Cuervo-Cazurra et. al 2014 presented three different views on the internationalization of SOEs. First, state-ownership as a deterrent to SOE internationalization, secondly, pro-market reforms as incentives to SOE internationalization and finally, the unique aspects of governments as owner in SOEs' internationalization. In recent decades, many emerging countries experienced a transition in the domestic economy and globalization movement. Due to these scenario, SOE faced intense competition and experiencing lack of protection in local market (Tan & Tan 2005), thus forced SOEs to engage in outward foreign direct investment (OFDI),

seeking other market, business opportunity, new sources of income and revenues leading to the acceleration of its internationalization (He, Eden & Hitt 2015). As a result, today many SOEs across the globe have witnessed significant transformations and emerged as multinational corporations in their own model (Cuervo-Cazurra et. al 2014).

Mazzolini (1979) has developed three alternative theories for explaining the behaviour of government-controlled enterprises in their international strategy and policy decisions. Firstly, the rational selection of strategy is in line with its corporate objectives. Next, the organizational process helps to determine the strategy of an organization and is reflected in the existing organizational structure and each subunit. Finally, on organizational politics whereby this approach identifies key individuals and their personal objectives and power concerning to strategic change of the organization. Furthermore, those public enterprises with extensive multinational objectives would naturally develop a suitable procedure for the international operation which in turn leads to greater efficiency. Also, the SOEs of the twenty-first century have learned the lesson from the past and emerge with distinct characteristics regarding the ownership form, corporate governance practices and management style (Flores-Macias and Musacchio, 2009).

Therefore, based on the literature reviews and the discussion above, chapter 2 will demonstrate a case study of JCorp with focus area related to entrepreneurship and leadership, while theory on business group and diversification is employed to analyse the performance and evolution process of JCorp in Chapter 3. Also, Chapter 4 will present the discussion on internationalization of JCorp by integrating public management and IB theories.

Chapter 2

The Strategic Role of SOE and Entrepreneurship

2.1 Introduction

Scholars have noted that SOEs have been established for two primary reasons: first, as a solution to overcome market imperfections, and second, as a political ideology or the strategy of a State government. Many governments use both arguments to justify the creation of SOEs for purposes of national interest. Due to globalisation and the ever-changing vibrant commercial environment, modern business entities, as well as public enterprises, need to be innovative and creative in handling their operations. However, the new form of state capitalism has been defined by the widespread influence of the government in the economy, either by owning majority or minority equity positions or by providing subsidised credit or other privileges to private companies (Musacchio and Lazzarini, 2014). The recent theory of SOE described as “new varieties of state capitalism” differs from the more traditional model in which governments own and manage SOE as an extension of public bureaucracy, which has been labelled “Leviathan as an entrepreneur (Ibid, p.2).”

The purpose of this chapter is to understand the role of SOE, in the case of JCorp as an agent for the government in developing national economy, specifically in the Malaysian context through the introduction of the National Economic Policy (NEP) after the country’s independence in 1957. This chapter also aims to explore the explanatory concepts and implications of such a policy. Also, to study its growth and performance by focusing on the relations between SOEs and entrepreneurship, the role of SOEs in developing local entrepreneurs, the characteristics embedded in JCorp, and how entrepreneurship changed over a long period. The results of this study would contribute much to the current work on SOEs. Once, Vernon (1979) has contended that “empirical research on SOEs has lagged actual developments and that our ability to explain behaviour remains relatively weak”.

For this chapter, the method of analysis is based on study performed by Musacchio and Lazzarini (2014, chapter 5), by exploring the role of CEOs in explaining the firm performance. The authors analysed the impact of CEO on SOE performances and concludes that those CEOs who attended elite universities can lead firms to have better performance

than the average SOE. Musacchio and Lazzarini had used several performance variables such return on assets (ROA), return on equity (ROE) turnover, total factor productivity (TFP) and number of year with losses to measure the contribution of CEO on SOE performance. Hence, this study also employed variables such as ROA, ROE and return on sales. Also, other data such as accumulated asset value, profitability and investment will also be used as the performance yardstick. The chapter is divided into five sections, each of the section 2.1 to 2.3 provides the background and review on related literature. Next, Section 2.4, discuss the leadership role in JCorp Group, followed by Section 2.5, looks at the SOE entrepreneur at subsidiary level. Section 2.6 examines the growth strategy of JCorp Group; and finally, Section 2.7, presents the analysis and conclusion.

2.2 Literature Review

In recent years, SOEs have received increased attention globally considering that these entities operate using a wide variety of approaches and play many important roles, including domestic investor, OFDI, SWF, and global exporters. However, there are very few studies that focus on the role of SOEs in promoting entrepreneurship and the implication for nation-building. This paper will review theories on SOEs and entrepreneurship, innovative enterprise, as well as economic development.

Alfred Marshall (1964), who introduced the innovation function of an entrepreneur and elaborates that entrepreneur is someone who continuously sought opportunities to minimise costs and ultimately maintained equilibrium in the economy through perfect competition and a non-monopolist market. Bula (2012, p.83) summarizes that the neo-classical and Marshallian theory explained the equilibrium conditions in the market under the assumptions of perfect knowledge and information, perfect competition, the existence of homogeneous goods, and free entry and exit in the market. This is in contrast to the Schumpeterian (1942) approach, where the entrepreneur is seen as the creative destroyer of equilibrium through innovation and the discovery of opportunities by introducing new products and new processes. Interestingly, Schumpeter looked at the entrepreneur as an innovator and not as an imitator. According to McCraw (2006, p.231), he viewed Schumpeter's entrepreneurship concept of innovator as an economic and social leader who

did not care much about economic profit; the only joy he received was from being an innovator and a servant to society. As an entrepreneur, he moved the economy out of its static equilibrium. Meanwhile, Harvey Leibenstein (1968) concept of entrepreneurial focus on two aspects, applying the theory of entrepreneurial economy and using this theory to explain the value of entrepreneurship within the economy. Leibenstein (1968, p.75) illustrates the entrepreneur as someone who brings gradual changes to existing products and processes through leadership, motivation, the ability to resolve crises, gap-filler, and risk-taking (Ibid, p.72). However, there is no single definition of entrepreneurship as it all depends on the focus and the intended perspective. As such, the analysis of this case study shall be based on economic, social, and management aspects.

To analyse the economic impact of entrepreneurship, some research suggested that it could be performed by examining the behaviour of the entrepreneur or of the supply of entrepreneurship in a national context. Also, it is essential to differentiate between entrepreneurial and managerial functions. “The entrepreneur needs to locate new ideas and to put them into effect; he must lead or perhaps inspire” (Baumol, 1986,p.64). He is a type of Schumpeterian innovator and the individual who conquers what the business literature called “leadership.” Public leadership and competent leaders are the key to success in the twenty-first century and a topic that Burns (1978, p.2) called “one of the most observed and least understood phenomena on earth.” Entrepreneurship is shaped by many economic, historical, social, cultural, and political factors. On the other hand, “the supply of entrepreneurship is shaped by the characteristics of the population, including demographic composition, educational attainment, income level, the degree of unemployment, and various cultural norms” (Audretsch, 2003). “Social scientific investigation of entrepreneurship needs to focus not only on entrepreneurs and their firms but also on temporal changes in the societies, economies, industries, markets, and political systems in which they operated, an eclectic approach that history could provide” (McCraw 2006).

Likewise, Musacchio and Lazzarini (2014, p.121) discussed in detail the role and the importance of CEO to the performance of SOEs. The authors further emphasised that some scholars had highlighted CEO matters, as leaders have different management style and skill, policy ideology and motivation, so much related to their personality and values. While some say, top leaders in SOE do not matter much and have less impact on the firm-level performance. Musacchio and Lazzarini study the topic based on Brazil case to explore what

CEO characteristics matter more in order to have a better result for the SOE. But also, SOE performance is closely linked to the internal resources, political and government network as well as the circle of corporate community. For this, the study investigates CEO-specific traits namely education, network, political and military connection that could serve as the push factor to improve the performance as SOE. The finding of their study concludes that those CEO who attended elite universities and the network created have a high influence over the firm performance. Also, it is important to give SOEs the freedom to recruit talented managers with the right ability and technical knowledge.

In the context of Malaysia, there are several studies on government ownership and company performance, post-privatization of SOE, performance of GLC, corporate entrepreneurship, SOE and organization performance. On the GLC performance, it was argued that non-GLC perform better than GLC in term of corporate governance, while government ownership serves as a control mechanism (Ab Razak et.al, 2011, p.213). Interestingly, Shamsuddin et.al (2012, p.111) analysed the effect of corporate entrepreneurship dimension on the financial performance of JCorp as an SOE by focusing on four aspects namely pro-activeness, risk-taking, innovation, and self-renewal. The analysis was conducted based on quantitative model testing. Their findings highlighted that pro-activeness has a positive and significant impact on financial performance of the company, while risk-taking does not have a direct effect. On the other hand, for innovation and self-renewal were found negatively related to financial performance. Henceforth, based on these literature reviews, the theory and discussion will be employed for analysis of this study.

2.3 Establishment of Johor Corporation

The history of Malaysian state participation in commercial and developmental activities actively began before independence in 1957. Later, in the mid-1960s, many state development economic corporations were established across Malaysia to foster industrial and commercial development in all sectors of the economy. The first State Economic Development Corporation was established in the state of Selangor in 1964, followed by Penang and Terengganu in 1965 and five other States in 1967, while the State of Johor was established slightly later in 1968. JCorp legal status as an SOE is well-defined under the

Johor Enactment No.4 – 1968; An enactment to established a body corporate to be called the Johore State Economic Development Corporation (JSEDC Enactment 1968):

“Corporation” means the Johor Economic Development Corporation (JSEDC), established under section 3 for the purpose of agricultural development or housing development or development of urban or rural areas (JE, 1968, p.26).

Hence, the role and function of JCorp are to serve as development and commercial agency for the State Government of Johor. JSEDC started its operations on August 1, 1970, with a business loan of MYR10 million (US\$3.3million) from the Johor state government (JSEDC, 1970). It played a major role in fostering economic growth in the state, particularly in strategic economic sectors including agro-business, industrial development, property, and logistics. Meanwhile, comparing with another SEDC in the State of Pahang, the SOE or SEDC Pahang received a huge operational budget whereby in 1965 the state enterprise was provided with MYR500 million by the State Government as initial seed money to start operation, then with additional budget of MYR1.5 billion in 1967, subsequently another MYR500 million in 1971 (PKNP, 2015, p.17). Furthermore, SEDC Pahang had started its operation in 1967 ahead of JCorp, but its Corporation and some other remained less well-known in Malaysia.

Later, a comprehensive analysis performed on the legal document related to the duties and power of JCorp under the Johor Enactment No.4 – 1968; the section of Duties and powers of the Corporation stipulated that:

...It shall be the duty of the Corporation to promote, stimulate, facilitate and undertake land development in the State of Johore for the purposes of agricultural, residential, industrial, mining, and commercial development (JE, 1968, p.32).

...Also, to promote any such activities in association with other bodies or person (including departments or authorities of the Government of the Federation, of the Government of any State or bodies incorporated under a Federal or State Law) or as managing agent or otherwise on its behalf;

....to do all acts which the Corporation considers desirable or expedient (Ibid, p.33).

In addition, its main mission was to alleviate poverty and to provide business opportunities for the ethnic Malays, or Bumiputera, in order to improve their economic status. Malaysia is a country with a Malay ethnic majority, which dominates politics, but a Chinese minority that holds more than 75 percent of its economic power. Table 2 below, confirmed the critical situation of poor Malay households in the 1970s, with the majority grouped within the two-lowest ranking of the monthly incomes. Moreover, Table 3 illustrated the divisional of labour and created the major economic imbalances in the nation. In sum, it was described as an ethnic division of labour, accumulated with the pressing issues of economic inequalities and social division. Thus, JCorp acts as a business commitment to increase the economic level of the Malays to be on par with other ethnicities in the nation (JCorp Annual Report 1970).

At that time, there were two major economic problems in Johor State, unemployment and an imbalance of economic power among the various ethnicities. By the end of 1970, a total of 22,724 unemployed labours had registered with the Labour Office seeking jobs, which represented about 14 percent of the nation's (peninsular Malaysia's) unemployment statistics and ranked third for the same period (JSEDC 1974). Adding to the challenges was that majority of the registered labours had no technical training and any working experienced (Table 6, p.58). The poor economic development and imbalance of wealth distribution in the Johor state, as well as throughout the nation, was also perilous. Thus, the federal government introduced a top-down approach by announcing the New Economic Policy through the establishment of state enterprises as economic agents to promote and expedite development in all the States.

At the national level, post-independence in the early 1970s, the government adopted a laissez-faire policy and import-substitution industrialization in the later phase. For this, the government developed the needed infrastructure and offered some incentives such as credit facilities and tariff protection to manufacturers. However, the legacy of British and other Europeans investors was in an advantage position to take this opportunity to remain as premier as well as expanding their businesses in Malaysia (Gomez and Joko, 1997, p.16). As such, it was seen that local participation in manufacturing was limited due to the situation of which favouring the capital rich of foreign companies (Joko, 1986, p.222). While, the Chinese ownership of share capital showed a substantial figure, but the proportion of Malay ownership in the corporate sector was very low. Based on the data indicated in Table 4,

Chinese ethnic, the minority, controlled 22.5% of the share capital of limited companies in Peninsular Malaysia, foreign firms holding 60.7%, and the Malay with only 1.9%. In detail, the table shows the distribution of share capital of limited companies by ethnicity and industry in 1970 whereby the foreign firms mainly involved in agricultural, forestry and fisheries sector, mining and quarrying as well as banking, commerce and manufacturing. Meanwhile, the local Chinese ethnic group dominated in the construction, transportation, communications, and commerce sectors.

Table 2: Proportional distribution of households (percent) by income^a and ethnicity, Peninsular Malaysia, 1970 by Teik K.B.

Income range (MYR per month)	Proportion (%) of households in income group			
	Malay	Chinese	Indian	Other
1-99	84.8	9.6	4.8	0.7
100-199	60.8	24.8	14.0	0.3
200-399	40.2	45.9	13.5	0.4
400-699	31.3	55.2	12.5	1.0
700-1,499	23.4	61.7	12.8	2.1
1,500-2,999	18.2	63.6	9.1	9.1
3,000 and above	0.0	33.3	33.3	33.3
Per cent of total population	56.7	31.3	11.2	0.8

Source: Teik K.B (2005, p.10), Government of Malaysia 1973:4, table 1.2

Note: a – Income includes cash, imputed income for earnings in kind plus transfer receipts.

Table 3: Distribution of labour by selected occupations and ethnicity, Peninsular Malaysia, 1957 by Teik K.B.

Occupation	Total number	Malay (%)	Chinese (%)	Indian (%)	Others (%)
Rice cultivation	398,000	95.8	2.4	0.0	1.2
Rubber cultivation	614,000	42.4	32.6	24.5	0.5
Mining and quarrying	58,000	17.7	68.3	11.6	2.4
Manufacturing	135,000	19.7	72.2	7.4	0.7
Commerce	195,000	16.4	65.1	16.8	1.7
Government services	34,000	52.4	15.4	26.3	5.9
Police & home guard	52,000	83.2	9.6	4.4	2.8
Armed forces	11,000	76.8	8.8	8.4	6.0

Source: Teik K.B (2005, p.14), Census Report of Malaysia, 1957.

Table 4: Ownership of Share Capital of Limited Companies by Ethnicity and Industry, 1970 (Peninsular Malaysia) by Gomez and Joko K.S, 1997.

Sector	Malay	Chinese	Indian	Foreign
Agriculture, forestry & fisheries	0.9	22.4	0.1	75.3
Mining & Quarrying	0.7	16.8	0.4	72.4
Manufacturing	2.5	22	0.7	59.6
Construction	2.2	52.8	0.8	24.1
Transport & communications	13.3	43.4	2.3	12.0
Commerce	0.8	30.4	0.7	63.5
Banking & insurance	3.3	24.3	0.6	52.2
Other	2.3	37.8	2.3	31.4
TOTAL	1.9	22.5	1.0	60.7

Source: Gomez and Joko K.S, 1997, p.20.

Note: The share owed by the ethnic groups in each sector do not include the shares held by government agencies and nominee companies, (data in percentages).

2.3.1 Business Operation under JCorp Group in the 1970s

As a state enterprise, JCorp prepared a detailed plan for economic development to overcome the aforementioned problems, with special consideration for the overall growth of the state of Johor. The idea was to create more jobs and provide opportunities for ethnic Malays to take part in businesses, as well as in the manufacturing sector. Officials anticipated that by building factories and industrial areas, JCorp would promote job creation and increasing participation in the industrial workforce, as well as capital contributions to the Malays in the prospective sectors. These were the social obligations embedded in the organisation. Moving forward, JCorp outlined three ways that the SOE could participate in accelerating the development of the local economy (JSED, 1970, p.2; 1974, p.3). First, through a direct capital contribution by JCorp; second, through capital contribution with other statutory bodies or organisations; and third, by providing the necessary infrastructure to promote business activities and local economic development. Careful consideration was given for any joint project and investment with the private sector or foreign investors.

Officials next focused on recruiting the best possible candidates for management and devising the organisational structure of JCorp to implement all the listed social duties efficiently with limited resources. The organisation started operation with only two staff, namely Basir Ismail as a director (under secondment from the Federal Government) and Mohd Ali Hashim as the planning officer (under the secondment from the Central Bank of Malaysia); six more personnel were employed by the end of 1970 (Ibid). For recruitment purposes, a committee of three officials comprising the state secretary, the state financial officer, and the director of JCorp was established. In ensuring the consistent financial capabilities and the success of all development projects, an emphasis was given to prudent financial management, as well as effective financing decision making. In the early days of its operation, there were only three operating divisions, urban planning, agriculture and engineering, but the structure began to expand as more activities and projects were implemented (Ibid).

In the early stage as a state agency, the position of chairman of JCorp's board of directors was held by the chief minister of Johor, with ten directors as members. The Corporation commenced operation with the appointment of Othman Mohd Saad, then chief minister of Johor, as its chairman and Basir Ismail as its chief executive officer. Later, the

corporation elected prominent business leaders from the private sector as board members, as well as representatives from the government to serve as intermediaries between JCorp and the federal government for official and policy matters. According to the JSEDC Enactment 1968: under the Constitution of the Corporation,

“Member of the Corporation” means any member of the Corporation appointed and includes the Chairman and the ex-officio members and the Director of the Corporation. The Corporation shall consist of:

- a) a Chairman, who shall be a person for the time being holding the office of Menteri Besar (State Chief Minister), Johore;*
- b) a Deputy Chairman, who shall be appointed by the Ruler;*
- c) three ex-officio members who shall be the persons for the time being holding the offices of State Secretary, State Legal Adviser and State Financial Office, Johore;*
- d) the appointed Director of the Corporation;*
- e) three other members to be appointed by the Ruler from amongst persons appearing to him to be qualified as having wide experience and shown capacity in matters relating to banking, manufacturing, housing, commerce, finance, professional or administration, or to be otherwise suitable for appointment by virtue of their special knowledge and experience; and*
- f) three representatives of the Federal Government appointed by the Minister (Finance).*

As such, under the JSEDC Enactment 1968, the Constitution had outlined the foundation and structure of the Corporation along with detailed legal scope including the Establishment and incorporation of the JSEDC, Quorum and procedure of meetings, Power

of the Corporation to delegate, Power of Chairman, Officers and servants, Duties and power of the Corporation, Funds and Revenues, Accounts and audit as well as Annual Report.

Furthermore, it was stipulated that the accounts of the Corporation have to be audited annually by the Auditor-General or other auditor appointed by the Corporation with the approval of the Minister of Finance. Also, importantly that the Corporation, within 6 months after the end of each financial year must submit its audited accounts and annual report to the Ruler and the Minister together with the copy of any observations made by the Auditor-General or the auditor appointed. Subsequently, the State Chief Minister have to table all these related documents and reports, in the next meeting of the Legislature of the State. Another essential element is that the Corporation could, with the approval of the Minister after consultation with the Chief Minister, introduce new regulations for the better carrying out the provisions of this Enactment provided they are not inconsistent with this Enactment.

In the late 1980s, a major policy shift was initiated by the federal government so as to be in line with international and global trends of privatization. The launching of the Malaysia Incorporated and Privatisation Policies, which saw the withdrawal of the government from managing the affairs of state enterprises directly, brought new dynamism to the Malaysian economy. Subsequently, in 1995, the Group changed its name from JSEDC to “*Johor Corporation*” in response to federal policies governing the new roles that government agencies and public enterprises should play in Malaysia in general. This change was reflected in the Enactment No.5 1995 of which is referred to the “principal Enactment” was amended and later were known as Johor Corporation Enactment 1968. Also, all other related legal documents with references previously made to the JSEDC were amended and be construed as Johor Corporation without affecting its rights, privileges and liabilities.

Since its operation, the Groups acted as the visible hands of the State government and had proved to be economically effective. As the principal development arm for the Johor State, the Group has been given high priority to the development of resource-based industry in line with the State and Federal government’s national policy in the mid-1980’s and 1990’s, as well as venturing into a prospective new industrial segment. A brief analysis of the performances showed that JCorp is among the well-performing business group in Malaysia with a record MYR1.05 billion in profits after taxes and a total of MYR17.28 billion worth of assets in 2011. It has investments in several core business sectors including

palm oils, the food industry, specialist healthcare services, hospitality, real estate, and logistics, as well as intrapreneur business.

2.4 Entrepreneurial Qualities in JCorp Group

In the evolution of entrepreneurship theory, a general definition of entrepreneurs may include their role as risk-takers, coordinators and organisers, leaders, and innovators. For this paper, the definition by Leibenstein (1968) of an entrepreneur as someone who brings gradual changes to existing products and processes through leadership, motivation, the ability to resolve crises, and risk-taking shall be applied. JCorp has grown to what it is today under the leadership of former JCorp's President and Chief Executive Officer (CEO) Tan Sri Muhammad Ali Hashim. His 30 years of work with his senior management team shaped and transformed the company into a high-performing enterprise by adopting various business strategies and exercising high standards in managing the company's daily operations. Throughout the four decades, JCorp has had three key personalities holding the top position namely Basir Ismail (1970-1981), Muhammad Ali Hashim (1982-July 2010) and Kamaruzzaman Abu Kassim (December 2010 to present).

2.4.1 Transformational and Competent Leaders

In the following sub-sections, a detailed analysis is performed on three leaders who were deemed to be very effective in their strategic role as SOE entrepreneurs. It was observed that, they transform from pure bureaucrats to prominent corporate leaders, having excellent credentials to handle all tasks and responsibilities that the job entailed. "Because most of the research on SOEs had focused on comparing SOE performances with private companies, few studies have looked at how important it is for SOE to have able CEO" (Musacchio and Lazzarini, 2014, p. 140). It has been observed that these leaders of JCorp were well-trained before being appointed. Backed by the talented personnel under its payroll, the group has grown from just 20 subsidiaries in the mid-1970s to more than 250 subsidiary companies only four decades after its establishment, five of which are currently listed on the Kuala Lumpur Stock Exchange (KLSE). For the purpose of this paper, the SOE

entrepreneur is defined as an individual who possesses two types of character traits: the basic character traits as identified in many SOE studies and those that have been identified based on this case study. The basic character traits include commercially-driven decision making and employ a top-down command or a government bureaucracy style. The additional character traits of this new generation of SOE entrepreneurs reflect their dual roles as a public agent (bureaucrat) cum entrepreneur, full autonomy, a desire for innovation, multiple skills to draw on, diversity of talent, and a knack for transformational leadership. Based on the research work of Shamsuddin et.al (2012, p.111) focusing on the effect of corporate entrepreneurial on the financial performance of JCorp, and the study concludes that pro-activeness has a positive and significant impact on the financial performance of the company. As such, the element of pro-activeness will also be considered as the additional traits of this new generation of SOE entrepreneurs.

2.4.2 Dato' Basir Ismail, August 1, 1970, to December 31, 1981

Dato' Basir Ismail served as a senior official in the federal government prior to his transfer to JCorp, formerly known as JSEDC in the 1970s (JSEDC, 1970, p.5). He was appointed as director and was responsible for the formation and progress of JCorp. Over the course of 10 years under his leadership, he placed JCorp on a strong footing to help its progressive development and productivity. He successfully implemented the basic role of a state enterprise as it was originally conceived, and at the same time developed strategic businesses for its sustainability.

By the end of 1978, JSEDC had 20 subsidiary companies under its wing with a paid-up capital of MYR16.41 million. Most of these companies were established in the mid-1970s, including 12 in which JSEDC held the majority of shares, and more than 60 percent of firms founded remained in operation, while four received returns on investment in various projects. At the same time, the companies also provided employment to 550 employees in the state. In addition, Dato' Basir Ismail paved the way for JCorp to enter the healthcare sector through the subsidiary company KPJ Healthcare Berhad. Now KPJ Group owns 25 private hospitals chains in Malaysia and overseas. He retired at the end of 1981 and was succeeded by his groomed successor, Muhammad Ali Hashim, as executive officer.

Among the business activities implemented by the Group in the year 1970 includes managing the rubber estates and oil palm plantation known as *Ladang Tebrau*, bought by the Johor State from Barlow Boustead Estates Agency (Sdn) Bhd in late 1969 (JSEDC, 1970, p.6). The Barlow Boustead was previously owned by the British investors and a merger between two plantation firms initially known as Boustead and Barlow which took place in 1966 (White, 2004, p.9). It was an effort by British companies to survive the post-colonial in Malaysia (Ibid, p.10). After completion of the bought over process of Barlow company, the management of the estate changed hands to JCorp as the new owner effective from 1 May 1971. During the same year, there is a total of 322 workforces working in the plantation sector. This scenario taking over of colonial companies via SOE suggested an initiative to achieve economic independence in the era of post-colonialism.

In addition, one joint-venture company was established between Johore Silica Sdn. Bhd. and JSEDC to undertake a mining activities for an area of 10,000 acres located in the southeast of Johor. Interestingly, the silicone sand then later was exported to Singapore and Japan as well as being sold to several local companies (JSEDC, 1970, p.7). So much so, even during this early phase of operation that JSED had embarked on international trade. In this preliminary phase, at State level, JSEDC focused mainly on building the needed infrastructure to further promote economic growth such as road, jetty, warehouse, shop-lots, industrial estates and factories, more opening for new plantation area as well as housing areas. The strategy was concentrated to create more investment projects related to trade and industrial activities leading to higher job creation. The substantial increase in commodities prices for palm oil, rubber and timber had resulted in the Group able to gain decent profit for the financial performance in 1973 which was valued at MYR1.76 million compared to MYR0.5 million in the previous year.

All the projects implemented by JCorp were deemed to be in tandem with the Second Malaysia Economic Planning (1971-1975) in efforts to achieve progressive economic development through industrial activities, poverty reduction, higher income level and improving economic disparities among races. From the data gathered, it was observed that JCorp experienced a solid profit from the projects and activities executed for 5 years' period amounted to MYR6.24 million. Meanwhile, until the end of 1979, total accumulated profit for the Group valued at MYR30.74 million with the highest profit recorded in 1979 amounted to MYR10.89 million compared to MYR6.63 in 1978.

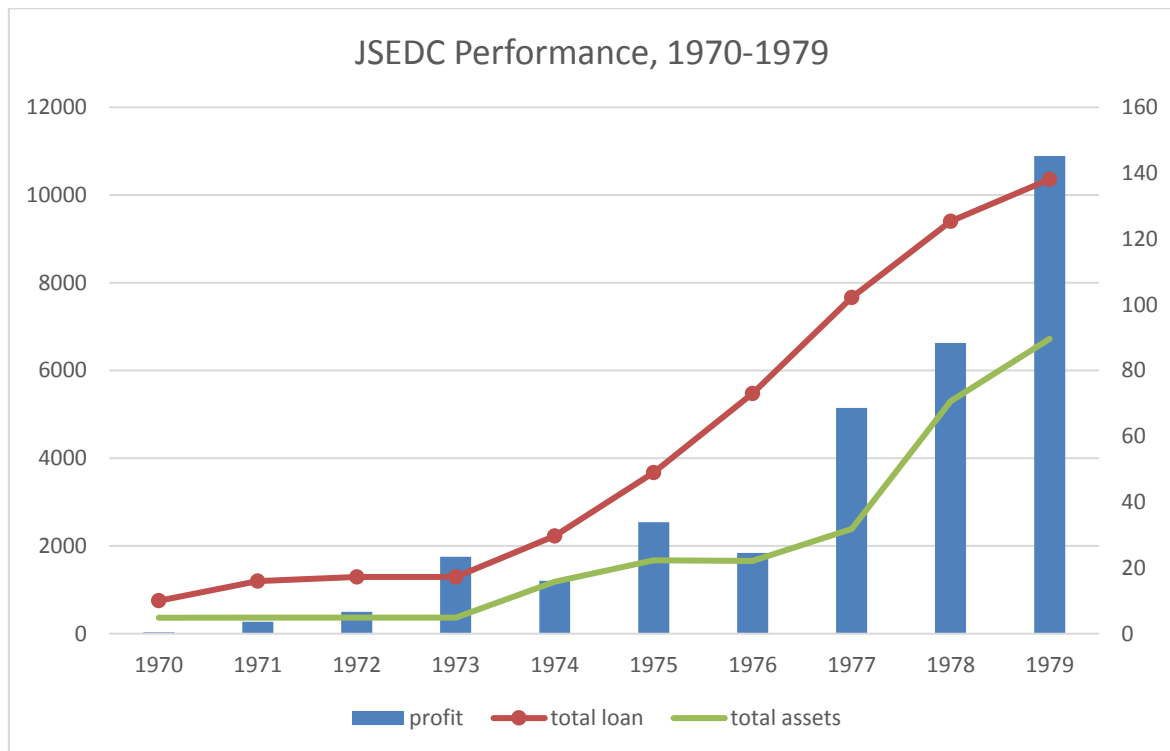
By examining the data in Table 5, it shows that the Corporation recorded a profit since its inception and gradually increased to a peak level in 1979. JCorp appears as a sound business operation, and the accumulated assets were also on the upward trend from 1970 to 1979 based on data in Figure 4. However, the accumulated debts were also greater during the period under reviewed. This could be explained as the Group is expanding its businesses rapidly, hence more loans were acquired to finance the investment activities. In 1974, the profit level dropped due to the high investment and operating cost in new projects implemented by JSEDC, as well as the on-going inflation (17.3%) experienced in the domestic economy. Meanwhile, the profit level also declined in 1976, and it was due to the weak global economy at that time. In order to be able to execute all the planned investment and development projects in the State, JSEDC needs a huge sum of capital. With dual role, one, acting on behalf of the State Government to develop the infrastructure to boost economic growth and at the same time to generate its own revenues through commercial projects were seen to be a multifaceted task for JSEDC. As for the financial support to finance all the proposed projects, JSEDC was provided a financial loan from two main sources namely the State Government and Federal Government.

Table 5: JSEDC Performance, 1970 – 1979.

Year	Profit	Accumulated Total Loan	Accumulated Total Assets
1970	34	10.0	4.85
1971	271	16.0	4.90
1972	500	17.2	4.91
1973	1,755	-	4.94
1974	1,208	29.75	15.76
1975	2,538	48.97	22.30
1976	1,839	73.00	22.16
1977	5,146	102.16	31.86
1978	6,631	125.37	70.71
1979	10,891	138.11	89.62

Source: Table by author, data (MYR million) from JSEDC Annual Report 1970-1979.

Figure 4: JSEDC Performance, 1970-1979.



Source: Figure by author, data from JSEDC Annual Report 1970-1979.

At the same time, the Corporation embarked on a joint-venture with local investors for some of its projects like building factories and business complex. For their future projects, JSEDC had planned to collaborate with private or foreign investors, since many newer economic development projects were initiated. In addition, the Corporation also obtained loan facilities from commercial banks. At the end of the financial year 1972, the Federal Government in principal agreed to approve the loan application submitted by JSEDC for its two projects, one to established and constructed three industrial estates with an estimated cost of MYR40.5 million and to build a new shopping complex with a cost approximately MYR6.5 million. As such, the Corporation were observed not making any attempt of applying any additional loan facilities in 1973. Over the years, it was clear that there remained an upward trend in the total loan commit by the Corporation as they progress. Also, an increasing trend in accumulated wealth as shown by the line describing the total assets in the figure above.

JCorp being a new and young Corporation, embedded with vital social role, the enterprise faced with several challenges related to the management aspects including to recruit professional executives, technical and supporting staffs to carry out the day to day operational tasks. What then make the situation more critical was that some of its personnel left the Corporation for private firms with a better offer after being trained, seconded to various subsidiaries or some after attending industrial exchange program by the Corporation with Multinational firms.² This scenario reflects as an excellent example, even at that time in early 1970s, those managerial professional with good qualification opt to jump to reputable firms with better remuneration equally like-minded with executives in the private sector. It was a surprise to discover that, the former executives of JCorp did not have the mind-set as a bureaucrat even was employed by a state-enterprise. Hence, it was a competitive environment to recruit the best candidate from the labour market in such situation of rapid economic development with GDP of 6.7% throughout 1971 to 1990 (Gomez and Joko, 1997, p.175).

Moreover, the labour market also posed another challenge to the Corporation and the State. The situation of unemployment stood at a total of 18,174 for the year 1973 in the Johor State as highlighted in Table 6. From the data, it showed that major issues and problems were that majority of the labour market at that time was not equipped with proper training with 17,138 had no technical training, and 13,721 with no working experienced. Also, the majority had low educational level with 14,048 completed primary school and 2,799 attended mid-level secondary while only 1,327 has attended senior high school or college and above. On top of that, the composition of the labour market was held majority by younger generation between the age of 20 to 24 years old which had resulted in difficulty to match with the job demand. Moreover, these group of young generations is seen to play important role in supporting household income and improving family economic status during that period. All these scenarios could be understood since the country just gained its independence in late 1957.

² Document “Suara Johor” published by the Johor State Government, Nov – Dec 1973, p.1.

Table 6: Unemployment Rate in the State of Johor, 1973 and 1974

Category	As at December 1973			As at December 1974		
	Johor	Peninsular	%	Johor	Peninsular	%
Total registered	18,174	140,157	13	13,581	128,637	10.6
Age: 20-24	6,724	50,036	13.4	5,120	45,666	11.2
25-29	3,289	22,285	14.8	2,621	21,740	12
30+	2,981	20,743	14.4	2,241	18,781	12
Education:						
Primary school	14,048	100,353	14	10,485	92,490	11.3
Mid-level secondary	2,799	24,387	11.5	1,901	20,968	9
Senior secondary & College and above	1,327	15,417	0.6	1,195	15,179	7.9
Attended Training:						
Non	17,138	131,607	13	12,685	120,790	10.5
Technical training	1,036	8,550	12.1	896	7,847	11.4
Working experience:						
Non	13,721	118,993	11.5	10,199	109,599	9.3
Less than 1 year	1,218	6,447	18.9	1,114	6,818	16.3
Between 1-2 years	781	3,504	22.3	665	3,602	18.5
More than 2 years	2,454	11,213	21.9	1,603	8,618	18.6
Occupation:						
Non-permanent job	3,308	13,035	25.4	2,404	12,992	18.5
Self-employed	4,889	25,789	19	3,409	22,769	15
Unemployed	9,977	101,333	19.8	7,768	92,876	8.4

Source: JSEDC Annual Report 1974, originally data compiled from Labour and Human Resource Department, Malaysia.

Note: Census for State of Johor in 1970:1,276,969.

Over time, Johor had progressed toward rapid manufacturing and industrial activities after 1980s. Due to the shortcoming in the local labour market and lacking in the skilled manpower in the State of Johor, in 1994, JCorp established the Johor Skills Development Centre (PUSPATRI) in Pasir Gudang. The PUSPATRI is a wholly-owned subsidiary of JSEDC aimed to produce highly-skilled workers in the field of production technology. The centre offers several manufacturing courses including industrial automation, welding technology, industrial engineering and advanced manufacturing. In 1994 alone, a total of 325 people has graduated from the centre, and by the end of 1996, a total of 1,729 have been trained. Over the year, the number of participants are encouraging and recorded an increased to a total of 2,772 at the end of 1997 (JCorp, 1997, p.106). Most of the participants were industrial workers as such the cost for the training is sponsored by their respective companies. This effort in providing training institution are deemed to prepare Johor State and its community to achieve a target of becoming a fully industrialised state by the year 2005. Although the country is progressing toward industrialization, even at the national level, there was a shortage of public skill upgrading facilities or training centre. The Training Service Division of the Manpower Department under the Ministry of Labour is responsible for formulating, implementing and managing industrial skill training programme to cater for the need of the industry. As at 1987, the Manpower Department operates only five Industrial Training Institute, while planning to build another five more institutes under the Fifth Malaysia Plan (1986-1990) (APDC,1987, p.18).

At the Corporate level, JCorp took the necessary measure in its recruitment and human resource policy. Therefore, to overcome this situation, the Corporation under its Administration and Training Division developed a training programme to impart relevant skills and knowledge since many are without working experience. Thus, the Corporation assigned its employees to various short-term courses and training related to trade and exports, industrial development planning, planning and project evaluation as well as management. All these trainings of which some were organised by the National Institute of Public Administration (INTAN), National Productivity Centre and National Land Department, as well as Marketing and Merchandising Management in Singapore. Hence, it was time-consuming and involved huge investment to build its internal capabilities as part of contributing towards the national agenda.

As the economy progress and JCorp's business activities doing well, then leads to the rising performances of the Corporation, the Management had agreed to established "An Employees Welfare Fund" with 1 per cent to be contributed from the profit secured each year starting from 1980. This is aimed to provide more social and welfare benefits for their employees and to develop a strong and good relationship within the organization. The Corporation's objectives are the same with any other private enterprises which were based on commercial driven, however profit is not the ultimate determinants in its operation (Annual Report 1972, p.2). Observing at the data on economic efficiency and firm performance during the first decade of establishment, in summary, from the data presented in Table 5 and Figure 4, it illustrated on the part of initial phase operational efficiency for a period of ten years analysed through the financial performances variables.

2.4.3 Tan Sri Muhammad Ali Hashim –January 1, 1982, to July 2010

A snapshot of an academic and professional background of the second President and CEO of JCorp, Tan Sri Muhammad Ali Bin Hashim graduated with a Bachelor of Economics (Honours) degree, from the University of Malaya, the nation's premier institution in 1969. He subsequently attended the Senior Executive Programme at Stanford University in the United States in 1985. He served for almost 30 years in the firm's upper level of management as then the president and chief executive officer of Johor Corporation from January 1982 to July 2010 (JCorp, 2010). An interesting discovery from an archived document reveals that he was in charge of strategic planning for JCorp back in the 1970s while holding a position as a Johor Economic Relations Officer with Bank Negara Malaysia (JSEDC, 1970) and had a close working relationship with the then CEO of JCorp, Dato' Basir Ismail. Later, he served as chief assistant secretary of the Sarawak chief minister's office in 1972, deputy director of the planning unit of the Sarawak state government from 1974 to 1977 and the project manager of Kulim (Malaysia) Berhad in 1978 (Bloomberg, 2016). These jobs posting was seen to add impetus to his professional career in manoeuvre and managing State economic policy as well as charting the development, of which much pertinent for his second posting in JCorp. Likewise, it was seen to be even more relevant to his experience in handling Kulim (Malaysia) Berhad which later saw JCorp's huge interest in this company and took over as one of its subsidiaries.

In August 1980, again Muhammad Ali Hashim re-joined JCorp for a permanent position as Deputy General Manager in charge of Administration and Coordination for the Group. Beginning of March 1981, he was appointed as General Manager replacing the retired Mr. Shamsuri bin Ali. About the same time, two other positions of retired Deputy General Manager were also replaced with two Divisional Head officials, hence forming a new executive team managing the Corporation. Subsequently, Mohammad Ali Hashim was appointed as the new Managing Director for the Group at the beginning of 1982, taking over from Basir Ismail who retired on 31 December 1981. In that year, since there was a major corporate reshuffle of top management, hence internal organization also had some restructuring such as Legal Division was placed under the Property Management Division from Land Division, Industry Unit was shifted from Land Division to Management and Resource Division, a new Division known as Pasir Gudang Development was removed from Engineering and Architecture Division, and new unit for Information Technology were established. This exercise is aimed to align with its current business activities venturing into property development and acting as local authority of Pasir Gudang with major role to administered and further develop the areas.

Going forward, it was decided that there are three focus area for JCorp in the 1980s that is, to develop projects for profit making particularly to established a strong, viable and self-reliant organization. Secondly, to further implement projects gearing towards economic growth for the State to achieve poverty eradication and finally, to create more projects to boost socio-economic for the people. The Corporation had taken various short-term and long-term measures to achieve the targeted objectives principally founded upon land-based business and new economic activities. For all the projects, JCorp carries out the activities either directly or through the formation of subsidiaries and associated companies established under the Company's Act 1965. However, the global economy was facing with slowdown in 1982 and worsening to recession between 1985 to 1986, thus posed a major challenged for the Group and Malaysia as the Gross Domestic Product (GDP) dropped to an annual average rate of 5.9 per cent in 1980s compared with 7.5 per cent in 1970s (Malaysia, 1991). These scenarios have resulted in the business slowdown for JCorp's main sector namely agriculture, industrial and construction as the price of commodities dropped to a much low level and slackened demand for residential and shophouses.

To overcome the impact of the gloomy economy, the Corporation took various measures to recover its performances which includes improved the management of existing estates and opening new ones, as well as upgrading several estates from their original status as cooperatives and as Government Land Scheme to the status of a company registered under the Company's Act 1965 (JCorp, 1984, p.7). Next, in its corporate sector, JCorp had outlined new strategies aimed at improving and strengthening its subsidiaries through merger, and diversify the activities of the companies. The Corporation had also initiated measures to restructure certain potential companies for floating and final listing in the stock market as their long-term objectives. This encouraging situation is reflected from the increased in Bumiputera participation in its subsidiaries and many other associated companies involved, and to mobilize capital from the public. Also, JCorp had taken several steps particularly to attract more foreign investor especially from Singapore, the neighbouring country to set up or relocate manufacturing establishments in Johor. Among the initiatives taken were organizing investment seminar and discussion with the business groups from the Foreign Business Association in Singapore. Additionally, in line with the Government policy of industrialization, JCorp had also implemented a program to promote the development of small-scale industries such as the development of cottage industries in the State. Towards this end, the Corporation, with the support of MARA and the Development Bank of Malaysia provided various facilities including training, industrial sites or factories (JCorp, 1983, p.11).

In 1985, another crucial role played by JCorp as a public enterprise when the Corporation was instructed to transfer its holding of 27,792,000 units Pelangi Berhad shares to the Permodalan Nasional Berhad (PNB) at a par value which resulted in the Corporation suffering a loss of MYR27.9 million based on market price prevailing at the same time (JCorp, 1985, p.8). And, the transfer of Pelangi Berhad shares was the second transaction undertook by JCorp made at par in line with the same directive. Obviously, this scenario is well illustrated by the political theory related to SOE, whereby inefficiency occurred from the political interference or using SOE for other benefits either national, personal or politically connected capitalists. At the firm level, JCorp's regarded the directive and the substantial loss as their contribution towards achieving the NEP on a larger scale and for the nation. As such, this scenario was in supportive of the work and arguments that some SOEs

in Malaysia suffered from political or government intervention (Suraiya, 2011; Morris and Jones, 1999; Abdul Hafez, 1992).

On top of that, in 2010 a more critical scenario hit-up the Corporation and sensational debate poised by the opposition political parties that JCorp would go bankrupt in two years. The accusation was that the Group could not afford to offset its liabilities with assets if required to do so. At the time, local media reported that JCorp had an outstanding loan of MYR3.8 billion dues in 2012 (NST, 2010, p. B4). To make it worst, also there was an issue raised that the Johor State Government would also face with bankruptcy if JCorp was not able to service its debt payment. This had led to so much pressing situation as JCorp has a total of 280-member companies with 65,000 employees under its umbrella. Analysing the Group financial performance in 2009, JCorp registered group pre-tax profit of MYR670 million compared with MYR660 million in 2008. It reflected an increase of MYR10 million or 1.5 percent. JCorp's higher profit was attributed to the good performance of Kulim (MYR522 million), KFC Holdings (M) Bhd (MYR230 million) and KPJ Healthcare (MYR114 million), with earning contributed in total was more than MYR1billion. At the JCorp level, the Corporation made a pre-tax profit of MYR100 million in 2009 compared with MYR82 million in 2008. According to local news, market capitalisation value of eight companies within JCorp was MYR10.4 billion based on market closure on December 31, 2009 (NST, 2010, p.B4). JCorp had scoffs the bankruptcy claims by considering two options either to sell its assets to meet the MYR3.8 billion debts or, to restructure its existing loans. It was observed that JCorp implemented debt restructuring through issuing a bond, and the detail decision on this will be discussed in the next Chapter of Transformation and Corporate restructuring.

Although faced with various economic challenges, it was observed that JCorp had managed to recover from the sluggish economic condition in the 1980s through various restructuring in business strategy and constantly upgrade its productivity. These efforts are of vital importance as the Federal Government announced a policy to reduce its financial allocation to public enterprises. Hence, the Corporation's strategy to accumulate assets and focusing on profit, to be financially self-reliant from the early phases is so appropriate with the changes in policy by Federal Government. At the operational level, to cope and sustain with its rapid expansion JCorp continued to upgrade management skills, professional

expertise and technical know-how of its personnel as well as upgrade generally the efficiency and the effectiveness of the organizational machinery.

One quick measure in analysing the Corporate performances, back in 1989 JCorp managed a total of eleven industrial estates, and this had increased to twenty industrial estates in 1995, while in 1989 it was recorded a total of 104 subsidiaries and associates within the Group of companies employing more than 16,000 people (JCorp, 1989, p.52). Then, by the late 2009 JCorp had 280 operating companies and Group-wide employees of more than 60,000 in Malaysia and regionally, compared with only 250 companies employing exceeded 50,000 employees by the end of 2006 (JCorp, 2006, p.17; 2009, p.9). During the same year, 8 of its subsidiaries are listed on Malaysian Stock Exchange, with one PLC that is the subsidiary of Kulim Malaysia Berhad were listed on the Port Moresby Stock Exchange in Papua New Guinea, as well as the London Stock Exchange (JCorp, 2009, p.9). The number of public listed entities and their total market capitalization had indicated business achievement of JCorp Group's with stable grew from 6 at the end of 2005 to 9 by the end of 2006 and then to 8 listed entities in 2009.

In conclusion, the combined experiences managing the Corporation to overcome and adjust to the great difficult economic circumstances prevailing over the years has equipped Muhammad Ali Hashim with invaluable business management and entrepreneurial skills while assumed the apex post in JCorp Group. Back in 1970, he started as a planning officer, then re-joined as deputy general manager, managing director and finally as President and CEO of JCorp Group. He was holding the top position over quite a long period, for almost three decades and oversaw the group's transformation into a successful entrepreneurial corporate organization with strong executive team, professional management, and personnel. Before his retirement, Muhammad Ali, 63-year old Johor-born also played a crucial role in ensuring the implementation of succession plan in 2010, after helmed JCorp for 28 years.

2.4.4 Dato' Kamaruzzaman Abu Kassim - December 1, 2010, to present

Dato' Kamaruzzaman Bin Abu Kassim was appointed chief executive officer and president of JCorp on December 1, 2010, prior to which he served as an acting chief executive officer and acting president of JCorp from July 2010 to December 1, 2010. He first joined Johor

Corporation in December 1992 as deputy manager and financial officer of the corporate finance department and then as general manager of corporate finance from 1999 to 2000. He later assumed the post of chief executive officer with Damansara Realty Berhad, a post which he held until January 1, 2010. In January 2010, he re-joined Johor Corporation as senior vice president of corporate services and finance. Dato' Kamaruzzaman holds a Bachelor of Commerce degree majoring in Accountancy from the University of Wollongong, New South Wales, Australia (1987).

As one of the pivotal leaders to grow and evolve along with the Corporation for more than 23 years, he continued steering the Group into great breakthroughs through its manifold business interests such as in healthcare, property development, food and services, tourism and leisure industries as well as intrapreneurs businesses. JCorp's position as one of the most comprehensive corporate portfolio faced huge challenges to remain sustainable against the harsh realities of economic uncertainty and influenced the way how they operate and capitalized their businesses.

At the Federal level, Government introduced several strategic plans such as the New Economic Model (NEM), Government Transformation Plan, Economic Transformation Plan (ETP), RMK-10 and RMK-11 (the Malaysia 5-year plan) to catalyse the objectives to achieve Vision 2020, becoming a high-income and industrialized nation. Hence, in JCorp, the enterprise adjusted and aligned their leadership management and operations to the five-main key characteristic outlined for the national economy by 2020 under the NEM, namely market-led, well-governed, regionally integrated, entrepreneurial and innovative. During this latest decade, emphasized were given on the need for Business Integrity and Corporate Governance as well as Business Innovation.

During this time, several subsidiaries companies embarked on diversification such as Kulim Berhad into the energy sector, KPJ Healthcare building more hospitals and expand its investment abroad and QSR Brands further expansion for its restaurants and to remain as Malaysia's largest restaurant chain operating under the KFC and Pizza Hut brand, also spanning across ASEAN region. As at 2011, JCorp Group recorded a total of 78,141 employees which reflected the highest number thus far under the new President.

2.5 SOE Entrepreneurs at Subsidiary Level

In the mid-2010, as part of the succession plan for JCorp, there are five senior management were being considered taking up the apex post as the President and CEO. They are KPJ Healthcare Berhad managing director Siti Sa'diah Sheikh Bakir, Kulim (M) Berhad managing director Ahamad Mohamad, QSR Brands Berhad and KFC Holdings (M) Berhad managing director Jamaludin Md Ali, JCorp senior vice-president and Asia Logistics Council Sdn Bhd chief executive Kamaruzzaman Abu Kassim, and finally Sindora Berhad managing director and Intrapreneur Development Senior vice-president Rozan Mohd Sa'at (NST, 2010, p. B4-1). All five candidates were fully capable of leading JCorp, and they are regarded to be the top entrepreneurs in the country (Muhammad, 2010). One outstanding leader was Siti Sa'diah the only female director holding a top executive position in the JCorp Group and was awarded as Malaysia's CEO of the Year 2009 (Ibid). Hence, in the following part, the analysis will be dedicated to a specific individual or SOE entrepreneur who has projected outstanding performances at a subsidiary level under JCorp Group and considered to be the pioneer.

2.5.1 Talents in the Kumpulan Perubatan Johor (KPJ) Group

Datin Paduka Siti Sa'diah Sheikh Bakir has been working for about 36 years under JCorp. Holding a bachelor degree majoring in Economics from the University Malaya in 1974, she began her career with JCorp in the same year and subsequently with JCorp's Healthcare Division since 1978. Later, she was entrusted with the position of Managing Director of KPJ Healthcare Berhad in March 1993. However, before that, she was appointed as Chief Executive of Kumpulan Perubatan Johor Sdn Bhd since 1989 and subsequently the Chairperson of the Group's hospital nationwide. Interestingly, she also served as Director of Klinik Wakaf An-Nur (NGO) under the Group as well as Director of several companies within the JCorp Group.

In the early years, the initial desire for a dedicated private healthcare enterprise was mooted in 1974. Looking back, in those years, as Johor State develop its local economy and opening its door to foreign investors as well as the influx of expatriates. Additionally, even the local citizen was going overseas for certain treatment, as such, they saw the potential for

this sector. On that motive, JCorp was tasked to build a private specialist hospital for the State. Following incorporation in 1979, the Healthcare division of JCorp was established. Since then, Siti Sa'diah had been directly involved in the development and expansion of the JCorp's Healthcare Division.³

The first hospital to take off under JCorp was the Johor Specialist Hospital which began operations on 10 May 1981, while Tawakal Hospital was acquired in 1988. JCorp was asked to take over Tawakal Hospital which was having serious financial problems at that time, and KPJ managed to turn it around (MCM, 2009). Based on this experienced, moving forward strategy for expansion was taken mostly through acquisition and it became “niche” identity for KPJ Healthcare Berhad, while some hospital is greenfield investments. Subsequently, Kumpulan Perubatan Johor Sdn Bhd (KPJ) was incorporated, and Tan Sri Dato' Muhammad Ali was appointed as Chairman and Datin Paduka Siti Sa'diah as the first CEO in 1988. As the strategy adopted for the healthcare division to grow through a string of acquisition, more and more hospital is added to the KPJ's hospital chain such as the Ipoh Specialist Hospital, Kedah Medical Centre, Kuantan Specialist Hospital and Medical Centre Johor. Moving forward via acquisition drive, JCorp had implemented turned around for better performances and over the years has shown a very positive result. Once said by Siti Sa'diah (2009) “Our niche is to doctor the sick hospital (MCM, 2009)”.

Siti Sa'diah and the management team has been working together for the Group's future expansion, growth and sustaining the performance of KPJ. She employed a bottom-up management style, practice openness, and transparency, as well as empowered its people. The 90s saw KPJ capitalising on its healthy asset portfolio to unlock shareholder value through a public listing. For this, a listing vehicle was created with KPJ Healthcare Berhad comprising Johor Specialist Hospital and Ipoh Specialist Hospital was established in 1993 and the Group went public in 1994, becoming the first homegrown healthcare company to be listed on the Main Board of Bursa Malaysia. As KPJ successfully expands its presence nationwide after the listing, the Group currently owns 25 specialist hospitals in Malaysia, 2 in Indonesia and 1 retirement resort in Australia (KPJ, 2014, p.5).

Another important development took place in 2006, whereby KPJ Group launched the Al-Aqar KPJ Real Estate Investment Trust (REIT), it is the Malaysia's first Islamic REIT and the world's first Islamic Healthcare REIT. The REIT provided a new mechanism for

³ The Madam Chair Magazine, “The Billion Ringgit Woman–KPJ Healthcare Berhad”, vol.18, 2009 (MCM).

KPJ to raise funds and focus on managing hospitals operation. The difference with other types of REIT is that, the Al-Aqar KPJ REIT is fully based on Syariah (Islamic) compliant assets as its components, where the source of income are hundred percent from permissible activities.⁴ For this, KPJ established a wholly-owned subsidiary Al-Aqar Capital Sdn Bhd to spearhead the Islamic Healthcare REIT. Through this exercise, it had enabled KPJ to unlock a total asset value worth MYR462 million which previously tied capital fund to buildings and equipment, resulted in reduced gearing. For the start, six hospitals buildings were included in the REIT and Al-Aqar KPJ REIT was listed on Bursa Malaysia on 10 August 2006 involved the creation of 340 million share units.

Over the years, KPJ also diversified into several other segments in line with its core business. Among the activities run by the Group includes hospital management services, project management and engineering maintenance services for specialist hospitals, marketing and pharmaceutical, medical and consumer healthcare products, and operates a private nursing college. Over the years, the healthcare industry grows tremendously as Malaysia position itself becoming a medical tourism hub in the region. To keep up with the momentum, it is utmost important to focus on the human development, to have some good doctors, good managers, and a good support team. As such, in later years, the Group further progressed its education segment through the upgrading University College status for KPJ Healthcare Puteri Medical and Nursing College (KPJUC) with the vision of training the managers and nurses for both its hospital networks and nation's needs (MCM, 2009). Thus far, KPJUC had educated, nurture and produced more than 8,000 nurses and allied healthcare professionals.⁵ To date, KPJUC is offering 35 medical programmes from the foundation to the Ph.D level in building a strong academic ground and for the development of Malaysia's healthcare professional.⁶ It was a positive trend for the industry, in 2008 the Group provided services to 200,000 patients by about 650 specialist doctors and 7,000 management staffs.

From the analysis, it was observed that the KPJ had faced with several operational problems in the late twenty-century. As total number of hospital soaring under the KPJ Group, it becomes challenging to rationalize its operation and adhere to the quality standard. Hence, one more initiative was introduced in 2009 known as SEGAR, which stands for

⁴ Islamic REITs are collective investment vehicles that pool money from investors to buy, manage and sell real estate, of which must comply with Syariah principles.

⁵ Infomed Malaysia, "Leadership and Clinical Expertise", Oct-Dec 2016, special column, p.50.

⁶ KPJ Official website, <http://kpj.listedcompany.com/>

Service Excellence under the KPJ Group Alignment and Re-engineering. This program was set up to devise standard operating procedures, as well as standard people practice and quality objectives for the Group. With the establishment of SEGAR, KPJ could streamline its processes, also demonstrates their commitment to provide excellence service throughout the entire businesses. It was also observed that the members of the first working committee were the CEO of the six accredited hospitals⁷ within the Group and each report to the KPJ Executive Committee on progress made for this initiative. Soon after, from the data in 2010, it highlighted the Group's positive performance, whereby KPJ's revenue and profit-before-tax had increased year-on-year, as they rose by 14.5% and 14.3% respectively from 2009 with revenue amounted to MYR1.66 billion from MYR1.49 billion, while profit-before-tax grew to MYR166.69 million from MYR143.89 million.

In hospital management, one important aspect is related to the clinical procedures and safety of all its patients. For this, the Group CEO was involved in clinical safety development, where she participated in the meetings of the Group-wide Medical Advisory Committee. Soon after, KJP Group established a Clinical Governance Framework which consists of the Clinical Governance Committee, with several sub-committee, including the Clinical Governance Policy Committee, Clinical Governance Action Committee and the Clinical Risk Committee. The committees meet regularly to discuss, review and assess the procedures within the Group, ensuring that all hospitals totally adhere to clinical and patient safety guidelines. This is the foundation for the Group's daily operation to maintain a high standard and conformity of procedures.

As the Group CEO, Siti Sa'diah is ultimately responsible for all the performance and business strategy within the KPJ Group entity. The leadership quality she possessed enable her to manage 25 hospitals and groom more than 12,000 employees in the healthcare industry in Malaysia. From the analysis, it was noticed that there have been much activities in healthcare sector within the Johor State and throughout the country as well. This development was said to had reduced the brain drain and the amount of outflow foreign exchange, as well as dynamically supporting the federal government initiative in promoting medical tourism. As shown above, Siti Sa'diah were deemed to possess the appropriate academic qualification, professionally qualified and competent in performing the designated

⁷ KPJ Special Edition Report 2012 – the six accredited hospitals: KPJ Ipoh Specialist, KPJ Ampang Puteri Specialist, KPJ Damansara Specialist, KPJ Johor Specialist, KPJ Selangor Specialist, KPJ Seremban Specialist.

role and duties. To reflect on her achievement and contribution beyond the State level, Siti Sa'diah was conferred Malaysia's CEO of the Year 2009, the first woman and the first head of a healthcare corporation to win the coveted award.

2.6 Continuing Growth Strategy for JCorp Group

2.6.1 Managing Growing and Diverse Businesses

For an organization to succeed, it requires dynamic leadership, both transactional and transformative, amongst its managers and group leaders at all levels of the organisation. At the same time, policies and strategic business programmes must also be implemented efficaciously. There are five core leadership competencies, namely personal skill and knowledge, interpersonal skills, transactional skills, transformational skills, and policy and programme knowledge (Beinecke, 2009, p.1). Scholars have noted that public leadership and competent leaders will be the key to success in the new millennium. "We are in a century of complexity, with unprecedented interconnectivity, scale, novelty, unforeseen new structures with unexpected new properties, and radical innovation and transformation" (Goldstein, 2008, p.2).

Additionally, the Group was considered as effectively coordinating and managing its capabilities under the economy of diversification, with scale and scope of businesses covering different sectors in the domestic market as well as internationally. This is in supportive with the findings of Khanna and Palepu (1997), suggested that highly diversification is more suitable for a Business Group operating in emerging market.

Back in the early days after its establishment, JSEDC was mainly involved in business related to the plantation, agriculture, mining, forestry and timber, as well as industrial estates. All these projects were basically intended for state-led economic and infrastructure facility development. Since its inception, from 1970 to 1980, JCorp has executed a total of 90 development projects under Malaysia's five-year economic plan of 1MP (two projects), 2MP (42 projects), and 3MP (46 projects).⁸ Among the projects implemented includes a development of industrial estates, schools and training centre, hospitals and public facilities, residential and township, business complex and offices, as

⁸ Data from archival document, Auditor Report 1976, Ministry of Finance Malaysia.

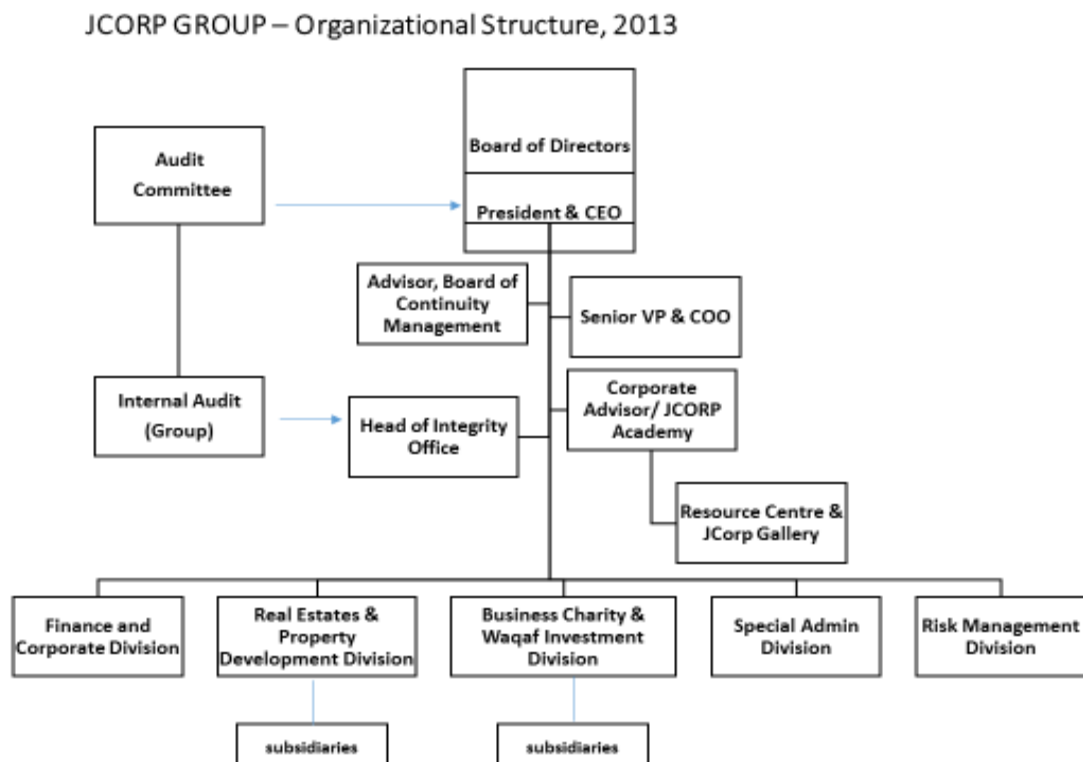
well as port and logistics. For example, the Johor Port was considered a federal port because of the substantial investment by the federal government in the development (APDC, 1987, p.90). In Peninsular Malaysia, there are three principal port namely Penang, in the northern region, Port Klang located on the west coast and Johor in the southern region. These port facilities are established to support the economic and industrialization growth. Clearly, the group's business strategy required it to be in line with the government's economic focus and policy direction.

In order to remain competitive and capable of sustaining growth, the group also continuously carried out business restructuring, as well as corporate reforms. In analysing JCorp's product portfolio over a period of time, it was found to be highly diversified and that all of its portfolios were managed by a holding company known as JCorp Group, which owns more than 250 companies. The Corporation's venture in all the businesses was performed through its many holding subsidiary companies under the Group. Among the main subsidiaries include Kulim in the plantation, KPJ in specialist's healthcare, Johor Land in property development, TPM Technopark in industrial estates development, and E.A Technique in shipping and logistics. Even at the second tier or third tier of the subsidiary level, some companies played a major role in contributing to the Group financial performance such as Sindora, KFC, Metro Parking, Damansara Realty and Johor Investment Fund. Considering the study period of four decades, it was a multifaceted and complex business evolution for the Group. Nevertheless, since the group has full financial autonomy, it could implement strategic business operations and undertake reforms quickly as and when it is required to do so. As such, there were tremendous corporate expansion and manoeuvring of a highly-diversified activity. More detail discussion on this evolution and restructuring of JCorp will be presented in the following chapter entitled "The Transformation of JCorp."

The many roles of the government as regulator, regulation enforcer, and asset owner also means that local SOEs get to enjoy certain benefits. These include financial support regarding of short-term and long-term loans from the federal government, or having the federal government act as guarantor for loans from domestic and international commercial banks. In 1976, JCorp applied for and successfully acquired, a business loan from Asian & Euro-American Merchant Bankers (M) Berhad of US\$8 million guaranteed by the federal government (JCorp, 1976). Additionally, the corporation took a loan from the federal government of MYR15 million (US\$5 million) for the purpose of engaging in economic

development projects in Johor State (Ibid). For both loans, the corporation paid between five percent and eight percent interest per annum. Also, in 1988, the Corporation entered into a loan agreement for US\$50 million with the Overseas-China Banking Corporation Limited (JCorp, 1988). The fact that JCorp was able to secure such funding could also be due to its reputation as a state-enterprise, as well as its proven high performing organisation as a result of which it had no problems obtaining extensive amounts of capital from the various agencies. JCorp had to pay interest on its loans from the federal government equally as other public enterprises and less dependent on the budgetary sources for its business funding. In terms of political support, the firm enjoyed certain preferential treatment only at the Johor State level but had to compete with other private companies for business projects and opportunities at the national, as well as international, levels.

Figure 5: JCorp Reporting Mechanism Business Group Structure, 2013



Source: Model by the author, data obtained from Johor Corporation, Malaysia.

As discussed in the preceding chapter, the challenges and complexity as well as high efficiency are required in managing the Group as they expand their industry sectoral and operating companies under the Group's umbrella. In order to be a high performer entity, the Group over the years had emphasized on resource efficiency supported by the growth with equity, improve total factor of productivity and developing talented human capitals. From the data presented in Annex III, JCorp's has been successful in accumulating assets from its inception with only MYR6.47 million at the end of 1971 increased to MYR 84.69 million by 1975 (JCorp, 1975). Additionally, the Group also managed to expand its value of total wealth from MYR124.81 million in 1976 to MYR355.9 million at the end of the 1970s to MYR548.6 million in 1982 (JCorp, 1982). The graph in Figure 6 and table in Annex II illustrates the total assets accumulated and profits earned by JCorp Group from 1971-1995. In the early phase, JCorp was only able to provide training to fewer than 10 employees during the first decade of its operation, which increased to between 20 to 100 in the late 1980s and later to more than 1,000 employees. The budget allocation had also increased drastically from approximately MYR120,000 in 1988 to MYR450,000 in 1990. More details are discussed in the following section of this chapter as well as in Chapter 3.

To this end, analysing the decision-making structure under JCorp Group it can be divided into 2 main categories, one on the strategic planning and the other is on operational aspects. As for the scope of businesses, direction and long-term planning are more centralised while decentralized decision making is for operational related matters for its subsidiaries. This is seen to provide room for manoeuvre and some flexibility for respective CEO of its subsidiaries to manage their companies. Only for major business strategy, new investment and future planning is tabled at the BOD Meeting at Headquarter level and being debated for decision as well as approval under the Group TERAJU Committee.

2.6.2 Wealth Creation by JSEDC, 1971-2000

Since 1971, JCorp's accumulated wealth in total assets has shown an increasing trend. Back in 1975, besides the development and infrastructure projects, JSEDC also embarked on the direct purchase of prospective shares of several foreign firms, such as Hume Industries (M) Bhd, Synthetic Resin, and Guthrie Ropel Berhad to capitalise on

dividends from future profits. This strategy is seen as a short-term plan to achieve quick gain from the stock market. The following years, JSEDC invested in affiliate companies namely Revertex (M) Sdn. Bhd., Kulim (M) Berhad, and Eastern Plantation Sdn. Bhd. During the first decade, the primary focus of the group had been on increasing the value of its assets and strengthening its financial status. The corporation expected to be financially self-reliant by the time the federal government enacted a policy to reduce financial allocations to public enterprises. Over the span of two decades, the organisation expanded its involvement in diverse sectors based on commercial viability. However, during the times when the global economy faced huge challenges, the group's profits recorded a decreased figure, particularly in 1997 and 1998 as a result of the global economic downturn that severely impacted the domestic business environment.

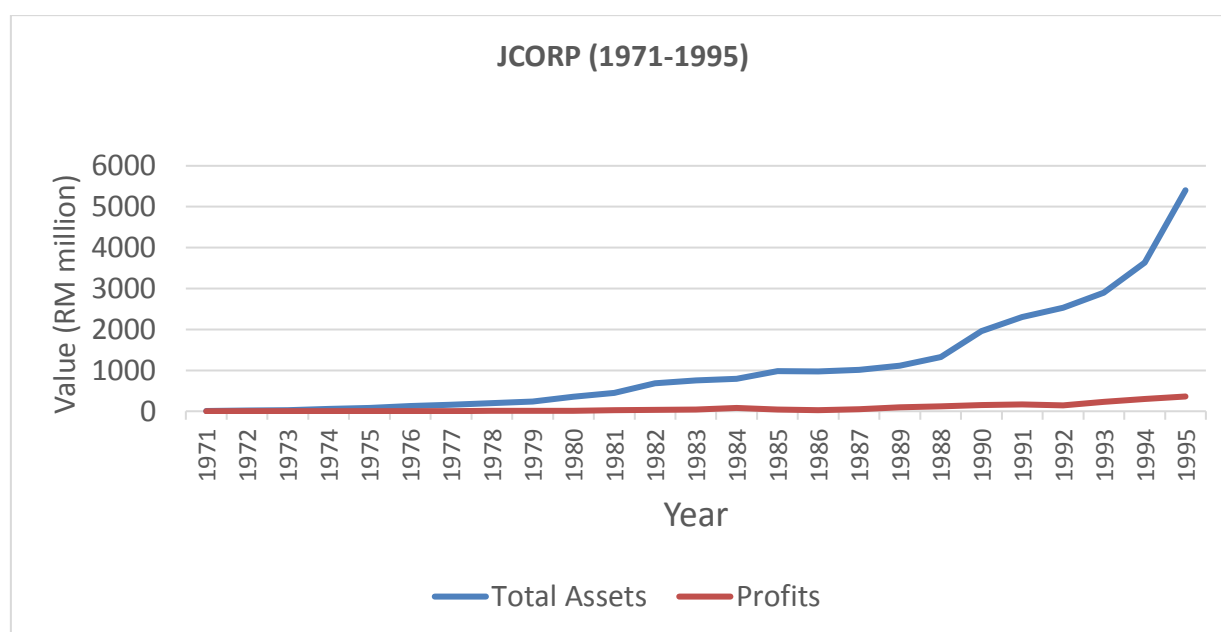
This case study is also analysed based on Resource Dependence Theory (RDT), which was first introduced by Pfeffer & Salancik (1978) and cross-reviewed by Choudhury & Khanna (2014, p.1) narrates that "SOE might seek a global footprint and global cash flow as to achieve resource independence from other state actors". JCorp's case study reflected that it was compelling to some extent JCorp's achievements were also due to the fact that they experienced minimum interference from the government or politicians on daily management and operation. Furthermore, JCorp did not receive any grants from the government; all its projects were funded through loans from local and foreign commercial banks. Since the group depended less on governmental funding and support, it was able to maintain managerial and financial autonomy. As JCorp became stronger and more viable, it was in a much better position to fulfil its responsibilities and duties.

JCorp is seen to be successful in accumulating assets from year on year basis from MYR6.47 million at the end of 1971 increased to MYR84.69 million by the end of 1975, recorded an average upsurge of 67.3 per cent per annum for the period 1971 to 1975. In term of total wealth, the Corporation managed to secure MYR124.81 million at the end of 1976 upward trend to MYR355.9 million in 1980 to MYR548.6 million by the end of 1982. It is interesting to note that the corporation recorded profits every year of its operations from 1971 up to 1987. In fact, its accumulated profits up to December 31, 1987, amounted to MYR326.5 million, and when compared with the total outstanding loans held by JCorp shown a figure surpassed its total loan of the federal government which stood at MYR319.9

million, for the period under review.⁹ This reflected a strong performance of the Group as well as ability to service the long-term debts and a fundamental economic factor of any modern corporation. Figure 6 below illustrates JCorp’s total assets accumulated and profits earned from 1971–1995. Due to the limitation of data, this study is only able to show increasing wealth accumulation at face value as a general guide to reflect on the group’s achievement.

Several factors have contributed to the growth and evolution of JCorp. These include, among others, changes in domestic policies and the global economy, business competition, and changes in the market structure. In order to remain competitive and to sustain growth, the group continues to restructure its business and undertake corporate reforms. Based on the company’s record, JCorp has embarked on indirect investments abroad since 1972 through equity purchases, joint-ventures, franchise licensing, and FDI. Table 16 shows a detailed list of activities on overseas outward investments undertaken by JCorp.

Figure 6: Accumulated Total Assets and Profits under JCorp Group.



Source: Graph by the author, data obtained from JCorp Annual Report, 1971-1995.

Note: the average inflation rate for 1971-1995 is around 4.4%, except for the year 1973-10.6% and 1974-17.3% calculated as percentage change in the consumer price index. Data on inflation rate from 1970-2014 is shown in Annex III. Source: The World Bank.

⁹ Paper by the President and CEO of JCorp in March 1988, “A Public Enterprise’s Role and Achievements.”

2.6.3 Group Financial Performances, 2003-2013

During the early years, the group's business activities and growth were financed through fiscal means, but this method was gradually replaced by retained profits and surpluses from its operations as a public enterprise. In 2013, JCorp Group made history by recording a pre-tax profit exceeding MYR1 billion or MYR1.36 billion on group revenue of MYR6.38 billion. Some 85 % of the profit was generated by key sectors, namely plantation, property, and specialist healthcare. The strong performance is indicative of the group's innovative management, strategic leadership, and resource capabilities. Analysed the sectoral composition of the Corporation's revenue, back in 1988, substantial portion came from its Investment Division which accounted for 35.6% of the total revenue. The second major contributor was the Development Division (32.4%) and followed by the Agriculture Division (27.9). This data had shown the shift of major revenue contributor and the sectoral. Over the years, the percentage of revenue contribution varies significantly depending on the economic and market condition. Also, it is deemed to be in tandem with the business positioning strategy implemented post-financial crisis 1997, particularly in the plantation and healthcare sector. Meanwhile, there are also charity division known as Waqaf An-Nur and Bistari Johor focus on social-welfare activities as both are not a profit-making entity.

Over the years, the Corporation has established a strong inter-firm network among its Group. The subsidiaries companies had also contributed to JCorp's performance through the commendable performance of the Division, despite the challenges of global economic and financial crises as well as domestic issues related to rising labour and developmental cost. The group's business segment is managed on a worldwide basis with group revenue distribution by region in 2010 is dominated by Malaysia (75 percent), Europe (13 percent) and the rest of Asia. JCorp has become a national market leader in several of its core businesses, namely specialist healthcare services, and fast food restaurants; it also has a significant regional presence in the palm oil business not only in Malaysia, but also in other countries, namely Papua New Guinea, Brunei, Indonesia, Singapore, the Philippines, Solomon Islands, Cambodia, and China. One can, therefore, surmise that this SOE is in a position to enter international business due to its economies of scale.

Table 7 highlights the group's financial performance from 2003 to 2013. The data showed some essential measurement such as revenue, profit before tax, profit after tax, total

assets, total liabilities, total equity, return on asset (ROA), return on equity (ROE) and return on sales (ROS). The information on ROE is used to measure the financial performance showed an upward trend and reflecting the positive performance of JCorp group over the years as well as for ROA and ROS, except for the year 2005 due to a higher tax of MYR84 million. From the table, it was observed that the Group acquired more assets and reflected in the increased in sales for the year 2009 and 2011.

However, the revenue or sales figure dropped in 2013 even though the total assets showed an increased amounted to MYR18,649. From the data, ROS had greatly improved from 13.5% in 2011 to 24.5% in 2013. At the same time, the total liabilities increased in proportion with total assets. In 2013, the profit after tax and total equity reached the peak level with MYR1,159 million and MYR6,723 million respectively. Overall, JCorp's performance was a result of its persistent effort to ensure that the group-wide business integration programmes achieved the desired results as they successfully recovered from the global financial crisis and others economic challenges.

The experience that JCorp has had to go through in overcoming the impact of economic crises in the past few years has made JCorp more prudent and weary in its spending as well as making new investments. On top, Group incomes were also supported by profits from its subsidiaries with 10 percent of its revenue being contributed to the state government annually.

When comparing the performances of PKNS or SEDC Selangor which could be considered representing the top States in Malaysia, in 2009 PKNS recorded a net profit of MYR130.9 million with accumulated profits amounted to MYR3,434.7 million and increased from MYR3,303.8 million in the previous year. Analysing data on total assets, PKNS registered a total value of MYR4,089.9 million at the end of 2009 and increased by 3.9% from 2008. Comparatively, Penang Development Corporation (PDC) recorded a total asset of MYR1,351 million in 2009, while in 2011 amounted to MYR1,410 million and JCorp has recorded a value of MYR17,275 million for the same period. As such, the performance of JCorp is far above other SEDC even for PKNS, an SEDC located in the nation's top industrialised States.

Table 7: Financial Highlights of JCorp Group, 2003-2013

Group	2003 MYR1=US\$3.8	2005 MYR1=US\$3.8	2007 MYR1=US\$3.8	2009 MYR1=US\$3.3	2011 MYR1=US\$3.1	2013 MYR1=US\$3.5
Revenue	2,139	2,672	4,748	7,089	7,813	4,735
Profit before tax	263	145	518	700	540	1,324
Profit after tax	153	61	478	446	1,058	1,159
Total Assets	7,794	8,754	11,330	13,798	17,275	18,649
Total Liabilities	5,694	6,901	7,604	9,056	10,890	11,926
Total Equity	2,100	1,853	3,726	4,742	6,385	6,723
ROA (%)	1.9	0.7	4.2	3.2	6.1	6.2
ROE (%)	7.3	3.3	12.8	9.4	16.6	17.2
ROS (%)	7.1	2.3	10.1	6.3	13.5	24.5

Source: Table by author, data obtained from JCorp Annual Report 2003-2013.

(Note: value in MYR million)

From the Table 8 below, SEDC Selangor or known as PKNS, the state enterprise performed well in 2011 particularly based on ROS and ROA, with 27.7 % and 7.4 % respectively. The rate for return on sale (ROS) or the ratio of operating income reflects positive on the operational efficiency of PKNS for the year 2011. Since their business sector is more focus oriented, it is likely sustainable and stable. Unlike JCorp, due to its diversified business group, and combined with competition, industry regulation and restaurant chains business may cause the low rate on return on sales.

Table 8: Comparison of Financial Highlights of JCorp and PKNS

Group	JCorp (Johor/2011)	PKNS (Selangor/2011)
Revenue	7,813	1,156
Profit before tax	540	409
Profit after tax	1,058	321
Total Assets	17,275	4,284
Total Liabilities	10,890	4,899
Total Equity	6,385	4,603
ROA (%)	6.1	7.4
ROE (%)	16.6	6.9
ROS (%)	13.5	27.7

Source: Table by author, data obtained from JCorp and PKNS Annual Report 2011.

(Note: value in MYR million)/ MYR1=US\$3.1

<https://www.pkns.gov.my/my/infomedia/laporan-tahunan-pkns/book/4-laporan-tahunan-2010/1-laporan-tahunan>

2.6.4 New Initiative for a Sustainable CSR Programme

One of the main contributions by JCorp is institutionalising the corporate social responsibility (CSR) programmes. The group chose to take these measures entrepreneurially involving the whole JCorp organisation into the effort for a more meaningful social value creation. As at December 2003, JCorp had established as many as 30 non-government organisations (NGOs) and community service organisations (CSOs), which are often managed and directly led by its own people at all levels. JCorp's approach to the operation and management of these NGOs is also contrary to what is conventionally practiced. These NGOs are generally operated and managed strictly on corporate principles with efficiency,

effectiveness, results, and performance being their outstanding features. Among the more significant NGOs within the group is the Klinik Waqaf An-Nur Berhad (KWAN). The main entity known as Waqaf An-Nur is an Islamic endowment institution which spearheads JCorp Group's corporate responsibility programme. KWAN is part of an outreach programme extending the privileges of specialist healthcare services with full professional backing of KPJ Healthcare to the public at large, focusing on the needs of the less fortunate from all ethnic and religious backgrounds in the society. Data shows that, from only 3 KWAN Clinics in 2003, it now has the Waqaf An-Nur Hospital, 20 clinics, and six dialysis centres in Malaysia. Since KWAN's inception until the end of 2013, the group has provided social services to some 1.13 million patients, (including more than 70,000 non-Muslim patients), charging a minimal fee of only MYR5 (US\$1.50) for outpatient treatment and MYR90 (US\$30) per session of dialysis treatment. In addition, KWAN also operates three mobile clinics: one in Johor and two in Selangor. The group continues to provide clinical resources and medication for the project and contributes more than MYR2 million annually to support KWAN activities.

2.7 Analysis and Discussion

Thus far, the above presented analysis on JCorp's role and function as a development agency for the State of Johor given-mandate based on the constitution. The discussion mainly focusing on the operational aspect and the overall performances under the three leaders throughout 40 years utilizing the methodology by Aharoni (1983 & 2000). Before going further, it is essential to review the States performance up until now as to examine the achievement of the social and economic policy set by either the State or Federal Government. As at 2010, population distribution by state indicated that Johor is the second most populous state in Malaysia with 3.35 million, after Selangor (5.46 million). The census 2010 revealed that the total population of the nation was 28.3 million. There are several economic determine shall be evaluated to examine the level of development for the State of Johor which include household income, percentage of employed population, literacy rate and economic growth rate by state. For this, all the data and information is gathered from the Department of Statistics Malaysia.

First, on the household income for Malaysia, particularly on the mean monthly income showed that it has increased from MYR5,000 in 2012 to MYR6,141 in 2014. As for Johor, in 2014, the State was among the top 5 recorded the highest mean monthly household income of MYR6,207, of which above the national level. Also, Johor recorded the highest growth rate of 14.4 % compared to the national growth rate at 10.3 per cent. Next, based on the data on percentage of employed population in urban and rural stratum, it indicates that for Johor in 2000, 67.2% and 32.8% were employed in urban and rural respectively. And when compared to the figure for 2010, employment in the urban remained to dominate with 74.4% and 25.6%, which showed an increase of 7.2%. Meanwhile, on the literacy rate among Malaysian aged 10-64 years by the state, in 2000, for the State of Johor it registered a total of 95.8% and 98.5% in 2010.

Finally, analyse data on the economic growth in 2013, Malaysia's economy registered a growth of 4.7%, and Johor achieved the same growth rate with the national data. Breakdown by sectoral showed that services and manufacturing sectors remained the key engine growth and the performance of several states namely Selangor, Kuala Lumpur, Johor, Sarawak and Pulau Pinang contributed about 75% to the national momentum in 2013. To be more specific, analysis based on performance by sector was performed for the same year. Johor ranked third for the three sectoral in term of percentage share by State namely services sector (8.1%), manufacturing (12.6%) and construction (8.8%). Based on these facts, the State of Johor continue to play a major role in supporting the growth of national economy through the key sectors.

The evidence from this case study offers a stark contrast to the traditionally negative view on SOEs. JCorp is a public enterprise geared towards achieving three objectives, namely restructuring society, eradicating poverty, and attaining a sustainable and self-reliant organisation. It was observed that the success achieved by JCorp Group is the outcome of a long process of transformation and continuously adopting best practices within the group's companies. JCorp started operations in August 1970 and secured MYR10 million in funding as a launching loan used to cover administrative costs and the purchase of Ladang Tebrau as its first plantation asset. Malaysia's robust industrial development and economic growth provided vast opportunities for JSEDG to strategically position itself in many areas and, subsequently, reap substantial benefits therefrom.

In 1995, JSEDC changed its name to JCorp and further improved and enhanced the group corporate performance. The group made and implemented strategic decisions through several corporate transformations plans and business strategies, as well as a number of restructuring exercises and management transformation processes. These efforts have enabled the group to act as a corporate institution not only to serve the economic needs of society for wealth creation but also to integrate society's higher values into corporate practice. The group managed to survive many difficult years, particularly between 1997-1998 during the global economic crisis, the outbreak of SARS in 2003, and militant challenges. Additionally, the group developed the operational strength to fully manage risks and continued with its strategic investment plans at both the domestic and international levels.

Thus, throughout its 40 years of operations, JCorp has successfully built an organisation with a total workforce of more than 60,000 employees with four companies listed on Bursa Malaysia, and 379 Directors within the group. Tremendous efforts were made to educate the Malay entrepreneurs and professionals and were regarded as positive corporate habits, through the enhancement of knowledge and skills, productive networking, sharing of experience and management expertise attained from the on-job training. As at 2014, JCorp owns 279 companies in diverse business sectors incorporated under a single umbrella. Its business interests are located not only in Malaysia but also in other regional territories. Hence, it appeared that the Group had managed to coordinate and manoeuvre the bureaucracy inefficiency being an SOE and subject to the government regulations, as well as promoting and sustaining entrepreneurship elements in the Group-wide operation.

A swift comparison with other SEDC in term of subsidiaries owned for example SEDC Negeri Sembilan a total of 66 companies in 2011, SEDC Selangor registered 11 companies for 2013 and SEDC Penang with 32 companies in 2013.¹⁰ The huge gap identified among these SEDCs in Malaysia reflects interesting scenario to be undertaken for future research. Since 1989, the JSEDC has gone on record as perhaps the only public enterprise to have contributed a portion of its annual profits to the state government. By the end of 1993 the accumulated contribution amounted to MYR37.46 million. Against the backdrop of the ever-changing economic infrastructure and growing competition, JCorp

¹⁰ Official Website – SEDC Negeri Sembilan, SEDC Penang and SEDC Selangor.

remains committed to executing its financial transformation plan of having zero debt by the year 2020.

JCorp has grown to what it is now today under the leadership of former JCorp's president and CEO Tan Sri Muhammad Ali Hashim. His 30 years of work together with the senior management team has shaped and transformed the company to the highest performance equipped with various business strategies as well as high standard in managing the company daily operation. His tenacity, business acumen and entrepreneurial leadership have enabled JCorp to grow into one of Malaysia's leading conglomerates and reputable state enterprise. Perhaps, Muhammad Ali Hashim is one of the "elite CEO" as described by Musacchio and Lazzarini (2014, p.19).

As a President & CEO of the Group, Muhammad Ali Hashim had also successfully steered the Group through extreme business challenges especially during the hard hit of the 1997 Asian Financial Crisis, health diseases and SARS outbreak in 2003 and Global Crisis in 2008. In contrast with traditional theory of bureaucracy, holds that working in bureaucratic organization conquers rates of entrepreneurship. As mentioned in the previous chapter, Leibenstein (1968) illustrate entrepreneurs as someone who brings gradual changes to existing products and processes through leadership, motivation, the ability to resolve crisis, gap-filler and risk-taking. All these traits deemed to be possessed by top corporate leaders in the JCorp Group. Also, Shamsuddin et.al (2012) analysed the effect of corporate entrepreneurship dimension on financial performance of JCorp as an SOE found that pro-activeness has a positive and significant impact on financial performance of the company, as such contributed to the overall good performance of JCorp Group.

In this chapter, a new definition of SOE Entrepreneur was introduced solely based on this case study, as an individual who possesses two types of character traits: commercially-driven decision making and dual-role as a public agent that is bureaucrat cum entrepreneur. Also, this research has demonstrated that exemplary and competitive SOE entrepreneurs within the JCorp Group, and managed its development within an environment of highly-diversified business sector. This case is well explained by the argument made by Musacchio and Lazzarini (2014) that CEO matters and important to have the talented leader for a better result. At the same time, while acting as a state enterprise, the firm not only succeeded in expanding businesses beyond national boundaries but also performed optimal social roles, whereby JCorp was deemed capable of balancing its SOE role with its private

enterprise principles. The findings suggest that the status as an SOE is not affecting JCorp and the Group effectiveness and performances.

Another important result from this chapter is that, during the decolonization period, SOE was seen to be an ethnic policy vehicle to reduce poverty and economic imbalances as well as to achieve economic control by acquiring the colonial companies. This is due to the fact that, during that era between 1950s to 1970s, the wealth of the nation such as rubber and tin still majority-controlled by the British and European companies and not contributing to the domestic economy (Gomez and Jomo, 1997, p.12; Jomo, 1986, p.220). It was reported that, the net outflow of profits during 1955 to 1961 amounted to MYR844 million, or 60% of gross domestic capital formation and further increased to MYR1.8 billion between 1961 to 1970, while comparing with foreign investment received was only amounted to MYR1 billion (Gomez and Jomo, 1997, p.14).

Finally, the JCorp Group was managed according to the best standard of both public and private sector. Further research could help to improve our understanding of entrepreneurial motives derived from the social context and influenced by developmental and economic opportunities. On the whole, political-economic approaches including national institutions, policies, and political engagement may provide the environmental settings for entrepreneurial activity and facilitate the development of local entrepreneurs from an economic minority group. A stable and large pool of strong and capable leaders at the JCorp Group have successfully transformed the traditional model of SOE to the millennium type of state enterprise, which could serve as a benchmark where new indicators should be considered to measure SOE entrepreneurship.

Chapter 3

The Transformation of JCorp

3.1 Introduction

This chapter aims to understand how and when the transformation of JCorp occurs. Also, to examine the corporate strategy of JCorp and the process of its diversification. Thus, using a case study from a middle-income country, the focus of analysis is on the transformation and restructuring of JCorp in adapting and reconfiguring its corporate strategy to deal with the competitive market condition. Based on the literature published by Jing and McDermott (2013), the framework established will be extended for this chapter. The authors studied the transformation of state-owned enterprise in China and highlight the proactive role of top managers as change agents and determine the enabling condition of institutional context for a SOE to transform. Also, utilised four main data namely firm; top managers; transformation process and external environment.

As for this chapter and based on available data, “transformation” is defined as fundamental change within JCorp with regards to its management and organization, business strategy, corporate restructuring and human capital. It has become a pivotal domestic development strategy in many emerging economies globally particularly in Asia, with somewhat different in business and operational model. Firms adopt related or unrelated diversification strategy as well as geographical diversification. With the rapid changes launched by the Malaysian Federal Government related to economic policy and implementation of best practices on corporate governance for improvement, it is timely to assess the effectiveness of JCorp in its transformation and performance thus far.

To be able to have a holistic perspective in analysing the transformation process in JCorp, first understanding of the national transformation agenda is essential. Then, analysis focusing on the evolution of transformation at the firm and Group-wide level will be included and conclude with discussion on corporate strategy through unrelated diversification and intrapreneur venture scheme. This chapter consist of five sections, whereby Section 3.1 to Section 3.3. briefly elaborates on the introductory and national perspective on transformation; Section 3.4 provide brief picture of the management

evolution in JCorp; Section 3.5 analyse the diversification strategy; Section 3.6, Section 3.7 and Section 3.8 discusses on the corporation aspect, human resources and intrapreneur ventures; with Section 3.9 details the results and findings.

3.2 Literature Review

The previous study on firm was mostly based on the large enterprises in the West and Europe. There is obviously some different characteristic of the market system compare with firms operating in developing or emerging market economies. As such, a large number of scholars had intensified and researched more on the corporate strategy, diversification and firm's performance in emerging countries. It was noted by Hoskisson and Hitt (1990, p.461) that the diversification of business organization has grown enormously especially in the developed country and catching up in many industrialised nations. The authors (cross reference Porter, 1987) also highlighted that merger and acquisition is among the popular diversification strategy adopted by firms since 1974.

On the contrary, some scholars suggested different theoretical arguments for the case of developing and emerging economies, unrelated diversification is more appropriate particularly for the business group (Khanna and Palepu, 1997, p.151). The reason behind this is that, these groups it expected to have the scale and scope to perform the economic function, add value to the society and to fill in the market gap. Generally, firm creates values for unrelated diversification through cost savings or efficient internal capital allocation and restructuring of acquired assets. Meanwhile, Agency theorists suggested that executives in most cases are motivated to strive for a product diversification strategy as to increase their private benefits (Hoskisson and Hitt, 1990). On the other hand, geographic diversification could have more complicated scenario hence the relationship with performance somewhat complex. According to Lu and Beamish (2004) the performance declines at the early phase of internationalization, later raises at modest levels and then declines again at a rapid geographic diversification. To this end, one crucial issue related to diversification is that can firm sustained their strategy either product or geographic diversification.

Another study by Musacchio and Lazzarini (2014), in their new book entitled "Reinventing State Capitalism" which focused on Brazilian context. The authors examine

how their model of state capitalism influence corporate investment and performances. A traditional SOE model described the state acts as a majority investor, granting the SOE financial autonomy and allowing professional management. Through this model, it could reduce many agency problems commonly faced by SOE. However, in recent decades the state often acquires minority shareholding via sovereign wealth fund (SWF), or a holding company or and development banks, and this is known as a hybrid model as described by the authors. Anyhow many governments still have the temptation to intervene in the natural resource industries and other large strategic state enterprises.

There are theories related to pro-market reforms emerged in the 1980s and 1990s (Dau 2012). The scholars describe pro-market reform as an institutional change made by the state that was first implemented by the UK Prime Minister Margaret Thatcher, becoming a global phenomenon and followed by other countries (Musacchio & Flores-Macias 2009). “Pro-market reforms included the adoption of policies such as price liberalization, trade liberalization, full or partial privatization, liberalization of FDI inflows, and industry deregulation by abolishing barriers to entry and exit particularly to foreign competition” (Rodrik 2006).

At the same time, pro-market reforms have been seen to enhance SOE internationalization (Rodrik 2006). Firstly, pro-market reforms exposed domestic firms to international competition by reducing regulatory constraints and dropping restrictions on imports and foreign investments (Dau 2012). As the competition in the local market rises resulted in the establishment of a new institutional environment that later allowed, and in some cases forced domestic firms to venture abroad (Dau 2012). Secondly, pro-market reforms also have brought a wave of full and partial privatization which changed the configuration of state-ownership (Gupta 2005). As such, under the higher expectations of private stakeholders, SOEs are forced to enhance internal management and performance through corporate governance best practice (Gupta 2005) as well as internationalised for more profitable business. Finally, pro-market reforms also transformed the political agenda in most countries, which has also changed SOEs’ internationalization logic (Cerny 1997). The author further elaborates that as a result, government policies shifted to the development of internationally competitive key sectors, promoting corporate innovation and corporate profitability (Cerny 1997).

Also, in analysing the organizational nature and their contribution as a state-enterprise, this chapter will examine the operation of JCorp based on concept and theory of organizational for large enterprises or more recently known as “business group”. Colpan and Hikino (2010, p.16) highlighted that business group had remained a core of the large enterprise sector with their characteristic wide and unrelated product portfolio, often combined with the pyramidal structure of ownership was often observed. Also, a pyramidal structure of ownership harms both the investing public and the economy because the controlling shareholders can “tunnel” the economic benefits of ownership from minority to themselves and come to exercise economy-wide power disproportionate to the small ownership stakes they hold (Colpan and Hikino, p.21).

Finally, the literature on transformation of SOE was also reviewed. Jing and McDermott (2012) studied on transformation of SOE in China using three cases and presented the “strategic action model” as the outcomes. In this model, four main elements were identified including change agent, institutional context, strategic action and change outcome. The authors defined transformation as “radical change within an SOE with regards to its ownership structure and related managerial systems such as its incentives systems and labour relations”. For their study, data were collected from four perspectives namely firm history and reform motives; top managers and their personalities and working experience; transformation, related to the process and result; and finally, external environment (the parent company and local government). In many research, the findings suggested that those SOEs which successfully implemented transformation resulted in a positive and improvement (Bai et. al, 2013). Also, based on Granaut et. al, (2005), reported that a transformed SOE would experience an average profit rate increase of 3.6 per cent.

In the interim, some scholars studied on the bureaucracy and reform of public management in Malaysia. For example, Siddiquee (2006, p.343), studied the initiatives undertaken by the Federal Government which includes among others the Malaysian Incorporated policy, downsizing the civil service sector, service process reengineering as well as personnel and financial management reforms. However, the finding concludes that, although the reforms are in the right direction, their impact have been modest. As for the public-sector reform through privatization, Rosnah (2010) highlighted that, although it has yielded tremendous benefits, it might have done better if it had planned its regulatory mechanism and transparent in the process. Meanwhile, Tjipthoherijanto (2008), studies the

civil service reform concluded that, there has been positive advantage from the Malaysia Incorporated Policy as it had provided the cooperation framework for the public and private sector partnership in facing intense globalization. Hence, based on these literature reviews, the theory and discussion will be employed for this study.

3.3 Transformation as National Agenda in Malaysia

As briefly discussed in preceding chapter, during the earlier decolonization period the bequest of British and other European firms continued largely with the export orientation of the economy and resulted in a net outflow of profit to the respective home countries. Even as early as the 1960s, Malaysia clocked annual average 6.4 percent GDP growth (Gomez and Joko, 1997). Soon after, as the standard of living upsurge, next, the labour costs gradually increase and foreign firms start to repatriate their assets, move out or transferred business-operation to lower cost countries in the region. Not long after, Malaysia promoted industrialization policy with tax exemption, import duty exemption and investment tax credit facilities were offered to attract foreign direct investment into the country. Subsequently, the government also introduced the establishment of Free Trade Zone (FTZ) in becoming a manufacturing nation with export direction, as well as Licensed Manufacturing Warehouse for the area without FTZ. These initiatives and the required infrastructure were developed through the respective SEDC in each States.

3.3.1 Industrial Policy in Malaysia

For decades, Malaysia has a strong and vibrant industry with much of the economic development and industry success attributable to a series of industrial policies in Malaysia after 1970s. There are four major types of industrial policy in Malaysia characterised by different objectives:¹¹

- Wealth redistribution industrial policy aims for a fair distribution of wealth amongst different races in the nation.

¹¹ Jabatan Penerangan Malaysia, <http://pmr.penerangan.gov.my/index.php/ekonomi/>. (Department of Information Malaysia).

- Export promotion industrial policy promoting the development of manufacturing industries serving foreign markets.
- Import substitution industrial policy is catering for the development of manufacturing industries serving domestic markets.
- Response to globalisation industrial policy aims at managing with new competition from large firms in the domestic markets.

Between 1981 and 2003, mixed developmental measure and policy were introduced which includes government-driven heavy industrialization and privatization of key SOEs. The aims were among others to facilitate Bumiputera capital accumulation and nurture managerial experience and capability which resulted in a rapid creation of Bumiputera capitalists peaking in between 1991 to 1995 (Jomo, 2002). Over the past decades with the positive grow, some structural reform of the economy has occurred within the framework of a liberal trade and investment regime. As a result of the extensive used of the industrial policies, Malaysia has achieved growth, equity, and structural transformation in an ethnically diverse society despite many challenging situations.

3.3.2 Government-Linked Company Transformation Programme

Talking about Government-Linked Company Transformation not until middle of 21st century that Malaysia start the programme. This is due to the fact that particularly after the 1980s the nation experienced rapid economic growth and privatization before the financial crisis struck the world in 1997. Then, beginning of 2000, Malaysia recovered from the crisis and implemented various economic, financial, corporate, and industry restructuring to embrace the future. At the federal level, in 2004 former Prime Minister Abdullah Ahmad Badawi announced the transformation of economic via Government-linked Companies (GLC) known as GLCT Programme. Overall the programme aims to transform the GLCs to become high performing entities and also help accelerate the country's social and economic development further. Later, when the current Prime Minister Najib Tun Razak stepped into

office in 2009, he announced that the Government is committed to ensuring GLCT continues to be implemented with greater urgency and focus, whereby GLCs must aspire to greater heights, whether best in class or emerging as future regional if not global champions. The GLCT Programme outlined 3 Underlying Principles, 5 Policy Thrusts, and 10 Initiatives.¹²

In short, the 3 Underlying Principles are first, it should be performance focused by creating economic and shareholder value through improved GLC performance. Secondly, it should be based on a national development foundation by supporting growth with equity, improving total factor of productivity, developing human capital and developing Bumiputera communities. Finally, it must fully observe the rights of shareholders and governance of GLCs, and within the context, GLCs should also support other valid stakeholder interests.¹³ In term of, the five Policy Thrusts, first, clarify the GLC mandate in the context of National Development, second, upgrade the effectiveness of Boards and reinforce the Corporate Governance of GLCs, third, enhance capabilities as professional shareholders, fourth, adopt best practices within GLCs, and finally, fifth, implementing the GLCT Programme. A summary of the principles and policy thrusts highlighted were presented in Annex IV(a).

Along with the principles and thrust, 10 initiatives were developed under this programme to support the 5 policy thrusts, and the details information as presented in Annex V. The GLCT Programme was developed for a 10-year plan encompassing four phases as outline in Annex IV(b), The GLCT Programme in Malaysia. The programme has started in 2004 continues its trajectory towards creating regional champions by 2015. In the long-term, it was expected that all GLCs are also helping Government to transform Malaysia by supporting and participating in the various Government Transformation Programme (GTP) and Economic Transformation Programme (ETP). Without doubt that these initiatives were implemented at the federal level, and it was also believed had inspired other SOEs and government statutory bodies to boarded on the same goals and direction with GLCT Programme, as seen in the case of JCorp.

Based on analysis conducted, over these years, JCorp had implemented several corporate restructuring and transformation at the headquarter level, and throughout its subsidiaries. Even in the initial phase, numerous transformation efforts were already taking

¹² Report on GLC Transformation Programme, Progress Review 2012, Putrajaya Committee on GLC High Performance, p.13.

¹³ GLC Transformation Manual 2005, PGC Secretariat.

place especially in the late 1970s and 1980s as well as in 1990s. It was a challenging period in 1976 when the Group experienced a decline in profit level due to the weak global economy at that time. To be able to execute all the planned investment and development projects in the State, JSEDC embarked on a joint-venture with local and foreign investors for some of its projects like building factories and business complexes. Subsequently, in the 1980s, JCorp had managed and recovered from the sluggish economic condition through various restructuring in business strategy and constantly upgrade its productivity. Again, another critical test happened in the late 1990s, as the consequences of the Asian Financial Crisis which had dragged the situation until the early phase of the millennium, and had severely affected the performance of JCorp Group. Among the major initiatives to overcome the crisis were outlined under the Corporate Restructuring Master Plan (CRMP) which was launched in 2002 to further strengthen its corporate performance through its Group-Wide Business Integration Programme.

3.4 The Evolution of Management and Organization

In the mid-1960s, SEDC were established with the mandate to foster industrial and commercial infrastructure at the state level. This is inspired by the fact that in the midst of 1970, Malaysia has introduced the New Economic Policy (NEP) with an aim to wipe out poverty and rectify the unequal distribution of wealth among the different races. The NEP act as guidance for Malaysia's development strategy for its dual objectives between 1971 and 1985. In realizing the goals, the NEP was designed to improve the economic position of the Bumiputera and allowed for a considerable state intervention for implementation of the economic policy outlined. In addition, the public sector was geared toward the country's social and economic development as well as a change in public spending with high allocation on infrastructure and amenities needed to facilitate private sector production. Thus, SOE then played a vital role as a government economic tool to achieve the policy target.

Initially known as Johor State Development Corporation (JSEDC), the corporation commenced its operation with only 2 officials and 5 supporting staffs by the end of 1970. As described in the previous chapter, JSEDC's main mission was to alleviate poverty and to provide business opportunities for the ethnic Malays, or Bumiputera, to improve their economic status through providing more job opportunities and higher economic

participation. At the same time, JSEDC were responsible to improve the overall State economic development equipped with the needed infrastructure such as school, port, industrial estates, commercial complexes and residential.

Nevertheless, critiques and negative perception lure the Corporation as its begin operation. It was reported that, through the Johor State Press, several Members of State Assembly raised question regarding the role and function of JCorp, and that it was still unknown of their contributions particularly related to Bumiputera participation in the State's development.¹⁴ Thus, the Chief Minister, also Chairman of JCorp responded by providing data and information as well update on their roughly in the third-year. Among the information tabled in the Assembly Hall includes total number of employees, of which 258 and all are Bumiputera, providing training to some engineers and offering scholarship to further study abroad in the same field, grooming Bumiputera entrepreneurs and establishing subsidiaries companies to train in business operation and management. Hence, from 1970 to the present years, JCorp have been seen delivering the social mandate assigned.

3.4.1 Reinventing Management and Organization

At the Group level, JCorp elected Chief Minister of the State as Chairman of the Board Member (as the de facto) and prominent leaders within the group, state government official and business leader from the private sector. This has been the same structure in other SEDCs in Malaysia. In 1970, the corporation commenced its operation with the appointment of Othman Mohd Saad, the then Chief Minister of Johor as its Chairman and Basir Ismail as its CEO. Since then the structure remains members of Board of the Director in JCorp composed of the State Chief Minister, as the Chairman together with ten (10) other directors. It had been noticed that representatives from the Federal Government are also elected to serve as a bridge between JCorp and the Federal Administration on official and policy matters. Since then, economic and political policies are implemented by the State and Federal Government and realising this, JCorp used a mixed approach by electing representatives from State and Federal levels in order to facilitate the organization to develop the best possible business strategies and be prepared to adjust to any forthcoming industrial

¹⁴ Johor State Press "Suara Johor" Issued: Nov-Dec 1973, No.5; sourced from National Archive Malaysia.

policy changes. This initiative deemed to be in line with the Corporate's constitution. Table 9 below illustrate the new structure of appointment for BOD in JCorp. As elaborate in earlier chapter on legality of its establishment, comprehensive analysis on the JCorp Constitution outlined that;

“Member of the Corporation” shall consist of:

- a) a Chairman, who shall be a person for the time being holding the office of Menteri Besar (State Chief Minister), Johore;*
- b) a Deputy Chairman, who shall be appointed by the Ruler;*
- c) three ex-officio members who shall be the persons for the time being holding the offices of State Secretary, State Legal Adviser and State Financial Office, Johore;*
- d) the appointed Director of the Corporation;*
- e) three other members to be appointed by the Ruler from amongst persons appearing to him to be qualified as having wide experience and shown capacity in matters relating to banking, manufacturing, housing, commerce, finance, professional or administration, or to be otherwise suitable for appointment by virtue of their special knowledge and experience; and*
- f) three representatives of the Federal Government appointed by the Minister (Finance).*

The composition of Member of the Corporation as outlined under the Constitution aimed at a more mixed-representation from the State and Federal Government. Also, it is to note the emphasise on the aspect that a Director must be qualified with wide experience, special knowledge and experience related to the business operation. In the process of making the legislation, the legal document had undergone vetting process by the Attorney General Office at the Federal Level. As such, all details in the Constitution must ultimately be able to achieve the desired objectives. However, there is slight changes in the current membership of the Board of the Director (BOD) in which were viewed as a strategic advantage for JCorp. The Group created a new position in 2006 for Deputy Chairman, which was held by Chief

Secretary to the Government of Malaysia (CSG), together with ten (10) other directors comprising the Ministry's officials and business leaders. At that time, Mr. Sidek Hassan whom previously held the position of Secretary-General of Ministry of International Trade and Industry was appointed as one of the members of the JCorp Board since 2004, after that, he was promoted as the Chief Secretary since September 2006. It acts as a precedent hence, the current CSG Mohd Ali Hamsa was also appointed as the Deputy Chairman of the Board of JCorp Group. As there is only one CSG and JCorp is the prime mover in this initiative and thus brings its own merit.

Obviously, this current structure would provide a competitive advantage to JCorp with the appointment of Chief Secretary of the Government as a member of the BOD to advise on the latest or possible changes of federal government's policy. At a glance, having high-ranking officials as the Board members act as dual role, one they are in an able position to contribute to the policy, strategic planning and leverage on the governmental connection, as well as play a monitoring role as an outsider from the Federal level.

3.4.2 The Board of Directors

Analysing on the role and function of the Board of Director for the JCorp Group, the Board takes responsibility for the overall performance of JCorp by establishing the vision and objectives of JCorp, overseeing the adequacy and integrity of JCorp's strategies, financial performance, business issues and internal control system. The role of the Chairman and President & Chief Executives are separated. President & Chief Executives exercise control over the quality and timeliness of information flow between the Board and management, as well as act as only Executive Director. While, the Chairman (Chief Minister) on the other hand, is independent of management and is responsible for the workings of the Board ensuring that Board Members engage the management in constructive debates on various matters including strategic issues and business planning processes. To ensure smooth operations and to facilitate decision-making, at the same time ensure proper controls, the Board is supported by three board committees namely:

- The Audit Committee
- Board of Tender Committee; and
- Special Project Committee.

Table 9: Composition of BOD Member in JCorp Group.

Position in BOD	Old / 1970 (11)	New / 2014 (12)
Chairman	Chief Minister of Johor	Chief Minister of Johor
Deputy Chairman	Member of State Assembly	Chief Secretary to the Government of Malaysia
President & CEO	CEO of JCorp	Elected from within JCorp Group
State Government	2 Officials from the State	4 Officials from the State - State Secretary of Johor - State Legal Advisor - State Financial Officer - Chairman of State Education, Entrepreneur Development and Cooperative Committee
Federal Government	3 Officials from Ministries level	3 Officials from the Ministries level - Director of National Budget, Ministry of Finance - CEO SME Corporation Malaysia - Director General, Economic Planning Unit Prime Minister's Department
Independent Directors	3 Directors selected from business community	-
Directors	-	2 Directors appointed internally from the JCorp HQ - Chairman Board of Audit Committee - Secretary Johor Corporation

Source: Table by the author, data from Annual Report JCorp 1970 and 2014, p.19.

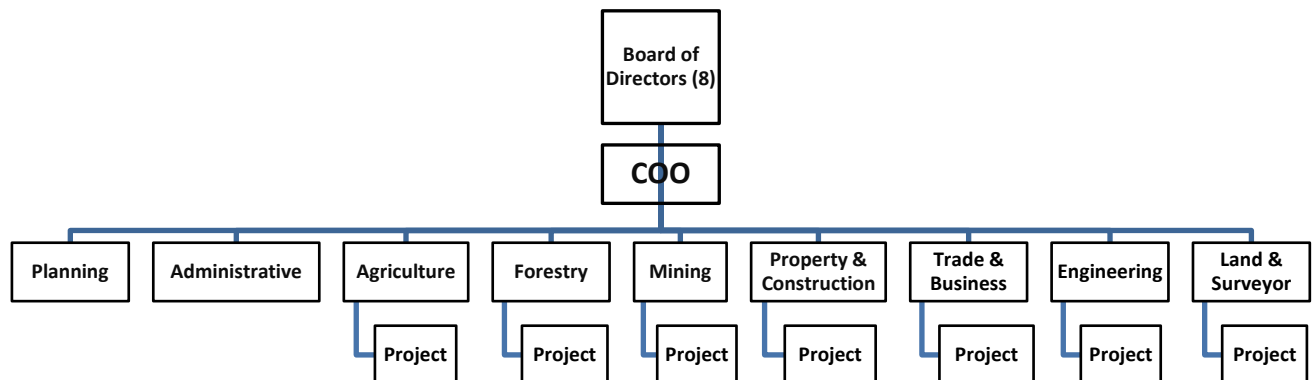
Meanwhile, the Management functions are delegated to the Group Top Management Committee (TERAJU) and various other governance committees which have been established gradually for continuous improvement. For the companies' administration system, all company secretarial functions in companies whereby JCorp is the main shareholder are undertaken by Corporate Affairs Department, the company secretary service provider for the Group. The appointment of company secretaries is forwarded to TERAJU Corporate Committee for approval. This department is also responsible in ensuring that all companies meet all statutory requirements under the Companies Act 1965 and where applicable, the listing requirements of Bursa Malaysia and its Securities Commission's Guidelines. In addition, it is also their responsibility to ensure that the BOD complies with the companies' policies set forth and achieved its objectives. All appointments of Directors are administered by Corporate Affairs Department on an annual basis and must fulfil the criteria outlined.

3.4.3 Management Control

As a SOE, JCorp must strictly adhere to good corporate governance in its operations. Domestic policy on state-owned enterprise and statutory body including JCorp is required to comply with specific regulations and laws, namely *Perbadanan Johor Enactment No.4 of 1968* (as amended by Enactment No.5 of 1995) (the Enactment Corporation Act of 1962 (State Legislature Competency – Act 380) and Loan Guarantee Act of 1965 (Bodies Corporate – Act 96). Changes in business commitment and the way businesses are operated have become major efforts in the establishment of an organization's corporate governance structure.

In any large corporation and highly diversified, the strategy is crucial for the most business enterprise especially in the twenty-first century as the complexity of the market magnified. As JCorp's business sector is very diverse, the organization adopted a business group form for its business management and strategy. This model permitted JCorp to control a large and highly diversified corporation far more efficiently and leverage on its Group advantages. Comparing with the structure when its first started in the 1970s, more simple and functional base operation as illustrates below in the chart.

Figure 7: Management Structure JCorp, 1971.



*The Functional Structure of JSEDC

Source: Archive documents and Annual Report, chart by author.

From the graph, the organizational structure of JCorp in the 1970s was divided into two main section one, functional and business operational division. Two division are responsible for the functional aspect of the organization, namely planning and administrative division. In the 1970s each division is monitor by a Manager, and as their task grows in complexity, the role and duties also increased. While the current organizational structure focuses more on segmentation of their businesses. For each division, it is headed by a Senior Vice-President and at the subsidiary level, manage and monitor by a CEO or Managing Director. Also, it seems that the level of complexity increases as reflected in the number of corporate governance committees established at the corporate level. Detail analysis of their role and function of the seven-main committee is presented in the following section. As commonly employed in the business group, the interlocking of directors facilitates building soft assets through transfer of information, high unity and accountability. At the same time promoting a rational, comprehensive and high integration of decision making.

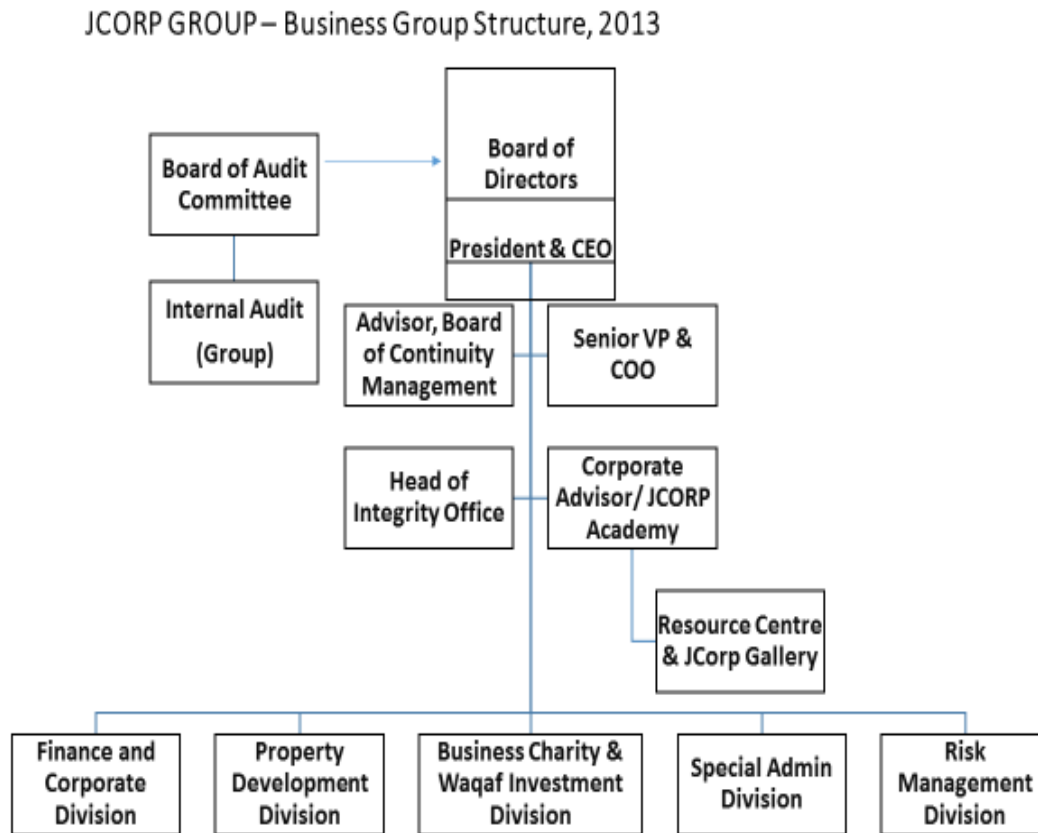
Also, it is more hierarchal in structure, and more bureaucratic in procedures as the Group continues its expansion and diversification over the years as illustrated in Figure 8.

Similarly, for the formalization which resulted in the improved standardization of organizational processes within the Group-wide entity. Finally, on the centralization particularly related to human resource policy, legal and information technology. At the Corporate level, it was reported that all human resource proposals must be tabled at the Human Resource Committee Meeting for approval. Later, it will be implemented at Corporate level, however, the subsidiaries have the flexibility to apply any policy that appropriates to their industry. Moreover, the essential role of Internal Audit (Group) is responsible for providing a report on the governance and internal control system to the Board of Audit Committee chaired by an Independent Director of JCorp. Thus, the formal and centralized structure have contributed to the overall improvement for the Group operation.

3.4.4 Corporate Governance Practice

Over the years, the Group improved and enhanced its management and corporate governance practices in achieving the objective and target set annually. The establishment of all its governance committees was seen as a result of the terrible Asian financial crisis. The crisis had exposed its internal weaknesses in many aspects such as organization structure, systems, strategies and past management practices. Managing the corporate affairs post-crisis, attention was given towards streamlining decision-making and improved communication method. As such, more committees were set-up for this objective started with just one committee namely the *Jawatankuasa Teraju Korporat* (TERAJU) or Group Top Management Committee and later, gradually, other committee was formed according to the need and purpose. This marked a shift in approach that is, from previously more entrepreneurial oriented to professional management mode. The Corporate Office plays an important role in ensuring all decisions are approve by the respective committees. Based on the report published in 2003, among the seven main committees include:

Figure 8: JCorp Group Organization Structure, 2013



Source: Annual Report 2013.

a. Group Top Management Committee (TERAJU)

The Committee is chaired by Muhammad Ali Hashim, the President & Chief Executive and comprises of 11 members. Its roles include discussing and deciding on strategic issues relating to JCorp and its Group of Companies.

b. Teraju Corporate Committee

The Committee is chaired by Jamaludin Md Ali, the Senior Vice President/Chief Operating Officer and comprises 14 members. Its roles include endorsing and ratifying all decisions made at the various committees.

c. Executive Committee (EXCO)

The Committee is chaired by Esa bin Mamek, the Vice President (Land & Business Development Division) and comprises 14 members among JCorp management. It deliberates on operational as well as financial matters, and also forward significant recommendations to Teraju Corporate Committee for further deliberations and approval.

d. Finance and Investment Committee (KEMUDI)

The Committee is chaired by Ms. Azizah Abd Rahman, the Senior General Manager Finance Department, and comprises 4 members from the JCorp management in charge of corporate, finance and business development.

e. Group Human Resource Committee

The Committee is chaired by Ms. Siti Sa'diah Sheikh Bakir, the CEO of Healthcare Division, and comprises 15 members from various department and division. The majority of the membership represents the JCorp management, and some from the subsidiaries division including MD of TPM Technopark, Director of Property Division EPA Management, COO of Johor Land, MD of Invest Johor, Corporate Senior Manager KPJ and Senior Manager Sindora. The main role and duty are to develop comprehensive employee development programme in ensuring that the mission and objectives of the organization are achieved.

f. Strategic Planning Committee

The Committee is chaired by Ahamad Mohamad, the CEO of Palm Oils Division, and comprises 7 members mainly from the major subsidiary companies such as KPJ, Damansara Realty, Sindora, and JCorp management from the finance department and human resources development and administration department. This committee is responsible to deliberate on issues related to the strategic decision for the Group and to table at TERAJU Committee meeting for decision and approval.

g. Investment Review Committee (JAWS)

The Committee is chaired by Ahmed Muzni bin Mohamed, the Vice President (Special Administration and also acting as Managing Director, Invest Johor Berhad). The Committee deliberates on all proposals for new projects and investments. It comprises of 11 members appointed amongst the senior management of JCorp and companies within JCorp.

h. Asset Valuation, Swapping and Disposal Committee

The Committee is chaired by Esa bin Mamek, the Senior General Manager JCorp, and comprises 7 members from within the management team and subsidiaries, including COO of Invest Johor Berhad, MD of TPM Technopark and Executive Director of Property Consultant.

With these seven main committees, the Corporation aimed to reduce the layer of bureaucracy and at the same enhancing the “Syura” concept (management by consultation). In JCorp, the Group had adopted and elaborate a unique decision-making structure and system embodying the principles and practice of “Syura” since the early 1980s under the Leadership of Muhammad Ali. Specifically, Syura means managing through teamwork, obligated to consult those with knowledge or expertise, those who would provide good advice and every member are given fair opportunity to voice their opinion freely – based on Islamic and Syariah Guidelines. For example, among major decision achieved under this concept includes the introduction of the pre-cast concrete or prefabricated building system in Johor and has able to provide quality housing at prices affordable to the vast number of low-income home buyer at that time (JCorp, 1988, p.76). The private sector was hesitant to venture in this new technology as it more for social-welfare objective.

At the top management level, the implementation of Syura concept is through all the governance committee, while for the operational level more platform was created for the employees to share and voice up their opinion and concern related to the organization. For example, through the *MBJ session*, the President met with the employees to update on the corporate planning and strategy as well as direction, and it is a two-way communication

being held on monthly basis. Also, the Corporation had introduced suggestions and quality scheme known as CEMPAKA and MEKAR. The CEMPAKA scheme was introduced in 1987 as a medium of channelling ideas among staff that could enhance the quality in the organization, while MEKAR is focusing on total quality management (TQM) programme which involved all level of employees (JCorp, 1987, p.118).

Based on the data collected, it was observed that, in 1991, a total of 120 out of 394 suggestions were implemented. However, there was no available information on the details. Both exercises are aimed to create awareness and impart the importance of quality as well as enhancing staff participation in decision making process. Also, in the same year, a “Book Session” was introduced at the Corporation’s headquarter. Throughout the year, a total of 33 executives had reviewed various books of their choice (JCorp, 1991, p.107). The book session by staff on a regular feature aims to provide the opportunity to widen their general knowledge and to keep abreast with newsworthy matters. All these initiatives and measures are undertaken with final aims for a quality human capital, sustainable long-term growth and to safeguard the interests of the shareholders and various stakeholders since JCorp as an SOE operate under a mixed-ownership.

Also, over the years, JCorp created new committee and merged some of the old established committees. For example, the company has expanded the duties and responsibilities of the Audit Committee with the establishment of two departments namely Business Continuity Management and Inspectorate. On top of that, to strengthen the existing system, an Information Assessment Committee was also established to review and evaluate information or complaints received, whether they are criminal, violations of the code ethics and business conducts or otherwise. Meanwhile, Teraju Corporate Committee was renamed as Synergy and Corporate Restructuring Committee. However, the effectiveness of these initiatives and the performance of various committee is yet to be evaluated in the future. During the period under review, while performing the research, data was not available, and request for interview received no response from the Corporate Office.

On Corporate initiative related to governance, it was noticed that, on 6 November 2014 the Group has rolled out the ‘No Gifts and Entertainment Policy’. The policy is aimed at inculcating integrity and avoiding conflict of interests for either party in existing or potential business dealings between JCorp and its Group of Companies with external parties. Subsequently, by the end of 2014, Board of Tender Committee had been established and

chaired by the State Secretary of Johor. Further analysis was performed from the external perspective on this important issue of corruption, there is no available information on any case related to JCorp Group. However, based on the printed media, it was reported that JCorp was the first public enterprise had signed for cooperation with the Malaysian Anti-Corruption Commission (MACC) on corruption preventive measure by establishing an integrity unit in the organization.

As Malaysia is implementing the United Nation Convention Against Corruption, via Service Circular No.6/2013, the policy required that all public agencies in Malaysia to established an Integrity Unit.¹⁵ By the end of 2014, it was reported that beside JCorp, 5 others SOE and public enterprises joined the efforts namely PETRONAS, Felra Global Venture Berhad, Lembaga Tabung Haji, Special Affairs Unit, Telekom Malaysia Berhad and Syarikat Prasarana Negara Berhad.¹⁶ Also, JCorp has successfully achieved a 4-star rating for the Accountability Index in the financial category for a consecutively 5 years since 2010 issued by National Audit Department of Malaysia. Based on the analysis, among the significant impact from the improvement in internal corporate governance is that it acts as an important control factor for the operational synergy and able to enhance the performance of JCorp Group.

3.4.5 Corporate Governance in Listed Entities Within the Group

As at 2014, there are four companies within the JCorp Group listed on the main board of KLSE namely Kulim (M) Berhad, KPJ Healthcare Berhad, Al-Aqar Healthcare REIT and E.A Technique (M) Berhad. As listed entities, these companies are requested to constantly implement good corporate governance practices as well as comply with various terms and conditions issued by Kuala Lumpur Stock Exchange. Each company has its own Board of Directors and Audit Committees. In an effort to the inculcate of integrity in conducting business and combating corruption as well as power abuse at the organisational and individual levels, as an evidence President & Chief Executive signed the Integrity Pledge on 26 November 2013 followed by all entities within the Group on 8 January 2014.

¹⁵ Report on Anti-Corruption Initiatives in Malaysia, 2014, p.2

¹⁶ Ibid.

Based on the analysis, interlocking directorates at Headquarter as well as at subsidiary level under the JCorp Group serving as Board of Director is presented in Table 10. It appears that the composition and appointment were similar to the Business Group management style of a private firm. Also, many are tasked with additional responsibility in various Committee either as Chairman or members at the Corporate level. Thus, information and knowledge sharing were able to develop internal capability “soft-asset” and knowledge empowerment. In addition, the high cross-directorship within the Group is a determination to maintain power and control over the highly-diversify business operation. At the same time promotes inclusiveness and comprehensiveness in the decision-making process.

Table 10: Interlocking directorates within the JCorp Group, 2014.

BOD	JCorp¹	KPJ²	Kulim³	QSR⁴	E.A Tech⁵
Dato' Kamaruzzaman Abu Kassim (2010) President & CEO JCorp Also, Chairman of Damansara REIT, Johor Land Berhad, Waqaf An-Nur, and Chairman of Group Top TERAJU Committee	✓	✓	✓ (Chairman)	✓ (Chairman)	
Dato' Amiruddin Abdul Satar (2013) President & Managing Director of KPJ Also, holds directorship in several KPJ hospitals as the Chairman. Members of Group Top TERAJU and JAWS, at HQ		✓			
Mr. Ahamad Mohamad Managing Director of KULIM Also, Chairman of E.A Technique, and Director at			✓	✓ (Deputy Chairman KFC)	✓

Johor Land Berhad & Waqaf An-Nur Also, Members in the Group Top TERAJU Committee/HQ.					
Mr. Zulkifli Ibrahim COO of KULIM Senior VP / Chief Executive of Industrial Development Division JCorp., B.O.D of KPJ and QSR Also, Members in the Group Top TERAJU Committee/HQ.		✓		✓	
Tan Sri Datin Paduka Siti Sa'diah Sheikh Bakir (retired in 2012) Chairman and Pro-Chancellor of KPJUC KPJ's Corporate Advisor and Director of Al-Aqar Healthcare REIT		✓	✓		
Mr. Mohamed Izaham Abdul Rani Executive Director QSR Brands, Also, members of Group Top TERAJU Committee/HQ				✓	
Mr. Abdul Rahman Sulaiman Executive Director Tanjung Langsat Port & Kulim (M) Berhad, Also, members of Group Top TERAJU Committee/HQ			✓		

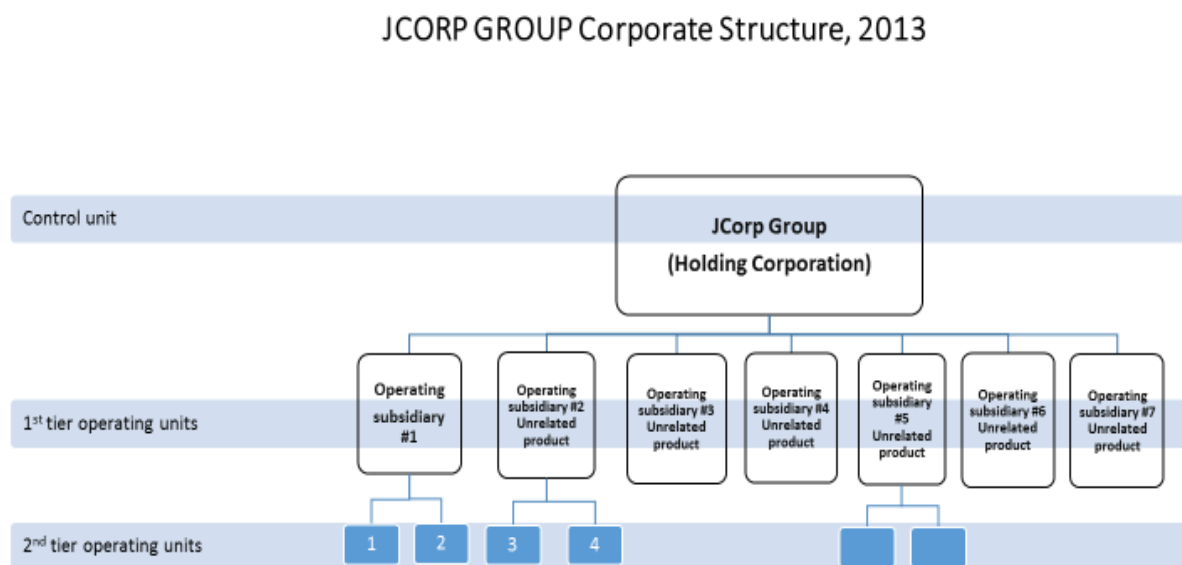
Source: Table by author, compiled from JCorp Group and Subsidiaries Annual Reports.

Note: 1- Holding Company, 2- Healthcare Division, 3 – Plantation Division, 4 – Food and Restaurant Division, 5 – Shipping and Logistic Division.

3.5 Diversification and Business Strategy

Historically, JCorp had involved only in a few business sectors. As the national economy grow JCorp through its group companies expanded into several new businesses encompassing specialist healthcare, foods and restaurants services, property development, hospitality, educational and intrapreneur business. At the same time, expanding operations overseas. This analysis was conducted across a long period and demonstrate that JCorp business portfolio is highly diversified and managing all portfolio through a holding company known as JCorp Group which owns more than 250 companies. This made possible as the group has full financial autonomy thus was able to implement strategic business operation and to make reform at a better speed when needed from time to time.

Figure 9: JCorp – Diversified Business Group Structure, 2013



*JCorp - a structure of a highly-diversified business group.

Source: Model by author, data obtained from Johor Corporation, Malaysia.

Table 11: The Equity Investment Structure of the JCorp Group in 2014

JCorp Malaysia							
Core Business							
Plantation Sector	Food & Restaurants Services Sector	Specialist Healthcare Sector	Hospitality Sector	Property Development Sector	Logistic/ Services Sector	Investments & Support Services	Entrepreneur Business / New Business
-*Kulim (M) Berhad *54.96 %	-*QSR Brand (M) Holdings S/B *100%	-*KPJ Healthcare Berhad *38.07%	-Puteri Pacific Hotels S/B *100%	-Johor Land Berhad *88.18%	-TPM Techno Park S/B *100%	-Johor Franchise Devt. S/B *100%	-Ihsan Permata S/B (agrofood) *100%
-New Britain Palm Oil Ltd *48.97 %	-Business Chronicles Sdn Bhd *100%	-Al Aqar Healthcare Reit *50.24%	-Hotel Selesa (JB) S/B *100%	-Damansara Assets S/B *100%	-Tanjung Langsat Port S/B *100%	-Permodalan Teras S/B *100%	-Tiram Travel S/B *75%
-Sindora Berhad *100%	-Massive Equity S/B *51%	Waqaf An-Nur Corp. Berhad **	-Hotel Selesa S/B *100%	-Damansara Reit Managers Sdn Berhad *100%		-Pelaburan Johor Berhad *100%	-Capaian Aspirasi S/B *75%
-Mahamurni Plantations S/B *100%	-Kara Holdings S/B *100%		-Tanjung Tuan Hotel S/B *100%	-Advance Devt. S/B *100%			Bistari Johor Berhad **
-EPA Management S/B *100%			-Sibu Island Resorts S/B *100%	-Bandar Baru Majidee Devt. S/B *100%			Yayasan Johor Corp. **
-Asia Economics Development Fund Ltd. *54.21%				-Bukit Damansara Devt. S/B *100%			JCorp Intrapreneur (M) Berhad.
-E.A. Technique (M) Berhad *50.60%							
-Asia Logistics Council S/B *38%							

Note: *% Direct equity holding / ** Management – CSR / Core business – (*PLC company)

Source: Table by author, data from JCorp Annual Report, 2014

The Group structure as illustrated in Figure 9, which appear to follow business group structure provided some advantages for JCorp in managing its group-wide businesses. Table 11 illustrates the main operating companies under the Group in eight respective industries and their equity holding as well as three companies listed in KLSE. In the following section, detailed analysis and discussion of the process of diversification performed by JCorp through its subsidiaries will be presented. For this, two main companies are selected namely Kulim Malaysia Berhad and KPJ Healthcare Berhad. Both are the subsidiary holding company aims to illustrate a meaningful case as they have a long business history.

3.5.1 Diversification Through Subsidiary Holding Companies

It is very challenging to make a comprehensive summary as the Group business is continuously advanced and evolved. A several base years were used for important discussion, and next, the narrative analysis was performed. Over the four decades, many bold measures were therefore taken to reconceptualise, reorganise and restructure JCorp as well as to reposition and strategize its businesses across the Group. For subsidiary companies under the JCorp Group, the analysis on their equity structure reflected that JCorp owned the majority of the shares and in some cases having full ownership at the first-tier level. Even, at the second-tier and third-tier of its subsidiary structure, the equity holding is majority owned by JCorp. The graph in Figure 14 presented one specific subsidiary known as KPJ Healthcare and illustrated five-tier of corporate structure and the equity ownership of this medical division in Figure 15. Also, as JCorp Group owned more than 250 companies it was seen that in many entities, it adopted a partial equity ownership and some share were held by public enterprises as well as the private firms. The following section illustrates several businesses steered by the two-main cash-rich subsidiary companies namely Kulim Malaysia Berhad and KPJ Healthcare Berhad with core business in plantation and specialist healthcare. Kulim recorded a total of 24 subsidiaries and more than 40 associate companies in 2014, while KPJ with 27 subsidiaries and both companies operate beyond state and nation.

I) Kulim (Malaysia) Berhad – “KULIM”¹⁷

Kulim (M) Berhad (Kulim or the Group) corporate history dated back to 1933, almost 90 years ago when it was first incorporated in the United Kingdom as Kulim Rubber Plantations Ltd. (KRPL). Then, in 1947 the Group began operation of 190 hectares rubber plantation in the state of Johor, Malaysia. Subsequently, on 16 July 1970, KRPL changed its name to the Kulim Group Limited (KGL) and was listed on London Stock Exchange (LSE). Later, Kulim was incorporated as a public company on 2 July 1975 and was listed on Kuala Lumpur Stock Exchange on 4 November 1975 (JSEDC, 1975). From the research, JCorp became the major shareholder of Kulim in 1976 and had increased its interest in the plantation industry through the acquisition of other plantation companies (JSEDC, 1976). At the end of 2013, Kulim manages 92,000 hectares of palm oil plantation spread across Malaysia, Indonesia, and Papua New Guinea.

Next, in 1979 it was a beginning for Kulim diversification when the company ventures into property development through its wholly-owned subsidiary, Advanced Development Sdn Bhd (ADSB). Kulim actively continues expansion via acquisition since the late 1980s. In 1988, again Kulim acquired another company through 60% equity in Selai Sdn Bhd, followed with Labis Bahru Estates, a 2,110 hectares of palm oil and rubber plantation in 1989. Moreover, in 2000 Kulim acquired the remaining 40% stake in Selai Sdn Bhd. Also, in 1993, the Group acquired 49% equity in Yule Catto Plantations Sdn Bhd, now officially known as Mahamurni Plantation Sdn Bhd which owns 7,033 hectares of palm oil with a palm oil mill and rubber estates. Additionally, acquired 70% equity in Skellerup Industries (Malaysia) Sdn Bhd, a rubber-based product manufacturer.

Based on the company data, it was observed that Kulim Group further diversifying for growth in the various related segment. In July 1994, Kulim diversified into the oleochemicals business by acquiring 91.38% of Natural Oleochemicals Sdn Bhd (NatOleo). Then, NatOleo entered into a joint-venture with Stearinerie Dubois Fils, a French company to produce specialty esters. NatOleo undertook 55% equity in the new company known as Dubios-Natural Esters Sdn Bhd (DNE). Another joint-venture took place in 2004 between Kulim and TopPlant Laboratories Sdn Bhd to own 60% equity in the new company Kulim

¹⁷ Information compiled from Kulim Annual Report and official website.

TopPlant Sdn Bhd. The company focus is on the production of high-yielding oil palm clones using tissue culture technology.

It is worth noting that, the strategy adopted by Kulim Group from the early millennium era onwards is to diversify and to sustain future growth. As such, it was observed that expansion was embarked to acquire a company that could contribute higher profitability for the Group. In 2005, a momentous took over and was highly reported in the local mass media is when Kulim successfully purchased 52% stake in QSR Brands Bhd (QSR), the operator of Pizza Hut and the controlling shareholder of KFC Holdings (Malaysia) Bhd, the KFCH. Also, in January 2009, QSR managed to increase its shareholdings in KFCH to 50.25% and KFCH became a subsidiary of QSR. Ironically, Sindora (a subsidiary of JCorp) became a 77%-owned subsidiary under Kulim in May 2008. Thus, they are adding more plantation land and bringing in many Intrapreneur Venture companies into the Group.

The diversification by Kulim Group involved extensive corporate manoeuvring and dynamic equity restructuring was observed. Kulim Group decided to delist Sindora from the Bursa Malaysia Securities, and it was effectively performed on 30 November 2011. In the following year, Kulim via Sindora completed the disposal of Metro Parking (Malaysia) Sdn Bhd Group to Damansara Realty Berhad, a subsidiary company of JCorp. Meanwhile, in June 2013, Kulim venture into another new sector that is oil and gas by acquiring Danamin (M) Sdn Bhd, a company involved in oil & gas servicing activities. By the end of 2014, E.A Technique, an indirect subsidiary of Kulim through Sindora, was listed on the Bursa Malaysia, resulting a total of four subsidiary companies under JCorp were public listed. In the same year, it was reported that Kulim total revenue amounted to MYR1.09 billion and shareholders' fund of MYR4.02 billion.

II) KPJ Healthcare Berhad – (KPJ – “*Kumpulan Perubatan Johor*”)

KPJ Healthcare Berhad (KPJ) is the leading private healthcare provider in Malaysia with a network of 25 hospitals in Malaysia. KPJ is the first home-grown healthcare group in Malaysia listed on the Main Board of Kuala Lumpur Stock Exchange on 29 November 1994. In 2007, KPJ exceeded RM1 billion in revenue. By the year 2011, KPJ achieved its highest consolidated revenue of more than RM1.91 billion, translating into its best performance yet in 30 years since its establishment in 1982. Analysing the factor of this high performance, it

was noticed that in 2011, KPJ recorded about 2.4 million outpatients and over 240,000 inpatients served. Also, as the Group expands, it has shown with a higher number of hospitals and with positive 69% of occupancy rate throughout its network (Table 17).

Traces back the history of KPJ Group, it was first established 30 years ago in Johor Bahru. The genesis of healthcare division under JCorp came about in 1974, and in 1979, a holding company was set up known as Johor Specialist Hospital Sdn Bhd with the construction of the new hospital commenced in 1980. Soon after, in May 1981 it started operation only with basic facilities, equipped with 65-bed and 8 specialist doctors. Then, in 1988, JCorp acquired Kemajuan Intisari Sdn Bhd and changed its name to Kumpulan Perubatan Johor Sdn Bhd (KPJ), later was incorporated in 1992 with 5 subsidiaries. In the same year, KPJ was offered to take over Tawakal Hospital in Kuala Lumpur which was having serious financial problems. With that opportunity, KPJ turned it around and gained so much experienced was considered as “niche” skill. Next, in 1989 they acquired the Ipoh and Kuantan hospital in short period of time. Since then, KPJ expanded through acquisition and greenfield projects.

Later, KPJ diversifies into training and educational segment with setting up a nursing college whereby in 1992, KPJ officially opened its first Puteri Nursing College. In the domestic market, there was a serious problem of inadequate supply of nurses in Malaysia. Based on data obtained from Ministry of Health Malaysia, in 2006 and 2008, the nurse to population ratio was 1:559 and 1:512 respectively. As at 2008, total registered nurses were record at 54,208 with around two-third in the public sector.¹⁸ In 2007, KPJ International College of Nursing and Health Sciences was established as branch campus in Johor city (JCorp, 1999, p.49). Further, the educational has been upgraded whereby the Puteri Nursing College was awarded University College status in 2011, later known as KPJ Healthcare University College (KPJ, 2012). Also, in the educational segment, KPJ collaborates with several prestigious institutions such as South Bank University of London and the University of South Australia to train and develop its manpower.¹⁹

Moving forward, KPJ went for public listing as KPJ Healthcare Berhad in 1994. With more capital injected from the market, post-millennium era, KPJ Group expanded aggressively via new acquisition throughout the nation. Among new hospitals added into

¹⁸ Report on Malaysia Health System Review, vol.3 no.1/2013, p.53.

¹⁹ JCorp Annual Report 1999, Healthcare sectionp.105-106.

their chain includes KPJ Ampang Puteri Specialist Hospital (KL), KPJ Perdana Specialist Hospital (Kelantan), KPJ Kedah Medical Centre (Kedah), KPJ Seremban Specialist (Negeri Sembilan), KPJ Selangor Specialist (Selangor), KPJ Kajang Specialist (Selangor), Damai Specialist Centre (KL), KPJ Kuching Specialist (Sarawak), KPJ Pahang Specialist Hospital (Pahang), and KPJ Klang Specialist Hospital (Selangor). All of these hospitals are located outside of the state of Johor.

Further later, KPJ also embarked on other related segment including medical laboratory services, hospitals supply, trading and healthcare technical services. KPJ was involved in retail pharmacy business back in 1989, as KPJ established a 100%-owned PharmaCARE Sdn Bhd to serve in retail pharmacy, to market and distribute as well as operate shop outlets. Then, the segment further expanded after KPJ was appointed as master franchiser for the Medicine Shoppe International Inc. (USA) in 1991. KPJ holds the regional licensing and operates in Malaysia, Singapore and Brunei. It was noticed that in 1999, KPJ registered a total number of 36 subsidiaries with investment amounted to MYR256 million (JCorp, 1999, p.101). Table 20 in page 160 illustrate the list of main subsidiary and associated companies for JCorp's Healthcare Division.

Over the years, KPJ had expanded its portfolio, now covers hospital management with 25 hospital-chain in Malaysia, healthcare technical services, hospital development and commissioning nursing, health sciences and continuous professional healthcare education, pathology services, central procurement and retail pharmacy through more than 900 medical consultants and almost 9,000 support staffs. It was reported that KPJ achieved a market capitalization of MYR4.05 billion as of December 2014.²⁰ On other business related to hospital management and healthcare technical services, a new segment that is senior living care services as well as retirement home, will be discussed in the subsequent chapter on internationalization of KPJ Group.

3.5.2 JCorp and Subsidiary Relations

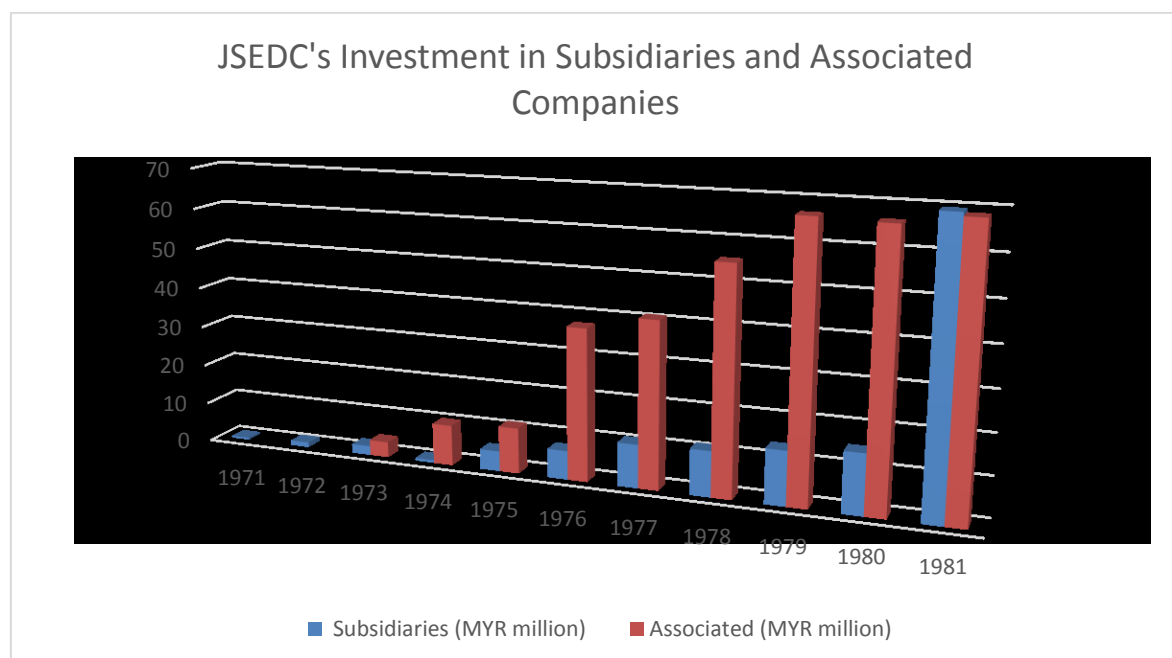
One important aspect for a business group is related to financing sources as well as profit contribution to the parent company. In term of financial aspects and the supply of long-term or investment capital, it seems that JCorp Group adopted a mixed approach

²⁰ <http://kpj.listedcompany.com/profile.html>

whereby some were centralised particularly for new projects and strategic business venture as well as acquisition. Additionally, at the subsidiary level, a combined approach was adopted with decentralised sourcing of investment from the private sector or commercial banks to fund their expansion or diversification activities. However, there is also some occasion whereby JCorp is also providing funding for a long-term business plan as well as corporate restructuring exercise of which will be discussed in the next section.

Based on the data presented, it was observed that from 1976 onwards JCorp were investing more in the associated companies comparatively with its subsidiaries. Looking at the value of the investment is extremely huge from just MYR11.30 million in 1975 upsurge to MYR68.50 million within a 6-year period. From the case study, reckon the challenging situation for JCorp in managing the Group as it drastically expands and needed a massive investment from the parent companies. It was reported that the total number of subsidiaries increased more than doubled from 8 in 1975 to 20 companies in 1981. As such, JCorp had decided to invest more in associated companies to reap a quick short-term profit from the dividend earning to sustain its Group financial performance and operation cost. This approach in attainment source of financing was considered as a strategic business decision for the Group to grow further.

Figure 10: JSEDC's Investment in its Operating Companies, 1971-1981



Source: Graph by the author, data from Annual Report JCorp, 1971-1981.

Table 12: JSEDC's Investment in Subsidiary and Associated Companies 1971-1981

Year	Subsidiaries (MYR million)	Associated (MYR million)
1971	0.4	-
1972	1.13	-
1973	2.20	3.80
1974	0.58	10.05
1975	4.95	11.30
1976	7.09	37.46
1977	10.73	40.94
1978	11.24	55.34
1979	13.4	66.69
1980	14.87	66.19
1981	69.4	68.50

Source: Table by the author, data from Annual Report JCorp, 1970-1981.

Table 13: Subsidiaries Companies under the JCorp Group, 1971-1984.

Year	Total subsidiaries	Year	Total subsidiaries
1971	3	1978	20
1972	4	1979	23
1973	7	1980	18
1974	8	1981	20
1975	8	1982	16
1976	10	1983	22
1977	19	1984	24

Source: Table by the author, data from Annual Report JCorp, 1971-1984.

At the end of 1980, JCorp had a total of 18 subsidiaries and 14 of associated companies under its umbrella. As for the investment in the subsidiaries, the paid-up capital for all companies amounted to MYR19.03 million with MYR13.68 million equity capital by JCorp. Meanwhile, its commitment for the associated companies was MYR51.53 million of which the total paid-up capital was MYR153.93 million. From the analysis, it was reported that JCorp received profit in term dividend of MYR12.6 million from their subsidiaries and associated companies in 1980, and all these companies also provided employment to 890 and 6,066 employees respectively (JCorp, 1982, p.37).

One year later, the Group owned 20 subsidiaries involving a paid-up capital of MYR92.312 million with MYR71.874 million equity capital by JCorp. However, with a lesser number of associated companies of only 12 with total paid-up capital of MYR135.027 million and capital outlay of MYR48.076 million. From this investment, in the same year, the Group received MYR9.9 million in term of dividend received both from its subsidiaries and associated companies, while in 1982 they received a dividend of MYR14.6 million. Most of its firm's network are involved in the agricultural sector, manufacturing, construction, mining, timber, trade, transportation and finance and investment services. JCorp defined subsidiaries as companies where it's equity interest is more than 50 per cent, or the Corporation has the power to control the financial and operating policies of the management of the company. While associated companies are companies where it's equity interest is between 20 per cent to 50 per cent and where the Corporation's participation in management through Board representation and able to exercise significant influence in financial and business decision making (JCorp, 1992, p.117).

In contrast with other SEDC and comparing the number of subsidiaries, as at the end of 2003 SEDC Penang had a total of 58 companies representing a book value of MYR265.8 million.²¹ In the same year, JCorp had recorded a total of subsidiaries 188 companies with asset values amounted to MYR1.325 billion (JCorp, 2004, p.188). Another scenario, in 2005 SEDC Selangor recorded a total number of subsidiaries and associate companies of 21 with a total investment of MYR826.5 million.²² In term of financial performance, SEDC Selangor recorded a gross profit of MYR313.7 million for the year 2005 compared to MYR203.8 million for the year 2004, an increase of 53.9 per cent with a net profit of MYR147.2 million for 2005. Meanwhile, as for the accumulated property, SEDC Selangor recorded a total value of MYR3,493.4 million at the end of 2004.²³ And, a huge contrast with JCorp which registered a total of accumulated asset valued at MYR7,794 million as at the end of 2003. The State of Selangor and Penang have the same traits as Johor, whereby all these States played an important role in Malaysia as top industrial economic zone and operate its port in their respective States.

²¹ SEDC Penang Annual Report 2004, p.52.

²² SEDC Selangor Annual Report 2005, p.68

²³ Ibid, p.74.

i. Evolution of business diversification under JCorp Group, 1970 to present:

Phase I - State economic and development projects, ports & industrial estates
(1970-1985)

Phase II - Expansion into healthcare sector and pharmaceutical franchiser
(1988-1994)

Phase III - Expansion into foods & restaurants, restoration and cleaning services
(1996-2005)

Phase IV - Venture into talent development, skill training, and intrapreneurship
(2006- 2014)

Source: Prepared by the author, compiled from Annual Report Johor Corporation.

3.6 Transformation and Corporate Restructuring

In 2002, JCorp embarked on further corporate strengthening through its Group-wide Business Integration outlined in the Corporate Restructuring Master Plan (CRMP). This business integration implies a deliberate focus on the part of all entities involved to leverage on Group-wide corporate critical mass, tremendous business reach and formidable networks that are indeed JCorp's most valuable intangible assets or *capabilities*. It served as a powerful mechanism as not only will more focus to be achieved in business activities, but it also had helped the Group to improve day-to-day operations further through enhanced efficiency and higher productivity. More importantly, at the same time provided a clearer context and largely to encourage creative and innovative executive actions to realise the full value from business and corporate synergies.

Several major corporate integration programmes had been undertaken in the same year for its subsidiary companies involving KPJ Healthcare, Kulim, Sindora, JLand and TPM Technopark. For KPJ Healthcare, a major restructuring was initiated which had acquired 100 percent of JCorp's equity holdings in 9 hospitals thus enlarging its network of specialist hospitals throughout the country to 12 (JCorp, 2003, p.18). This exercise had succeeded in elevating KPJ Healthcare into becoming the nation's leader in Malaysia's

private healthcare sector. Furthermore, it also allowed KPJ to diversify and widen its range of specialist services to include diagnostic, curative, therapeutic, rehabilitative and preventive medicine, as well as offering specialised treatment in interventional cardiology, cardiothoracic surgery, oncology, radiotherapy, neonatology, among others.

In operational aspect, the corporate restructuring exercise in KPJ Healthcare also being undertaken as a business transformation involved consolidating management responsibilities on a regional basis thus allowing the sharing of information, resources, and manpower, providing better referrals and networking among medical consultants, and creating more opportunities to develop a competitive advantage. Through the process, the KPJ Healthcare Group had also benefited from economies of scale thus opening the avenue for lowering costs and ultimately benefitting patients and customers. Later, it was reported that the revenue collected by the KPJ Healthcare Group in 2003 had soared by 128.79 percent to MYR509 million, and its profits before tax recorded an increase of 43.29 percent to MYR32 million respectively from the previous year, thus proved the success of the whole restructuring programme even with only been the first full operational year (JCorp, 2003, p.19).

Another major restructuring and integration exercise undertaken by JCorp's Palm Oils Division involving its listed company Kulim Malaysia Berhad (Kulim). At that time, Kulim was responsible for a total of 148,460 hectares of palm oil plantations with the geographical presence extending beyond the boundaries of Malaysia into Indonesia and Papua New Guinea. Under its corporate restructuring programme, the Kulim Group further strengthen its focus on the commodity and validates expansion plans in both primary production and downstream activities. In specific, Kulim had expanded its plantation size via an acquisition of 62.03 percent equity interest in Bertam Plantation and 100 percent equity in EPA Management, of which the latter being Kulim's as well as JCorp Group's plantation management agent all these years (JCorp, 2003, p.20). Based on the data, the acquisitions exercise not only provided Kulim with an additional 72,260 hectares of oil palm plantation in Malaysia and Indonesia but it also gave Kulim the advantage of securing plantation management knowhow, personnel, networks, skills, and expertise directly under its ownership and control. Moreover, this has resulted in substantial savings for the Kulim Group regarding management fees paid out to EPA previously. On top of that, the integration plan for the Kulim Group was further expanded as its entrenching itself into the

oleochemicals sector capitalising on Malaysia's advantage as the world's leading exporters of palm oil-based oleochemical products. Hence, Kulim through its subsidiary Natural Oleochemicals Sdn Bhd (NatOleo) had since then tripled its oleochemicals production capacity by further added value on the downstream side with a new plant costing MYR17.58 million were commissioned in 2003 (JCorp, 2003, p.21).

Next, as one of the core business in JCorp Group, Sindora had also undergone restructuring and transformation. Its original main business dominated by timber and wood products, however, they suffered a structural setback as a result of shifts in the global economy. Due to this, JCorp had to completely review Sindora's strategic long-term position in the timber business, of which in 2002 it had exceeded JCorp's bearable threshold level. The situation was considered critical for Sindora and the Group. To overcome these challenges, Sindora had set in motion a new business model to improve and sustain long-term earnings and returns. This was undertaken through Sindora's Intrapreneur Venture concept involving the acquisition of a number of successful intrapreneur-driven businesses for its future growth and expansion. Interestingly, the "intrapreneur venture" is modelled after the top company namely Berkshire-Hathaway Inc. There are several criteria for consideration on selecting potential businesses to be acquired by Sindora. Firstly, those intrapreneur venture companies are subjected to intensive evaluation and scrutiny benchmarked against an array of stringent criteria before they are allowed any access to risk capital of Sindora and the JCorp Group. Secondly, strong and sustainable financial performances, thirdly, long-term business potential and prospects as well as on the aspect of business skills, entrepreneurial talent, and capabilities of the management involved.

More concrete example, for the Intrapreneur Venture Programmes, for a start Sindora has acquired four companies namely JMF Asset Management, an asset management company; Pro-Office Bulk Mailing, a one-stop bulk mailing and printing service company; Tepak Marketing, a contractor manufacturer of tea blending and packaging; and Willis Malaysia, an insurance broking house. All these companies in principal act as Sindora's subsidiaries. In later year, more companies were added to the Group, such as METRO Parking, a parking operator and related consultancy services. In 2004, it was reported that METRO Parking operates not only in domestic market, but ASEAN region including

Brunei, Indonesia, Singapore and the Philippines with a total of 69,000 parking bays.²⁴ Also, it is the largest parking company in Malaysia.

As such, it is imperative that the Venture Intrapreneur businesses are championed and leads by a manager who possesses the talent, skill, and solid as to drive their companies and businesses and turn them into engines of growth for Sindora, the Group and themselves as intrapreneurs. At first glance, the Sindora's shift to a new business model did not appear to be a move towards business integration but more on extensive business restructuring. Nevertheless, it was considered a very crucial integration of its corporate role and positioning within the context of JCorp's own strategic and long-term corporate institutional design framework. Furthermore, on the part of Sindora, the shift was to principally ensure its survival and ability to sustain in delivering value to their shareholders in a highly challenging and borderless business environment. It was seen that the shift had resulted in Sindora been able to strategically better positioned themselves to respond to the various challenges and deliver performance well into the future.

In summary, the evolution of group business embark by JCorp can be divided into several major phases with three main functions including State Agency, SEDC acting as the development and investment agent and Group subsidiaries as well as associated companies, as illustrated in the graph in Figure 3. In the later graph, as the number of subsidiaries grows tremendously, more companies were groomed to be public listed and by itself acting as a subsidiary holding group under the umbrella of JCorp Group. For simplicity, only at a two-tier level were highlighted in the graph, however, from the data available, a five-tier level of subsidiary companies could be constructed, particularly for the case of KPJ Group and will be discussed further in the next chapter.

Over the years, the public listed companies under JCorp Group also transformed, and some were delisted, and new companies were listed such as Al-Aqar Healthcare REIT. This was a result of the Group restructuring and implementing a more sustainable business strategy after being hit hard by the financial crisis in 2008. Contrasted to the first graph in Figure 8, demonstrating the situation back in the 1970s, with 20 subsidiaries and less hierarchical structure. During post-colonization period, JSEDC focused on reorganising its subsidiaries such as Kulim Group Limited which was listed in London Stock Exchange, via increasing its stake in this foreign company to 41.7 per cent aimed to list Kulim Group in

²⁴ The Star online, <http://www.thestar.com.my/business/news/20040924>

Malaysia. Another restructuring effort was also made for Sindora company which was initially established under a joint-venture with Lembaga Kemajuan Johor Tenggara (KEJORA) and several other French companies in 1972. Several years later in 1977, JCorp had purchased all shares from the French companies making it the majority shareholders owning 65 per cent equity. Thus, these processes highlighted the gradual steps for transfer of ownership implemented by JSEDC.

Since then, the Group is seen to be fully taking its course in defining the new direction and charting the strategic options to continuously generate and sustain value, that will result in JCorp being in better control of its own future corporate destiny. It was noticed that, all energies and resources were used on corporate strategic actions needed to effectively respond to the dynamic changes taking place in the market, and in making hard business decisions required the Group to constantly add value and create wealth. The Group-Wide Business Integration had strategically enabled JCorp to seize growth opportunities to develop into much stronger and dynamic entity via various advantages such as size and critical mass, agility, and flexibility as well as entrepreneurial features within the Group companies.

3.7 Transforming and Building Human Capital

Since inception, JCorp has been developing “soft assets” or skills needed to be able to transmit knowledge, disseminate skills and expertise, and share experiences effectively and efficiently through corporate training programmes for its employees. The success of an organisation is often founded on the total effort, creativity, and commitment of its dedicated professional teams to achieve its mission and objectives. One important event was observed in Malaysia whereby the former Prime Minister, Dr. Mahathir Mohammad launched a campaign “Leadership by Example” on 19 Mac 1983 in the capital city Kuala Lumpur, it was about two years after Mr. Muhammad Hashim Ali, the second President of JCorp assumed the post of General Manager, and he internalised this concept as corporate culture of the Group. All employees of JCorp listened to the launching of this national campaign live on radio in a gathering at the headquarter, and later participated the similar event at State level. This campaign aims to also promote a working culture towards higher productivity, efficient and effective services, with integrity.

3.7.1 Human Resource Management

SOEs have a long history dating back to the mercantilist era in Europe and the early 1930s in the U.S. In the initial phase, it was one of the basic instruments of social partnership which played an important role in improving socio-economic condition as well as job security. As such, it has been long given a great emphasized for a SOE or any public enterprise to provide a safe and sound career opportunity for its employees. Many literatures discussed on the role of SOE as a vehicle for social objective and employment goal as mentioned in chapter 1 (p.26). Even in times of recession, redundant worker cannot be dismissed, and sometime were required to offer more job during high unemployment period. In the case of SOE, economic reasoning need to be neglected for the national interest, unlike the private sector which follow the objective of profit maximization and choice of strategy is always based on economic calculation. So, what kind of approach or role played by JCorp in such a situation? The issues will be deliberating below in much details.

In term of Human Resource policy, majority of the employees working in JCorp is recruited and offered a permanent position, while for certain position such as labour or for specific project, it will be on a contract term. Under the public-sector employment law, all civil servant must experience a probationary period and other related procedural before being confirmed and accepted into the service (under the pensionable scheme). All the administrative procedures followed the federal Public Department's circular or policy from time to time. However, after 1995 since they are subject to Incorporated law, of which there is room for flexibility as such the policy can be decided by its own Human Resource Department and approved by the Corporate management.

Analyse on the nature of employment contract, it was observed that, in 1982, a total of 15 personnel in the B category had resigned from the Corporation, 1 employee had retired from the service and another 4 staffs has been terminated their employment contract due to disciplinary issues. Again, in 1984, a total of 47 employees resigned representing all categories; 5 employees of A category, 10 employees of B category, 8 employees from C category and 24 employees from D category, with 3 employees reached retirement period. Meanwhile, in 1986, another 6 employees from the professional and management group resigned to pursue further studies, with 2 employees had terminated the working contract and 3 employees were terminated employment contract again due to disciplinary problems.

Thus, as common practice in the private sector, it was observed that JCorp had implemented strict policy on employment contract for those who are non-performing due to disciplinary issues.

In term of employment benefit, from record, a total of 47 and 13 staffs were awarded with the pension scheme status in 1984 (12.7%) and 1986 (2.8%) respectively, with accumulated number of 85 (18%) by the end of the same year (JCorp, 1986, p.36). The pensionable status was awarded by the Public Service Department after having served the Corporation for ten years. Before the corporatization in 1995, the staffs aged 35 and above have the option whether to remain in the pension scheme or opted for Employees Provident Fund (EPF) Scheme. If they opt for a change in the retirement benefits from pension to EPF, their service tenure will be calculated as to be granted the pension only for a certain percentage and, continue with the EPF scheme, where they will be offered a lump sum amount upon retirement. After 1996, all newly recruit employees are subject to the EPF scheme. Also, JCorp has some flexibility to propose its own human resource policy, however subject to approval by the Internal Committee and State Government Office. As at the end of 2014, the Corporation recorded a total of approximately 300 employees, and all are Bumiputra. It was reported that only one Indian office driver was working at JCorp several years ago before he reached retirement.²⁵

A major step was taken in the 1980s to further strengthen its organisational aspect. The Corporation has among others taken the following measures which include introducing annual performance evaluation system, strict disciplinary action, more facilities in term of housing and vehicle loans, secondment programme, group personnel insurance schemes, and medical benefits. Historically, the staff performance evaluation was carried out according to the date of intake annually, but since 1983 it was standardized to September every year for all personnel. This is to ensure that its personnel will be evaluated on the same time horizon and equal basis for their promotion, salary increment or confirmation of service. The format for this evaluation was newly adopted from the format issued by Public Service Department of Malaysia in 1982 (Document PP No..4/1992), with introduction of the new approaches. The new format required the Head of each Unit to discussed in advance with their subordinate on their performances before making the final report for the evaluation. The two-way communication also provides the chances for the staff to inform on their

²⁵ Johor Corporation Gallery and Resource Centre.

achievement through the year, discuss the challenges faced as well as potential contribution and expectation for the future. This approach is more comprehensive in nature and it is hope able to strengthen the management of human resources, offer higher transparency and to avoid favouritism elements.²⁶

Furthermore, there was also some degree of an interfirm network within the Group. From the data, in 1986 it reported that a total of 32 officials had been secondment to several subsidiaries and associates companies, a slightly less than the previous year of 33 officials. Out of the 32, 8 are from the technical fields, and the rest consists of Deputy Managers, Administrative officers, engineers, computer programmer, supervisors as well as clerical staffs (JCorp, 1986, p.34).

Another important point to highlight is on how the Corporation was managing the critical situation during the Asian financial crisis of 1997, which dragged for a couple of years later. It was observed that the Corporation had to implement tough measures and scrutinise not only business strategy but also human resource management throughout the Group. The top Management had to make the decision and take immediate action to stop or terminate the company that badly hit by the crisis as well as the non-performance. This had resulted in the closing down several companies such as Orion Tours Pte. Ltd, Saujana Jaya Sdn Bhd, Restoran Sari Minang, Asia Pacific Seafoods Sdn Bhd, Johor Aluminium Processing Sdn Bhd, and others (JCorp, 1999, p.89).

For this restructuring and downsizing, it involved 2,198 Group-wide employees being terminated between January 1998 to June 1999 (Ibid). In managing the situation, however, it was noticed that priority was given for reassigning staff from companies that require lesser employees to other subsidiaries and associates that offering new position as some sector is implementing business expansion. As such, the Group was able to re-deploy 377 staff members during the same period. Also, another 239 employees agreed to take the offer and were transferred to newly established companies to operate the Divisions' cleaning services under the HC Duraclean franchising concept (Ibid).

This scenario, illustrated the role played by SOE as argued by many scholars for job security and providing employment. Operating as a Business Group, JCorp could transfer and assign talent to good use to where it is most need especially in setting up a new business. It is in support of the research finding of Khanna and Palepu (1997, p.151), whereby the

²⁶ Document Newsletter JSEDC 0781/83/84 November – January, p.8-12.

authors conclude that Business Groups can create value by developing talents and shared this available resource with its Group-wide companies.

However, as the crisis pulled and loomed larger, the overall economic situation had worsened, from the analysis it was observed that JCorp had to resort to apply the Voluntary Separation Scheme (VSS) in 2001. Since the crisis started, more than 500 employees of various level, executives and staff were redeployed throughout the Group.²⁷ The VSS was implemented not only affecting the headquarters staff, but also affecting those at subsidiaries such as TPM Technopark Sdn Bhd, Pelaburan Johor Sdn Bhd (Investment company of JCorp), Johor Skills Development Centre Sdn Bhd and IPPJ Sdn Bhd.

In 2001 alone, it recorded a departure of 287 employees of various positions and levels. Also, the VSS had resulted in the contracted of staff strength by approximately 41% by year end, with total compensation paid out amounted to MYR4.73 million (JCorp, 2001, p.23). All in all, the process of termination of employment via the VSS must follows the Industrial Relations Act 1967 and Clause 22(a) of the Code of Conduct for Industrial Harmony (1975) on procedure of retrenchment.²⁸ On top of that, at the Corporation level, JCorp implemented a pay cut for all employees under its payroll. The situation extended for several months until the economic improved and business back on track.

It is worth noting that due to the size, critical mass and operating in a highly-diversified resource as well as businesses, it could face the crisis through implementation of necessary steps including restructuring, downsizing and re-inventing itself. The Corporation operate with some flexibility and quickly manoeuvre to change its business and operating approach. Since the crisis is caused by external shock, JCorp as a SOE must be seen to support the domestic economy and social well-being of its employees. Being a large and highly-diversified business group, JCorp was able to sustain the impact as some of the business segment is still profitable. Through this experienced the Corporation had a lesson learnt and again could overcome many others challenges such as SARS, militants and volatile global economy.

Moreover, in 2010, the Malaysian government promoted the transformation of public service culture to be more effective, efficient, and responsive under the Government Transformation Programme (GTP). This new policy agenda has effectively marked a new

²⁷ JCorp Annual Report 2001, p.22.

²⁸ Hamidah and Kamaruzaman (2008), Retrenchment in Malaysia: Employer's Right, Journal of Politics and Law, p.22 & 25

approach to public sector reforming in Malaysia, as its focus is to shift to performance measurements tied to public service delivery with governmental accountability (GTP AR2010).

3.7.2 Internal Capabilities

Realizing the dynamic of the business environment, JCorp had continuously ensured that its employees are constantly acquire the relevant skills and knowledge to continuously upgrade themselves. In 2003, JCorp spent about 6.59 per cent of its total annual staff emolument on staff training and career development. Each staff had attended an average of 46 hours of training for the year with 96.15 per cent of employees had received the training. Also, JCorp has set a target to spend about 10 per cent annually to ensure their staff reaches the required level of operational competency.

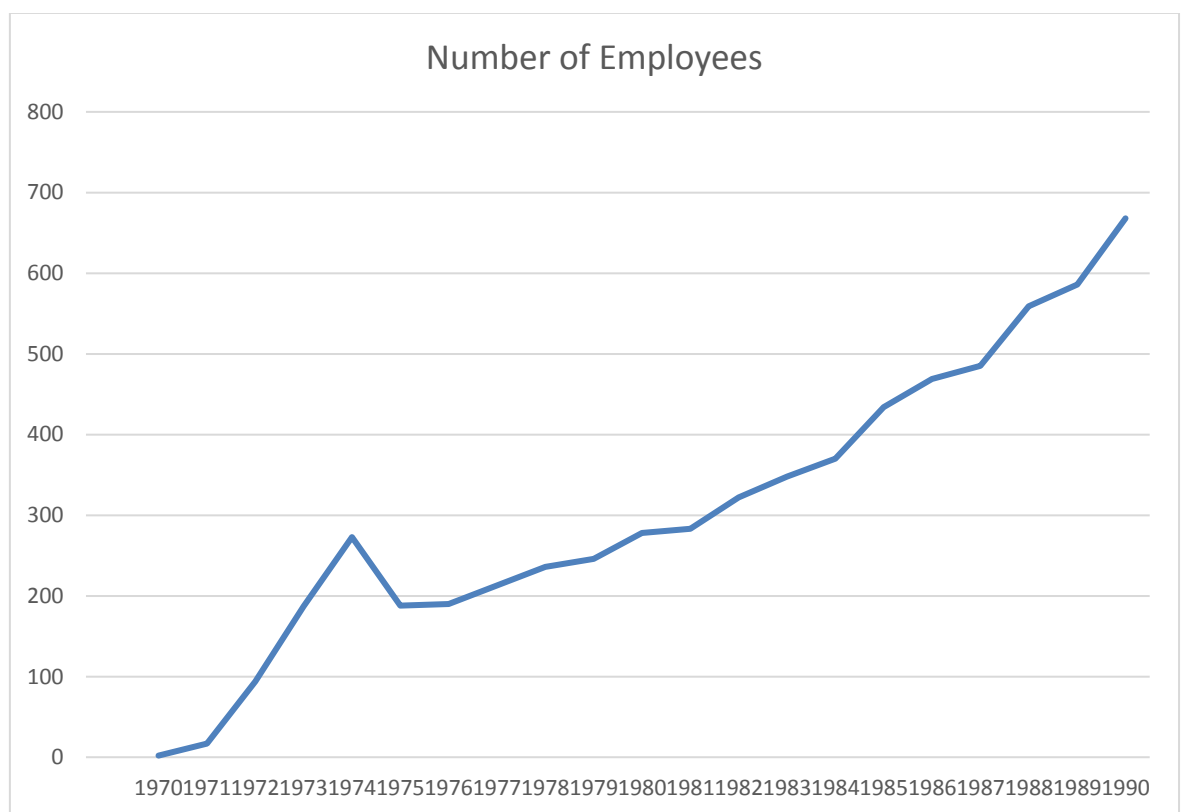
Above all, the Human Resources Department of JCorp is developing a comprehensive employees programme to provide an all-inclusive approach to the development of individual staff at all levels. Before implementation, all proposals on the training programme need to be tabled for deliberation at the Group Human Resource Committee chaired by Datin Paduka Siti Sa'diah Sheik Bakir. Based on historical data, in the first decade of operation JCorp was only able to provide training for less than 10 employees, the statistic increases between 20 to 100 people in the late 1980s, and in the later decades, more than 1,000 staff were provided with capabilities development through internal and external training. The task is expected to be even more challenging considering in 2011, JCorp recorded highest total number of employees 78,141 and now with a total workforce of about 63,000 (JCorp, 2011-p.13; 2014, p.13s).

For the period between the 1970s to 1990s, it was noted that some of the workforces were attending a short-term as well as long-term study leaves (3 years) in various field namely engineering, architecture, project analysis, public administration, management as well as productivity and quality. Amongst the institution includes George Town University Law Centre, Management in Harvard University, University of Bradford and Asian Institute of Management, also enrolling in the domestic public universities. It was reflected in Table 14 highlighted the increase in number of professional (category A & category B) being trained and employed by the Corporation increased from 3 officials to 131 at the end of

1986. This implies the effort taken by JCorp to groom the Bumiputra's professionals and restructure the society as imbedded in the historical context. Also, the budget allocation increased drastically from \$120,000 Ringgit Malaysia in the year 1998 to \$450,000 Ringgit Malaysia in 1990. The figure below shows the increase of employees under JCorp for the period of 1970 – 1990, and the details data illustrates in Annex I.

In contract, a swift comparison with Penang Development Corporation (PDC), as at 31 December 2003, the SEDC's employees stood at 364, comprising 71 from the management and professional group, and 293 were from the support group.²⁹ In addition, from data in Annex I for JCorp in 1990 alone, the total number of employees was 668 staffs. This indicates the greater strength of personnel between JCorp and other SEDC even in the 1990s.

Figure 11: Human Capital Growth under JCorp, 1970-1990.



Source: Graph by the author, data obtained from JCorp Annual Report.

²⁹ Penang Development Corporation Annual Report 2003, p.60 – Administration Section.

Table 14: Human Resource under JCorp, 1970-1986

Grade / Year	Category A	Category B	Category C	Category D	Total
1970	2	1	2	2	7
1971	9	1	3	3	17
1972	18	2	13	61	94
1973	25	7	17	138	187
1974	33	11	49	180	273
1975	31	7	34	112	184
1976	33	8	36	113	190
1977	35	15	39	124	213
1978	40	17	47	132	236
1979	43	18	58	127	246
1980	43	28	74	135	278
1981	38	26	77	142	283
1982	41	34	87	160	322
1983	51	48	87	162	348
1984	59	48	86	177	370
1985	78	48	96	212	434
1986	81	50	98	240	469

Source: JCorp Annual Report 1979, p.46; 1982, p.56; 1984, p.63 and 1986, p.36

Note:

Category A – Professional and Top Management

Category B – Managerial and Supervisor

Category C – Supporting Staff / Clerical

Category D – Labour

3.8 Introducing JCorp's Intrapreneur Venture Scheme

In 1999, JCorp via its Sindora company launched its first Intrapreneur Venture Scheme based on a new risk-and-reward sharing concept between JCorp and the Intrapreneur. It seemed that this new way of managing its business expansion, innovative and enterprising scheme had exhibited a successful rate as shown by the increasing number of companies that had entered the scheme and the improvement in their bottom line operation. Under this scheme, each intrapreneur was offered a maximum of 25 % equity participation in the company they lead. For example, in the year 2003, JCorp accepted 5 new intrapreneur companies included HC Duraclean Sdn Bhd, Genuine Victory Sdn Bhd, Phoenix Synergy Sdn Bhd., Metro Equipment Sdn Bhd and Pro-Office Bulk Mailing Sdn Bhd (JCorp, 2003, p.37). All these companies over the years have shown noticeable development and breakthrough for global expansion.

At the end of 2003, there are already 21 companies under this scheme involving 37 intrapreneurs. Additionally, JCorp also promoted a “team intrapreneur” with during the same year recorded a number of 14 intrapreneurs. Although, JCorp's Intrapreneur Scheme more commonly based on individual intrapreneurs, it does give exception to “team intrapreneur” in cases where a blend of expertise and capabilities may be required to operate the business. For the year under review, it was found that the aggregate profit before tax for all Intrapreneur companies recorded a good profit level of MYR13.33 million with total revenue of MYR149.61 million. Later, in recognising the potential of this scheme as a new business concept, JCorp had dedicated a specific department, namely the Business Development Department of which is responsible for delivering support for growth, facilitating and provide all the coaching needed by the intrapreneurs to enable them to succeed in their respective businesses. Moving forward with the scheme, JCorp had also embarked on a more aggressive stance by identifying within the Group and from among its own internal departments, any potential businesses, and activities that can be converted into Intrapreneur businesses under the scheme. This effort was further complemented by seeking and inviting potential and eligible entrepreneur businesses from the marketing and would surely help to expedite the growth and expansion of the scheme. It was identified that this approach had contributed to the positive development of more Bumiputera entrepreneurs and the surge of operating companies under the Group.

3.9 Analysis and Discussion

JCorp and Group operates in a highly unrelated-diversification from plantation to healthcare to shipping, property and many others. It is also the same scenario in other emerging markets with diversified business group remains the central form of enterprise. According to Khanna and Palepu (1997, p.151), this business structure is most suitable considering the weak institutional context in many developing countries. During the Asian Financial Crisis 1997, it had also affected other sector in the economy. The worst impact was, the sudden climatic change had eroded asset value resulting in sharp declines in business performance throughout the region. For JCorp, the Group is in a fortunate position since they are into a highly unrelated-diversified business group. In spite of the crisis, not all companies under the group were affected to the same extent by the economic crisis. For example, several of its strategic investment with core businesses denominated in US dollar transaction, as well as other investments in assets overseas in countries were not affected by the crisis. As such, it had contributed to the stability and capability to withstand the impact of the crisis and implemented a turn around. It was reported that, in 1998, the Corporation had reaped a profit of MYR7.77 million in foreign exchange earnings (JCorp, 1998, p.77). This was one of the advantages of the strategic choice made in the past of building the Corporation into a highly diversified operation.

Why and how JCorp as an SOE are a better performer than the others since generally, their results are mostly negative. The evidence from this case study was in contrast with the traditionally negative image on global SOE and agency view as well as the political view. The JCorp is a public enterprise geared towards the achievement of three objectives namely restructuring of society, eradication of poverty and to sustain as a strong and self-reliant organisation. Analysing on the evolution of JCorp Group, the higher performances are the outcome of a long process of transformation, good corporate governance and continuously adopting best practices within the Group companies. Also, combined with diversification strategy implemented since the beginning. The role played by JCorp in establishing various institutions aimed to train skilled labour for the industry and medical sector is relevant to its objective and mission, and over-time the spill over is observed spreading to the national level as well as able to export management services abroad in the case for KPJ Group.

There are four main driving factors for the success of JCorp that has been identified namely leadership, human resource capabilities, transformation and stable domestic economic condition. For decades, leadership had played an imperative aspect in the success of the Group. Beneath one leadership who is highly entrepreneurial for such a long period somewhat had provided strong advantage in shaping the organization to maximize their potential and being able to achieve their mission. In human resource related aspect, the Group provided good incentives, a path for career development as well as successfully building in-house human capital assets. Also, the vigorous efforts and cooperation from all level of employees and relevant parties under the Group-wide companies have contributed to their positive performances. This study argued that due to its characteristic as a hybrid organization, JCorp behaves or principally act in accordance with the status as an SOE and at the same time adopt common private sector practices in handling sensitive and crucial issues related to job security. Achievement over 40 years of operations, JCorp had successfully built an organization with a total workforce of more than 60,000, with four companies listed on KLSE, and 379 Directors within the Group (JCorp, 2014, p.2).

Meanwhile, under the commercial entity role, KPJ hospitals have established 25 hospitals and treated a total number of 2,814,530 domestic and abroad patients, established 810 and 456 KFC and Pizza Hut restaurant outlets respectively in the region. At the same time, created about 184,000 job opportunities nationwide (JCorp, 2014). Over many years, tremendous efforts were made to educate the Malay entrepreneurs and professionals through enhancement of knowledge and skills, networking, sharing of experience and management expertise. As a result, the existing entrepreneurs under the Group had amassed the necessary expertise, established valuable networks and created an emerging reputation, brand name, and leadership in their respective industry.

On top of that, the Group had implemented strategic decision through several corporate transformations plans and new business strategy as well as some restructuring exercise and management transformation process. Also, functioning as a hybrid SOE, the Group is committed in maintaining higher standard of corporate governance to safeguard the interest of various stakeholders and shareholders. Among the crucial effort was the Group-Wide Business Integration in 2002. Strong promotion and conscious integrative determination had provided the necessary glue that strengthens the binding together of the Group. As a result, strong bonds of JCorp Group's vibrant corporate culture and shared

values that uphold comradeship in the pursuit of a common, higher course that is larger than individual's interest was observed. Against the backdrop of the ever-changing economic infrastructure and growing competition, JCorp plan to execute its financial transformation plan of having zero debt by 2022, and it was a clear direction and long-term strategy for the group. Research in strategic management demonstrates that firms can achieve strategic competitiveness and improve firm performance when they successfully formulate appropriate strategies and implement them effectively (Hitt et al., 2012). Thus, the Group managed to survive during many difficult years, particularly between 1997-1998 due to global economic crisis and the outbreak of SARS in 2003 and other corporate challenges. In time of crisis, the Group helps to provide job stability in the country and maintain job-security during crisis period as well as supporting the reform programme outlined by the Government post-crisis period. Additionally, the Group developed the operational strength to fully manage risks and continue with its strategic investment plans at both domestic and international level.

JCorp also serves the state of Johor and the nation through its comprehensive corporate social responsibility programmes. The Group has successfully disbursed over MYR100 million through various philanthropic programme and donations throughout 2014. Among which JCorp's contribution to the people cover several sectors like welfare and community programme, sport and recreation, education and health as well as charity and training of young entrepreneurs. The Group had built 5 mosques in the State of Johor and treated 1.09 million patients at its Wakaf An-Nur charity clinics and hospitals in Malaysia. These initiatives were seen to be in line with the Group's Mission, that is to contribute and add values to the well-being of the community through business success as well as Corporate Responsibility. Since 1989, JCorp has contributed a portion of its annual profits to the State Government. From the data, by the end of 1993 the accumulated contribution by JCorp to the State Government amounted to MYR37.46 million. The rapid industrial development and continued expansion of Malaysian economy have provided vast opportunities for the JCorp to strategically position itself in many areas and subsequently reap substantial benefits therefrom.

On diversification strategy, it had demonstrated a major impact on the Group performances and its behaviour over time as it was reflected in organizational restructuring from time to time. The scope and markets in which JCorp and its subsidiary companies

competes diverse widely, however can be categorised into three main industries that are food and restaurants, plantations and specialist medical services. Since at subsidiary level each business division operate in different industries, thus it is expected that less or no competition exists among the companies within the Group-wide networks. Based on the analysis, the unrelated diversification was a result of business restructuring, to minimize the risk and create economies of scale particularly for the three-main business sector. In the discussion presented thus far, JCorp, and its subsidiaries diversify into an unrelated product and geographical to create more value and generate higher financial performances. Based on the analysis of this case study, it can be concluded that JCorp case supported the debate that unrelated diversification is more suitable for the business group in emerging economies (Khanna and Palepu, 1997).

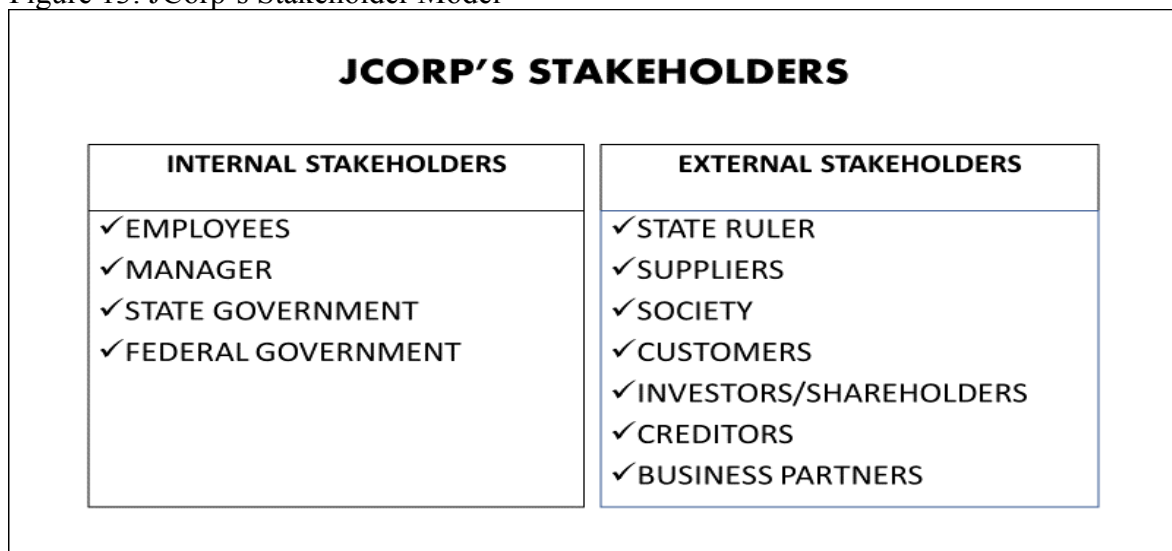
In conclusion, this research has demonstrated that exemplary and competitive SOE, JCorp as a business group with a highly-diversified business sector. While acting as a state enterprise, the firm not only succeeded in transforming from governmental and national economic development agency to a Business Group as well as expanding operation from national to international far beyond their initial role. The figure 12, summarize the business strategy adopted by JCorp Group from 1970 – 2014; while figure 13 illustrates the key stakeholders of the Corporation. JCorp was deemed to be capable of balancing its SOE role with its private enterprise principles aligning to the national transformation agenda. One crucial finding of this case study on SOE model is that it does not necessarily impossible to have a well-run state enterprise and embrace with best practices as well as obtaining higher performances. The ability to change and transform, which enables the corporation to adapt to a dynamic environment depends on the firm's degree of flexibility and its level of organization inertia (Shimizu & Hitt, 2005).

Figure 12: JCorp Group's Business Strategy, 1970 - 2014

Market	Agro-business/ State development (1970s-mid 1980s)	Modern business / Industry (late 1980s – 2014)
international		➤ Medical and hospitals management services, retirement and aged care resort
	➤ property	
	➤ Plantation (oil-palm)	
		➤ Oil and gas/ energy
		➤ food and restaurants / poultry
		➤ franchise intrapreneur
domestic		➤ logistics and shipping
	➤ industrial estates	
	➤ timber / plantation (oil-palm and rubber)	
	➤ port and infrastructure	
		➤ medical specialist and hospitals
	➤ agro-food, agriculture and restaurant	
		➤ pharmaceutical/franchiser
	➤ property and real estates	
		➤ education and nursing college

Source: Chart by the author, data from the research conducted.

Figure 13: JCorp's Stakeholder Model



Source: Chart by the author, data from the research conducted.

Chapter 4

Internationalization of JCorp Group

4.1 Introduction

The focus of this chapter is to examine and study the outward investment of JCorp since the 1970s to the present, with a concentration on its plantation and medical specialists as well as healthcare businesses. Also, this chapter aims to assess and analyse why JCorp as an SOE embarks on cross-border investments, the process and factors that facilitate the internationalization will be determined. In doing so, this paper aims to contribute to the recent discussion on the new trend internationalization of SOE and to enhance our understanding of the unique aspects of a state enterprise expanding growth into the international market through outward FDI strategies. Specifically, this chapter will employ definition provided by Cuervo-Cazurra et.al (2014, p.925). The author defined multinational SOE (MSOE) characteristic as performing an outward FDI and having a subsidiary abroad, in specific, MSOE as “legally independent firms with direct ownership by the state that have value adding activities outside its home country, through production facilities, sales subsidiaries, or purchasing subsidiaries or research and design or R&D centres.” Additionally, this case study will fill in the gap of current literature on internationalization of SOE of which mostly were from European, the West and China, and there are almost none from Malaysia particularly at a state level.

The framework for analysis employed for this chapter with major references made to the previous research related to internationalization of SOE via FDI (Cahen, 2014, p.645); strategic and policy decision for internationalization (Mazzolini, 1979, p.16); and multinational SOE (Cuervo-Cazurra, 2014, p.919). The studies suggested that SOE decided for internationalization due to several reasons which includes to secure raw material or resources, exporting capabilities of know-how, and benefiting from cost advantage. To this end, JCorp serves as a case study from the perspective of a middle-income country, a business group owned by state government operating businesses beyond national border. Although this paper gives focus to and provides an in-depth analysis of one specific multinational SOE, it provides opportunities for a new case and different scenario, as this

area has been predominantly focused on Chinese SOEs in the recent decade, mostly acting as sovereign wealth fund. This chapter 4 contain of five sections, Section 4.1 and 4.2 briefly provides the overview of the topic and previous research. Next, section 4.3 highlighted the investment by JCorp in the post-colonialization era and progressing toward internationalization. Section 4.4 examine the multinational enterprises at subsidiary level followed by section 4.5 deliberating about KPJ and its international expansion; and finally, section 4.6 presents and discusses the findings.

4.2 Literature Review

State-owned enterprises (SOEs) were well established in countries that displayed mixed economies and also in developing countries, including Malaysia, since the 1970s. SOEs have become widely accepted as an alternative forms of government ownership in a country of applying as industrial policy. Its recent foray into global markets and contributions to foreign direct investment (FDI) have triggered an important phenomenon whereby an increasing share of the world's largest companies are held by SOEs, indicating an upward trend of their internationalization. In 2011, the World Investment Report (p.viii) indicated at least 650 multinational SOEs with more than 8500 foreign associated, about 65 % of which were from developing countries and 44 % from advanced economies. Among the major countries include Brazil, China, India, Kuwait, Malaysia, Russia and Saudi Arabia. The goals of respective SOEs were complex and varied depending on its objectives when first established as shown in the first study on internationalization of SOEs conducted by Mazzolini and Vernon in late 1970s. Foreign expansion of SOEs is the predominant pathway to internationalize State entities and in recent decades SOEs act as important players in the global economy. It was also found that different categories of industries have different degrees of internationalization of socioeconomic objectives. More recent literature focusing on Chinese MNEs, only a few scholars had published papers highlighting SOE internationalization issues in other national economies such as Brazil, Italy, Spain, Norway or India. Presently, most SOE studies touch upon managerial issues and other aspects within national borders, as such it is difficult to draw on any theory or conceptual approach to organize research on SOEs' international expansion.

Recent studies have revealed that increasing outward FDIs by SOEs with wide varieties of approaches. The bottom-up indirect policy supporting OFDI is designed to build capability by creating an environment that stimulates firm development (Gorynia et al., 2013, Torres 2014) and direct public intervention through economic diplomacy, liability reducing measures and enhanced organizational legitimacy (Jankowska et al., 2015). Meanwhile, a more direct approach in recent decades of state-supported internationalization is via SOEs and SWFs. Thus, this study will provide useful insights and understanding of the evolution undertaken by SOEs in its internationalization, its business model, and growth strategy. Ramamurti (1987) and Vernon (1979), argued that SOEs are hybrid organizations with both market orientation and socio-political goals. Additionally, given the lack of universally accepted definition and the mix of interlinkages between the purely private and public spheres, one should consider SOE as hybrid entities combining both types of ownership (Bruton et al., 2015). The scenario, in reality, is that besides the wholly owned SOEs, there are also majority or minority-owned firms as well as companies only supported by the States.

In a simple definition, multinationals are firms that operate in more than one country by owning its operation in the home country and invest in host economies. It is the result of a global capitalism created in the past centuries. It is deemed that a multinational engages in one of the two types of foreign investment namely portfolio investment or FDI. To elaborate further, portfolio investment is investment involves the acquisition of foreign securities by an individual or any institution without control over the management of the foreign entity, and while FDI involves management control. On the other hand, Cuervo-Cazurra et.al (2014, p925), defined multinational SOE characteristic as performing an outward FDI and having a subsidiary abroad. In specific, he defined MSOE as “legally independent firms with direct ownership by the state that have value adding activities outside its home country, through production facilities, sales subsidiaries, or purchasing subsidiaries or research and design or R&D centres.” Based on mainstream economic theorist treated multinationals simply as active arbitrage of capital to take advantage of the opportunity, moving equity out from countries where returns on their investment were low to those where it was expected to be higher (Dunning et.al, 1986).

To analyse SOE internationalization, there are two main stream one is public management and the other is IB theories. In the perspective of public management theory,

SOEs of which the state is the owner is less likely or do not have to internationalize since their role is to fulfil government mandate in domestic environment. Meanwhile, for IB theory, private-owned companies in which the private party is the owner must internationalize to stay competitive. All these perspectives were presented in Table 15 as below. The current lack of integration between public management and IB theories has produced “three different views on SOE internationalization, focusing on either the SOE or the internationalization aspect of the phenomenon” (Cahen 2014). The views can be summarized as firstly, state ownership as a deterrent to SOE internationalization, secondly, pro-market reform as incentives to SOE internationalization and finally, the special aspects of governments as owners in SOEs’ internationalization. In recent decades, many public enterprises from developing countries have become global.

To understand OFDI one must first know the motive of a firm to invest abroad rather than focusing on the domestic market especially for an SOE. Two perspectives, both economic and behavioural theories have proposed some arguments concerning the internationalization process of MNCs from developing country. Most of the economic theories had assumed that MNCs are from developed countries and that the host countries are the developing countries. Moran (1978), describes bargaining power between the MNC and the host country based on the characteristic of the product, characteristic of the host country, and exogenous factors. According to the market imperfections theory by Hymer (1970), firm’s decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries. Hymer identified two major determinants of FDI. One was the removal of competition, and the other was the advantage which some firms possess in a particular activity.³⁰ On the other hand, Wells (1977) elaborates that MNCs from developing countries will be competitive due to cost competitiveness, adaptive to technology and at the advance stage of the product life cycle.

After discussing the economic theory of internationalization above, next, the behavioural theory will be reviewed in the following section. Mazzolini (1979) has developed three alternative theories for explaining the behaviour of government-controlled enterprises in their international strategy and policy decisions. Firstly, the rational selection of strategy is in line with its corporate objectives. Next, the organizational process helps to

³⁰ Hymer, S. (1976), “The International Operations of Nation Firms: A study of Foreign Direct Investment”, Cambridge, MLT Press.

determine the strategy of an organization and is reflected in the existing organizational structure and each subunit. Finally, on organizational politics whereby this approach identifies key individuals and their personal objectives and power concerning strategic change of the organization. He further distinguished whether a particular government-controlled enterprise is established with a profit goal or as a tool goal. Based on the research and case studies conducted on the OECD countries' public enterprises, Mazzolini comes to the conclusion that the third approach which is organizational politics, is the best aspect for analysing the behaviour of public enterprise. Since most of these enterprises' experience shows that their objectives are not adaptable to international operations, hence the result is inefficiency. However, "those public enterprises with extensive multinational objectives would naturally develop a suitable procedure for an international operation which in turn leads to greater efficiency" (Mazzolini, 1979).

Not until recently, Cuervo-Cazurra et al. and Musacchio et al., 2014 offered a novel view on internationalization of SOEs and proposed viewing the subject through the lenses of modified classic theories including agency problem, transaction cost, hybrid model and ownership, resource-based view, resource dependency and neo-institutional theory on the problem of legitimacy. Since MSOEs operate in organizational settings that differ from the private sector as well as in a diversified institutional context, the existing theoretical framework focusing on internationalization of SOEs is not sufficient and bear further work on this topic. Furthermore, the renaissance of the State in the aftermath of 2008 crisis and the recent decades witnessed growing number of state-owned Chinese firms suggests the need for explanations about why SOEs internationalized (Choudhury and Khanna 2014, Bass and Chakrabarty 2014). Also, the relatively scant works in this area can be contrasted against the fact that OFDI activities have become part of diversification policy in many countries with SOEs and SWFs playing a key role (WIR 2009, p.58).

This chapter on internationalization will elaborate the JCorp case study base on the theory developed by Mazzolini (1979), which he highlighted that public enterprise with multinational objectives would adopt and adapt for internationalization, and employed the definition of MSOE by Cuervo-Cazurra et. al (2014). Also, the discussion in this chapter is framed based on his theory in explaining the behaviour of government-controlled enterprise in their strategic and policy decision. Mazzolini and the theory developed by Hymer (1976) on the concept of firm-specific advantage reveal that FDI is justified only if the benefits of

leveraging on firm-specific advantage outweigh the relative costs of the operation abroad, in another word the firm is performing competitively.

Table 15: Assumptions and implications of key Public Management and International Business theories regarding firm internationalization by Cahen.

Public Management Theory			IB Theories of Internationalization			
			Uppsala		Dunning's Eclectic Paradigm	
Criteria	Assumption	Implication for internationalization	Assumption	Implication for internationalization	Assumption	Implication for internationalization
Majority ownership of company	State	No need to internationalize	Private	Internationalization necessary to stay competitive, meet shareholder value creation targets	Private	Internationalization necessary to stay competitive, meet shareholder value creation targets
Company behaviour	Risk-seekers*	Expansion mostly into risky markets, (politically and institutionally)	Risk-averse*	Regional expansion for a while to acquire knowledge, then expand globally	Risk-averse*	Internationalize through OFDI to avoid market imperfections
Reason for companies' international expansion	Pursuit of natural resource or strategic assets*	Expansion mostly into risky markets, both politically and institutionally.	Pursuit of Markets*	Expansion into more stable markets, avoiding risky markets	Pursuit of Markets*	Expansion into more stable markets, avoiding risky markets
Primary goal of companies' international expansion	Socio-political, profits are welcome but not primary goal	Internationalization may occur in large, inconsistent steps-less concern with losing money (state will bail SOE out)	Economic requirements; profit maximization	Learning by doing-internationalization occurs in small steps to avoid losing money with liabilities of foreignness	Economic requirements; profit maximization is primary goal	Learning by doing-internationalization occurs in small steps to avoid losing money with liabilities of foreignness
Decision to internationalize	Government to government (G2G)*	Govt can help establish political connections with foreign govt to help its SOE	Business to business (B2B)*	Company increases its international expansion in search of new markets	Business to business (B2B)*	Company increases its international expansion in search of new markets

Source: Cahen 2014 (RAE, p.647) and *Ramasamy et al., 2012.

4.3 FDI by Johor Corporation, Malaysia and Beyond

Over the last four decades, JCorp has been making significant investment in domestic market for national development, and concurrently managed business operation beyond national boundaries. As the Group embarked on gradual internationalization, their expansion takes the mode either thorough green field or portfolio investment. As their businesses getting more complex and faced with numerous challenges, the Group had continuously improved, restructure and innovate to build a strong footing, enhancing its value and business synergies. Analysing their historical data, in the 1970s JCorp via its subsidiary Kulim had been involved in indirect outward investment as well as exporting businesses through subsidiary companies. The following section will discuss on the process embarking toward internationalization by the Group with a focus on the businesses of Kulim, Sindora and KPJ Healthcare.

4.3.1 Decolonization Era

After independence in 1957, several enterprises which were established during the British colonial regime had gradually undergone the process of transferring ownership. These enterprises were mostly related to plantation, mining, and agricultural-based. In the case of JCorp, the Group acquired 8.72 % equity under the Kulim Group Limited which was listed on the London Stock Exchange via the purchase of share. Kulim Group Limited was a palm oil and rubber plantations company. It was the starting point for JSEDC to be involved in the agro-business sector back in 1975. Later, in the same year JSEDC made further investment in Sindora Berhad to increased its equity share to 55% in the company. Sindora initially was established as a subsidiary company under JCorp Group in 1972 under a joint venture with Lembaga Kemajuan Johor Tenggara (KEJORA) and several French companies. This company was involved in logging and timber products as well as palm oil plantation in Malaysia. KEJORA is the State Agency responsible for the strategic planning and development of South East region in Johor, while the French companies selected as their business partner is specialising in timber and furniture industry. It was observed that the joint-venture with foreign partner is to tap the technology know-how for future development

and expansion of JCorp's timber division back in the 1970s. In the succeeding sub-section 4.4.2, the progress of Sindora in timber industry is examined in detail.

4.3.2 Towards Internationalization

In its early years, the Group's business activities and growth were financed through fiscal means, but this method was gradually replaced with profits and surpluses from its operations as a public enterprise. As described in the earlier chapter, JCorp has been making a strategic investment in its subsidiaries since 1971 until the present with more than two hundred and fifty companies consists of diverse business sector and services under one umbrella. The investment has gradually increased over years as the Group's operation expanded. Under the JCorp Group, four subsidiaries company were successfully listed on the Kula Lumpur Stock Exchange which includes Kulim (M) Berhad, Al-Aqar Healthcare REIT, KPJ Healthcare Berhad, and E.A. Technique (JCorp, 2014).

Over the years, the Group's business segment is managed on a worldwide basis with Group revenue distribution by geography in 2010 is dominated by Malaysia (75%), Europe (13%) and the remainder spread throughout Asia. JCorp has become a national market leader in several of its core businesses, namely the Specialist Healthcare Services and Quick Service Restaurant while it also has a significant regional presence in the palm oil business interest spanning not only in Malaysia but also other countries namely Papua New Guinea, Brunei, Indonesia, Singapore, the Philippines, Solomon Islands, Cambodia, and China. One can, therefore, assume that this SOE are in the position to enter international business due to an economics of scale.

The evolution of JCorp can be seen as a result of many contributing factors. They are among others, changes in domestic policies and global economy, business competition and changes in the market structure. To remain competitive and to sustain growth, the group continues to restructure its business and embrace corporate reform. Based on the company's record, JCorp has embarked on indirect investment abroad since 1972 by equity purchasing, joint-venture, franchise licensing, and FDI. Table 16 below shows the detail list some of the activities performed by JCorp Group related to international business activities. In the following section, the discussion on business performances of healthcare segment will be the focus area for deliberation.

Table 16: International Businesses Activities by JCorp Group, 1970-2011.

Year	Country	Detail
1972	UK	Purchased equity 8.72% from <u>Kulim Group Ltd.</u> Listed in London Stock Exchange. Involved in plantation, rubber and palm oil in Johor Malaysia. *Equity purchase.
1976	Nigeria	<u>Waterside Rubber Estate Ltd.</u> Rubber plantation with equity obtained 40%. *Equity purchase through Kulim Group Ltd/ OFDI.
1983	Netherland	Through its subsidiary EPA Sdn Bhd., invested in <u>Matthes & Porton BV</u> a commodity broker with 90% equity. *Equity purchase / OFDI.
1986	Netherland	EPA owns <u>Matthes commodities</u> with 50% equity. *Equity purchase / OFDI.
1989	Hong Kong	JSEDC took over <u>Asian Marines Foods Ltd. HK</u> to have majority shares in East Asian Marine Farms Sdn Bhd., with equity of 83.7% *Equity purchase / OFDI.
	PNG (Papua New Guinea)	Eastern Plantation Agency (EPA) purchased 25% equity in <u>Warren Plantations</u> (Mt. Hagen) Pty, Ltd. A plantation company in tea and coffee (1,024 hectares). Warren Plantation also owns marketing chains in Australia and United states. As at 1993 – 51% equity holding. *Acquisition via equity purchase / OFDI.
	Singapore	Through its subsidiary Rajaudang S/B., purchased 51% in <u>Asia Pacific Seafood Pte. Ltd</u> registered and operating in Singapore. *Equity purchase.
	Australia	Rajaudang invested 20% in <u>Asia Pacific Seafood Australia Pty. Ltd.</u> *Equity purchase / OFDI.

1991	USA	Appointed as a master franchiser for The Medicine Shoppe International Inc., for the market in Malaysia, Singapore and Brunei. *JV with foreign company via franchise licensing.
1996	Indonesia	Opening <u>healthcare business in Padang</u> , Sumatera and opening of <u>Industrial Park West Sumatera</u> . *Green field investment.
	PNG	Acquired 90% stake in <u>New Britain Palm Oil Ltd.</u> *OFDI with management control.
1997	USA	Signed an agreement with <u>Duraclean Inc., USA</u> to establish outlets in Malaysia, Brunei, Indonesia and Singapore. *JV with foreign company via franchise licensing.
2003	Bangladesh	Entered into a management agreement with <u>United Group of Dhaka</u> to provide healthcare technical expertise and manage the Continental Hospital. *JV to provide management service.
2005	ASEAN	Expand food and quick restaurant business <u>KFC</u> and <u>Pizza Hut</u> to ASEAN (4) and India. *JV with foreign company via franchise licensing
2011	Australia	Invested MYR19 million for the equity holding for acquiring a retirement resort <u>Jeta Gardens Resort</u> in Brisbane, Queensland. *JV / OFDI.

Source: Data compiled from Annual Report JCORP, 1970-2011. Table prepared by the author. (OFDI – outward foreign direct investment).

From the data above, it was noticed that JCorp venture into international businesses activity spread through several regional Europe, the USA, ASEAN, Africa, Asia and Australasia. The mode of entry took various form such as joint-venture, OFDI, franchise licensing as well as equity shareholding. It was observed that JCorp embarked in strategic expansion in all these international business activities, and one interesting finding revealed for the OFDI in Warren Plantation Pty. Limited. In the early 1980s, JCorp through its subsidiary Johore Tea Sdn Bhd actively involved in plantation and tea packing projects. The Group production of tea products increased substantially to a total of 2.50 million kg in 1995 against just 1,446,730 kg in 1992 while in 1989 barely reach a total of 171,831 kg of green leaves (JCorp, 1989, 1995 & 1993).

The tea and coffee products with ‘niche packaging’ is cater for local and overseas market namely Australia, New Zealand and Europe under the brand name Kurumul, OM and Golden Peninsula. Since, Warren Plantation also owns marketing chains in Australia and United States, JCorp could leverage on the marketing network under its foreign subsidiary (JCorp, 1990, p.20). Subsequently, JCorp had further its stake by acquiring up to 51% equity in Warren Plantation at the end of 1993, and because of this exercise, there was an opening of production factory was commenced in PNG in the same year. At a glance, it had been discovered that JCorp also entered into two joint-ventures via master franchise licensing with The Medicine Shoppe International in 1991 and subsequently with Duraclean Inc., USA in 1997. Both are unrelated segment whereby one in pharmaceutical and the other is in commercial office cleaning services (JCorp, 2009, p.47 & 48).

4.4 Multinational Enterprises

After providing with a brief discussion on the internationalization of JCorp above, this section will discuss in detail on the process and strategy as well as international operations of 2 main subsidiaries within the Group namely Kulim and Sindora. These two companies, Kulim and Sindora was chosen due to its historical business involvement in oil palm and rubber plantations even before the country independence and its reverse investment strategy.

4.4.1 Kulim (Malaysia) Berhad – “KULIM”

Kulim (M) Berhad corporate history dated back to 1933 when it was first incorporated in the United Kingdom as Kulim Rubber Plantations Ltd. (KRPL).³¹ The company, KPRL began operations with a 190 hectares rubber plantation in Johor Malaysia. In 1970, KPRL changed its name to Kulim Group Limited (KGL) and was listed on the London Stock Exchange. In the early 1970s, KGL's expanded its business from oil palm and rubber plantations to include property development in the United Kingdom, hotels in the Trinidad and Tobago islands in the Caribbean, and a rubber plantation in Nigeria.

Later, KRPL was incorporated as a public company known as Kulim (Malaysia) Sdn Bhd, and was listed on Kuala Lumpur Stock Exchange in 1975 and made public as Kulim (Malaysia) Berhad. JSEDC (now JCorp) became the major shareholder of Kulim in 1976 and has increased its interest in the plantation industry through the acquisition of plantation companies. In 1977, KGL was delisted from the London Stock Exchange and became a subsidiary of Kulim. The process involved transferred to Kulim of all assets and liabilities and divested its assets in the United Kingdom. This effort by JCorp is seen aimed for rebranding and restructure Kulim after became the majority shareholder.

Throughout the 1980s and early 1990s, Kulim focused on consolidating its old investment abroad. For example, in 1980, Kulim decided to dispose of its Minister Bay Hotel and Mount Irvine Bay Hotel in Trinidad and Tobago. Meanwhile, in the mid-1990s, Kulim disposed of its entire equity in Waterside Rubber Estates Ltd, in Nigeria. With all these exercises, Kulim hopes to focus on its Malaysian plantation. Then, in the mid-1990s, Kulim began its regional expansion with the acquisition of 90% stake in New Britain Palm Oil Limited (NBPOL) in Papua New Guinea (PNG) and soon after in Indonesia.

For the new business in Indonesia, Kulim via its subsidiary Kulim (Malaysia) Plantation Sdn Bhd entered into a joint-venture through a 60% stake in PT Padang Bolak Jaya and PT Multrada Mutli Maju in Sumatera. However, after 10 years, Kulim divested all the Group's plantation in Sumatera in early 2006. Again, another venture in Indonesia, specifically in Kalimantan took place when Kulim acquired 100% equity in EPA Management Sdn Bhd (EPA). Also, Kulim acquired 92.99% stake in Kumpulan Bertam

³¹ All data on Kulim is compiled from the official website. <http://www.kulim.com.my/>

Plantation Berhad, thus increased its plantation land size with an additional of 1,016 hectares into the Group (2004). However, not so long after, in 2007 Kulim exit from plantation operation in Indonesia by the divestment of Kalimantan plantation.

It was noticed that Kulim had taken initiatives to enhance the relation between company and its employee in PNG by establishing New Britain Nominees Ltd. (NBNL). Through this company, a subsidiary of NBPOL, it acts as a vehicle for its employees, out growers, and traditional landowners to acquire NBPOL's shares and to allow them to participate in the company future growth. Next, Kulim played important role in supporting the people in the West New Britain, PNG. In 1988, NBPOL Foundation was also established to assist the local communities in the fields of health and education. In the same year, NBPOL was listed to Port Moresby Stock Exchange, PNG. A few years after, it was observed that expansion in operation took place with the commissioning of the fourth mill, and the construction of Kumbango Palm Oil Refinery with a capacity of 100,000 TPA.

Interestingly, NBPOL had an active business expansion in the coming years. In 2004, NBPOL entered into an agreement to formed a new company known as Guadalcanal Palm Oil Ltd. (GPPOL) incorporated in the Solomon Island and holding a total of 80% equity. On top of that, in 2007, NBPOL had a secondary listing on the London Stock Exchange. This achievement had reflected the positive performance of NBPOL. Subsequently, NBPOL acquired 100% stake in Ramu Agri-Industries Ltd. (Ramu), PNG. Next, NBPOL constructed refinery plant with a capacity of 200,000 tons per annum in the UK, and 2 years later began operation in May 2010. Meanwhile, in April 2010, NBPOL acquired 80% stake in CTP PNG (now known as Kula Palm Oil Ltd).

One important business activity happened in the same year with the completion of equity swap in Nexsol (Singapore) Pte Ltd and Nexsol (Malaysia) between the parent holding Kulim and Peter Cremer (S) GmbH in April 2010. As such, there has been a change of equity control and corporate restructure in Kulim. Following the exercise, Nexsol (M) Sdn Bhd became 100% subsidiary of Kulim while at the same time Nexsol (S) Pte Ltd ceased to be an associate of Kulim. Additionally, Kulim ventured into oil and gas with an international partner in Indonesia in 2014. Kulim via its owned subsidiary Kulim Energy Nusantara Sdn Bhd (KENSBN) entered into a Joint Operating Agreement with PT Radiant Bukit Barisan and PT GSB to participate in the exploration and development of Oil and Gas

field in Central Sumatera. Also, KENSB acquired a 60% equity in PT Citra Sarana Energi at the end of the same year.

Besides plantation, Kulim through its subsidiary QSR Brands, and indirectly control KFC Holding Malaysia also involved in the Foods and Quick Service Restaurants industry. The company carries popular brands such as Pizza Hut, PHD-pizza hut delivery, KFC, RasaMas, Ayamas and Life. QSR Brands operates its KFC and Pizza Huts restaurants in 5 countries including Malaysia, Singapore, Brunei, Cambodia, and India. Currently, under KHC Holding (M) Berhad, it operates a chain of KFC restaurants with a total of 810 including in Malaysia, Singapore, Brunei, and India, with 456 Pizza outlets in ASEAN. While for a chain of RasaMas restaurant comprising 25 in Malaysia and 2 in Brunei, and a network of 75 Ayamas Shop convenience store and poultry retail outlets. At the same time, the company is also involved in integrated poultry operations that include operations of feed mill, breeder and boiler farms, a hatchery, and a poultry processing plant.

Kulim is an established plantation company with footprints in Malaysia as well as Papua New Guinea, Solomon Islands (SI) and the United Kingdom via its 48.97% equity-owned associate company, New Britain Palm Oil Limited (NBPOL). Through QSR Brands, the cash-generator business, served as a backbone to JCorp Group financial performance as discussed in the previous chapter. Analysing the strategy adopted by Kulim Group for international expansion is shown via merger and acquisition for most of its business venture. In the plantation segment, the Group has an escalating economic value which due to large land size for the plantation, knowledge as well as resources.

Meanwhile, as for the food and restaurant, since it is an inorganic growth, the Group paid high acquisition cost but the segment is expected to generate higher value for the company since KFC and Pizza Huts represent a strong brand in Malaysia and in the region. In the millennium era, it was observed that Kulim had ventured into new and unrelated business segment such as oil and gas, and energy. This strategy was considered as to establish a new dimension for the Group, as well as for sustaining future growth. At home country, the federal government is promoting Oil and Gas as one of the key sector (12 sectors) under the Economic Transformation Programme which was first introduced in September 2010. This is a comprehensive effort towards achieving the status of high-income nation by 2020.

4.4.2 Sindora Berhad

Sindora Berhad is a subsidiary company of JCorp, which was incorporated in the year 1972 and commenced its operation in 1974 after JCorp was awarded a timber concession of 92,000 acres by the Johor State of Government.³² Its first sawmill began operation in 1977, subsequently the second sawmill had started operations in 1979. The Corporation's involvement in timber business is spearhead by Sindora back in the 1980s. Since its inception, it was noticed that the company had concentrated on increasing value-added activities to its basic timber operations (logging) and also had diversified into downstream activities. (JCorp, 1988, p.43). The expansion was undertaken through the manufacturing and processing of sawn timber, kiln, dried timber, treated timber, veneer, mouldings, wooden doors, furniture making and laminated products. Thus, expanding into these various activities had open doors for maximizing the utilization of timber resources and simultaneously creating a new export earnings base for Sindora.

Buoyed by the positive market condition and the favourable prices for timber and its products throughout the two-decades has led Sindora to enjoyed encouraging turnover and profit performance. In 1988 alone, it experienced an overall 17% increase in total turnover to MYR18.74 million, with total production of 4,862,000 (m) tonnes of timber and 1,825,000 (m) tonnes of sawn timber respectively, and continue upsurge to MYR20 million in the following year, recorded an overall 39% improvement in total turnover. Meanwhile, in 1996, the company registered a turnover of MYR64.28 million (in 1990, MYR25.72 million) and net pre-tax profit was MYR18.29 million representing an increase of 8.8 % from the preceding year. The sawn timber not only for the local market, but also exported to Europe, United States and Singapore. Before that, on 8 December 1995, Sindora was listed on Bursa Malaysia and became the JCorp's third subsidiary company to be public listed entity. Moreover, the bright prospect for wooden furniture was observed after the Government accorded furniture industry a priority status under the National Second Industrial Master Plan (1998-2005) (JCorp, 1997, p.92). Furthermore, the Malaysian furniture has been accepted internationally especially in the USA, Japan, and Singapore as well as in the UK, Australia and Taiwan. Over the years, JCorp through Sindora had

³² <http://listofcompanies.co.in/2012/sindora-berhad/>

successfully penetrated the non-traditional markets such as the United Arab Emirates, Bahrain, and Djibouti (JCorp, 1997, p.93).

Next, for the regional expansion exercise, Sindora focus mainly toward partnership with companies from Indonesia. In 1996, JCorp through its subsidiary Sindora Nusantara Sdn Bhd, the Corporation entered a 60:40 joint venture with PT Andalas Merapi Timber which owns a 60,000 hectares forest concession in Padang West Sumatera. The new joint venture company known as PT Andalas Lumber Products started its operation at Padang Industrial Park at the end of 1997 with export began in 1999 to the European market. At the same time, Sindora Nusantara entered another joint venture with three Indonesian companies to develop wood working industry as well as palm oil plantation and processing mill in Central Sulawesi. For this project, Sindora Nusantara owns 60% of the joint venture and was expected to provide expertise in wood technology, while its partners will provide logs from their timber concessions of 200,000 hectares and land for palm oil plantation. All these projects were expected to incur an investment of MYR100.4 million over a 10 years period. Further to that, Sindora Nusantara had entered into an agreement to acquire a 51% equity interest in PT Khage Lestari Timber, a down-stream timber manufacturing in West Sumatera. The core business of PT Khage includes manufacture laminated scantlings and moulding for export with two major export destinations namely Europe and Japan. As for the plantation sector, Sindora had embark on downstream processing of fresh fruit bunches through the construction of a new oil palm mill located in Johor with a cost of MYR17.86 million. It can be concluded that, the international expansion through joint-venture is to secured source of raw material and for sustainability of the Group in timber businesses.

Unfortunately, as the financial crisis struck and further erode the regional economic condition, and as discussed in chapter 3, Sindora had undergone restructuring in 2002 to cushion against the declining timber-based business by redefining its strategy and only to focus on three segments namely plantation, intrapreneur venture and timber. For this, Sindora has acquired four prospective companies in business related to asset management, bulk mailing and printing services, contract manufacturer of tea blending and packing as well as insurance broking company. The business focus has shifted and Sindora's was applying a new business model termed Intrapreneur Venture. The strategy implemented was to identify several companies that had shown profitability, fundamentally strong with excellent long-term business prospects. As mentioned before the concept was adopted from

the business model of the United States Berkshire-Hathaway Inc. The strategy has proved to be successful with several of Sindora's subsidiaries had managed to expand businesses into the regional market as explained in chapter 3 (p.125).

Under the Intrapreneur Venture scheme, one of the companies acquired by Sindora is E.A Technique Sdn Bhd, a small shipping operator back in 2009. Sindora provided corporate support for E.A Technique's growth and expansion as to be lead players in the clean petroleum products shipping sector. Next, Sindora and E.A Technique acquired a 51% equity ownership in Orkim Sdn Bhd. The main business activities of Orkim are ship management, ship broking and marine consultancy services. It was worth noting that, the long-term prospective of Orkim that trigger the strong interest from Sindora and E.A Technique. Orkim had been reported successfully entered a MoU with an oil major company to provide and supply two 7,000 dead weight tonne (dwt) vessels and the operation is plan for 2010 (JCorp, 2009, p.18). Also, Orkim has been awarded 5 long-term 10 year contracts to supply three dwt vessels and another two dwt vessels to another oil major company in Malaysia. As a combined effort, Sindora Group projected that the company will emerge as one of the nation major domestic shipping company, after MISC Berhad (Ibid).

Subsequently, another important and significant corporate exercise occurred in 2008, Sindora became a 77 %-owned subsidiary of Kulim, and before the end of 2011 Kulim had fully owned Sindora, and delisted the company from Bursa Malaysia soon after that. The exercise is an interesting change in corporate strategy for Kulim and JCorp. It was seen as a push for an asset divestment strategy. The local media was suggesting that the deal is noteworthy as it marks the first strategic move by the new leadership of Kulim and JCorp under its current President and CEO Kamaruzzaman (The Edge, 2011). Afterward, in 2014, E.A Technique (M) Berhad, an indirectly subsidiary of Kulim (equity of 50.60 %) through wholly-owned Sindora was listed on Bursa Malaysia in December and became a public limited company. The company which is principally owner and operator of marine vessels, operate business related to marine transportation, offshore storage of oil and gas, as well as the provision of port marine services. It was realised that, the corporate strategy executed by JCorp Group is aimed at attaining financing sources from the private capital market to fund the future development and growth of E.A Technique.

4.5 Local Excellence leads to International Expansion – KPJ Group

This section discusses the internationalization of KPJ Group. This company was the first homegrown healthcare group in Malaysia listed on the Main Board of Kuala Lumpur Stock Exchange on 29 November 1994. The initial public offering (IPO) of KPJ Healthcare Berhad shares which was launched in October was oversubscribed by 88 times. The business strategy was further emphasised during the five-year period from 2006 to 2010, a time frame which showed KPJ achieved its best position as the only healthcare company that becomes one of top 100 companies on the Kuala Lumpur Stock Exchange at the end of 2009. The focus of this section is to examine the expansion strategy in domestic and overseas market, as well as analysing KPJ performance thus far. However, before proceeding, background information of domestic healthcare industry in Malaysia will be briefly elaborated to provide the overall picture.

4.5.1 Healthcare Industry in Malaysia

In Malaysia, the healthcare industry is regulated by the Ministry of Health, and consisting of both government and private healthcare system. As at 2013, there are 141 public hospitals with almost 40,000-bed facilities and a total of 248 private hospitals with licensed bed of 14,564.³³ Private hospitals have been proliferating over the past decade, and it was estimated that 50 per cent of Malaysians were turning to private medical service (MHTC, 2017).

As Malaysia is promoting its Medical Tourism industry, through Malaysia Healthcare Travel Council (MHTC) spearhead the policy formulation, implement and coordinate efforts at the national level. To date, there are 74 MHTC Partner Hospitals, 22 of which represent MHTC Elite Partner, the most premier private hospitals in Malaysia (MIDA, 2017). The MHTC formed in 2009, has identified four key focus markets to aggressively promote Malaysia's medical tourism industry. The promotion efforts have proven to be effective with the growing number of medical tourists to Malaysia. Majority medical tourists are from Indonesia, China, Myanmar, and Vietnam as this are the new focus

³³ Ministry of Health Malaysia - <http://www.moh.gov.my/english.php/pages/>

markets. The existing market includes Middle East, UK, Australia, Bangladesh, Japan and Pakistan. For Malaysia, being an Islamic country provide a locational advantage to the Muslim medical tourists from Organization of Islamic Cooperation (OIC) as well as non-OIC nations. Among the medical services that get the highest demand in Malaysia are cardiology, orthopaedic, oncology, neurology, dental, and cosmetic surgery. The marketing strategy of Malaysian medical tourism also shifted to high-value customers by offering niche medical treatment to increase average income derived from each medical tourist.

Analysing private hospital operator in the domestic market, it is largely fragmented with the two main healthcare groups, KPJ Healthcare and IHH Healthcare with few other major hospital operators. These two groups commanding approximately 40% of the market share measured in term of the industry capacity that is licensed beds. For IHH Healthcare's hospital network is operating under the brand name of "Gleneagles" and "Pantai" with a total of 14 hospitals and are positioned to capture the middle-to-high income market segment of the customers. One important point is that, IHH Healthcare is the world's second-largest listed healthcare operator by market capitalisation.³⁴ Additionally, other notable private hospitals provider in Malaysia includes Sime Darby Healthcare (3 hospitals), Columbia Asia (12 hospitals) and Sunway Medical Centre.

Studying the national market condition, it is expected to have positive potential in demand for private healthcare services. Currently, according to the Ministry of Health Malaysia, the ratio of total medical professional over the population is 1:633. This has resulted in a huge number of the citizen opted for the private medical facilities which had recorded a total of 1,020,397 admissions and 3,867,668 outpatient's attendances in 2013. Also, the World Bank published a report highlighted that the percentage of Malaysia's life expectancy has risen from 66.6 years in 1980 to 72.4 years in 2014 for male while for a female is from 69.6 year to 77.1 year during the same period.³⁵ Based on this fact, as seen there is a rising trend of age profile in the country, of which will create a larger number of aged population hence it is expected to promote demand for private healthcare services in the future.

On the other hand, looking at the data on Malaysia's population by the Department of Statistics, the Office projected an increase to 32.4 million by the end of 2020 and upsurge

³⁴ Ibid.

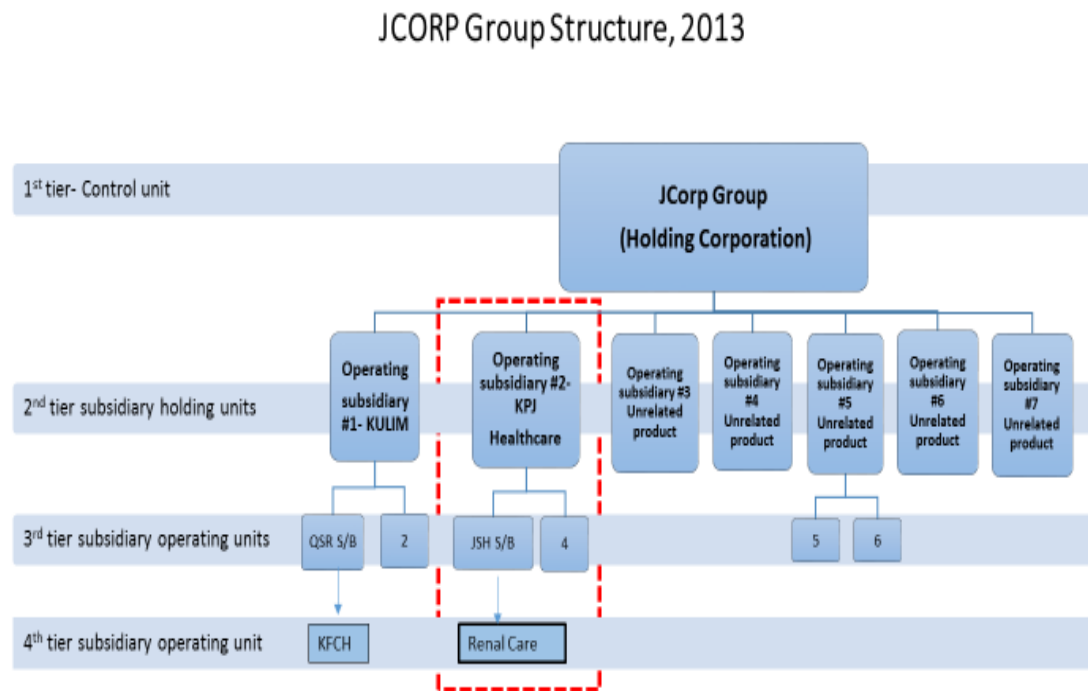
³⁵ The World Bank - <http://data.worldbank.org/indicator/>

to 38.6 million by the end-2040, thus underpins rising demand for healthcare services. There is also a growing affluence of the general population since the average household income of Malaysia has increased to MYR5,000 per month in 2012. Also, the growth in average household income of Bumiputera population outpaced national average at a compound annual growth rate (CAGR) of 8.1 percent to MYR4,457 per month, meanwhile for Chinese and India have risen at a CAGR of 6.8 % and 7.0 % to MYR6,355 and MYR 5,233 per month in 2009 respectively. In tandem with the scenario of strong household income, and as the society progress and demographic change, hence rising of health awareness will give rise to healthcare expenditure of the population going forward. Hence, it reflects a positive market prospect for healthcare industry in the Malaysia.

4.5.2 KPJ Healthcare Berhad and Brief History

The birth of KPJ Healthcare came on board as early as 1974 when then the JSEDG (presently JCorp) under the helm of the CEO, the late Tan Sri Dato' Basir Ismail joint effort with Dato' Dr. Lim Kee Jin set up the first private hospital in Johor Bahru. The plan went ahead for its implementation in 1978 and a holding company, Johor Specialist Hospital Sdn Bhd. was incorporated on the 20th February 1979. The construction just took about a year and finally on 10th May 1981 starts its operation. At the early stage, the hospital was guided by three key leaders namely Tan Sri Dato' Muhammad Ali Hashim who was the CEO of JCorp Group and on the Board of Directors, Datin Paduka Siti Sa'diah who was the Director and Dato' Dr. Lim who was the Medical Director. At that time in 1981, Johor Specialist Hospital only had 65 beds a small by far figure from the more than 2,500 found in KPJ hospitals today. Currently, KPJ Healthcare Berhad, the subsidiary-holding company and is majority-owned by JCorp with a stake of approximately 36.91 percent. The rest of its controlling stake is held by Waqaf An-Nur (7.2%), the real-estates endowment fund of JCorp; Institute of Employees Provident Fund (13.4%); and Nomura Asset Management (7.8%) (JCorp & KPJ; 2013). Figure 14 below illustrates the Group structure and two-tier operating subsidiary of KPJ Healthcare Group.

Figure 14: JCorp and KPJ Group Structure, 2013



*JCorp - a structure of a highly-diversified business group.

Source: Model by author, data obtained from Johor Corporation, Malaysia.

From the early days, in managing daily operations, the company developed a good working relationship between the medical team and the management which was led by Dr. Lim Kee Jin as Medical Director, Siti Sa'diah Sheikh Bakir as the Director of Johor Specialist Hospital, and Ahamad Mohamad (currently the Managing Director of Kulim) as the Administrator of the Hospital. Over the years of more than three decades, KPJ managed to expand its hospitals operation nationwide with its presence in almost all states.

Analysis on the operational aspect was performed after KPJ were listed on Bursa Malaysia in 1994 to examine how the Group was managing its businesses. In 1999, it was noticed that the Group made a huge investment to acquire leading-edge technology and to upgrade the existing equipment. At Johor Specialist Hospital, 20 additional outpatients clinic

with a comprehensive oncology and radiotherapy centre is being constructed. Also, several other hospitals under the Group embarked on renovation, expansion and constructing new buildings. Apart from the normal hospital management activities, Ampang Puteri introduced a new service related to Home Nursing Services to assist new parents in caring the new born child and extended its services to offer day-care centre facilities for senior citizen (JCorp, 1999, p.104).

In 1995, the Group conducted numerous seminars and short courses relevant to the healthcare industry through its subsidiary Malaysian Institute of Healthcare Management. These courses were opened to its internal staff as well as external participants and it was designed to meet the need of the clients and tailored to fulfil the training objectives (JCorp, 1995, p.74). Additionally, KPJ embarks on several collaborations with international partners in its business development. For example, in 1992 KPJ signed a Memorandum of Understanding with PARC Healthcare International, Ireland to jointly provide high-quality, cost effective consultancy and training for the healthcare industry in Malaysia (JCorp, 1992).

Over the years, KPJ Group had a rapid expansion, and as such, it becomes challenging to rationalize its operation and adhere to the quality standard. Several improvement programmes were implemented focusing on the management and operational aspects. For example, in 2000, their lack of resources in many aspects has greatly affected the claim-processing system. To rectify the problem the Corporate Division had introduced new measures and guideline to ensure good credit management and to improve on the cashflow position. Later, one more initiative was introduced in 2009 known as SEGAR, which stands for Service Excellence under the KPJ Group Alignment and Re-engineering. This program was set up to devise standard operating procedures, as well as standard people practice and quality objectives for the Group. With the establishment of SEGAR, KPJ could streamline its processes, and provide excellence service throughout the entire businesses. To maintain its operational standard and reputation, hospitals under the Group complied and achieved quality certification such as ISO9002 for ICU/CCU and Pharmacy Department and quality accreditation programme by the Malaysian Society for Quality (MSQH).

Also, it was observed that KPJ had diversified into several other segments in line with its core business. Among the activities run by the Group includes hospital management services, project management and engineering maintenance services for specialist hospitals, marketing and pharmaceutical, medical and consumer healthcare products, and operates a

private nursing college. Over the years, the Group grows tremendously whereby it was recorded that in 1997 KPJ has a total of 42 companies under its wing with an investment of MYR247 million (JCorp, 1997, p.82). However, the number of subsidiaries was reduced to 36 as at the end of 2000, but increased in the total amount of investment valued at MYR300 million (JCorp, 2000, p.80). Figure 17 shows the Group Structure for 1999 and Table 20 illustrates the list of main subsidiary and associated companies under KPJ Group. Among the major companies includes KPJ Healthcare Puteri Medical and Nursing College (KPJUC), Pusat Pakar Tawakal and Puteri Specialist Hospital.

On the aspect of operation, to ensure the clinical and patient safety, KJP Group also established a Clinical Governance Framework which consists of the Clinical Governance Committee, with several sub-committee, including the Clinical Governance Policy Committee, Clinical Governance Action Committee and the Clinical Risk Committee. The committees meet regularly to discuss, review and assess the procedures within the Group, ensuring that all hospitals totally adhere to clinical and patient safety guidelines. This is the key aspect in its Group's daily operation to maintain the high standard. These Committee is responsible to the Board of Directors at the Group level. From the analysis, it was reported that KPJ Group received huge contributions from several renowned doctors who served as Board members in helping to develop the clinical policies and procedures for the Group. Also, it was observed that KPJ emphasised on the clinical knowledge sharing and develop its clinical skills pool. This is undertaken through the Annual KPJ Healthcare Conference where their specialist present research papers to their peers and other industry players. The purpose of these Conferences was to bring to Group's clinicians together to interact and brainstorm on the latest in-patient care and medical technology (Infomed, 2016, p.46-50).

On top of that, in 2006, KPJ Group launched the Al-Aqar KPJ Real Estate Investment Trust (REIT), it is the Malaysia's first Islamic REIT and the world's first Islamic Healthcare REIT. The REIT provided a new mechanism for KPJ to raise funds and focus on managing hospitals operation. The difference with other types of REIT is that, the Al-Aqar KPJ REIT is fully based on Syariah (Islamic) compliant assets as its components, where the source of income are hundred percent from permissible activities.³⁶ Through this exercise had enabled KPJ to unlock a total asset value worth MYR462 million which previously tied capital fund

³⁶ Islamic REITs are collective investment vehicles that pool money from investors to buy, manage and sell real estate, of which must comply with Syariah principles.

to buildings and equipment, resulted in reduced gearing. For this, KPJ established a wholly-owned subsidiary Al-Aqar Capital Sdn Bhd to spearhead the Islamic Healthcare REIT. For a start, six hospitals buildings were included in the REIT and Al-Aqar KPJ REIT was listed on Bursa Malaysia on 10 August 2006 involved the creation of 340 million units. The subsequent year, KPJ Group injected four more hospitals into its real estate portfolio. These four hospitals joined six existing KPJ hospitals in REIT bringing the total to ten properties.

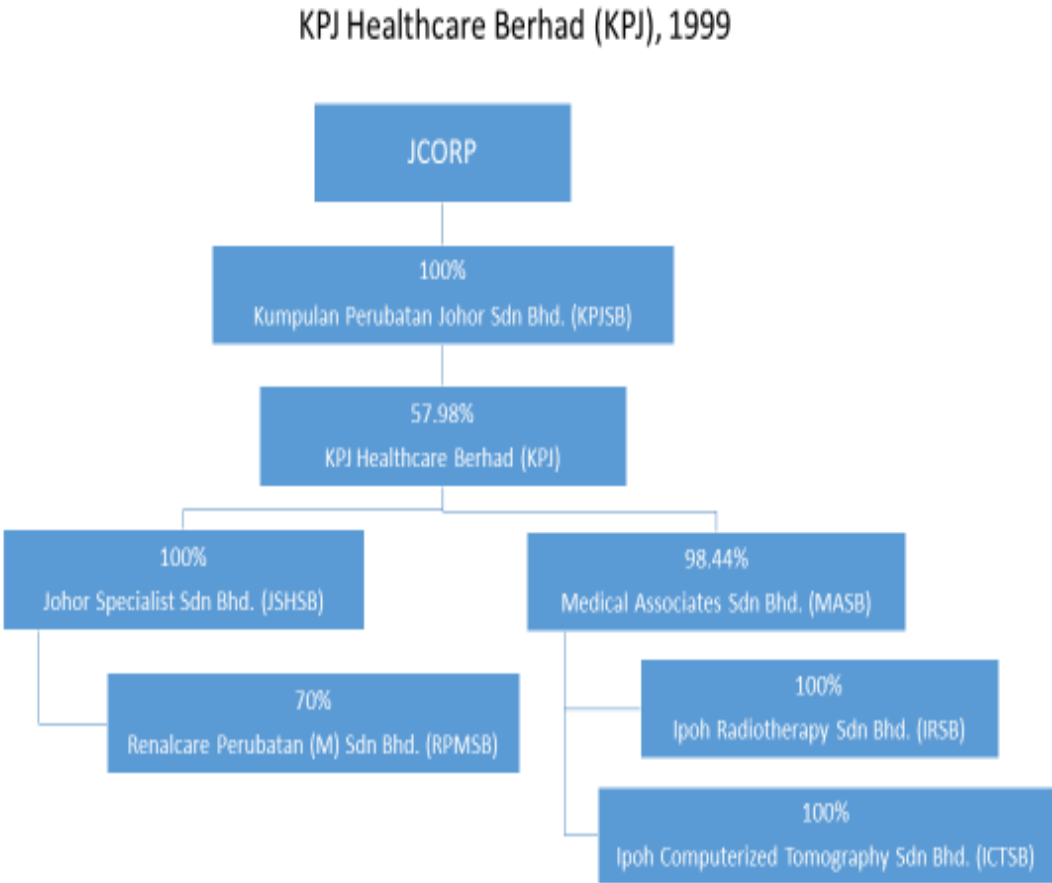
Analysed on the composition of Board members in KPJ Group, it seemed that all Directors are highly experienced and some were professional in medical healthcare. Table 19 illustrated the information on the top management team, whereby out of 11 Directors, 8 Directors are from JCorp Group with vast professional management skills and 3 with a medical background. Also, it was noticed that mostly have long professional experience with vast knowledge in their specialised field. Additionally, cross-directorship was also observed, whereby two were from the JCorp headquarter namely Zainah Musa and Ahamad Mohamad. Based on the record, Zainah Musa start her career with JCorp since 1978 and rose through the ranks to become the Group Chief Financial Officer before retiring on 31 October 2002. Meanwhile, Ahamad Mohamad is currently the Managing Director of Kulim Malaysia Berhad and he joined JCorp in 1976. Both also held another directorship position within the JCorp Group. Many of the Directors also was holding various position at JCorp's Group Corporate Governance Committee including Audit Committee, Group TERAJU as well as the Nomination & Remuneration Committee. At the same time, some were holding cross-directorship within the KPJ Group. In sum, there is active coordination across the JCorp Group and strong inter-firm network was observed.

Moving forward, medical tourism in Malaysia is expected to generate almost MYR2.0 billion in 2020 through more than 1 billion medical tourists.³⁷ Majority medical tourists are from Indonesia, China, Myanmar, and Vietnam as this are the new focus markets. The existing market includes Middle East, UK, Australia, Bangladesh, Japan and Pakistan. Among the medical services that get the highest demand in Malaysia are cardiology, orthopaedic, oncology, neurology, dental, and cosmetic surgery. The marketing strategy of Malaysian medical tourism also shifted to high-value customers by offering niche medical treatment to increase average income derived from each medical tourist. The MHTC formed in 2009, has identified four key focus markets to aggressively promote Malaysia's medical

³⁷ Malaysian News Online, April 2017 – Minister of Health Malaysia.

tourism industry. The promotion efforts have proven to be effective with the growing number of medical tourists to Malaysia. According to the statistics, medical tourists to Malaysia are mostly from Indonesia, India, China, Japan, and the United Kingdom. Additionally, long-term initiatives underlined for the sector is the continuous branding of medical tourism via campaigns such as “Malaysia Love You and Share My Love”. Malaysia’s affordable and excellent healthcare services have attracted many medical tourists to Malaysia.

Figure 15: Group Corporate Structure KPJ 1999



Source: Johor Corporation Annual Report 1999, Malaysia.

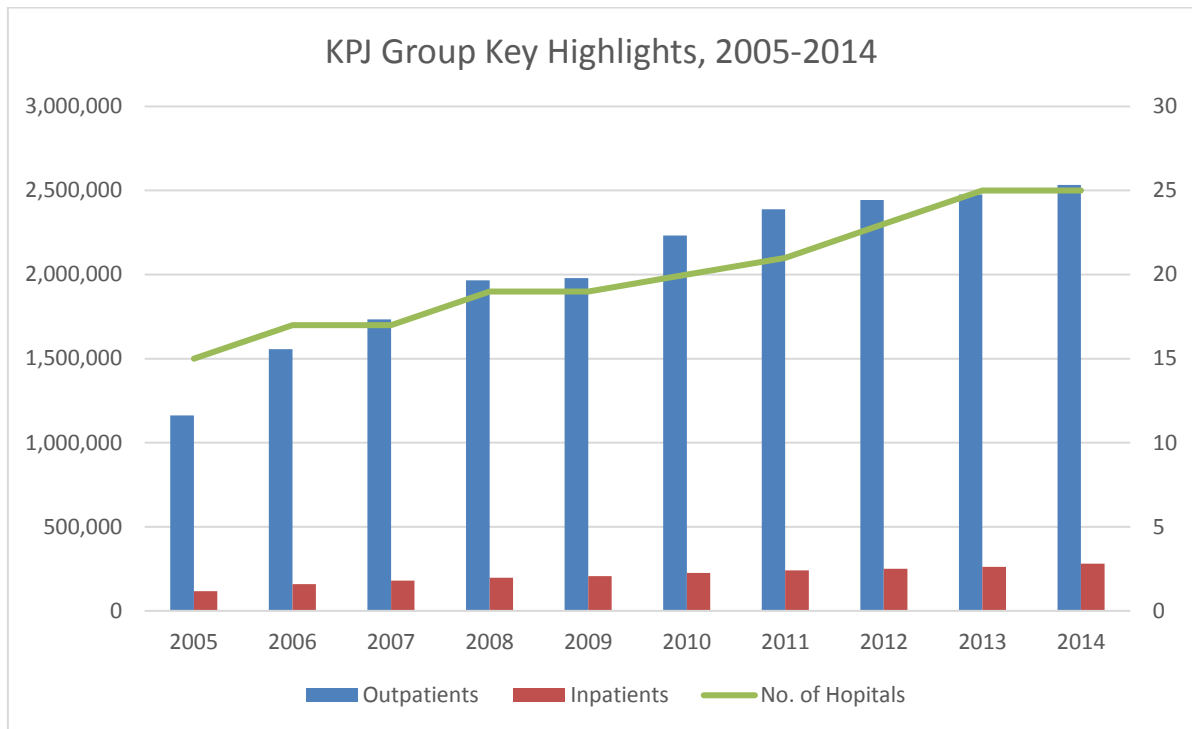
As shown above, KPJ Healthcare already operates with high-quality medical specialists, amenities, and good care providers, enabling the establishment to make a name for itself. Since Johor Specialist is the first hospital, it set the ball rolling and has become a business model for the Group. KPJ is supported by subsidiaries and associates companies that provide related services, such as central procurement, lab services, and manpower for its specialist hospitals network. This allows the Group to leverage on the strength as “cash-generating business” and enjoy economies of scale with 25 hospitals under its Group. From the analysis, it was noticed that the Group’s performance in term of profit and turnover is on the increasing trend as highlighted by Figure 17 and Table 18, except for the year 2013 it showed a sharp declined of profitability. The lower profit before tax in 2013 stemmed from the start-up losses of newly operating hospitals and higher operating cost incurred (KPJ, 2013, p.28). Meanwhile, Figure 16 and Table 17 show data on the total number of patients treated for a period from 2005-2014.

Table 17: KPJ Hospital’s Operating Performances (Malaysia), 2005-2014

Year/Units	Outpatients	Inpatients	No. of KPJ Hospitals	Occupancy Rate (%)	No. of beds
2005	1,162,585	117,539	15	-	-
2006	1,556,172	158,412	17	-	-
2007	1,733,500	179,227	17	-	-
2008	1,966,303	196,291	19	-	-
2009	1,978,669	206,907	19	-	-
2010	2,231,992	225,936	20	71	2,209
2011	2,388,205	240,923	21	69	2,496
2012	2,444,308	249,955	23	63	2,566
2013	2,475,371	261,697	25	66	2,714
2014	2,533,882	280,648	25	69	2,851

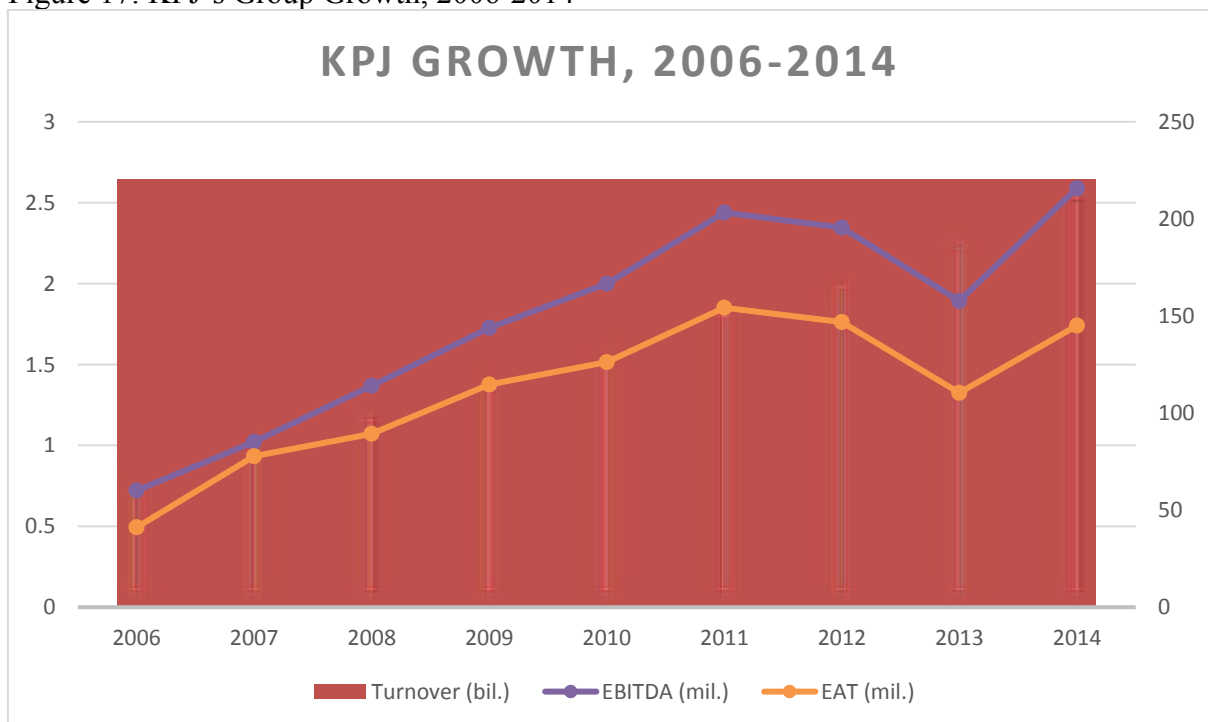
Source: KPJ Annual Report, 2005-2014. Table prepared by the author.

Figure 16: KPJ Group Key Highlight, 2005-2014



Source: Table and figure by the author, compiled from KPJ Annual Report 2014 & 2009.

Figure 17: KPJ's Group Growth, 2006-2014



Source: Graph by the author. KPJ Healthcare Annual Report 2012 and 2014.

Table 18: KPJ's Group Growth, 2006 - 2014.

Year	Turnover (MYR billion)	Profit before Tax (MYR million)	Profit after Tax (MYR million)
2006	0.83	60.06	41.12
2007	1.11	85.26	77.79
2008	1.27	114.05	89.31
2009	1.46	143.89	114.74
2010	1.65	166.69	126.22
2011	1.91	203.29	154.26
2012	2.09	195.58	146.79
2013	2.33	157.73	110.37
2014	2.64	215.81	145.13

Source: Table by the author, KJP Healthcare Report 2012 and 2014.

Table 19: KPJ's Group Board of Director, 2014

Name	Role	Background	Total Experience (years)
1. Kamaruzzaman Abu Kassim	Chairman	President & CEO of JCorp Group Also, Chairman of KPJ, Chairman of Kulim, Manager for Al-Aqar Healthcare REIT, Chairman of Johor Land Berhad, Chairman of QSR Brand and Wakaf An-Nur Corp.	24
2. Amiruddin Abdul Satar	President & Managing Director	Also, holds directorship as Chairman in several KPJ hospitals.	23
3. Aminudin Dawam	Non-Independent (NED)	Also, Member of the KPJ Board Tender Committee,	27

4. Siti Sadiyah Sheikh Bakir	Non-Independent (NED)	Also, Chairman and Pro-Chancellor of KPJUC, Also, holds directorship as BOD Members in several JCorp companies. Director of Kulim (M) Bhd, Director of CCM, Manager for Al-Aqar Healthcare REIT and Al-Salam REIT.	41
5. Zainah Mustafa	Independent (NED)	Also, Chairman of KPJ Audit Committee	35
6. Zulkifli Ibrahim	Non-Independent (NED)	Also, Chairman of KPJ Board Tender Committee	24
7. Azzat Kamaludin	Independent (NED)	Also, Members of Audit Committee, Nomination & Remuneration Committee	42
8. Dr Yoong Fook Ng	Independent (NED)	Chairman of Medical Advisory Committee KPJ	46
9. Ahamad Mohamad	Non-Independent (NED)	Also, Chief Executive of Palm Oil Division of JCorp, MD of Kulim (M) Berhad & Chairman of EA Technique (M) Berhad	36
10. Dr. Kok Chin Leong	Independent (NED)	Also, Member of Audit Committee & Chairman of KPJ Clinical Governance Policy Committee, Advisor for KPJ's Clinical Information System	26
11. Prof. Dr. Azizi Omar	Independent (NED)	Also, Member of KPJ's Medical Advisory Committee, Senate & BOD of KPJ Healthcare University College, Head of KPJ R&D Committee	17

Note: NED – Non-executive Director.

Source: Compiled by the author from JCorp and KPJ Annual Report 2014.

Table 20: List of Main Subsidiary and Associated Companies for KPJ Group

Name of Company (27)	Principal Activities	Country Incorporated	Group Interest (Equity %)	
			1995	1994
Kumpulan Perubatan Johor S/B	Investment Holding & specialist Hospital Management	Malaysia	100.00	100.00
KPJ Healthcare Berhad	Investment Holding	Malaysia	57.98	57.98
Johor Specialist Hospital S/B	Specialist hospital	Malaysia	57.98	57.98
Medical Assoc. S/B	Specialist hospital	Malaysia	57.07	57.08
Pusat Pakar Tawakal S/B	Specialist hospital	Malaysia	84.46	64.50
Kuantan Specialist Hospital S/B	Specialist hospital	Malaysia	70.59	72.50
Sy. Perubatan Utara S/B	Specialist hospital	Malaysia	33.00	33.00
Medical Centre (Johore) S/B	Specialist hospital	Malaysia	96.15	100.00
Puteri Specialist Hospital S/B	Specialist hospital	Malaysia	100.00	100.00
PT Selasih Husada Pertama	Specialist hospital	Indonesia	64.00	-
Rumah Sakit Ananda	Specialist hospital	Indonesia	100.00	-
Damansara Specialist Hospital S/B	Specialist hospital	Malaysia	80.00	80.00
Seremban Specialist Centre S/B	Specialist hospital	Malaysia	100.00	100.00
Bayan Baru Specialist Hospital S/B	Specialist hospital	Malaysia	55.00	100.00
Hospital Penawar S/B	Specialist hospital	Malaysia	30.00	-
Maharani Specialist Hospital S/B	Specialist hospital	Malaysia	100.0	-
PT Medika Bumi Serpong Damai	Specialist hospital	Indonesia	75.00	-
Ipoh Radiotherapy S/B	Radiotherapy services	Malaysia	57.98	57.98
Ipoh Computerised Tomography S/B	Diagnostic x-ray services	Malaysia	57.98	57.40
Lablink (M) S/B	Lab and pathology services	Malaysia	51.00	51.00
Renalcare Perubatan (M) S/B	Haemodialysis services	Malaysia	40.59	40.59
Tawakal Holding S/B	Investment holdings	Malaysia	100.00	100.00
Puteri Nursing College S/B	Nursing college	Malaysia	100.00	-
Open Access Sports Injury Services S/B	Treatment services for sport injury	Malaysia	100.00	100.00
Malaysia Inst. of Healthcare Management S/B	Institute of healthcare management	Malaysia	74.90	74.90
Sesama Medical College S/B	Medical college	Malaysia	14.67	20.00
Malaysian retirement Home S/B	Retirement home	Malaysia	100.00	100.00

Source: JCorp Annual Report 1995, p.187. (data as at 30 June 1996)

4.5.3 International Expansion of KPJ Group

Moving forward, KPJ Group had ventured successfully into overseas markets. As far as international activities were concerned, back in 1995, the Group acquired Rumah Sakit Selasih in Padang, West Sumatera and Rumah Sakit Medika Permata Hijau in Jakarta of which both were in Indonesia. While in 2004 it signed an agreement to provide technical and consultancy services to the United Hospital in Dhaka, Bangladesh. KPJ was entrusted with three posts in the new hospital namely Chief Executive Officer, Chief Nursing Officer and Chief Financial Officer. Later, the hospital was managed by KPJ from 2006 to 2010. After, at the end of 2013, KPJ entered into a joint-venture with the Nation Bangabandhu Sheikh Majubur Rahman Memorial Trust to manage the Sheikh Fazilatunessa Mujib Memorial KPJ Specialist Hospital in Bangladesh. For this, KPJ will act as the hospital operator via its nominee company KPJ Healthcare (Bangladesh) for a 10 years lease contract with 250-bed capacity at a cost B2.15 billion taka (MYR87.5 million) (Dhaka Tribune, 2013). Also, some top management position will be hold by personnel from KPJ as well as provide specialised doctors, nurses, and technicians to serve at the hospital along with local doctors and medical team (Ibid).

This initiative will provide KPJ with a hands-on experience as a new player in the Bangladeshi healthcare industry. Analysing the market prospect, with a population of 160 million or 1,142 people per sq.km, it was estimated that 60,000 doctors, 280,000 nurses and 483,000 technologists are needed in Bangladesh's healthcare industry (The Sun Daily, 2013). According to the World Health Report (2006, p.74), it has ranked Bangladesh among 57 countries with a serious shortage of doctors, paramedics and nurses. Presently, a significant number of Bangladeshi seek treatment abroad or neighbouring countries with a spending estimated at US\$500 million (MYR1.6 billion) annually (Ibid). KPJ Healthcare has recognised that the doubling of Bangladeshi visit Malaysia for medical treatment recorded a total number of 11,589 in 2012 compared to 2011, reflect a good opportunity to stake its presence in Bangladesh (The Star, 2013).

Next, followed by the building of Rumah Sakit Bumi Serpong Damai in Jakarta (2005). Then in 2006, KPJ Healthcare Berhad signed an MOU during the 2nd World Islamic Economic Forum in Islamabad, Pakistan to provide nursing and healthcare staff training to Pakistan, Bangladesh, and Indonesia. Furthermore, the Group's reputation in nursing also

saw its expertise in this field is in demand particularly from OIC (Organisation of the Islamic Conference) countries. In February, it seconded a Chief Nursing Officer as well as nursing staff to the new Jeddah Clinic Hospital (NJCH) in Saudi Arabia. Analysing on how the group promote its services and exploring the potential abroad, it was noticed that back in 2006, KPJ showcasing its capabilities at several international trade fairs and expositions. Among the event participated includes the Arab Health Expo in Dubai, UAE, International Medical Expo in Medan, Indonesia and a Trade Mission to Cambodia.

Meanwhile, in 2012 KPJ Healthcare had acquired a substantial stake of 23% in Vejthani Hospital in Bangkok, a multi-specialty private healthcare provider. The investment had cost a total of MYR63 million and expanded the KPJ's reach within ASEAN healthcare market. The Vejthani Hospital is famous for its specialty in orthopedic treatment and have a capacity of 500-bed and registered around 300,000 patients annually. And, its share of international patients coming from 40 different countries worldwide. This strategy is seen to further grow KPJ's medical tourism segment and targeted to raise the revenue contribution from the segment to 25% by 2020. Also, the potential profit contribution from Vejthani Hospital is expected to enhance KPJ Group's earnings in the future.

The recent portfolio investment embarked by the Group is on a retirement and aged care resort known as Jeta Garden in Brisbane, Australia. Initially, KPJ was invited to invest in Jeta Gardens as the Group is well-known for its wide experiences and knowledge in the healthcare industry as well as strong financial performance. The moved was finalized back in September 2010 by acquiring 51% stake in Australia – Jeta Gardens Waterford Trust (JGWT) for MYR19 million via internally generated fund. In 2014, KPJ increased its share of circa 57 percent in Jeta Gardens, an aged care and retirement resort village facility on a 64 acres land area (KPJ 2014, p.120). Even though, it was reported that Jeta Garden was operating at a net loss of A\$3.1 million (MYR9.1 million) in FY2009 ended 30 June (The Edge, 2010). However, KPJ expects Jeta Gardens to become profitable in the coming year since their losses are largely due to the high finance charges and still in the gestation period. KPJ sees a huge opportunity for grow by investing in Jeta Garden of which had been in operation less than four years. Currently, the retirement resort offers 65 independent living units comprising 33 villas and 32 apartments, which are leased out to retired residents on a pre-paid long-term arrangement. Also, offering 108 beds for the Aged Care facility in Jeta Garden and providing residential care for persons, including former residents of the

retirement village, who are no longer capable of living independently. The Facility is projected to expand with an additional 70 beds when a new building is completed in 2015.

Based on research, the motive behind the acquisition is to provide the opportunity for KPJ to learn the business model on managing a retirement home. Generally, in Malaysia, the retirement homes are mostly owned by private companies or charitable organization. As such, KPJ plans to replicate the Australian model of retirement home for domestic market (The Edge, 2010). Soon after, in 2012, a brand new and the first Jeta Care Aged Centre was opened in Kulai Jaya, Johor. Known as “Jeta Care”, it aims to provide professional senior care services with a range of compassionate and caring services to a multi-cultural community in Malaysia (The Edge, 2010). It also deemed to attract market from the neighbouring countries such as Singapore and Indonesia since the management style will combine the best in Western practices with adaptation to the local culture and values. The Group affirms on their long-term plan to set up a chain of Jeta Care throughout Asia Pacific region. Moreover, analysing the strategic decision taken by KPJ Group on this investment, it considered also to be motivated by the high current occupancy rate, and anticipated growth in demand as the population of senior citizens aged over 65 years in Australia would increase over the next 40 years from 3.6 million in 2014-2015 to 8.9 million in 2054 – 2055. It could be considered as a long-term strategy for the JCorp Group to sustain its medical division.

Interestingly, KPJ also launched the first Islamic Healthcare REIT in 2006 known as Al-Aqar Healthcare REIT. The REIT owns most of KPJ Hospitals in Malaysia. To move forward with more acquisition, expansion, and building upgrades position, KPJ as leading healthcare group in Malaysia, the Group require a huge amount of capital and to strengthen further its financial standing. For this, KPJ via its subsidiary Al-Aqar Capital Sdn Bhd introduced the third REIT exercise in December 2008 and managed to unlock further MYR292 million worth of funds. This REIT exercise brings the total amount of market capitalization close to MYR1 billion and property value of MYR1.5 billion.

The Group performance in the capital market deemed to be attractive as compared to others regional players as illustrated in the table 21 below. From the data, in 2009, KJP’s ROE of 18.2% was above the average mark of 14.3% (TA Securities, 2010). KPJ is expected to have the positive momentum to grow further as targeting to open at least one new hospital per annum either through greenfield projects or acquisition of established hospital.

Table 21: KPJ Valuation as compared to Regional Peers

Company	Home Country	Market Capitalization (MYR billion/ 2012)	P/E Ratio (2012)	FY2009 ROE* (%)
KPJ Healthcare Berhad	Malaysia	3.71	23.7	18.2
Bangkok Dusit Medical Service	Thailand	15.33	22.4	12.9
Bumrungrad Hospital	Thailand	5.42	31.1	24.1
Bangkok Chain Hospital	Thailand	1.81	23.9	24.6
Fortis Healthcare Ltd	India	2.23	54.2	4.7
Raffles Medical Group	Singapore	3.39	25.3	16.1

Source: Table by the author, compiled from MIDF Report (forecast-30 July 2012, p.3); and *TA Securities Report (p.8) based on Bloomberg (30 Nov 2010).

4.5 Analysis and Discussion

JCorp has a proven track record with successful business divisions and subsidiaries ranging from healthcare, industrial development, agro-business, property and heavy industry. Such magnitude and diversification are the epitome of a successful public enterprise. The Group had adopted and adapted various business strategies to ensure its success. This is a common approach by major corporations which aims to move towards financial autonomy. The President once said that “the Corporation hence not to adopt an interventionist attitude or take a privileged standpoint” being a state enterprise with some privileges.³⁸ JCorp celebrates its 40th anniversary in 2010, which marks a new advent of corporate maturity for the Corporation. JCorp started its operation on 1st July 1970 with MYR10 million loans from the State Government of Johor. Since then, it has transformed into a diversified market-driven state corporation with four public listed companies (PLCs) worth over MYR16 billion of total market capitalization (JCorp, 2014). From the data above,

³⁸ Paper by the President and CEO of JCorp in March 1988, “A Public Enterprise’s Role and Achievements”.

it was noticed that JCorp venture into international businesses activity spread through several regional Europe, the USA, ASEAN, Africa, Asia and Australasia. The mode of entry took various form such as joint-venture, OFDI, franchise licensing as well as equity shareholding.

As in the case of Kulim and Sindora, both companies embarked on ODFI long before in the 1970s. Kulim is seen gaining more experiences internationally since it had involved in several businesses in various regions including European, Africa and Asia. The engagement is through varieties of approaches namely equity holdings, acquisition, and joint-venture with foreign partners. This was also the same approach and scenario for Sindora's international expansion. Among the major reasons for their internationalization includes strategic marketing, market expansion and securing raw materials. For example, for the case of its investment in Warren Plantation, JCorp aimed to leverage on the marketing network under its foreign subsidiary and as such further its stake by acquiring up to 51% equity at the end of 1993. Meanwhile, as for Sindora, most of its expansion with Indonesian companies are with the objectives to secure supply of raw material such as timber and timber products. Also, it had been discovered that JCorp also entered into two joint-ventures via master franchise licensing with the Medicine Shoppe International in 1991 and subsequently with Duraclean Inc., USA in 1997. Both are unrelated segment whereby one in pharmaceutical and the other is in commercial office cleaning services adding to the Group diversification strategy. As JCorp was awarded the master franchiser licensing, the Group could expand and open the outlets in ASEAN region.

On the other hand, KPJ Healthcare Berhad continued to expand its capacity and range of healthcare services from just one hospital to currently 25 hospitals in Malaysia under the Group registering a year-on-year growth of 7.5 % to reach MYR2.71 billion in 2015. On top of that, the Group successfully trained 11,626 personnel in 2014, with 5,233 professional manpower. This is mainly driven by the inorganic growth from existing operations and increasing activities at their new hospitals. KPJ Group has come a long way from its beginning from a single hospital 34 years ago to one that currently operates Malaysia's largest network of private specialist hospitals with a presence in almost every state in the country and foreign investments in Indonesia, Australia, Bangladesh, and Thailand. As the medical and healthcare businesses progressing since 1981, the Group have made a long-term vision to expand into another region as well as becoming a global player

after building the needed skills and expertise in the local market. This helps to build the company's brand name and reputation. Moreover, the factors that facilitate the internationalization of JCorp are strong in-house capabilities, financial power, sharing a similar culture and religious values as in the case of their operation in Indonesia and Bangladesh, gaining customer trust and ideal brand. KPJ expansion and business strategies were designed to meet the growing demand for quality healthcare not only from local citizens but also from health travellers who come afar to seek treatment as well as the Group's know-how in the industry.

This case study dismisses common economic theories that assumed MNCs are from developed countries and that the host is from developing countries. Findings from this research showed that developing countries could produce MNC and this MNC can be successful both in developed and developing countries. Additionally, this study led to the need for a new approach to studying SOE's from emerging countries as well as to enrich the economic theory on FDI. Mazzolini (1979) in his research came to a conclusion about the behaviour of public enterprise, further elaborate that those public enterprises with extensive multinational objectives would naturally develop a suitable procedure for an international operation which in turn leads to greater efficiency.

CONCLUSION

In recent years, there are upsurge trend, focus and study related to the performance of SOEs globally. As the world slipped into crisis in 2007 and dragged until 2008, state capitalism apparently took the global business by storm, particularly in the emerging economies. Contemporary academic papers are focusing on this issue with a high concentration on SOEs from China (Hua Li et al., 2015), as they have the larger number of state-entities. And today, state capitalism operates mainly in two models as SWF or as minority-owned but with a controlling stake and power in making decisions on behalf of all shareholders. Nonetheless, along the ways, there are many curiosities rose by various parties' due to an absence of transparency and deep concerns about the ultimate goals of state-linked entities (WIR 2009, p.29). Despite the fact that, the majority of SOE were entrusted with multiple role and objectivities which not only for profit maximisation but similarly other meaningful social or non-business objectives.

The same situation also occurred in Malaysia, whereby public consciousness and sceptical on the role played by SOE or public enterprises have been long dominated and also poor track records as often highlighted by the media. The majority of their failure was due to mismanagement and lackluster performances, hence these failures have resulted in generalization of judgement and persistently be clouded by the negative impression on SOEs status even some public enterprise proved to be successful and high performing. Furthermore, after the privatization era promoted by the European and advanced countries, there is a tendency to be more and more influenced by the subscription to the belief for deregulation and minimum governmental involvement in economic and business affairs. Also, some developed nations pledge strongly to the notion that governments have in the first place no business to be in business. Due to this universal trend of non-performing SOEs and more critical opinions established by scholars, international institutions and business community, greater attention is, therefore, being focused on SOE operation and activities due to shifting in outlook and international opinion. However, it must be differentiated in the way that SOE is difference from others government agencies or state enterprises that established for other reasons than business purposes such as managing public monopolies, enhancing regional development or for narrower or clearly defined objectives of promoting

certain sectors like heavy industries, automotive industries or food industries. Apparently, there are two narratives on SOE, one is about “continuous transformation, and the other is about learning” (Musacchio and Lazzarini 2014), and both deemed to be valid for this case study. As this study attempt to shed lights on contemporary SOE three research questions have been developed namely, *what are the distinct characteristic of JCorp as an SOE and specifically on how the corporation promotes entrepreneurship; did JCorp adhere to their objective and mandate of establishment; and why and how JCorp pursues internationalization.*

As the illustrate above, JCorp as an SOE operate in both socio-political goals and market condition, as well as with dual ownership public and private, hence it can be concluded that JCorp characteristic as a hybrid organization. JCorp was established as a development agency to the State of Johor in the post-independence period when the economic situation is weak and huge wealth imbalances among ethnicity in the country is observed. As presented in earlier chapter, JCorp is a **Corporation** with dual roles, first as SOE and second, as a commercial entity and operates through a business group formation. Based on the analysis, as early in the 1970s, JCorp performed indirect investment in the United Kingdom, Trinidad and Tobago; and Nigeria through its subsidiary Kulim (M) Berhad. It was noticed that, JCorp then overtook the control of this British company and transformed as a local company in Malaysia. The same fate was observed for a plantation land under the Barlow Boustead Estates Agency when the change of ownership occurred in late 1969 during the decolonization era.

Next, as the nation progressing toward industrialization country, JCorp played major role as a catalyst for Malaysia’s economic development especially for the southern region by encouraging FDI inflow as well as domestic direct investment to Johor State through various commercial projects. As outlined in the Constitution, JCorp performed its main role among others is to promote social and economic development for the State. Also, the Corporation were tasked to eradicate poverty, restructure society and improved Bumiputra’s participation in economic activity. Thus, base from the case study, JCorp serve as a vehicle for ethnic policy under the New Economic Policy, an affirmative action policy introduced by the Federal Government in 1970. It can be concluded that, JCorp’s *raison d’etre* is best described as a development and investment agents, a vehicle for taking over colonial company and transfer of ownership, as well as serving as implementing agency for

ethnic policy in the decolonization era. And for these two roles is only relevant at the early phase of post-independence. As the country's economy pick up and the growth momentum soaring, the role as agent for development and as an investor, both domestic and foreign is more appropriate for JCorp. This situation can best be described as the intermediate evolution period for corporate development. Moving toward the recent millennium era, JCorp is seen to be more active for internationalization in a larger scale via strategic expansion.

JCorp performed many different functions and duties to realized its purposes of the establishment from the very first day. Although, JCorp as a business entity, the Corporation's first duty is to make profit and create values, but profits alone are not the ultimate or the sole target to be achieved. It can be classified under three main objectives to be fulfilled by JCorp which includes managing the Corporation as a business entity, Development agency for the State and revitalising the Bumiputera business community. For the first role as a business enterprise, it is no different from other business entity anywhere as such to profitably manage assets, accumulate wealth and sustaining the businesses. Secondly, JCorp did play important role in the development of the State particularly in preparing the needed infrastructure such as public facilities, business complex, and industrial estates, residential area as well as the local port. In 1996, Johor represented approximately 60 % of FDI received by Malaysia, thus making the State as important and leading industrial state.³⁹ Additionally, Johor recorded the highest growth rate of 14.4 % compared to the national growth rate at 10.3 per cent in 2014. Also, registered the mean monthly household income of MYR6,207 above the national level of MYR6,141 during the same period.

It has been challenging for JCorp in performing the third role based on the analysis conducted over the four decades. JCorp as revitalising the Bumiputera community through the corporate approach has a tough time to achieve this objective, the developing societies and the social system of the twenty-first century known as *societies of an organization*. Nonetheless, throughout its 40 years of operations, JCorp has successfully built an organisation with a total workforce of more than 60,000 employees with five companies listed on Bursa Malaysia, and 379 Directors within the group. Tremendous efforts were made to educate the Group entrepreneurs and professionals, and ultimately, they have been

³⁹ Hashim 1996, Ethics for Profits: The Challenges Ahead, Conference of Malaysian Professional, Paper 2 p.5.

regarded as positive corporate habits, through the enhancement of knowledge and skills, productive networking, sharing of experience and management expertise attained from the on-job training. As at 2014, JCorp owns 279 companies in diverse business sectors incorporated under a single umbrella. Its business interests are located not only in Malaysia but also in other regional territories. Hence, it appeared that the Group had managed to coordinate and manoeuvre the business operation with bureaucracy of the government regulations, as well as promoting and sustaining entrepreneurship elements in the Group-wide operation.

The millennium SOE is no longer participating only in the domestic market, but also expanded overseas. As for JCorp, the historical context imbedded within the organization provided an impetus for its internationalization. Since the beginning, back in the 1970s, JCorp was actively engaging in internationalization through indirect investment, joint-venture, merger and acquisition, as well as green field investment. Obviously, as the Corporation grows, over the years, JCorp Group have been struggling to improve on a continuous basis, accelerating from point zero to higher level. All these factors, are illustrated by the case of Kulim (M) Berhad, Sindora and KPJ Healthcare Berhad. While the Group's business segments are managed on a worldwide basis, but only the main subsidiary involved in the international businesses such as Kulim in plantations, Sindora in Intrapreneur ventures businesses, QSR Brand in food and restaurant services, and KPJ in the healthcare sector. From the analysis, several factors have been identified in contributing the situation as the push factor for internationalization of JCorp namely, the know-how and reputation, resource dependency, strong local capabilities, and financial independence.

This study is not without limitation, since the availability of data and time frame are limited. It only focusses on JCorp and its Group companies hence not considering the other external factor such as crowding-out effect or examines in detail the aspect of finance and investment distribution within the Group. One possible area is to have a deeper understanding of the Islamic personality of top leaders in JCorp Group and their attributes. Also, to further study the inter-firm and the power relationship as well as synergy impact on the Group with a highly-diversify business operation. Additionally, analysis on the financial aspects between JCorp and its subsidiaries on decision-making process related to capital allocation, restructuring assets and divestments could be considered for future work employing an additional methods such as empirical testing, interview and questionnaires.

Annex I - Data on Employees of JCORP, 1970-1990

Year	Number of Employees	Attend Training	Training Cost
1970	2	-	-
1971	17	-	-
1972	94	1 (fellowship training in Bangkok for 2 months)	-
1973	187	2 (study leaves for 3 years in England, Civil Engineering and Mechanical Engineering)	-
1974	273	3 (study leave for Holland and England in Project Analysis, ICMA and Architecture. 1 (short-term study: Georgetown University Law Centre)	-
1975	188	-	-
1976	190	-	-
1977	213	-	-
1978	236	-	-
1979	246	-	-
1980	278	24 (internal and external training)	-
1981	283	27 (internal and external training)	-
1982	322	27 (internal and external training) 4 officers (short-term study: University of Bradford, Asian Inst. of Management, Manila and Harvard University)	-
1983	348	29 (internal and external training)	-
1984	370	76 (public admin, land management, productivity & quality)	-
1985	434	-	-
1986	469	-	-
1987	485	-	-
1988	559	1,088 (internal training) 71 (external training)	107,862 7,132
1989	586	1,593 (internal training) 143 (external training)	120,433 19,970
1990	668	1,935 (6 – full time study leaves)	451,958.20

Source: Table by Author data from Annual Report JCorp. (RM / exchange rate: RM3.30=US\$1).

Annex II - JSEDC Fixed Assets and Profits, 1971-2000

Year	Total Assets	Profits
2000	-	2,380.0
1999	-	56.30
1998	-	(439.20)
1997	-	(324.75)
1996	7,507.0	279.29
1995	5,403.0	361.04
1994	3,633.0	302.90
1993	2,901.0	226.20
1992	2,528.0	145.00
1991	2,302.0	167.40
1990	1962.0	154.90
1989	1322.6	117.99
1988	1115.9	99.83
1987	1010.4	51.98
1986	975.8	27.82
1985	981.1	45.55
1984	795.0	81.05
1983	753.5	40.40
1982	684.9	34.78
1981	451.8	22.54
1980	356.0	13.16
1979	235.0	10.81
1978	198.8	9.97
1977	161.3	5.15
1976	124.8	1.84
1975	84.7	2.54
1974	57.7	1.21
1973	26.4	1.76
1972	15.5	0.50
1971	6.5	0.27

Source: Table by Author data from Annual Report JCorp. (RM million / exchange rate: RM3.30=US\$1)

Annex III - Inflation Rate in Malaysia, 1970-2014

YEAR	INFLATION RATE	YEAR	INFLATION RATE
1970	1.8	1993	3.5
1971	1.6	1994	3.7
1972	3.2	1995	3.5
1973	10.6	1996	3.5
1974	17.3	1997	2.7
1975	4.5	1998	5.3
1976	2.6	1999	2.7
1977	4.8	2000	1.5
1978	4.9	2001	1.4
1979	3.7	2002	1.8
1980	6.7	2003	1.0
1981	9.7	2004	1.5
1982	5.8	2005	3.0
1983	3.7	2006	3.6
1984	3.9	2007	2.0
1985	0.3	2008	5.4
1986	0.7	2009	0.6
1987	0.3	2010	1.7
1988	2.6	2011	3.2
1989	2.8	2012	1.6
1990	2.6	2013	2.1
1991	4.4	2014	3.2
1992	4.8		

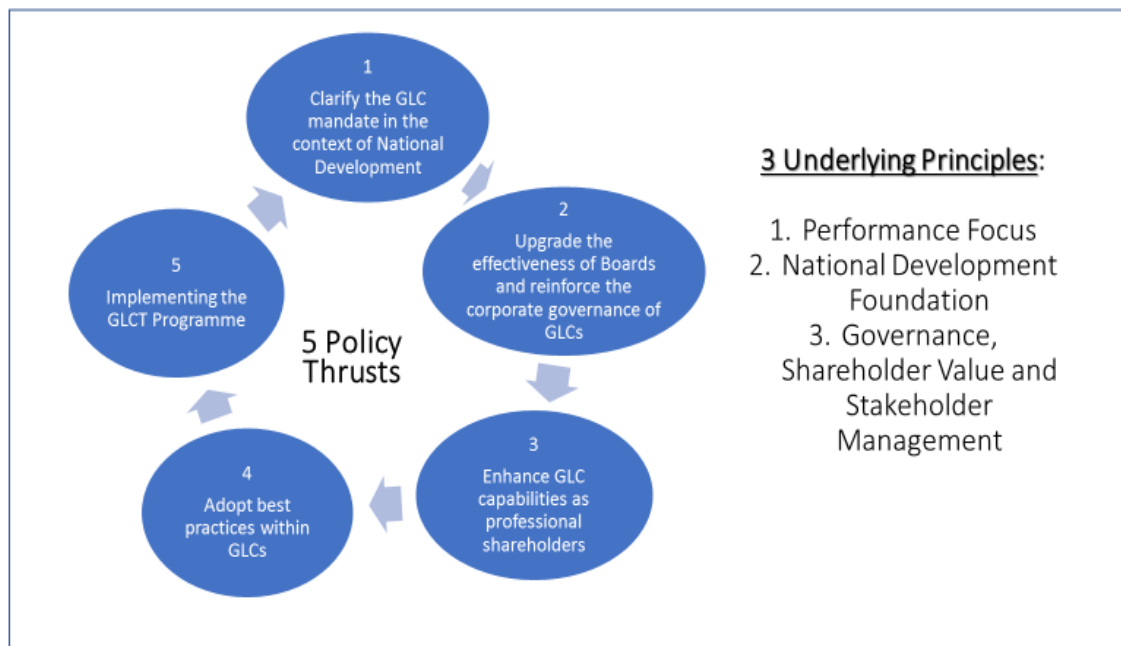
Source: Table by the author. Data from The World Bank.

<http://www.theglobaleconomy.com/Malaysia/Inflation/>

Note:

The average inflation rate for Malaysia between 1970-2014 is around 3%, except for the year 1973-10.6 and 1974 17.3%, calculated as percentage change in the consumer price index. Data on inflation rate from 1970-2014 is shown in Annex XZY.

Annex IV (A): GLCT Programme's 3 Underlying Principles and 5 Policy Thrusts



Source: Graph by the author adopted from GLC Transformation Programme Manual, 2005

(B): The GLCT Programme in Malaysia

2004	2005	2006	2007	2010 - 2015
Phase 1		Phase 2	Phase 3	Phase 4
Measures: • Key Performance Indicators (KPI) • Performance Linked Compensation (PLCs) • Performance contract • Board Composition reform • Revamp of Khazanah • GLC Leadership Changes		Launched: The Transformation Manual- • Policy Guidelines • Ten Initiatives Key policies endorsed and executed.	Tangible and sustain benefits across CGLCs and visible benefits to all stakeholders.	Full National Benefits with several regional champions.

Source: Graph by the author, adopted from GLC Transformation Programme Manual, 2005

Annex V – The 10 GLCT Initiatives

<u>Green Book</u> Enhancing Board Effectiveness	<u>MINDA</u> – Malaysian Directors Academy Strengthening Directors Capabilities
➤ Raise overall effectiveness of boards & structuring a high-performing board	➤ Equip boards with world class knowledge, mindset and skill to perform at consistently high standards.
➤ Consistent with Malaysian Code of Corporate Governance, Bursa's Listing Requirements	➤ Programmes designed to provide on-the-job learning and coaching
<u>GLIC M&M</u> Enhancing Management & Monitoring Functions	<u>WHITE BOOK</u> Creating Value Through Regulatory Management
➤ Reinforce ability of GLICs to monitor and manage GLCs towards value creation	➤ Improve regulatory environment by encouraging best-practice engagement amongst GLCs, policy makers, regulators and other key stakeholders
➤ GLICs approach dependent on its mandate and investment strategy	➤ Building regulatory management capabilities, and develop strategic regulatory mindset by working together with industry stakeholders

<u>SILVER BOOK</u>	<u>RED BOOK</u>
Achieving Value Through Social Responsibility	Reviewing and Revamping Procurement Practice
➤ Guidance for GLCs to be socially responsible companies and to support national development agenda	➤ Enhance the effectiveness and efficiency of the procurement practice in GCLCs
➤ Clarifies expectations on GLCs contribution to society and provides GLCs with comprehensive tools, methodologies and process to proactively contribute to society	➤ Increasing GLCs procurement value creations through clear specific levers and initiatives, ➤ Supporting national development through use of local content and Bumiputera equity share of the economy.
<u>PURPLE BOOK</u>	<u>ORANGE BOOK</u>
Optimising Capital Management Practice	Strengthening Leadership Development
➤ GLCs to optimise their capital structure using the 4-step cash flow analysis method	➤ Sets out practical guidelines to institutionalise good leadership development practice ➤
➤ Improve capital efficiency and outlines the strategy for capital structure capitalisation	➤ Leadership and talent development must flow from the business strategy and leadership development is a holistic system not just a process.

<u>BLUE BOOK</u>	<u>YELLOW BOOK</u>
Intensifying Performance Management	Enhancing Operational Efficiency and Effectiveness
➤ Improve the financial and operational performance of all CGLCs by intensifying performance management	➤ Inculcate mindset for continuous improvement at GLCS using the Framework for Continuous Improvement (FCI)
➤ Tightened performance accountability and focus on key business priorities. ➤ Attract and develop talent, and establish a reward for performance culture	➤ Highlights the internal and external operational improvement options.

Source: Adopted from the Report on GLCT Programme Progressive Review 2012, p.16, published by the PGC Secretariat.

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