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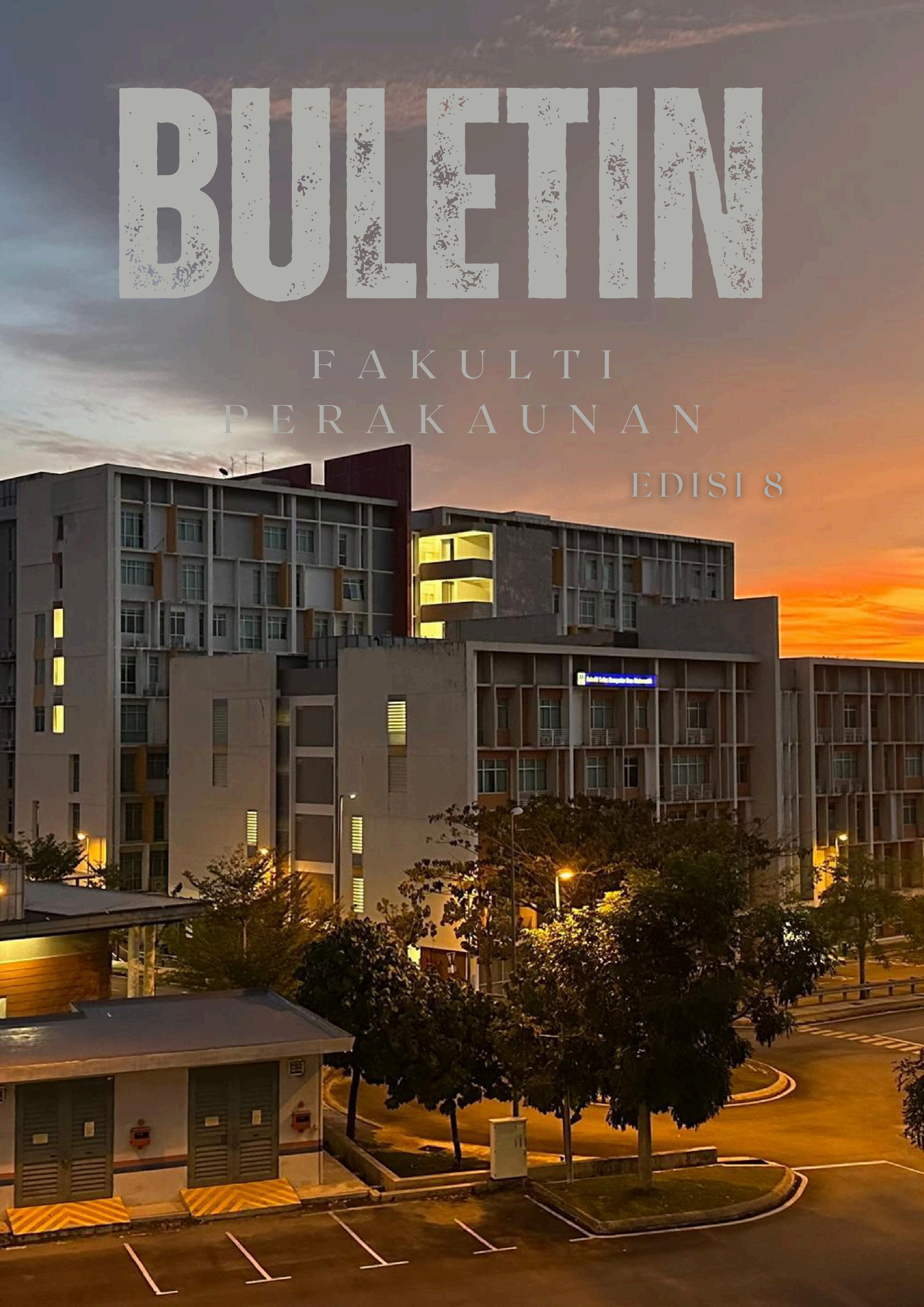

Factors Influencing the Financial Performance of GLCs in Malaysia and Singapore

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Government-Linked Companies (GLCs) are enterprises in which the government holds a significant ownership stake, either directly or indirectly. Direct ownership occurs when government entities, such as the Ministry of Finance or specific agencies, own shares in a company. In contrast, indirect ownership happens when the government holds shares through entities like sovereign wealth funds or state-owned corporations, which then invest in other companies.

GLCs play a crucial role in various countries around the world. For instance, Malaysia is renowned for its extensive network of GLCs, which are integral to its economic framework, featuring key players such as Petronas, Khazanah Nasional, and Telekom Malaysia. In Singapore, GLCs, often referred to as State-Owned Enterprises (SOEs), include influential companies like Singapore Airlines and Temasek Holdings, which have a significant impact both locally and internationally.

GLCs play an essential role in their national economies, often operating in critical sectors such as energy, telecommunications, finance, and infrastructure. They function as tools of economic policy, assisting governments in achieving strategic objectives while fostering national development and stability. Although the roles of GLCs may differ based on each country's economic framework and governance style, they generally strive to balance commercial success with the public interest.

A variety of studies have examined the factors affecting the financial performance of GLCs, driven primarily by the goal of identifying effective management practices. One area of focus has been corporate governance and its impact on financial outcomes, although the findings in this domain have been inconsistent. For instance, a study by Shanmugaretnam et al. (2023) indicates that corporate governance has a more significant impact on the financial performance of GLCs in Singapore compared to those in Malaysia. Additionally, it has been observed that frequent board meetings positively affect the financial performance of both Malaysian and Singaporean GLCs.

In Singapore, studies suggest that a larger board size is positively and significantly associated with business performance, implying that an increase in board members can lead to better financial returns (David et al., 2021). In contrast, some research on Malaysian GLCs indicates that board size does not significantly influence financial performance, suggesting that a larger board may not necessarily enhance firm performance in Malaysia (Hassan et al., 2017; David et al., 2021). Furthermore, a study has found no correlation between the educational level of board members and the financial performance of Malaysian GLCs (Adnan et al., 2016).

However, it is important to note that some research suggests that the financial performance of GLCs cannot be fully explained by corporate governance. It indicates that the governance structure serves primarily as a mechanism for monitoring company management, rather than directly improving performance (Hamid, 2011).

A recent study Khai (2023) examined the relationship between the financial performance of GLCs and the extent of government involvement. It found that Singaporean GLCs outperform their Malaysian counterparts, despite having less government intervention. The analysis indicates that while cronyism exists in both countries, Singapore tends to appoint former civil servants to lead GLCs based on merit, whereas Malaysia often selects politicians or well-connected individuals who may lack the necessary qualifications. This suggests that GLCs with lower levels of cronyism and government involvement tend to achieve greater financial success.

Interestingly, contrary to the negative public perception of GLCs in Malaysia, another study revealed that government intervention can enhance firm value (Lau & Tong, 2008). The findings provide initial evidence that the ownership and control structure of Malaysian GLCs is effective in generating firm value. These insights pave the way for future research into how the ownership and control frameworks of Malaysian GLCs could serve as a model for developing and third-world countries to emulate.

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