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Negotiating Autonomy and Political Control: A Principal-Agent Analysis of Public Enterprise Reform in Malaysia

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Abstract

Public enterprises have been central to Malaysia's development strategy but continue to face a fundamental governance dilemma: balancing managerial autonomy with political control. This article analyses that dilemma through the lens of Principal-Agent Theory (PAT), which highlights how agency problems arise when governments, as principals, delegate authority to managers, as agents. Using a conceptual and qualitative approach, the study synthesises secondary literature, policy documents, and comparative cases. Malaysia's reform trajectory is divided into three phases. In the NEP era (1970s-1980s), enterprises were tools of redistribution, but excessive political control produced inefficiency and fiscal dependency. The privatisation era (1980s-1990s) promised autonomy through corporatisation, yet informal political influence and patronage created dual accountability. The GLC era (2000s-present) introduced hybrid governance with KPIs and professional boards, but political appointments and strategic interventions diluted their credibility. More recently, ESG-oriented governance and digital transformation have added new layers of complexity by expanding information asymmetry, symbolic compliance, and monitoring challenges within public enterprises. Comparative cases from the United Kingdom, France, and Singapore confirm that autonomy-control dilemmas are universal. The UK shows how excessive autonomy weakens accountability, France demonstrates how excessive control stifles efficiency, while Singapore illustrates how capable, technocratic principals can balance autonomy with oversight. The article concludes that Malaysia's reforms have reconfigured rather than resolved agency problems. Future reform requires strengthening principals, depoliticising appointments, and aligning autonomy with public value.

Keywords: *Public enterprises; Malaysia; Principal-agent theory; Autonomy; Political control; Governance; GLCs; ESG governance*

INTRODUCTION

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Public enterprises have always carried a special weight in the economic and political development of Malaysia. Since independence in 1957, they were never conceived merely as commercial entities. Instead, they were seen as tools of nation-building, instruments of redistribution, and symbols of state legitimacy. For that reason, public enterprises in Malaysia have always occupied a space that is at once economic and political. Yet, despite their prominence, these enterprises have been consistently caught in a governance dilemma: how to strike the right balance between managerial autonomy and political control.

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This dilemma is captured well by Principal-Agent Theory (PAT). The framework is deceptively simple: governments act as principals, while enterprise managers function as agents. The government, on behalf of citizens, provides the mandate, allocates resources, and sets national goals. Managers, in turn, are supposed to implement these objectives through day-to-day operations. But the reality is less straightforward. Agents and principals seldom share identical priorities. Politicians may be concerned with redistribution, social equity, or electoral legitimacy, while managers may lean toward profitability, efficiency, or organisational survival. Because managers possess more information about operations than principals, a classic case of information asymmetry arises, creating space for what scholars call *agency loss*.

Malaysia provides a particularly instructive case for exploring this dilemma because the same problem has surfaced in different guises across three reform phases. During the New Economic Policy (NEP) era (1970s-1980s), public enterprises were closely harnessed to redistributive goals. Autonomy was minimal, and enterprises often became instruments of political legitimacy. In the privatisation era (1980s-1990s), autonomy was formally expanded through corporatisation and exposure to markets. Yet political influence did not disappear; rather, it took informal forms such as concession awards and political appointments, creating dual accountability. The GLC era (2000s-present) marked another recalibration. Through the GLC Transformation Programme, reforms introduced KPIs, corporate governance codes, and professional boards. Autonomy was allowed, but always conditional, and political influence continued in the form of strategic interventions and politicised leadership selections.

What emerges from this historical arc is that reforms have not eliminated the autonomy-control dilemma; they have simply reconfigured it. In one period, excessive control bred inefficiency and fiscal burdens. In another, excessive autonomy without credible oversight created conflicting loyalties and accountability gaps. In more recent years, hybrid arrangements have sought to institutionalise monitoring, but political opportunism remains a recurring challenge. More recently, the rise of ESG-oriented governance and digital transformation has introduced an additional layer of complexity to principal-agent relationships. Unlike traditional financial KPIs, ESG indicators are often more interpretive, multidimensional, and difficult to measure objectively. This creates wider room for information asymmetry, symbolic compliance, and selective disclosure. Managers may engage in forms of “greenwashing” by projecting

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sustainability commitments without substantive organisational change, while political principals may also instrumentalise ESG narratives to justify interventionist or redistributive agendas under the language of sustainability and inclusiveness. From a PAT perspective, these developments expand rather than reduce governance challenges because both principals and agents gain new opportunities to strategically manipulate ambiguous performance indicators.

This is not just a Malaysian phenomenon. Other countries reveal similar patterns. In the United Kingdom, large-scale privatisation during the Thatcher era expanded managerial autonomy, but weak regulators allowed monopolistic behaviour and undermined accountability. In France, strong political control ensured social alignment but produced inefficiency and financial strain. Singapore, by contrast, is often cited as a model where technocratic principals in Temasek Holdings allowed autonomy within clear strategic boundaries, minimising both principal and agent opportunism.

This article makes three contributions. First, it reframes Malaysia's reform story through the lens of Principal-Agent Theory, focusing on the micro-dynamics of governance rather than the binary debate of state versus market ownership. Second, it situates Malaysia's experience in a comparative framework, drawing on cases from the UK, France, and Singapore to demonstrate the universality of the autonomy-control dilemma. Third, it argues that the future of public enterprise reform in Malaysia depends not on choosing between autonomy or control, but on continuously recalibrating the relationship between the two, through capable principals, transparent monitoring, and incentives aligned with public value.

The implications are both theoretical and practical. Theoretically, this study shows how PAT can be applied dynamically to analyse evolving governance dilemmas in contexts shaped by redistribution and patronage. Practically, it highlights that reforms must go beyond structural shifts in ownership to address the quality of principals and institutions. Without stronger, depoliticised principals and effective monitoring mechanisms, public enterprises will continue to be caught in cycles of reconfigured but unresolved agency problems.

The article proceeds as follows. Section 2 reviews the literature and sets out PAT as the analytical framework. Section 2A outlines the research methodology.

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Section 3 applies the framework to Malaysia's reform trajectory. Section 4 draws comparative insights from the UK, France, and Singapore. Section 5 discusses theoretical and policy implications, and Section 6 concludes with reflections on the way forward.

In short, the central argument advanced here is that the autonomy-control dilemma is not a temporary challenge but an enduring condition of public enterprise governance. Malaysia's experience, examined through PAT and viewed against comparative cases, demonstrates both the persistent difficulties and the possibilities of designing governance arrangements that reconcile efficiency with accountability, autonomy with oversight, and managerial discretion with political legitimacy.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Public Enterprises and the Governance Debate

Public enterprises have long been the subject of debate in economics and public administration. They occupy a hybrid position: expected to operate like commercial firms while also serving wider political and social objectives. For many post-colonial states, including Malaysia, they were indispensable for industrialisation, national sovereignty, and redistribution. Yet these same enterprises have often been criticised for inefficiency, politicisation, and weak accountability.

Several theoretical perspectives have been offered to explain the role and performance of public enterprises. Welfare economics suggests that state ownership is justified where markets fail, such as in natural monopolies or in the provision of public goods (Stiglitz, 2001). Developmental state theory, building on East Asian experiences, views enterprises as tools for state-led industrialisation, enabling governments to direct investment and upgrade industries (Johnson, 1982). Public choice theory takes the opposite view, highlighting rent-seeking, bureaucratic expansion, and inefficiency when the state owns firms (Niskanen, 1971). Transaction cost economics adds another angle, noting that in certain circumstances hierarchical structures under state ownership may reduce contracting and coordination costs (Williamson, 1985).

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Each of these perspectives captures part of the picture. Welfare economics explains why governments intervene; developmental state theory highlights their transformative potential; public choice theory underscores the risks of politicisation; transaction cost economics draws attention to efficiency trade-offs. But all four are more concerned with macro-level justifications. They say less about the micro-level governance dynamics: the day-to-day relationship between government principals and enterprise managers. This is where Principal-Agent Theory (PAT) provides a sharper lens.

Principal-Agent Theory: Origins and Core Concepts

Principal-Agent Theory, originally developed in economics and organisational theory, starts from a simple idea: one actor (the principal) delegates authority to another (the agent). In doing so, the principal gains capacity, but risks losing control. Jensen and Meckling's (1976) classic work on the theory of the firm highlighted how this delegation produces agency costs when interests diverge and information is unevenly distributed.

Applied to public enterprises, the government is the principal. It provides resources, sets objectives, and represents citizens' interests. Managers and boards of enterprises are the agents, responsible for implementing these mandates. But problems quickly emerge. Goals diverge: governments may prioritise redistribution or political legitimacy, while managers focus on efficiency or profitability. Information asymmetry allows managers to conceal or distort performance. Monitoring and incentive structures, such as audits, KPIs, and reporting, can help, but they are imperfect and costly.

Agency problems can take several forms. Excessive autonomy may result in mission drift, where agents pursue profit at the expense of public service. Excessive control leads to politicisation, overstaffing, and inefficiency. In hybrid systems, managers often face dual accountability: answering both to political masters and to market forces, creating conflicting incentives. More recently, governance expectations linked to ESG compliance and digital transformation have complicated these agency relationships further. Unlike conventional financial indicators, ESG outcomes are frequently more subjective, multidimensional, and difficult to monitor consistently. This increases opportunities for information asymmetry because managers may selectively disclose sustainability achievements while concealing operational weaknesses. In PAT

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terms, this creates new forms of agent opportunism, including symbolic compliance or "greenwashing," where enterprises project environmentally responsible behaviour without substantive institutional reform. Simultaneously, political principals may also instrumentalise ESG agendas to justify interventionist policies or politically motivated redistribution under the language of sustainability and inclusiveness.

Agency Problems in Public Enterprises

Agency problems are not abstract; they are visible in practice. In developing countries, SOEs are often used for political patronage, with managers constrained by redistributive obligations rather than commercial logic. In advanced economies, privatised utilities show the opposite problem: agents given too much freedom without strong regulators drift away from public interest.

Malaysia's experience reflects all these patterns. In the NEP era, principals dominated, using enterprises for redistribution and legitimacy, with efficiency sidelined. In the privatisation era, autonomy was expanded formally but compromised informally by political influence. In the GLC era, new governance mechanisms such as KPIs sought to reduce agency loss, but political appointments limited their effectiveness.

Mechanisms for Aligning Principals and Agents

PAT suggests that agency problems can be mitigated, though never fully eliminated, through various mechanisms:

a) Performance contracts and KPIs: clarifying objectives and benchmarks.
b) Independent boards of directors: acting as monitors between principals and agents.
c) Regulatory agencies: ensuring accountability in corporatised and privatised sectors.
d) Transparency and reporting: reducing information asymmetry.
e) Incentives and sanctions: linking managerial careers to results.

Yet, these mechanisms depend heavily on institutional context. Where institutions are weak, boards are politicised, regulators captured, and KPIs

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manipulated. Where institutions are strong, as in Singapore, principals are professional and monitoring is credible.

Comparative Applications of PAT

Comparative research illustrates how PAT applies differently across contexts. In the UK, privatisation shifted accountability from political principals to shareholders and regulators. But weak regulation created accountability gaps and instances of regulatory capture (Vickers & Yarrow, 1988). In France, strong political principals dominated enterprises, aligning them with social goals but creating inefficiency. In Singapore, Temasek Holdings acts as a capable principal, giving managers real autonomy while keeping them strategically aligned.

These cases underline an important point: ownership structures alone do not determine outcomes. What matters is the capacity and quality of principals, and the credibility of monitoring institutions.

Why PAT Matters for Malaysia

Malaysia's reform history illustrates why PAT is such a useful lens. During the NEP era, agency problems came from excessive principal control. During privatisation, dual accountability created conflicting incentives. During the GLC era, monitoring improved but political influence endured.

Reforms repeatedly promised solutions, such as redistribution, efficiency, and modernisation, but the core governance problem remained. Principals and agents were not aligned, information asymmetries persisted, and monitoring was politicised. PAT helps us see why reforms that look promising on paper often fail in practice: they reconfigure agency problems, but do not resolve them.

Analytical Framework

Building on PAT, this study adopts an analytical framework that sees Malaysian public enterprise reform as a continuous negotiation between autonomy and control.

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- Principal: The Government of Malaysia (ministries, Ministry of Finance, Khazanah, PNB).
- Agent: Managers and boards of SOEs and GLCs.
- Agency problems: goal divergence, information asymmetry, principal opportunism (politicisation, patronage), agent opportunism (mission drift, profit-maximisation).
- Outcomes: excessive control = inefficiency; excessive autonomy = drift; dual accountability = mixed results.
- Mechanisms: KPIs, boards, regulators, transparency, ESG goals.
- Contextual factors: redistributive politics, patronage networks, institutional capacity.

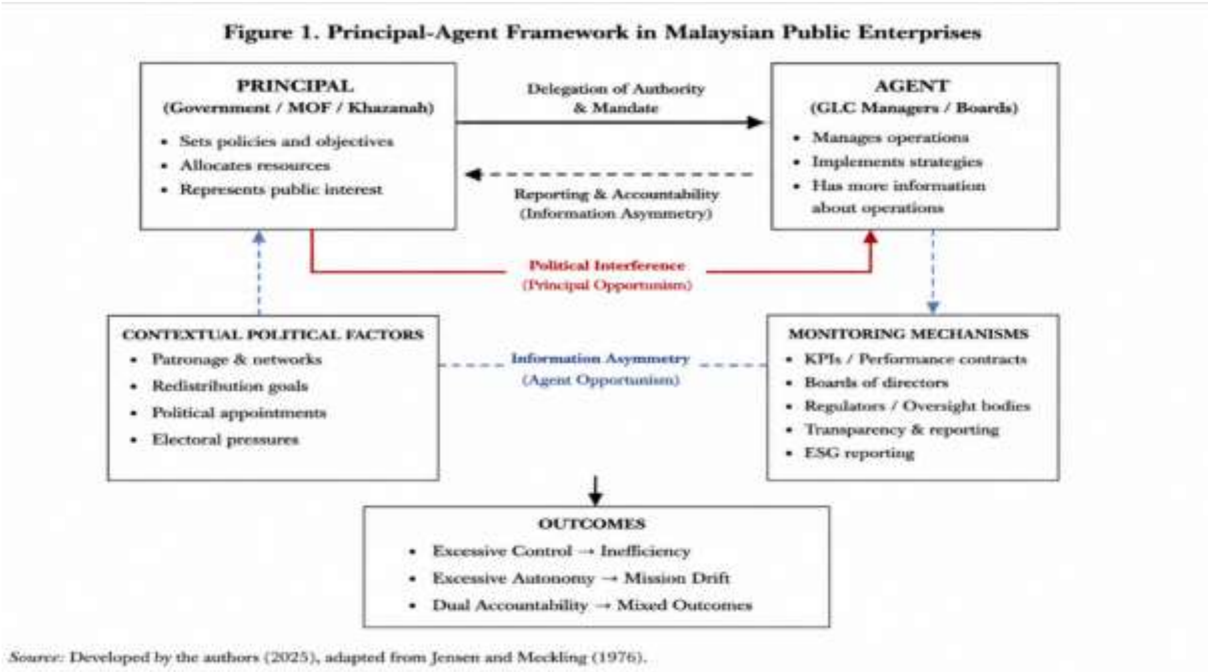

Figure 1: Principal-Agent Framework in Malaysian Public Enterprises
Source: Developed by Hirzi & Faiz (2025), adapted from Principal-Agent Theory.

This framework highlights how Malaysian public enterprises have moved between phases of excessive control, dual accountability, and conditional autonomy. It

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also shows why governance reforms, without depoliticised principals and strong monitoring, have consistently struggled to resolve agency problems.

RESEARCH METHODOLOGY

This article adopts a conceptual and qualitative orientation. It is not a statistical test of hypotheses, but rather a theory-driven interpretation of Malaysia's public enterprise reforms. The central purpose is to use Principal-Agent Theory (PAT) as an analytical lens to understand how the tension between autonomy and political control has been reshaped across different phases of reform.

CONCEPTUAL APPROACH

The analysis builds on the idea that PAT provides a framework for thinking about governance relationships rather than ownership structures. By looking at Malaysia's reform history through this lens, the study highlights not only how enterprises were structured, but also how the delegation of authority between principals and agents shifted over time. This conceptual approach is appropriate because the issue at hand is essentially about governance alignment: what governments wanted, what managers did, and how the two were (or were not) brought into line. The study therefore prioritises interpretive and analytical explanation over causal measurement, with emphasis placed on understanding evolving governance relationships, institutional tensions, and patterns of agency loss across different reform phases.

Sources of Evidence

The study relies on secondary sources. Scholarly works in political economy, public administration, and Malaysian development provide the historical grounding. Policy papers, government documents, and corporate reports, such as annual statements by Khazanah Nasional, Tenaga Nasional, and Telekom Malaysia, offer empirical detail. Reports from the World Bank, OECD, and Asian Development Bank help situate Malaysia within global debates on SOE reform. More recent contributions, for instance Ma, Sulaiman, and Abdul Jalil (2024) on earnings management in GLCs, or PwC Malaysia's (2025) survey of corporate directors, are used to illustrate how governance challenges continue to evolve in practice. In addition, comparative academic literature on state-owned enterprise governance in the United Kingdom,

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France, and Singapore is incorporated to provide broader analytical benchmarking and to strengthen the comparative dimension of the study.

Analytical Strategy

The analysis proceeds in three steps. First, it undertakes a document and literature review to trace the broad trajectory of Malaysian reforms. The NEP era is examined as a phase of excessive control, the privatisation era as one of dual accountability, and the GLC era as an experiment in conditional autonomy.

Second, it applies theoretical interpretation. PAT concepts; goal divergence, information asymmetry, principal and agent opportunism, are used to explain why reforms reconfigured but did not eliminate agency problems. For instance, excessive political control during the NEP reduced managerial autonomy; privatisation created autonomy in form but continued political influence in practice; and GLC reforms introduced KPIs but still suffered from politicisation of appointments.

Third, it introduces a comparative case study of the United Kingdom, France, and Singapore. These cases were chosen deliberately because they illustrate contrasting approaches to the autonomy-control dilemma: the UK's reliance on markets, France's tradition of dirigisme, and Singapore's technocratic hybrid governance. The purpose is not exhaustive comparison but illustrative benchmarking, showing how Malaysia's challenges are part of a wider pattern. The comparative dimension also strengthens the explanatory value of the article by demonstrating that agency dilemmas are not unique to Malaysia but are shaped differently according to institutional capacity, political culture, and regulatory design.

Scope and Limitations

The focus is on federal-level public enterprises, especially those linked to the Ministry of Finance Incorporated and state investment arms such as Khazanah and PNB. The time frame runs from the 1970s to the present, capturing the NEP, privatisation, and GLC phases. Excluded are private enterprises, party-owned companies, and subnational entities, as these fall outside the scope of the PAT framework applied here.

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There are limitations. Because the study relies on secondary sources, it does not capture the voices of managers, policymakers, or regulators directly. Nor does it provide quantitative tests of performance. The comparative cases are illustrative rather than comprehensive, other examples, such as South Korea or Indonesia, could offer additional insights but are beyond the scope of this article. Similarly, the article does not attempt to evaluate financial performance statistically, but instead focuses on institutional interpretation and governance dynamics from a conceptual perspective.

Justification

Despite these limits, the methodology fits the article's aims. The goal is not to prove causality through data, but to reinterpret historical patterns through theory and to draw broader lessons. Document analysis anchors the discussion in empirical material, while comparative case studies prevent the analysis from being overly inward-looking. Using PAT as the guiding lens keeps the focus on governance relationships: how principals and agents interacted, and why agency problems persisted.

In short, this article positions itself as a conceptual contribution. By synthesising existing literature, interpreting Malaysia's trajectory through PAT, and situating the findings in comparative context, it seeks to add to both theoretical debate and policy reflection. More importantly, the study demonstrates how governance reforms frequently reshape rather than eliminate agency problems, particularly in contexts where political considerations remain deeply embedded within public enterprise management.

MALAYSIA'S PUBLIC ENTERPRISE REFORM TRAJECTORY: A PRINCIPAL-AGENT PERSPECTIVE

Malaysia's reform of public enterprises has never been a neat, linear process. Instead, it has unfolded in waves, each shaped by economic pressures, political imperatives, and shifting notions of what public enterprises should achieve. If we use Principal-Agent Theory (PAT) as a guide, a consistent pattern emerges: reforms did not end agency problems but reshaped them in new forms. Three phases in particular stand out; the New Economic Policy (NEP) era, the privatisation era, and the more recent overnment-Linked Company (GLC) era. Rather than representing a linear transition

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from state control to market efficiency, these phases illustrate repeated attempts to renegotiate the balance between political oversight and managerial autonomy.

The NEP Era (1970s-1980s): Dominant Principals and Subordinate Agents

The NEP, launched in 1971 after the trauma of the 1969 racial riots, carried two ambitious goals: eradicate poverty and reduce the economic link between ethnicity and occupation. Public enterprises were central to this mission. They were not only expected to generate growth but also to act as vehicles for redistribution and social restructuring.

From a PAT standpoint, the NEP era was marked by excessive control by principals. Government ministries dictated mandates in detail, while managers acted more like loyal executors than autonomous agents. Political appointments were common, and boards functioned less as monitors and more as extensions of the state. In this environment, managerial discretion was constrained because political legitimacy and redistributive objectives consistently took precedence over commercial efficiency

The story of Petronas, created in 1974, is a clear example. Although it later emerged as a global player, in its early years it was closely tied to the Prime Minister's Department. Similarly, HICOM, set up in 1980, spearheaded industrial projects such as Proton, the national car company. These projects embodied national pride but were driven more by political imperatives than commercial logic.

Inevitably, efficiency suffered. Enterprises became vehicles for redistribution and legitimacy, employing large numbers of Bumiputera workers and relying heavily on subsidies. Overstaffing, financial losses, and fiscal strain were the norm. The problem here was not managers pursuing their own agendas but principals overreaching. Agency loss stemmed from principal opportunism, where political objectives crowded out efficiency.

The Privatisation Era (1980s-1990s): Formal Autonomy, Informal Political Control

By the 1980s, Malaysia faced slowing growth, fiscal deficits, and declining oil revenues. SOEs were increasingly criticised as bloated and inefficient. In response,

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Prime Minister Mahathir Mohamad introduced privatisation, formalised in the Privatisation Master Plan of 1991, as part of his broader Vision 2020 strategy.

Privatisation promised a new principal-agent contract. Managers, now accountable to shareholders and boards, were to enjoy greater autonomy. Market forces would discipline them, while corporatisation of enterprises such as TNB and Telekom Malaysia would inject efficiency and innovation.

On the surface, this looked like a decisive shift. Yet in practice, politics remained deeply embedded. Concessions and contracts frequently went to politically connected firms or individuals. The North-South Expressway, operated by PLUS, is illustrative: toll rates and concession terms were as much political decisions as commercial ones. Likewise, privatisation of water and transport provoked public backlash over tariffs and service quality, reflecting rent distribution rather than efficiency gains.

From a PAT lens, privatisation produced dual accountability. Managers had to respond to shareholders demanding profits, while remaining beholden to political patrons who controlled concessions and appointments. This created conflicting incentives. Regulators such as the MCMC were too weak to act as credible principals, leaving space for both agent opportunism and continued principal opportunism. In effect, autonomy expanded institutionally but remained politically constrained in practice.

Privatisation did modernise infrastructure and expand capital markets. But it also entrenched political patronage, undermining public trust. Agency loss was not reduced; it simply changed form.

The GLC Era (2000s-Present): Conditional Autonomy and Hybrid Governance

By the early 2000s, Malaysia recalibrated again. Rather than selling off assets wholesale, the state consolidated its holdings through GLCs, managed by Khazanah Nasional, PNB, and the EPF. The GLC Transformation Programme (GLCT), launched in 2005, sought to improve governance by introducing KPIs, corporate governance codes, and professional boards.

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The logic was clear: give managers more operational freedom, but within a framework of accountability. In many respects, it worked. Firms such as TNB and Telekom Malaysia improved financial performance and expanded regionally. Khazanah's portfolio management brought more discipline to state ownership.

Still, autonomy was conditional. Political appointments remained frequent, and interventions continued in strategic firms. The troubled saga of Malaysia Airlines, repeatedly bailed out and restructured under political influence, highlights this enduring weakness.

After the GLCT ended in 2015, attention shifted towards ESG (Environmental, Social, and Governance) principles and Malaysia's Shared Prosperity Vision 2030. GLCs were now tasked not only with profitability but also sustainability, inclusivity, and digital transformation. TNB's investments in renewable energy and Telekom's rural broadband initiatives reflected this broadened mandate. The Putrajaya Committee on GLC High Performance (PCG) reinforced governance with stricter disclosure and independence requirements.

There are signs of progress. PwC's 2025 survey of Malaysian directors reported greater awareness of ESG and technology adoption. Yet problems persist. Ma, Sulaiman, and Abdul Jalil (2024) found evidence of earnings management in some GLCs, while Tee and Lai (2021) showed that Malaysian GLCs still underperform compared to Singapore's Temasek-led firms, largely because political influence in Malaysia remains stronger. The expansion of ESG reporting has also introduced new governance complexities because sustainability indicators are often more interpretive and less measurable than traditional financial KPIs, thereby widening opportunities for symbolic compliance and selective disclosure.

From a PAT perspective, the GLC era illustrates the possibilities and limits of hybrid governance. Autonomy is real but never absolute; it remains bound by political oversight. Agency problems are reduced in some areas but resurface in others, especially where political appointments dilute monitoring.

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Summary of Phases

Taken together, Malaysia's public enterprise reforms reflect three shifting but persistent patterns:

a) NEP era: excessive principal control, little autonomy, inefficiency.
b) Privatisation era: dual accountability, formal autonomy undermined by political control.
c) GLC era: conditional autonomy, improved monitoring, but politicisation endures.

Synthesis

Malaysia's history makes one lesson clear: ownership form does not resolve governance dilemmas. Agency loss persisted because principal-agent relationships were consistently shaped by patronage politics and institutional weakness. In the NEP era, control was too heavy-handed. In the privatisation era, autonomy lacked credible oversight. In the GLC era, hybrid mechanisms improved governance but remained undermined by politicisation.

Recent attention to ESG and sustainability represents a step forward, but without depoliticised principals and stronger monitoring, agency problems will continue to evolve rather than disappear. PAT helps us see why: principals and agents remain misaligned, and unless institutions are reformed to professionalise oversight, reforms will only repackage old dilemmas in new forms.

COMPARATIVE INSIGHTS: PRINCIPAL-AGENT DILEMMAS IN ADVANCED ECONOMIES

Malaysia's struggles with its public enterprises are not unusual. When we take a broader look, we find that the same principal-agent dilemma appears in advanced economies as well, though it plays out differently depending on political culture, institutional strength, and regulatory design. To illustrate this, three cases provide especially useful contrasts: the United Kingdom, France, and Singapore.

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United Kingdom: Autonomy without Adequate Accountability

The United Kingdom is often remembered for its ambitious privatisation drive under Prime Minister Margaret Thatcher in the 1980s. Enterprises such as British Telecom, British Gas, and British Airways were corporatised and sold off. The underlying idea was simple: shift accountability away from political principals and let market-based principals, shareholders and regulators, discipline managers.

In practice, this move gave managers more autonomy than they had ever enjoyed under state ownership. They gained the freedom to restructure, innovate, and pursue profitability without daily political interference. Yet the results were mixed. In monopoly sectors such as water and gas, the absence of real competition meant managers could prioritise shareholder value over consumer welfare. Regulators like Ofwat and Ofgem were established to act as new principals, but their limited capacity left them vulnerable to regulatory capture.

From a PAT perspective, the UK case shows how one form of agency problem was replaced by another. The problem was no longer excessive control from political principals, but opportunism by agents under weak oversight. The key lesson here is that autonomy, if not matched with strong and credible regulation, can produce accountability deficits as damaging as politicisation.

France: Strong Principals, Limited Managerial Autonomy

France represents almost the opposite model. With its long tradition of *dirigisme*, the state maintained close control over enterprises such as Électricité de France (EDF), the national railway SNCF, and Air France. Here, managers were typically drawn from elite schools such as ENA, ensuring loyalty to state objectives.

This arrangement reduced the risk of managers drifting from national goals, but it came at a cost. Enterprises were often used for political ends, supporting employment, subsidising unprofitable regional services, or serving electoral interests. Agency problems in France were rooted in principal opportunism rather than agent misbehaviour.

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The parallels with Malaysia's NEP-era enterprises are striking. In both cases, political control ensured alignment with redistribution and national objectives, but inefficiency and fiscal strain were the price paid. The French case warns us that while strong principals can prevent mission drift, they can also suffocate enterprise adaptability and efficiency.

Singapore: Technocratic Principals and Balanced Autonomy

Singapore offers a contrasting example and is often cited as a model of balance. Its Government-Linked Companies, managed under Temasek Holdings, include Singtel, DBS Bank, and SMRT. Unlike Malaysia, Singapore's GLCs are monitored by principals who are both technocratic and insulated from partisan politics.

Managers in Singapore enjoy substantial operational autonomy. They compete internationally, guided by professional boards and performance-based incentives. At the same time, Temasek functions as a capable principal: it sets strategic direction, monitors performance rigorously, and ensures alignment with long-term national goals such as technological upgrading and global competitiveness.

Three features explain Singapore's relative success. First, meritocratic appointments minimise patronage and ensure competence. Second, robust monitoring capacity reduces information asymmetry between managers and principals. Third, aligned incentives balance profitability with national objectives. The outcome is that both agent opportunism and principal opportunism are constrained, producing a more stable governance equilibrium.

Lessons for Malaysia

What do these three cases teach Malaysia?

a) From the UK, Malaysia is reminded that autonomy without credible regulators is dangerous. Privatisation must be accompanied by strong oversight; otherwise, dual accountability and rent-seeking will persist.

b) From France, Malaysia learns the risks of excessive political control. The NEP-era logic of redistribution produced legitimacy but also inefficiency. That lesson remains relevant today.

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c) From Singapore, Malaysia sees the potential of technocratic principals. Temasek demonstrates that autonomy can coexist with oversight, but only when principals are professionalised and depoliticised.

Synthesis

Comparing these cases makes one conclusion hard to ignore: the autonomy-control dilemma is universal, but its form depends on institutions. The UK illustrates agent opportunism under weak principals, France illustrates principal opportunism under dominant politics, and Singapore shows that balance is possible when principals are technocratic and independent.

Malaysia shares aspects of all three. Its privatisation era echoed the UK's problems of weak regulation. Its NEP-era enterprises mirrored France's political dominance. Its GLCs aspire to the Singapore model but remain undermined by politicisation.

In short, PAT helps us see that the question is not whether enterprises are state-owned or privatised, but how principal-agent relationships are structured. Without capable principals, autonomy drifts; without autonomy, control strangles. Malaysia's ongoing task is to professionalise its principals and strengthen institutions, so that autonomy and control can be recalibrated in a way that supports both efficiency and equity.

CRITICAL DISCUSSION AND IMPLICATIONS

Malaysia's public enterprise reforms have been presented as bold shifts, from state-led redistribution, to privatisation, to GLC transformation. Yet, when read through Principal-Agent Theory (PAT), a sobering reality emerges: none of these reforms eliminated agency problems. They merely reshaped the balance between principals and agents, producing new tensions in each era. What changed across reform periods was not the disappearance of agency dilemmas, but the institutional form through which those dilemmas manifested themselves.

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The Universality of the Autonomy-Control Dilemma

Malaysia is not alone in this. The UK's experience with privatisation revealed how managers, once freed from political control, drifted under weak regulatory oversight. France, in contrast, demonstrated how strong political principals constrained managerial autonomy, producing inefficiency and fiscal strain. Singapore showed that balance is possible, but only with technocratic principals capable of granting autonomy while maintaining strategic discipline.

What these cases underline is simple but powerful: the autonomy-control dilemma is structural. It cannot be "solved" permanently. It must be managed, and the quality of that management depends on the institutions in place.

Beyond Agent Opportunism: Principal Opportunism Matters Too

Much PAT literature focuses on agent opportunism, the idea that managers shirk, drift, or exploit information asymmetry. Malaysia reminds us that principals themselves can be opportunistic. Political leaders often used SOEs for redistribution, patronage, and legitimacy. During privatisation, concessions frequently went to politically connected actors, ensuring that political influence endured even after formal ownership shifted. In the GLC era, political appointments continued to dilute the effectiveness of boards and KPIs.

In short, the problem in Malaysia has been less about agents running amok, and more about principals refusing to let go. This reinforces the argument that agency problems in developing democracies are often embedded within broader political economy structures rather than arising purely from managerial inefficiency.

Implications for Theory

Three theoretical points follow. First, we need to move beyond the state-versus-market binary. Ownership structures matter less than how principal-agent relationships are governed.

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Second, PAT must be contextualised. In Malaysia, redistributive imperatives and patronage politics shaped agency problems in distinctive ways. Abstract models cannot capture this without embedding them in political economy realities.

Third, PAT should be treated as dynamic, not static. Principal-agent contracts evolve. In the NEP era, inefficiency flowed from excessive control. In the privatisation era, dual accountability created new distortions. In the GLC era, conditional autonomy was introduced, but political interference persisted. Agency loss did not disappear; it shifted forms.

Fourth, contemporary governance developments such as ESG compliance and digital transformation further complicate PAT assumptions because accountability is no longer limited to measurable financial outputs. ESG indicators are frequently broader, more interpretive, and harder to monitor consistently, thereby widening opportunities for symbolic compliance, selective disclosure, and “greenwashing.” At the same time, political principals may utilise ESG narratives to justify interventionist agendas under the language of sustainability, inclusiveness, or national development priorities.

Policy Implications for Malaysia

What then are the policy lessons? Five stand out.

a) Depoliticise appointments. Without transparent, merit-based selection of CEOs and boards, even the best-designed KPIs will fail.

b) Strengthen principals. Khazanah and PNB must function as genuine technocratic principals, insulated from partisan politics, much like Temasek in Singapore.

c) Align incentives with public value. Performance measures should not stop at financial KPIs. They must include inclusivity, equity, and sustainability.

d) Ensure regulatory independence. Regulators must be empowered and politically insulated. Weak regulation has repeatedly undermined autonomy in monopolistic sectors.

e) Embed transparency and accountability. Parliamentary scrutiny, open reporting, and citizen oversight can reduce information asymmetry and rebuild trust. Encouragingly, recent surveys (PwC Malaysia, 2025) show some progress, but the cultural shift is incomplete.

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These are not technical tweaks. They require political will, and that is the hardest part. In particular, parliamentary oversight should be strengthened through bipartisan committee scrutiny, mandatory disclosure requirements for major GLCs, and regular public hearings involving strategically important enterprises. Without credible legislative oversight, governance reforms risk remaining managerial exercises rather than substantive accountability reforms.

Lessons for Other Developing Democracies

Malaysia's story resonates far beyond its borders. Many developing democracies face the same trap: reforms framed as technical fixes, privatisation, corporatisation, new KPIs, but the deeper political dynamics remain untouched. As long as enterprises are entangled in patronage, agency problems persist.

A new challenge is also emerging. Public enterprises are increasingly judged by multi-dimensional accountability, financial soundness, social inclusivity, and environmental sustainability. UNCTAD (Ayub, 2025) has argued that SOEs in Malaysia could lead green industrialisation, but only if governance frameworks are credible and depoliticised. Digitalisation adds further complexity: it can reduce information gaps, but also creates new ones if principals lack the expertise to monitor effectively.

Synthesis

The broader lesson is clear. The autonomy-control dilemma is an enduring condition, not a temporary glitch. Agency problems will always exist because principals and agents are never perfectly aligned. The real question is how well institutions can manage the tension.

Malaysia has shown us both the risks and the possibilities. With politicised principals, enterprises stagnate, no matter how well KPIs are designed. With strong, professional, and transparent principals, autonomy can be granted without losing accountability. That is the path Malaysia, and many other countries, must learn to pursue.

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CONCLUSION AND WAY FORWARD

Malaysia's history with public enterprises reveals a persistent truth: reforms do not erase governance dilemmas. They merely reconfigure them. From the NEP era of tight political control, to the privatisation era that promised autonomy but entrenched dual accountability, to the GLC era that introduced conditional autonomy and ESG goals yet remained vulnerable to politicisation, the same tension recurs. Principal-Agent Theory (PAT) helps us see this clearly: the struggle between autonomy and control is not incidental but structural.

Comparative evidence reinforces the point. The United Kingdom illustrates the dangers of autonomy without strong principals, regulatory capture, drift, and accountability gaps. France shows the opposite: excessive political control kept enterprises aligned with state priorities but left them inefficient and rigid. Singapore, meanwhile, demonstrates that balance is achievable when principals are technocratic and depoliticised, granting managers operational freedom within clear strategic boundaries.

Three theoretical contributions emerge. First, debates must move beyond the tired binary of state versus market. Ownership structure is not the decisive factor; governance relationships are. Second, PAT must be contextualised. Malaysia's redistributive politics and patronage networks gave its agency problems a distinctive form. Third, PAT should be seen as dynamic. Principal-agent contracts evolve: in one era principals overreach, in another agents drift, in a third both struggle under dual accountability.

The policy implications for Malaysia are sobering but clear.

a) Depoliticise appointments. Without credible boards and professional CEOs, governance reforms will remain cosmetic.

b) Strengthen principals. Khazanah, PNB, and regulators must function as independent and technocratic bodies, not partisan instruments.

c) Align incentives with public value. Financial KPIs are insufficient; equity, inclusivity, and sustainability must be embedded in evaluation.

d) Empower regulators. Weak regulators undermine autonomy; independent and well-resourced regulators can reduce agency loss.

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e) Institutionalise transparency. Parliamentary oversight, citizen scrutiny, and open reporting are vital to reduce information asymmetry and rebuild trust. More specifically, parliamentary committees should be empowered to conduct regular reviews of GLC governance, financial performance, and ESG commitments to ensure that public enterprises remain accountable not only to political elites but also to citizens and stakeholders more broadly.

Beyond Malaysia, the lessons resonate with other developing democracies. Many face the same trap: reforms framed as technical fixes, new KPIs, corporatisation, partial privatisation, but the deeper political economy remains intact. As long as public enterprises are embedded in patronage systems, agency problems persist. The new frontier of governance makes this even harder: enterprises are now expected to deliver not only efficiency and redistribution, but also environmental and social sustainability. This means accountability is no longer one-dimensional. Unless principals themselves evolve to monitor ESG and digital transformations effectively, managers may exploit these new complexities to evade scrutiny.

Ultimately, Malaysia's experience suggests that the autonomy-control dilemma is not something to be "solved" once and for all. It is a condition to be managed, recalibrated, and revisited as circumstances change. The future effectiveness of Malaysia's public enterprises depends not on whether they are state-owned, privatised, or hybrid, but on whether the institutions governing them are strong, professional, and transparent enough to balance autonomy with oversight.

If that balance can be struck, Malaysia's public enterprises will remain not only engines of economic growth, but also credible custodians of equity, legitimacy, and sustainability in the twenty-first century.

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