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State-Owned Enterprise (SOE): The Role of SOE Entrepreneurship in Nation-Building Efforts, 1970-2014

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Since the early twentieth century, the study of entrepreneurship has been inspired by the Schumpeterian concept of entrepreneurship as innovator as well as an agent of change in the economy. Many emerging economies, particularly in Asia, established state-owned enterprises (SOE) as a national development strategy. Today, many SOEs operate using a variety of approaches and play active roles, including as cross-border investors. There are several SOEs in Malaysia at the federal and local government levels. This paper analyses the reasons for these SOE's outstanding performance, focusing on the relationship between SOEs and entrepreneurship, the role of SOEs in cultivating local entrepreneurs, the characteristics embedded in Johor Corporation (JCorp) and how entrepreneurship changed over time. As a state enterprise in Malaysia, JCorp adopted a unique business position and investment strategy to become a major global player in its core enterprises. This study reveals that JCorp acting as an SOE entrepreneur successfully built an organisation with more than 250 local companies in various business sectors and services incorporated under a single umbrella. There are 379 directors within the group and a total workforce of about 63,000 people. Tremendous efforts were made by the SOE to educate Malay entrepreneurs and professionals through the enhancement of knowledge and skills, networking, sharing of experience, and management expertise.

Introduction

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. In the case of Malaysian SOEs, they are also deemed to be greatly influenced by politicians and state governments (Suraiya, 2011: Morris and Jones, 199; Abdul Hafeez, 1992) which further hinders SOEs from being efficient and productive. On the other hand, Wong (2004) also argued that most SOEs pursued multiple

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URL: http://www.thebhc.org/sites/default/files/Fary_Schwantes_EDITED.%203%20dec%20%28final%20version%29.pdf

and conflicting objectives, while private enterprises focused exclusively on profit maximisation.

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 government. Generally, many governments use both arguments to justify the creation of SOEs for purposes of national interest. Due to globalisation and the ever changing draconian commercial environment, modern business entities, as well as public enterprises, need to be innovative and creative in handling their operations. 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 termed "Leviathan as an entrepreneur."[1] 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[2].

The purpose of this paper is to understand the role of national institutions in developing local entrepreneurs in the Malaysian context by the introduction of the National Economic Policy (NEP) after the country's independence in 1957. The paper also aims to explore the explanatory concepts and implications of such a policy. This paper will look at one specific SOE in Malaysia, Johor Corporation (JCorp and JSEDC is used interchangeably), and study its growth and performance at the state level, as well as analyse the reasons behind its success 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. Also, without SOEs as agents in the economy, will Malaysia be able to produce local entrepreneurs, particularly with regard to the Malay or Bumiputera ethnic? The results of this study would contribute much to the current work on SOEs, particularly since Vernon (1979) has contended that empirical research on SOEs has lagged actual developments, and that our ability to explain behaviour remains relatively weak.

This study uses the business history approach and a case study method, which serves to provide an in-depth explanation of the role of state enterprises in developing local entrepreneurs in Malaysia. This research employs the longitudinal approach by analysing data from 1970 to the present through observing the role of SOEs in developing entrepreneurial and leadership skills, as well as determining how SOE characteristics changed over time. This paper also 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 collected from various sources such as archival documents, annual reports, national audit reports, and official publications.

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 through cross border investment. 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.

First, we look at the theory of Alfred Marshall (1964), "who introduced the innovation function of an entrepreneur as someone who is continuously seeking opportunities to minimize costs and ultimately maintaining equilibrium in the economy" and Bula (2012) summarizes that the neo-classical and Marshallian theory explained the equilibrium

[1] Musacchio and Lazzarini, *Reinventing State Capitalism: Leviathan in Business, Brazil and Beyond* (Cambridge: Harvard University Press, 2014), 2.

[2] Ibid.

conditions in the market under the assumptions of perfect knowledge and information, perfect competition, 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), 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.

There are various other theories of entrepreneurship such as the classical theory by Richard Cantillon (1755) which described the entrepreneur as one who equalizes supply and demand in the economy by bearing risks or uncertainty, while Jean Baptiste Say (2001) described the entrepreneur as the manager or agent of production in the economy rather than a risk taker. Social entrepreneurship, on the other hand aims to solve social issues, whereas the Social Enterprise School views entrepreneurship as a social enterprise or an organisation in any sector that uses earned income strategies to pursue a double bottom line or a triple bottom line as a social sector business. It also focuses on non-profit income activities including market based solutions, on social problems, as well as businesses that generate profit that is donated to a social venture or purpose. Meanwhile, German historical sociologists explored the role of religion and social relations in the development of modern capitalist attitudes towards economic gain and economic opportunity.[3] 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.

Next, we review the traditional literature which mostly describes SOEs as inefficient, poorly managed, bureaucratic, and heavily subsidised by the government. The prevailing views on SOEs were 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 politically-connected capitalists. In contrast, the industrial policy views the establishment of SOEs or state investment companies as a way to promote development beyond what is possible under the free-market. Pigou (1920) offered powerful economic rationales for state intervention, while Yu (2000) argued that the government is an institution that attempts to tackle the coordination failure in the market. The creative, proactive, and dynamic aspects of state leadership have largely been ignored.[4] On the other hand, neoclassical public choice theorists, such as Auster and Silver (1979), treated the state as a super firm which supplies public goods and regulatory laws, and argued that state agents be given the right to regulate the economy and attempt to maximise budgets. In other words, they viewed rent-seeking behaviour as the cause of government failures.

Turning to the economic impact of entrepreneurship, we analyse the behaviour of the entrepreneur or of the supply of entrepreneurship in a nation-building effort that promotes growth and economic development. 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.[5] 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 (1978,2) called "one of the most observed and least understood phenomena on earth."

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[3] Jones G. and Wadhwani R.D, (2008) cross-reference Weber (1904), Simmer (1908), Sombart (1911).

[4] Yu, T.F.Y., "Towards a theory of the entrepreneurial state," *International of Social Economics* 28(9) (2001): 752-765.

[5] Baumol, W. J., "Entrepreneurship in Economic Theory," *The American Economic Review* 58(2) (May 1968): 64-71.

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, degree of unemployment, and various cultural norms.[6] 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).

History of the Establishment of Johor Corporation in 1968

The history of Malaysian state participation in commercial and developmental activities actively began before independence in 1957. 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[7]. 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. 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. 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.[8] 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 through the establishment of state enterprises as economic agents to promote and expedite development.

Business Operation under JCorp Group

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[9]. First, through 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

[6] Audretsch D.B., "Entrepreneurship A Survey of the Literature," *Enterprise Papers* 14 (2003).
[7] Archive document, Annual and Financial Report 1970 (1 August- 31 December), National Archive of Malaysia.
[8] Ibid.
[9] Ibid.

efficiently with limited resources. The organisation started operation with only two staff, namely Basir Ismail as a director and Mohd Ali Hashim as the planning officer; six more personnel were employed by the end of 1970.[10] 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, 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, planning, agriculture and engineering, but the structure began to expand as more activities and projects were implemented.[11]. 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.

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. 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. Today, JCorp is among the highest earning conglomerates 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.

Prominent Entrepreneurs under the 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 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 of its operation, JCorp has had three key personalities holding the top position:

i. 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 1970s.[12] He was appointed 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,

[10] Ibid.
[11] Ibid.
[12] Archived document, Annual Report and Financial Statement JSEDC for 1970.

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.

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

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.[13] An interesting discovery from an archived document reveals that he was in charge of strategic planning for JCorp back in 1970s while holding a position as a Johor Economic Relations Officer with Bank Negara Malaysia[14] 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.[15] These combined experiences equipped him with invaluable business management and entrepreneurial skills before he assumed the apex post in JCorp Group and oversaw the group's transformation into a successful entrepreneurial corporate organization.

iii. 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 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 rejoined 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).

These three leaders were deemed to be very effective in their strategic role as SOE entrepreneurs, from pure bureaucrats to prominent corporate leaders, having excellent credentials to handle all tasks and responsibilities that the job entailed. It has been observed that these leaders 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. For the purpose of this paper, we define the SOE entrepreneur as an individual who possesses two types of character traits: the

[13] JCorp Annual Report 2010.
[14] Archived document, Annual Report and Financial Statement PKENJ for 1970.
[15] Bloomberg report. www.bloomberg.com/research/stocks/person.asp. 2016

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 a desire for top-down command. 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.

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.[16] 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).

Back in the early days after its establishment, JSEDC was mainly involved in business related to plantation, agriculture, mining, forestry and timber, as well as industrial estates. All these projects were basically intended for state 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).[17] 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. Since the group has full financial autonomy, it was able to implement strategic business operations and undertake reforms quickly as and when it is required to do so.

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 in terms 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 itself applied for, and successfully acquired, a business loan from Asian & Euro-American Merchant Bankers (M) Berhad in the amount of US$8 million guaranteed by the federal government.[18] Additionally, the corporation took a loan from the federal government in the amount of MYR15 million (US$5 million) for the purpose of engaging in economic development projects in Johor State.[19] For both loans, the corporation paid between five percent and eight percent interest per annum. 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 did not receive preferential treatment from the federal government since the firm had to pay interest on its loans. In terms of political support, the firm enjoyed 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.

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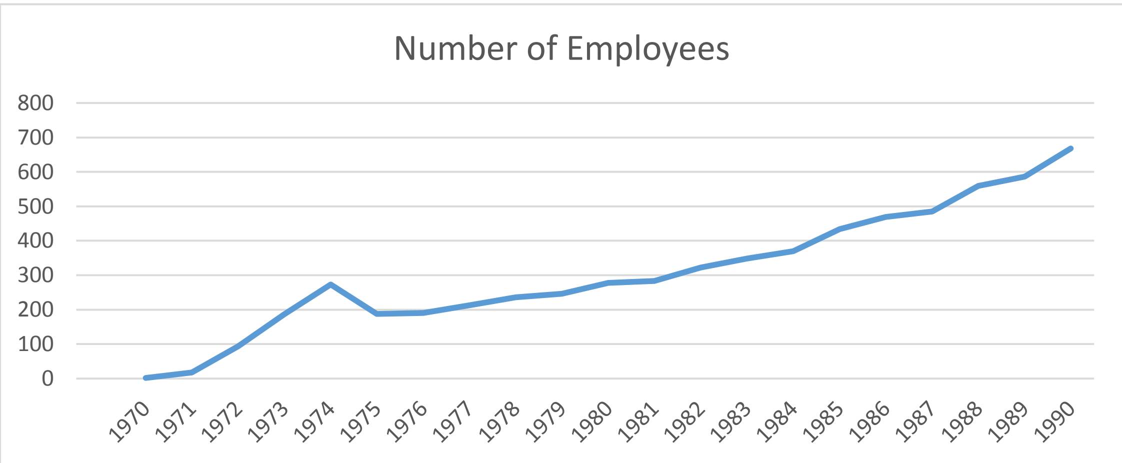
[16] Beinecke, R.H (2009). "Introduction: Leadership for wicked Problem," *The Innovation Journal: The Public Sector Innovation Journal*14(1) (2009), Article 1.
[17] Data from archival document, Auditor Report 1976, Ministry of Finance Malaysia.
[18] Ibid.
[19] Ibid

Internal Capabilities

Since 1972, 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. In 2003, JCorp spent about 6.59 percent of its total annual staff emolument on staff training and career development. Each staff member attended an average of 46 hours of training during the year with 96.15 percent of employees receiving training. In addition, JCorp set a target expenditure of about 10 percent annually to ensure that its staff achieve the required level of operational competency. Furthermore, JCorp’s Human Resource Department has also developed a comprehensive employee programme to provide a holistic approach in the development of individuals at all level of the organisation. The task is expected to be even more challenging considering JCorp now owns more than 250 companies from diverse business sectors with a total workforce of about 63,000 (ca. 2014).

Based on historical data, 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 through internal and external training programmes. For the period between the 1970s and 1990s, some of its personnel were on short-term and long-term (3-year) study leaves to pursue their studies in various fields, namely engineering, architecture, project analysis, public administration, management, as well as productivity and quality. Choice institutions of higher learning include Georgetown University Law Centre, Harvard University, the University of Bradford, and the Asian Institute of Management, as well as local public universities. The budget allocation increased drastically from MYR120,000 in 1998 to MYR450,000 in 1990. The figure below shows the increase in the number of employees under JCorp for the period between 1970 and 1990.

Figure 1: Human Capital growth under JCorp, 1970-1990.



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

This is the new model for SOEs in Malaysia, one that is more focused on profitability, is commercially-driven, and that achieves higher productivity. Through 40 years of operations, JCorp had successfully increased its economic scale and built a group with a total workforce of 63,157, five companies listed in the Bursa Malaysia, and 379 directors within the group. The SOE entrepreneurs groomed by the group play an important role in socio-economic development and wealth redistribution in the country. It has contributed to the Bumiputra agenda outlined in the New Economic Policy to improve the economic status and participation of ethnic Malays in the overall industrialisation process. 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 approach to public sector reform in Malaysia, as its focus is to shift to performance measurements tied to public service delivery with governmental accountability.[20]

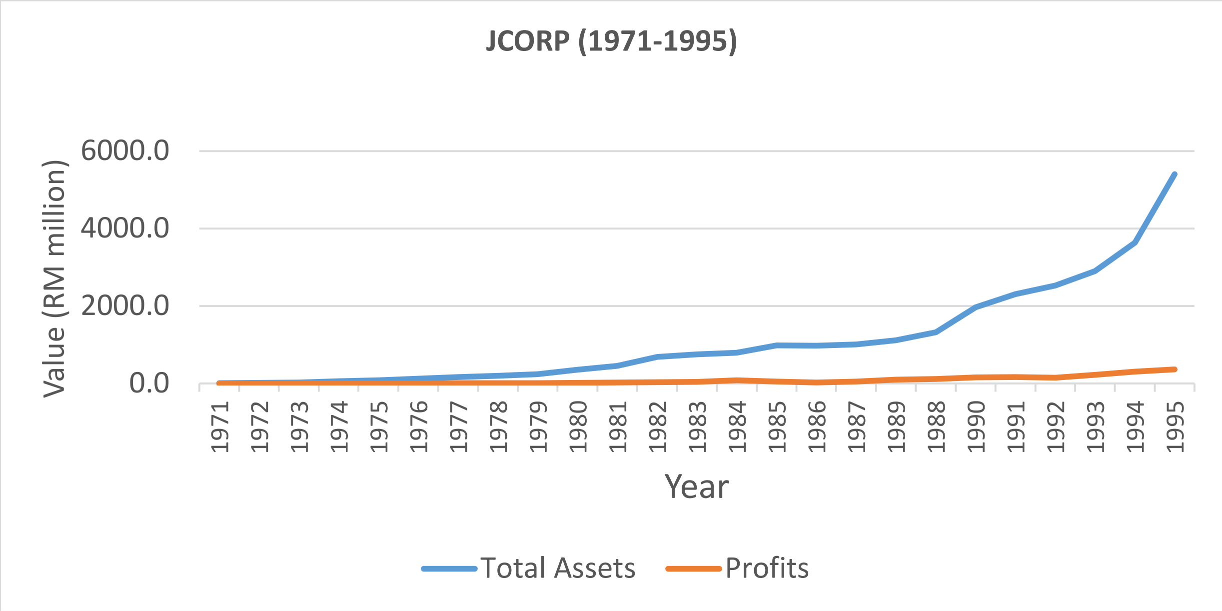
Wealth Creation by JSEDC, 1971-2000

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. 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.

Upon analysis of the case study based on Resource Dependence Theory (RDT), we could agree that to some extent JCorp's achievements were also due to fact that they experienced minimum interference from the government or politicians. Furthermore, JCorp did not receive any grants from the government; all its projects were funded through loans. 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 much better position to fulfil its responsibilities and duties. The table in Annex I illustrates JCorp's total assets accumulated and profits earned from 1971–1995. Due to the limitation of data, this paper is only able to show increasing wealth accumulation at face value as a general guide to the group's performances.

[20] http://www.pmo.gov.my/dokumenattached/GTP AR2010

Figure 2: Accumulated Total Assets and Profits under JCorp Group.



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

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. The table in Annex II shows a detailed list of activities on overseas outward investments undertaken by JCorp.

Over the years, the corporation has established a formidable track record of business and corporate success. The group's business segment is managed on a worldwide basis with group revenue distribution by region in 2010 being 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.

During the early years, the group's business activities and growth were financed through fiscal means but this method was gradually replaced by profits and surpluses from its operations as a public enterprise. 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, the first time a public enterprise recorded a figure exceeding the total outstanding loans of the federal government which stood at MYR319.9 million on the same date[21].

[21] Paper by the President and CEO of JCorp in March 1988, "A Public Enterprise's Role and Achievements."

Financial Performances, 2003-2013

Table 1: Financial Highlights of JCorp Group

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)

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 percent 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.

Table 1 highlights the group's financial performance from 2003 to 2013. On the whole, JCorp's performance was a result of its relentless effort to ensure that the group-wide business integration programmes achieved the desired results as they successfully recovered from the global financial crisis. The world had experienced several economic and financial crises, as well as sporadic militancy and the outbreak of the Severe Acute Respiratory Syndrome (SARS). 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 and investments. group incomes were also supported by profits from its subsidiaries with 10 percent of its revenue being contributed to the state government annually

Business Model and Strategy Innovation

As a state-owned enterprise, JCorp, through its group of companies, is involved in several core businesses encompassing plantation, specialist healthcare, foods and restaurants services, property development, hospitality, and entrepreneur business sectors. At the same time, it serves as a domestic market leader in a number of core businesses that have expanded operations overseas:

KULIM business – Malaysia, Indonesia, Papua New Guinea, Solomon Islands
KPJ Specialist Healthcare – Jakarta, Brisbane, Bangkok, Dhaka
Food and RS – Singapore, Brunei, Cambodia, India

Operating under the JCorp Group, QSR Brands Berhad and its subsidiaries are involved in the foods and fast food restaurants industry. Through franchise licensing, the company carries popular brands such as Pizza Hut, PHD-pizza hut delivery, and KFC. Domestically, new brands have been developed such as RasaMas, Ayamas, and Life. The QSR guarantees that all products it produces and sells are permissible or *halal*.[22] QSR operates its KFC and Pizza Huts restaurants in five countries including Malaysia, Singapore, Brunei, Cambodia, and India. The company operates 810 KFC outlets under KFC Holding (M) Berhad in Malaysia, Singapore, Brunei, and India, as well as 456 Pizza Hut outlets in ASEAN. It also operates 25 RasaMas outlets in Malaysia and two in Brunei.

Another subsidiary is KPJ Healthcare Berhad (KPJ), a leading private healthcare provider with a network of 22 hospitals in Malaysia, two in Indonesia, one in Bangladesh, as well as a retirement and aged care resort called Jeta Gardens in Brisbane, Australia. Today, KPJ has more than 3,000 operating beds at its network of hospitals throughout Malaysia and serves more than 2.5 million patients annually. With a wide span of expertise in various medical fields, KPJ's portfolio now covers hospital management, healthcare technical services, hospital development and commissioning nursing, health sciences and continuous professional healthcare education, pathology services, central procurement and retail pharmacy with more than 900 medical consultants and almost 9,000 support staff. KPJ is the first home grown healthcare group in Malaysia listed on the Main Board of Kuala Lumpur Stock Exchange on November 29, 1994. In 2007, KPJ's revenue exceeded MYR1 billion. By 2011, KPJ achieved its highest consolidated revenue of more than MYR1.91 billion, translating into its best performance yet in 30 years since its establishment in 1982.

The year 2013 marked a milestone in the transformation of JCorp as the group embarked on a mission of excellence focusing on the implementation of 2013-2022 strategic plan. The plan, which underpins the transformation, cuts across all business divisions of JCorp, enabling it to optimise its resources and reorganise all business portfolios not only to create new businesses but to strengthen existing ones as well. Based on historical data, JCorp has been making strategic investments in its subsidiaries since 1971 with more than two hundred companies of diverse business sectors and services under one umbrella. The investments have gradually increased over the years as the group's operations continue to expand.

i. JSEDC Investment in Subsidiary Companies 1971-1984 (MYR million)

Year	**Investment (RM million)**
1971-1974	1 – 4 million
1975-1976	5 – 8 million

[22] Halal food complies operate under Islamic or Sharia Law, which stipulates that food consumed should be hygienic, not harmful to health, free from any forbidden parts of animal origin, and free from anything that is regarded as filth under Islamic Law. This is also important for food safety and religious compliance in Malaysia.

1977-1980	10 – 15 million
1981-1982	69 – 72 million
1983-1984	80 – 92 million

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

ii. Evolution of business transformation under JCorp, 1970 to present:

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

Phase II (1988-1994) - Expansion into public services in healthcare sector

Phase III (1996-2005) - Expansion into foods and restaurants sector

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

Source: Prepared by the author.

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 and "commercial" 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). 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 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.

Conclusion

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. 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 JSEDC 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 transformation 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 survived 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 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 five companies listed in Bursa Malaysia, and 379 Directors within the group. Tremendous efforts were made to educate the Malay entrepreneurs and professionals through the enhancement of knowledge and skills, networking, sharing of experience and management expertise. Currently, 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. 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 remains committed to execute its financial transformation plan of having zero debt by the year 2020.

In conclusion, this research has demonstrated that exemplary and competitive SOE entrepreneurs within the JCorp Group managed its development within a highly diversified business sector. 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 to be capable of balancing its SOE role with its private enterprise principles. 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.

Annex I

Table 2: International Businesses and FDI, JCorp Group from 1970 -2011.

Year	Country	Detail
1972	UK	Purchased equity 8.72% from Kulim Group Ltd. Listed in London Stock Exchange. Involved in plantation, rubber and palm oil.
1976	Nigeria	Waterside Rubber Estate Ltd. Rubber plantation with equity obtained 40%.
1983	Netherland	Through its subsidiary EPA Sdn Bhd., invested in Matthes & Porton BV a commodities broker with 90% equity.
1986	-	EPA owns Matthes commodities with 50% equity.
1989	Hong Kong	JSEDC took over Asian Marines Foods Ltd. HK to have majority shares in East Asian Marine Farms Sdn Bhd., with equity of 83.7%
	PNG (Papua New Guinea)	EPA purchased 25% equity in Warren Plantations (Mt. Hagen) Pty, Ltd. A plantation company in tea and coffee.
	Singapore	Through its subsidiary Rajaudang S/B., purchased 51% in Asia Pacific Seafood Pte. Ltd registered and operating in Singapore.
	Australia	Rajaudang invested 20% in Asia Pacific Seafood Australia Pty. Ltd.
1996	Indonesia	Opening healthcare business in Padang, Sumatera and opening of Industrial Park West Sumatera.
	PNG	Acquired 90% stake in New Britain Palm Oil Ltd.
1997	USA	Signed an agreement with Duraclean Inc. to establish outlets in Malaysia, Brunei, Indonesia and Singapore.
2003	Bangladesh	Entered into a management agreement with United Group of Dhaka to provide healthcare technical expertise and manage the Continental Hospital.
2005	ASEAN	Expand food and quick restaurant business KFC and Pizza Hut to ASEAN (4) and India.
2011	Australia	Invested MYR19 million for the equity holding for acquiring a retirement resort Jata Gardens Resort in

		Brisbane, Queensland.

Source: Annual Report JCORP, 1970-2011. Table by author.

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