



# **Fifteenth International Seminar on Staff and Educational Development**

## **CORPORATISATION OF HIGHER INSTITUTIONS IN MALAYSIA : COMPLACENCY OR MISINTERPRETATION**

**8 - 11 July 1996**

*The St. Kilda Road Travelodge  
Melbourne, Australia*

**Zakaria Kassim**

E-Mail : [kzak@usm.my](mailto:kzak@usm.my)

**Dr. Kamaruddin Yaakub**

E-Mail : [ykamar@usm.my](mailto:ykamar@usm.my)

School of Educational Studies  
University of Science, Malaysia or USM  
11800 Penang, Malaysia  
Fax : 604-6572907

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### **Corporatisation of Higher Institutions in Malaysia : Complacency or Misinterpretation**

*Zakaria Kassim*

*E-Mail: kzak@usm.my*

*Dr. Kamaruddin Yaakub*

*E-Mail: ykamar@usm.my*

*School of Educational Studies*

*University of Science, Malaysia or USM*

*11800 Penang, Malaysia.*

*Fax 604- 6572907.*

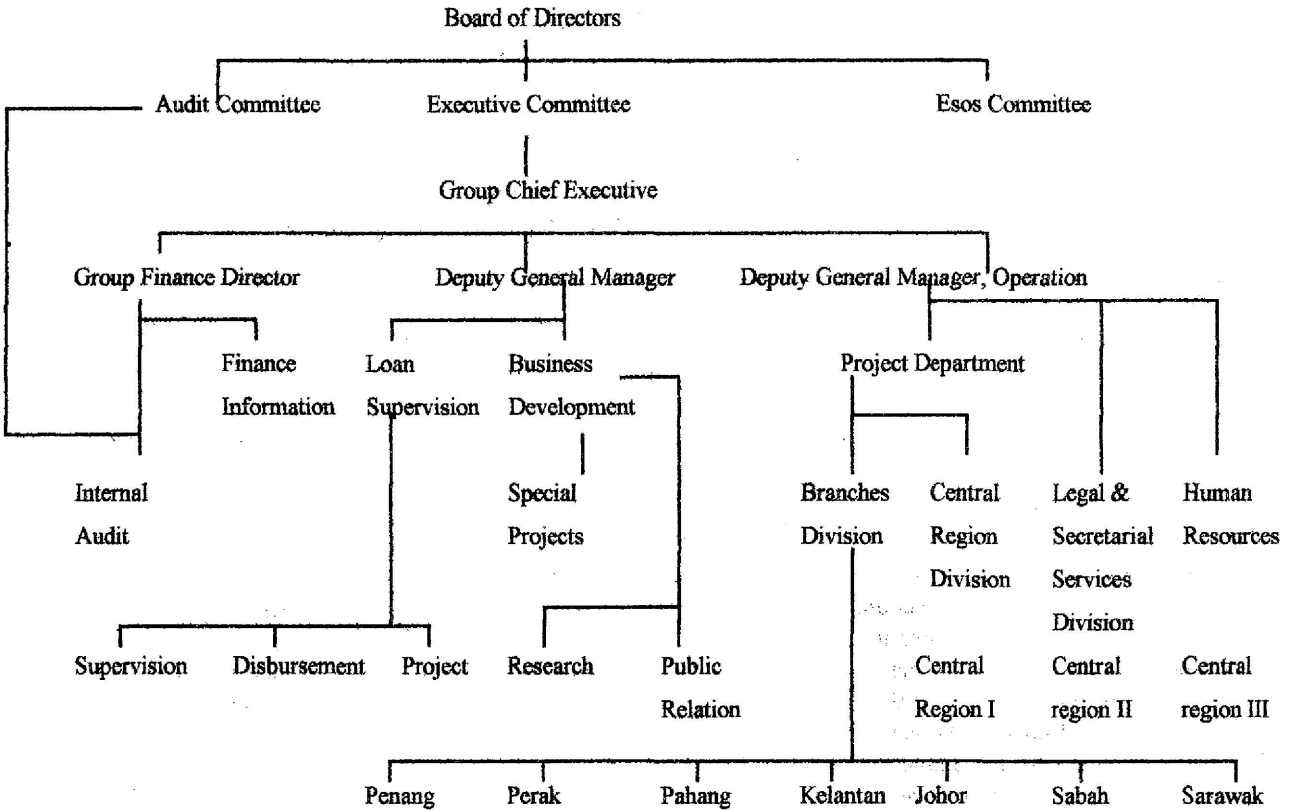
### **Introduction**

The Malaysian Government, led by the National Front Political Parties since independence in 1957, had taken steps to develop the country through various short and long term policies. Malaysia is recognized as a "new industrialized country in the region". This is evidenced by the change in the export components, increase in per capita income, fairer distribution of wealth, reduction in the unemployment rate accompanied by a tremendous growth in the social service sector particularly in the rural areas. With the Prime Minister, Datuk Seri Mahathir Mohamad at the helm, there is a continuous and definite emergence of corporate culture within the government machinery and agencies in Malaysia. This is attributed to the Prime Minister's emphasis on the importance of leaders as role-models (who uphold the slogan of being clean, efficient and trustworthy), systematic and analytical working procedures, productivity and quality of output as well as entrepreneurship within the government agencies. Since early 1980s, in line with the government policies and objectives, there was an increasing trend of corporatisation of government agencies, be it full or partial corporatisation. The agencies that had been corporatised include: Malaysian Airline System (MAS), Malaysian Telecom, National Electricity, Malaysian Railway and Penang Port, Department of Government Printer and National Health Institute. Majlis Amanah Rakyat (MARA), had undergone a partial service corporatisation involving transportation service which led to the establishment of a MARA Holding Company running Express Buses. Corporatisation creates improvements in the quality of services, favorable government budget and the ability to provide for a wide range of services to meet the need of various types of clients. The Deputy Finance Minister announced that within the last 12 years the Malaysian Government had been able to reduce its expenditure up to RM 80 billion while at the same time generate additional revenue through taxation and rental (Utusan Melayu, March 15 1996) via privatization. A total of 210 government projects had been privatized since October 1983.

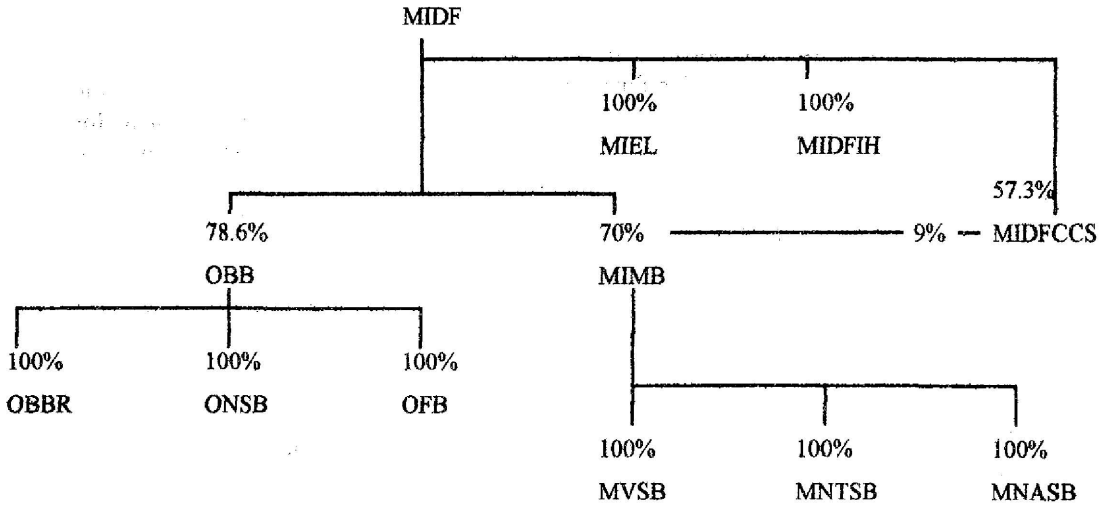
### **Models of Corporatisation**

There are various models of corporatisation in Malaysia. Some of the corporate companies are listed in the Kuala Lumpur Stock Exchange. The corporate groups contribute in various ways towards the transformation of Malaysia into a modern industrialized nation. The following are two models of corporatized institutions:

a) MIDF ( Malaysian Industrial Development Finance Limited) ORGANIZATION STRUCTURE



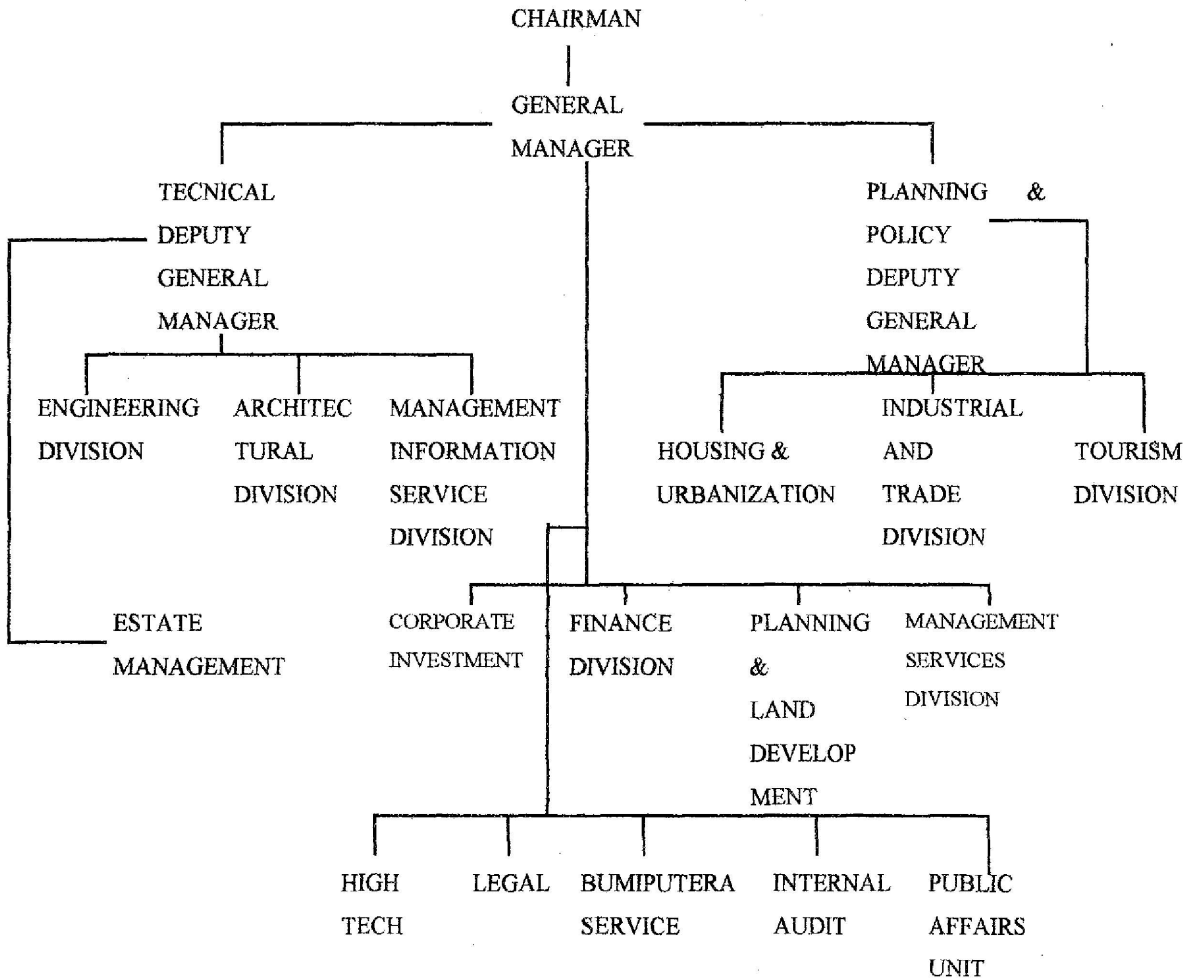
MIDF GROUP CORPORATE STRUCTURE



**Key:**

- MIDF - Malaysian Industrial Development Finance Limited
- MIEL - Malaysian Industrial Estates Company Limited
- MIDFIH - MIDF Investment Holding Company Limited
- MIDFCCS- MIDF Consultancy and Corporate Services Company Limited
- MIMB - Malaysian Industrial Merchant Bankers Limited
- MNASB - MIMB Nominiies (Foreign) Company Limited
- MNTSB - MIMB Nominiies (Local) Company Limited
- MVSB - MIMB Ventures Company Limited
- OBB - Oriental Bank Limited
- OFB - Oriental Finance Limited
- ONSB - Oriental Nominiies (Local) Company Limited
- QBRR - OBB Realty Company Limited.

**b) PENANG DEVELOPMENT CORPORATION (PDC)**



The above models illustrate examples of government statutory bodies that also operate as private companies. Besides maximizing its profits, the corporatised statutory bodies certainly aim to serve the public, especially the poor. Based on the models above, we can see that every corporate group has a body of policy maker and a management team.

The organization for PDC maintains the Penang Chief Minister (the former Deputy Dean of School of Education in the Universiti Sains Malaysia) as the Chairman. He is assisted by five members of the Board who are from the state legislative assembly officials. Other members include the state secretary (government officer), the state financial officer (government officer), three Federal Government representatives (government officers) and finally the General Manager (former government officer). The component of the Board reveals that the government's control over the corporate activities is intact, which ensures strict adherence to the government's policy of serving the electorates. The PDC's mission is to undertake and promote socio economic development for the state of Penang which is consistent with the National aspiration guided by :

- 1) continuous quest for excellence
- 2) determination to continue as dynamic, responsible and viable development agency
- 3) determination and commitment to provide quality services and products to make Penang a better place to live.

The business of PDC is widely diversified. It provides an adequate and quality infrastructure in its industrial park, promotes capital and technology intensive industries, facilitates local manufacturers to market their products in the European Community countries, promotes tourism industries in the state, and ventures in the healthcare industries. Besides these economic activities, the PDC is also responsible for cultivating a more caring and integrated society among Penang residents and promoting Penang as a center of excellence in education and human resource development. The joint venture between PDC and the private sector to establish an International College is a testimony to this responsibility.

The International College is one of the many private colleges in Malaysia offering a twinning program with Sydney University in Australia. The highest position in the management hierarchy is the Board of Directors. It comprises the Chairperson (former Director General of Education Ministry of Education) and five other members (one from PDC, three from public listed company, IJM, and others). Next to the Board of Directors is the Board of Governors. It is composed of a chairperson and five other members, one of which from PDC and another from IJM Corporation Ltd. (IJM). The college Management Team is headed by a Principal and a Registrar (the former Registrar of USM) and a Professional Team headed by an Academic Director (a professor from Australia).

It is obvious that PDC has its own main activities while at the same time involves in joint-venture activities and other investments. The PDC is also supported by a wholly owned subsidiary company and an associate company. The annual report is produced and distributed by the end of the year.

## **Malaysian Model of University Corporatisation**

In the current situation, according to the General Order, Division A civil servant cannot engage in any businesses and a university is not permitted to freely manage its resources and generate additional funds. The main source of the funds should only come from the government. Under the current service scheme of the civil servants together with the lack of funds, a university will not be able to attract, retain and motivate its staff. The fault is in the law, rules and regulation and the universities have to unravel this to be more flexible.

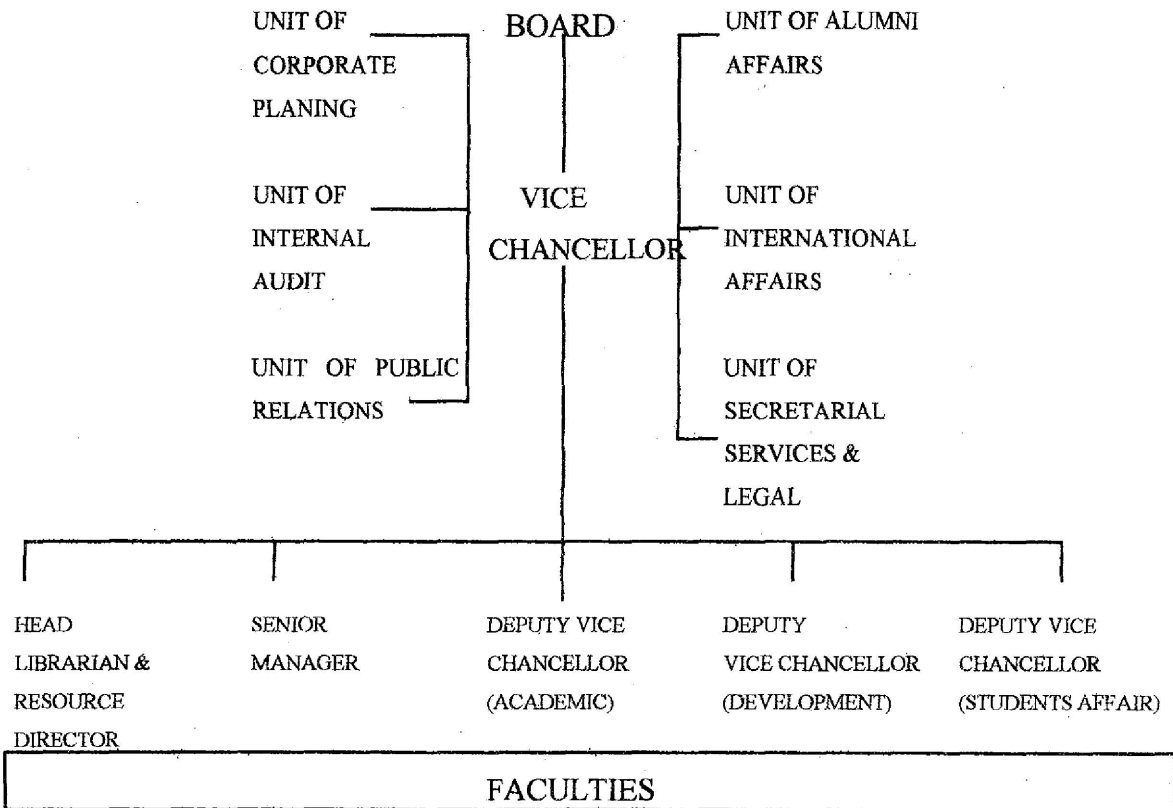
The government encourages the corporatisation of higher education with the intention of upgrading the quality of service and encouraging competition which can bring about efficiency and effectiveness. Furthermore, corporatisation would enable the government to reduce its expenditure while at the same time fulfilling the demand of university staff. Besides that, the government hopes to alleviate Malaysia to be the "educational center in the region". To achieve these objectives, Ministry of Education has the responsibility "To Ascertain Class Quality Education".

The idea of corporatisation of universities in Malaysia crystallized during the conference of the Vice Chancellors of Malaysian Universities in late 1994. A Vice Chancellor from a leading university in Malaysia (University of Malaya) advanced the notion that corporatisation could be a mechanism whereby a government entity can operate in a business-like manner, away from civil service rules (Public Service Commission) and regulations and the Ministry of Finance budget consideration but able to maintain quality graduates.

The Vice Chancellor of University of Malaya contends that once universities are corporatised, the management will become more effective, and the brain drain can be brought to a halt. The staff salaries are determined by the market, perks and better working environment will be created. At present, the professors are happy and contented with their remuneration scheme but the lecturers are underpaid compared to those working in the private sector. For example, the University of Malaya is losing an average of four academic staffs a month.

University of Malaya offered a proposed structure of University Corporatisation as shown in the Berita Harian dated April 26, 1996.

**MODEL OF UNIVERSITY STRUCTURE**



With the new structure, management, leadership, and financial aspects will change. 'Majlis Universiti' (University Council) would be substituted by University Board. The member would be reduced from 17 to 9. There would be a reduction in the senate member from 240 to 40 (Berita Pendidikan April 29, 1996). This structure would meet the goal of the University Malaya's proposal to corporatise (Aliran 16(1)) :

1. to provide better quality higher education through planned and orderly growth
2. to improve the management of the University by fully utilising its physical, human and intellectual resources; and
3. to reduce the administrative and financial burdens on the government in the area of higher education.

## **Perceptions of the Public, Academic Staff and Students**

The perceptions of the public and the students concerning the corporatisation of Higher Institutions mainly centers around the increase in the costs to get professional recognition. Most people feel that the responsibility to provide the professional manpower development at a lower cost lies with the higher institutions. Those from the lower income group particularly, feel and hope that through education they could upgrade their socio-economic status.

Utusan Melayu dated October 12 1995 reported that the students' council representatives of University of Malaya had voiced out their feeling pertaining to the government's decision to corporatized higher education institutions. Their protests were revolved around their disinclination to pay higher university fees starting from 1996/97. This could be due to their ignorance over certain aspects concerning this matter. They were under the impression that the corporatisation of universities is similar to the previous corporatisation of other government agencies such as North-South Highway, Malaysia Telecom, Malaysian International Shipping Corporation. This unfavourable response emanated from the students :-

1. concern about the increase in university tuition fees,
2. view on the fact that the infrastructure and other university facilities are still inadequate and the needs of funds from the government to upgrade these facilities,
3. stand that equates them with consumers of the university who should not be expected to pay for the management cost of the university; and
4. uncertainty over the ability of the property development projects and other projects to generate income for the university.

It was clear that the public and the students' doubt over the success of the corporatisation resulted from their misinterpretations of the policy. Following that, the Vice Chancellor of the University of Malaya attempted to eliminate the misunderstanding by making a public statement as reported in the New Straits Times dated November 7, 1995. He maintained that for the universities, corporatisation would not be followed by privatization as in previous cases. For example in the case of Malaysia Telecom, corporatisation was the first step to privatisation. For the universities, the process will stop once the corporatisation is completed.

Royal Professor Ungku Aziz (1996) believed that fancy knowledge alone would not keep a university alive. On the other hand, it must accommodate the needs of the society.

Professor Syed Hussein AlAttas (1996) felt that the universities, courts, police departments and government hospitals should not be privatized. However, if the term corporatisation means liberalisation, and based on the Prime Minister's assurance that the public interest will be maintained, he had no objection.

More than 70% of the university staff support the idea of university corporatisation because they expect an increase in wages by at least 17%. On top of that, the employees who are 50 years old and above are hoping to be awarded with gratuity and pension as compensation for their retrenchment as government

servants. The professional will also benefit from the opportunity for wage negotiation. The opportunity of job mobility is widening.

A small group of academic staff are in doubt over the capability and ability of the university leadership to manage universities as a corporate institutions. To them the management team is more comfortable with the current style of management as government administrator involving mainly to run the policy set up by the government and to run the organization based on the preset rules and regulation. Such a team lacks entrepreneurship abilities.

## **Considerations For Corporatisation**

Through corporatisation, the university will be able to optimise their physical and intellectual assets. Nowadays, no consideration is given by universities in Malaysia on profit generation because they have no opportunity and means to do so. They are more dependent on the government for financial support and grants to build up their infrastructure and to provide for their expenses such as wages and salaries. If the idea of corporatisation materialises, the universities will function as entrepreneurs mobilising their assets to generate income. The income will then be utilised properly for the purpose of development.

Other advantages of corporatisation of higher education institutions in Malaysia are :

1. provision of wider and flexible choices based on individual's ability to pay for the education service
2. improvement in the country's balance of payment. According to Berita Harian dated June 12, 1996 there are 41,725 self sponsored Malaysian students who study abroad and registered with Malaysian Students Department. About 14,504 of them are in Britain. The actual figure is definitely more when we add up those sponsored by the government, semi government institutions and corporate organizations such as Tenaga, Telecom and Petronas.
3. an increase in the Gross National Income of the country via the development of the country as a whole.

The free market economy allows higher educational institutions to be more free from the influence of the state provisions. They would be either completely or partially corporatised depending on their characteristics, social roles as well as the availability of trustees, companies or other private financial bodies to cater for their funds. The parents and students have the freedom of choice within the constraint of their abilities to pay.

There are three possible options for which higher institutions could be positioned within the market place and the education sector. These options are not the means that can be rigidly categorised because the differences are governed by the amount of power invested in the state to control the institutions. The first and at the most extreme end, the higher institutions could be fully corporatised or privatised. There is minimum state control over the institution or no state intervention at all. These institutions would be completely opened to the market forces.

The second possible type of higher institution corporatisation is that which is opened to the free market competition but subjected to certain constraints regulated by the state, such as physical development. In a free market kind of model, the higher educational institution would be allowed to be organized, subsidised or financed by the state. In other words, the state government is involved in the regulation of the institution. This could be the case where the universities would be partly financed by the state.

The third type is that where an institution is organized and financed by the state and at the same time does not hold the monopoly power. It is subjected to the competition. A prime example of the model is the conferment of the teachers university status to the Sultan Idris Teachers Training College (SITC) for which as a consequence the college is run by the state and later would compete with other Malaysian universities.

## **Survey Results of USM and UPM Research Committee**

On the 23rd November 1995, the Corporatisation Reactionary Unit (UTP) of the University of Science Malaysia (USM) and Agriculture University of Malaysia (UPM) had reported in one of the local newspapers the results of their findings based on the survey conducted between 9th to 22nd October 1995 in USM at both the main campus in Penang and the Branch campus in Perak. The survey was also carried out among students in UPM at about the same time.

The results of both findings indicated that students failed to understand the concept of corporatisation which would to be implemented although most of their parents know that the earlier established universities were under semi-government control. When the government or the state took over the management of the universities the reactions of the public was similar to the current reactions. The survey reveals that 86.7% of the USM students do not favour an increase in the tuition fees for courses at the university (although there has been a natural trend of the university fees to increase between 10% to 20% each year). In contrast to this finding, 74.3% of the students from the same university did not read or were unable to read the blueprints of the university. Although most students in USM did not read the blueprints of the corporatisation, yet 90.5% of them felt that the university should not be corporatised. It is ironical that students who were not fully informed about the main principles of Higher Educational Institutions (HEI) corporatisation could disagree with the proposal! What the university should do is to place the blue prints on the proposal corporatisation in all university libraries.

The results of the USM study were almost the same as those found among UPM students. In addition, it was found that more than 90% of the UPM students did not like the HEI to be corporatised on 1 July 1996. Ninety seven percent of the students from 11 faculties wanted students, academicians and the public to be involved in the planning and finalization of the proposal in relation to the HEI corporatisation. What the students want is to get involved in the strategic management planning of the corporatisation of HEI.

## **Conclusion and Suggestions**

The three most important factors that spark public argument against the corporatisation are the fears of :-

1. the increase of course fees,
2. the new roles of the universities, and
3. the welfare of the staff or personnel.

The question is now whether the present local university could accumulate their reserve up to RM14.6 billion as that of the University of Harvard, RM9.5 billion as that of the University of Stanford, RM9.3 billion as that of the University of Yale and RM 6.8 billion as the University of Princeton or Colombia. With a lot of accumulated fund any fear could easily be dispelled.

Berita Harian dated 23 April 1996, in its coverage of the Seminar on Management of Higher Education Institution states that Education Minister had given the assurance that the tuition fees will not be increased in the near future. In the long term, we could expect an increasing trend of tuition fees which will be very minimal. The government has the responsibility to help the poor and provide equal opportunities to those pursuing their studies in the universities.

The government's involvement in the higher institution activities stem from the crucial needs of funding and to oversee the development of universities. Generally the government is still responsible for providing education to the citizen in the sense that the government would not allow any single person unable to pursue his/her studies due to financial difficulties. Corporatisation is executed only when the particular organization is ready to meet the challenge of being on its own in the later stage. From the past records, the Malaysian style of corporatisation shows that the welfare of the employees, consumers and society as a whole is protected. In the short term, the workers would not be retrenched, instead they would get more income and

perks. The consumers on the other hand, could get better service without paying more for a certain period of time. The services offered are better than before. Employees and employers would be socialized within the corporate structure of a work place.

With the recent move such as Education Act 1995 and the creation of Higher Education Department we believe university corporatisation will take place soon. The International Islamic University is an example of Higher Institution which is not 100% funded by the government of Malaysia. Some of the funds come from other Islamic nations. The model of corporatisation would not be like a private organisation, but the kind that would provide flexibility to the university to maximise their resources including manpowers and finances. In addition, new ideas of management would be adopted and a positive corporate culture could be more practical. The universities would make efforts "To Ascertain Class Quality and make Malaysia as educational centre of the Region".

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### **Footnote:**

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