Catalysing GLC Transformation to Advance Malaysia's Development

Section II – Policy Guidelines

Version Revised: 29/07/05

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Context for change and for GLC Transformation

Vision 2020

"By the year 2020, Malaysia must be a comprehensively developed country – developed economically, developed politically, developed socially and culturally, progressive and caring."[1]

The context for change and for GLC Transformation

The year 2005 marks the half-way point of a thirty year development journey towards Vision 2020 that was first outlined in 1990. While the nation continues to build, develop and to grow with equity, many new challenges – and concomitant opportunities – have emerged in the interceding years since 1990.

In particular, both challenges and opportunities have arisen from the increasing pace of globalisation, liberalisation and international competition, the fall of communism and the resulting entry of former communist states into the global marketplace, the rise of China and India as economic powers, the rise in financial liberalisation and the increased instability in the global financial system.

Of note, the 1997-1998 Asian Financial Crisis has significantly impacted the structure of the Malaysian economy. The concerted efforts of the Government and the private sector at crisis management has resulted in the nation emerging on a stronger footing in all aspects of the economy, from the financial system covering the banking system and capital markets, to the corporate sector. In particular, the corporate sector has emerged stronger through financial and operational restructuring, with stronger balance sheets and improved corporate governance. This period and the subsequent recovery also saw a greater role for Government in economic management including in the banking and corporate sectors that resulted in several large and strategic corporations coming under Government ownership and control.

GLCs and their controlling shareholders, GLICs, constitute a significant part of the economic structure of the nation. GLCs account for approximately RM260

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[1] YAB Prime Minister at the Nikkei International Conference on "The Future of Asia", Tokyo, 25th May 2005; as adapted from 'Vision 2020 – Malaysia as a Fully Developed Country' which was presented to the Malaysian Business Council by Tun Dr. Mahathir Mohamad in 1990

billion in market capitalisation or approximately 36% and 54% respectively of the market capitalisation of Bursa Malaysia and the benchmark Kuala Lumpur Composite Index. Additionally, GLCs account for an estimated 5% of the national workforce. Even with active divestment and privatisation, GLCs remain the main service providers to the nation in key strategic utilities and services including electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking and financial services. The significant role of GLCs as service providers further underscores its importance on the private sector and the economy at large.

In areas of industrial policy and development such as in automotive and semi-conductors, GLCs play an important role in executing Government policies and initiatives and in building capabilities and knowledge in key sectors. Further, in the areas of building international economic linkages through investments in foreign ventures and investments in new growth sectors, GLCs and GLICs are increasingly playing a more active and significant role in line with a gradual internationalisation of Malaysian economic interests in tune with increased global economic liberalisation.

While much has been and continues to be done, to achieve the noble objectives of Vision 2020, greater urgency and impetus needs to be imbued in view of the increasing pace of international competition and the shorter timeframe available to complete the program, in part, due to the hiatus caused by the Asian Financial Crisis.

It is within this context of a continuous and successful development path since independence in 1957 of growth with equity that this GLC Transformation Program is undertaken. As a continuation of this journey, and against the backdrop of increased international competition, the policy thrusts of YAB Prime Minister, Dato' Seri Abdullah Ahmad Badawi's administration is focused on significantly raising the nation's competitiveness by, inter alia, improving the nation's total factor productivity. After making large investments and gains in physical infrastructure, this in large parts involves improved performance, efficiency gains and integrity in the soft infrastructure covering key institutions of state including the police, the judiciary, education and human capital development and the public delivery system.

It is against this backdrop that the GLC Transformation Program is undertaken in the context of the GLCs' significant impact on the economy as producers, service providers, employers and capital market constituents. The urgency for transformation of GLCs is further underlined by its underperformance in terms of operations and financial indicators, at least over the last 15 years since 1990. In this regard, the YAB Prime Minister has made the transformation of our GLCs a critical pillar of this new impetus and has launched initiatives over the last 14 months in line with this broad strategy. It is also hoped that the Government's efforts at improving performance in companies under its control or stewardship will have a positive demonstration effect on the rest of the corporate sector.

This strategy of improving total factor productivity complements and builds upon the gains achieved in the intervening 48 years since independence; building on the political stability and consensus among the various races and communities, on the strong and diversified economic base and the first rate physical infrastructure. In particular, a cornerstone of the Government's and national consensus in nation building is the development of the Bumiputera community as enshrined in the national constitution. In this regard, the GLC Transformation Program will continue to be a significant policy instrument to execute Government's policies with regard to the development of the Bumiputera community, with the ultimate aim of preparing the Bumiputera community and the nation towards greater competitiveness.

Performance of GLCs critical to the future prosperity of Malaysia

New level of GLC performance required. To further elaborate on the importance of GLCs to the national economy, it is worth noting that the urgency for transformation is against the backdrop of the fast pace of changes in the international competitive landscape, the disruption caused by the Asian financial crisis as well as the shorter time frame available before 2020.

GLCs have evolved significantly, some from branches of Government to incorporated entities, others entering or in some cases re-entering into the ranks of GLCs through the Asian financial crisis, while others still arising out of Greenfield start-ups. The different paths to the current state have resulted in varying levels and modes of performance cultures.

One study[2] found that GLCs underperformed the broader Malaysian market on all key financial indicators except for size. Since this study was done in 2004, GLCs have significantly outperformed the broader stock market in terms of total shareholder return measures of capital appreciation and dividend yield[3] – although being a leading indicator this may well be more in hope and anticipation rather than in actual performance to date.

One indicator of performance is economic profit or economic value added. As shown in Exhibit 1, for the "G-15" – a selection of 15 GLCs held by the GLIC constituents of the PCG, which represent approximately 65% of the market capitalisation of all listed GLCs – only 7 out of 15 GLCs created economic profit in financial year 2004, in spite of all 15 being profitable from an accounting standpoint. As per the economic value framework, this analysis, undertaken by the Joint Working Team (JWT) of the PCG looks at the differences between cashflow returns on investment and the weighted average cost of capital of companies.

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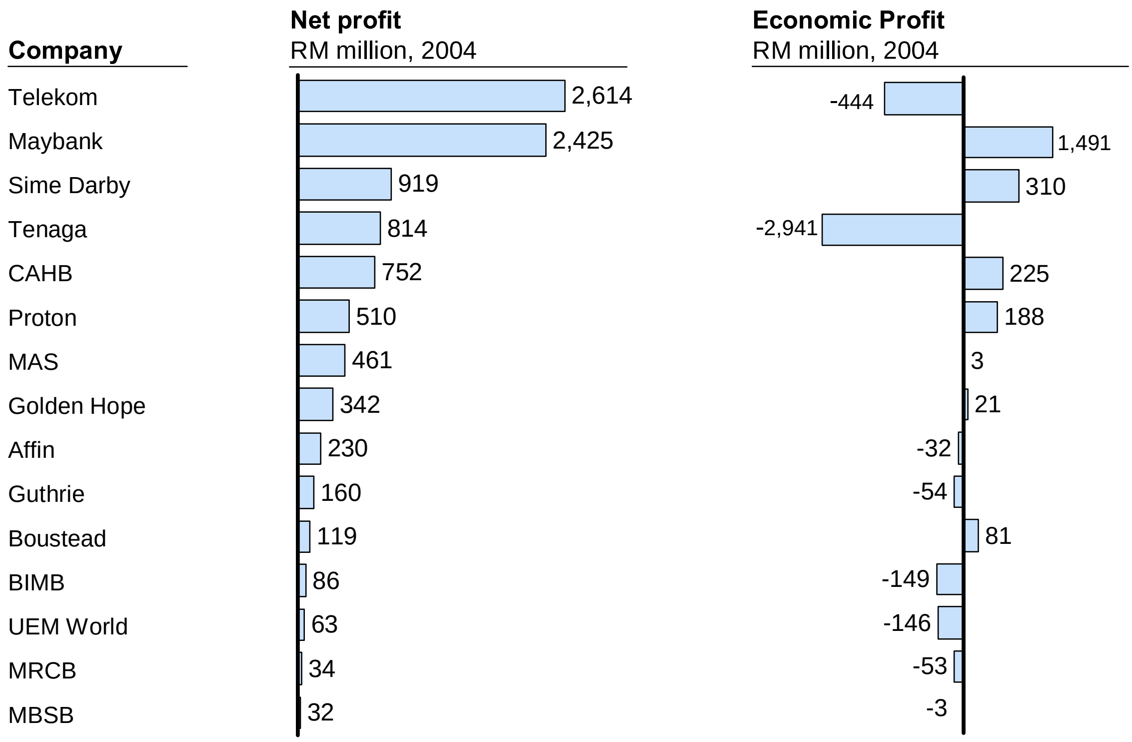
2 CIMB study, "GLCs – Issues & Prospects", June 2004

3 Since May 2004, the "G-15" (a selection of 15 GLCs held by the GLIC constituents of PCG, which represent approximately 65% of the market capitalisation of all listed GLCs) have as a group outperformed the Kuala Lumpur Composite Index (excluding the G-15) by approximately 3 percentage points

Exhibit 1

THE TRUE PERFORMANCE OF MALAYSIAN GLCs IS MUCH WEAKER THAN REPORTED HEADLINE PROFITS SUGGEST

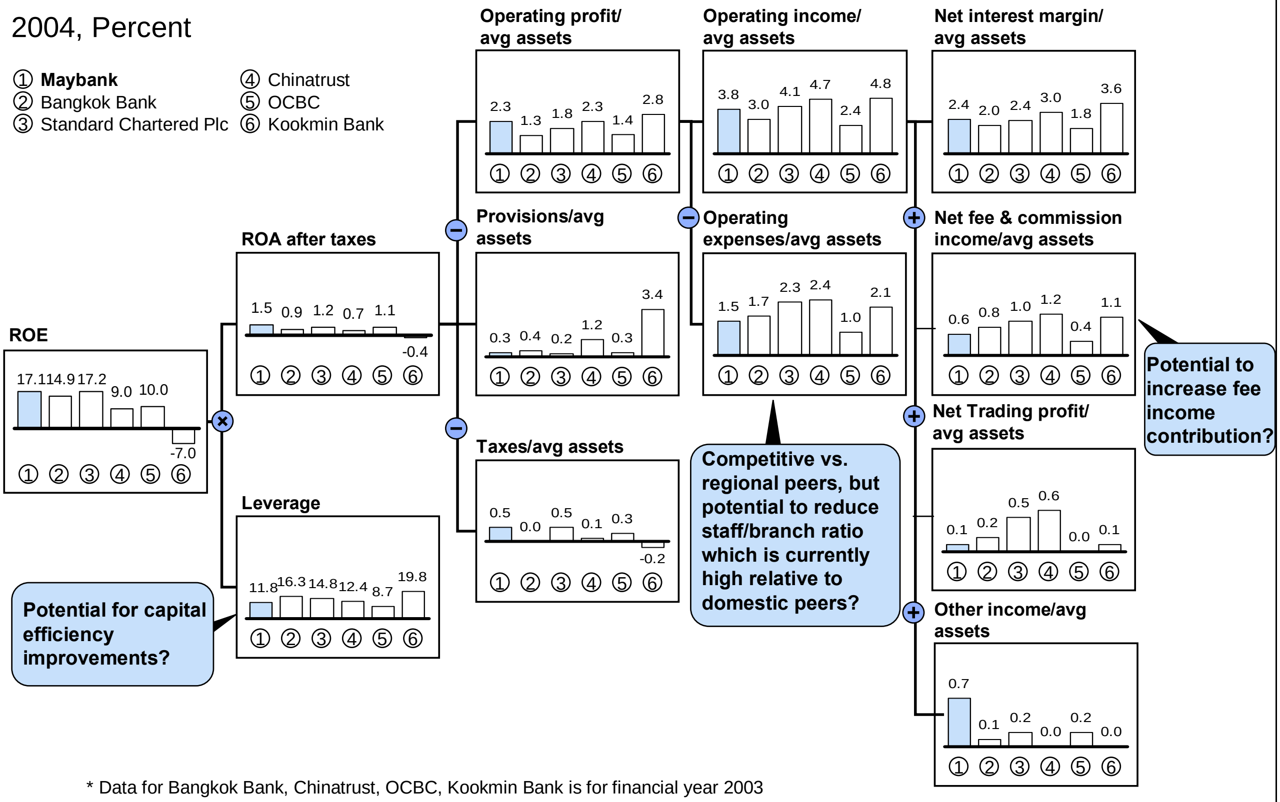


Source: Annual reports; Joint Working Team analysis

Moreover, it is noted that even the better performing GLCs, while adding considerable value domestically may be lagging in certain areas from a regional and global benchmarking standpoint. As indicated in Exhibit 2, while Maybank earned an estimated economic profit of RM1.5 billion in 2004 and is at the top end among its regional peers in terms of Return on Equity, a comparison with peers highlights possible performance improvement opportunities in areas such as capital efficiency and fee income generation.

Exhibit 2
EVEN FOR A HIGH-PERFORMING PLAYER LIKE MAYBANK, THERE COULD STILL BE ROOM FOR IMPROVEMENT

2004, Percent



* Data for Bangkok Bank, Chinatrust, OCBC, Kookmin Bank is for financial year 2003

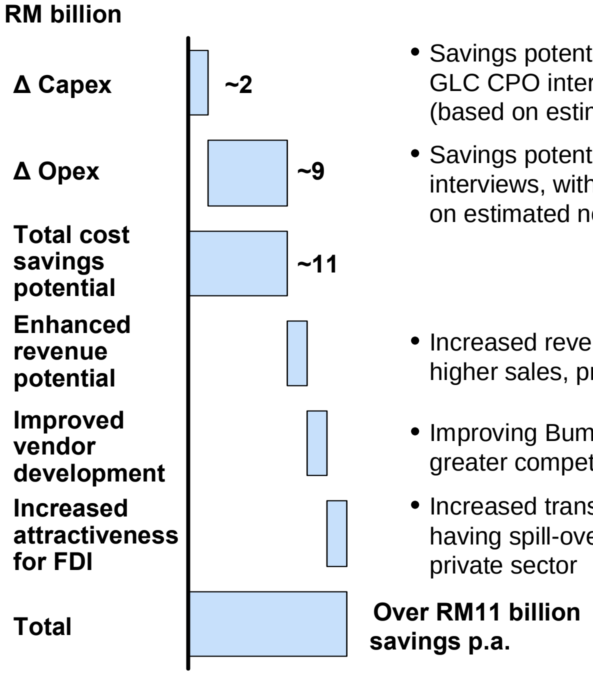
Source: Bankscope; analyst reports; Joint Working Team analysis; JP Morgan Report on GLC Reforms, 6 September 2004

While some GLCs have shown good momentum in improving organisational health and performance over the last 12 months, the deficits or underperformance in economic profit are symptoms of deeper shortfalls in the capacity of GLCs.

Significant benefits from GLC Transformation. Using one of the methodologies to estimate the potential for value creation, PCG estimates that high performing GLCs could, in the next five to seven years, contribute a potential upside of RM250-300 billion in market capitalisation for Bursa Malaysia, or a doubling from current levels. To illustrate the magnitude of benefits from GLC Transformation, potential enhancements in procurement practices and systems alone is estimated to result in annual bottom-line impact of over RM11 billion for the "G-15" (see Exhibit 3).

Exhibit 3
THERE ARE SIGNIFICANT BENEFITS FROM GLC TRANSFORMATION – ILLUSTRATIVE EXAMPLE ON PROCUREMENT

CONSERVATIVE ESTIMATES



- Savings potential ~10-30%* based on international benchmarks and GLC CPO interviews, with overall impact ~RM2 billion p.a. for "G15"** (based on estimated capital expenses of ~RM10 billion in 2004)
- Savings potential ~10-30%* based on benchmarks and GLC CPO interviews, with overall impact ~RM9 billion p.a. for "G15"** (based on estimated non-personnel opex of ~RM45 billion in 2004)
- Increased revenue through quality improvements leading to higher sales, pricing, retention
- Improving Bumiputera supplier development by promoting greater competition
- Increased transparency leading to lower cost of capital, thereby having spill-over effect to overall Malaysian economy, including private sector

* Select savings benchmarks from procurement initiatives in: Guatemala – 43%; Colombia – 47%; Nicaragua – 40%

** The "G-15" is a selection of 15 GLCs held by the GLIC constituents of the PCG, and represent approximately 65% of the market capitalisation of all listed GLCs

Source: GLC annual reports; McKinsey & Company benchmarks; interviews; World Trade Institute; Joint Working Team analysis

Beyond the economic and financial benefits to shareholders, high performing GLCs will benefit all stakeholders and contribute to Malaysia's future wellbeing in other important ways, as described in Exhibit 4.

Exhibit 4

IN ADDITION TO INCREASING SHAREHOLDER VALUE, GLC TRANSFORMATION WILL BENEFIT ALL STAKEHOLDERS

Key stakeholders	Benefits
Customers	• Higher service and quality levels • Better value-for-money propositions from more productive and efficient GLCs
Labour force	• Better job prospects and human capital development at more dynamic and rapidly growing GLCs • Likely to be preceded by phase of reduced employment to drive out inefficiencies
Private sector	• Increased pressure for private sector to maintain competitiveness and skill levels, thereby increasing overall industry standards
Suppliers	• Increased transparency with merit-based procedures favouring the highest value-for-money suppliers • Reduce leakages, inefficiencies and corruption
Bumiputeras	• Uplift in GLC performance will support the continued development of a more competitive Bumiputera community, through better skilled Bumiputera employees and more capable Bumiputera suppliers

Source: Joint Working Team analysis

The challenges are many and complex, but GLC Transformation is achievable

Clear challenges to address. To create a more enabled environment for performance for GLCs involves addressing many complex issues. The challenges to performance from the findings of interviews by the JWT of the PCG as well as input from various independent analyses from consulting firms, investment banks and indeed from the Government itself and other stakeholders is complex and multi-fold. Many of the key factors are internal while others are as a result of external factors, many of which are less within the control of GLCs such as falling trade barriers and the structural increase of key costs such as the price of fuel. While the factors are manifold, several key themes on challenges to performance emerged strongly from the various interviews and analysis, summarised in Exhibit 5 below.

Exhibit 5
TRANSFORMATION EFFORT MUST ADDRESS ISSUES TO ENHANCE THE PERFORMANCE OF GLCs TODAY

Performance Driver	Characteristics to address to enhance performance
Certainty and clarity of GLC objectives	• Increase focus on value-creation and/or clarity on social objectives • Increase certainty as to how to achieve social objectives, what required standards are, and at what costs • Make clear how GLC objectives fit with broader industry context/goals
Clear and transparent Board and management authority	• Clarify and streamline reporting lines of Boards to increase empowerment • Improve interaction between Boards and management • For some GLCs, need to improve continuity in view of relatively short, single-term tenure of CEOs resulting in disruption every 2 to 3 years
Effective Directors and Boards	• Need for more Directors with relevant operational, functional or where applicable, international experience – need for better selection processes, access to wider pool, and more attractive proposition for Directors
Strong performance management and financial discipline culture	• More competitive compensation, better performance management • Greater financial and return on investment focus, more attention to 'at what cost' • More disciplined access to funding
Credible and capable active GLICs	• Help equip GLICs to be more active in the monitoring and management of their portfolio companies

Source: Joint Working Team analysis

Objectives and goals are achievable – large-scale transformation of SOEs has occurred. Beyond the challenges, a closer look at GLCs, and a review of other nations' state-owned enterprises, clearly indicates that GLC Transformation is not an impossible goal. New Zealand's economic transformation of the past 10 to 15 years, while in a different socio-economic context saw significant transformation at the micro-economic level in companies such as New Zealand Post and New Zealand. The journeys of individual state-owned enterprises like Telefonica in Spain and Unicredito Italiano in Italy also provide important lessons. These companies, once laggards, have become regional, and even global, champions.

While these experiences are necessarily context bound within the socio-political conditions of each nation at a particular point in time, there are nonetheless many lessons that are instructive for Malaysia. One lesson is that such transformation of GLCs is a long journey, which takes anything from 5 to 10 years.

In addition to the long duration for change, as detailed in Exhibit 6, the experience of such transformations all point toward the need for deep and lasting change in corporate culture that involves the highly challenging task of changing staff mindsets and behaviours. In turn, the learnings for successful and sustainable changes in corporate culture all broadly point toward three key success factors:

a. *Strong leadership* – intense personal conviction, commitment and involvement from corporations' senior management, which typically requires a change in mindset and behaviour at that level first.

b. *Large investments in human capital* are required as multiple aspects of the transformation require efforts that go beyond 'business as usual' resources and capabilities.

c. *Steadfastness and political will* – the learnings from successful transformations all have the common characteristics of making and sticking with many tough decisions. This includes divestments or closure of businesses that are structurally underperforming, changes of Chairman, CEO, Board members and senior executives, as well as large-scale redundancies. To last the journey, the companies and in the case of New Zealand, the nation, required constancy and steadfastness and strong political will.

Exhibit 6

TRANSFORMATION IS A LONG AND CHALLENGING JOURNEY

	Telefónica	UniCredit Banca	Posteitaliane
Change in position	From state-controlled monopoly and 82nd in market cap to third largest international integrated telecommunications company in the world	From unprofitable state-owned domestic player to leading European player with 20% ROE and presence in eight countries	From state-controlled organisation near financial collapse to leader in domestic post and number three insurance provider with high growth prospects
Time to transform	10 years	9 years	5 years
Change in top management	3 very different CEOs over 10 year journey. Major changes to top management team	4-5 senior management changes in 12 months	New divisional structure (400 new managers in HO) in place in 8 months of implementation with no disruption
Staff change	• 1997: ~70,000 total staff • 2002: ~35,000 total staff • 2004: ~25,000 total staff	• 2000: ~2,000 total staff • 2001: ~1,500 total staff • 2004: ~900 total staff	• Reorganised units of more than 25,000 staff
Dedicated change agents	30 – 50 multifunctional teams with 200+ high performing members	300 top managers managing high performing sales force 40 staffs dedicated to product innovation	~ 50 teams with ~2,000 staff dedicated and ~15,000 staff involved

Source: McKinsey analysis

A coordinated national effort towards GLC High Performance

Given its critical importance for the long-term prosperity of the nation, the YAB Prime Minister has made the transformation of GLCs a national priority. This transformation aims at a deep and sustained structural improvement in GLC organisational and performance practices where benefits are targeted to be reaped over the short and medium, but ultimately focused on sustainable longer-term benefits over the next 5 to 10 years.

2004 Measures launched GLC Transformation. As the foundation, and to kick-start the Program, the YAB Prime Minister initiated a set of '2004 Measures' in May 2004. These are detailed in Exhibit 7.

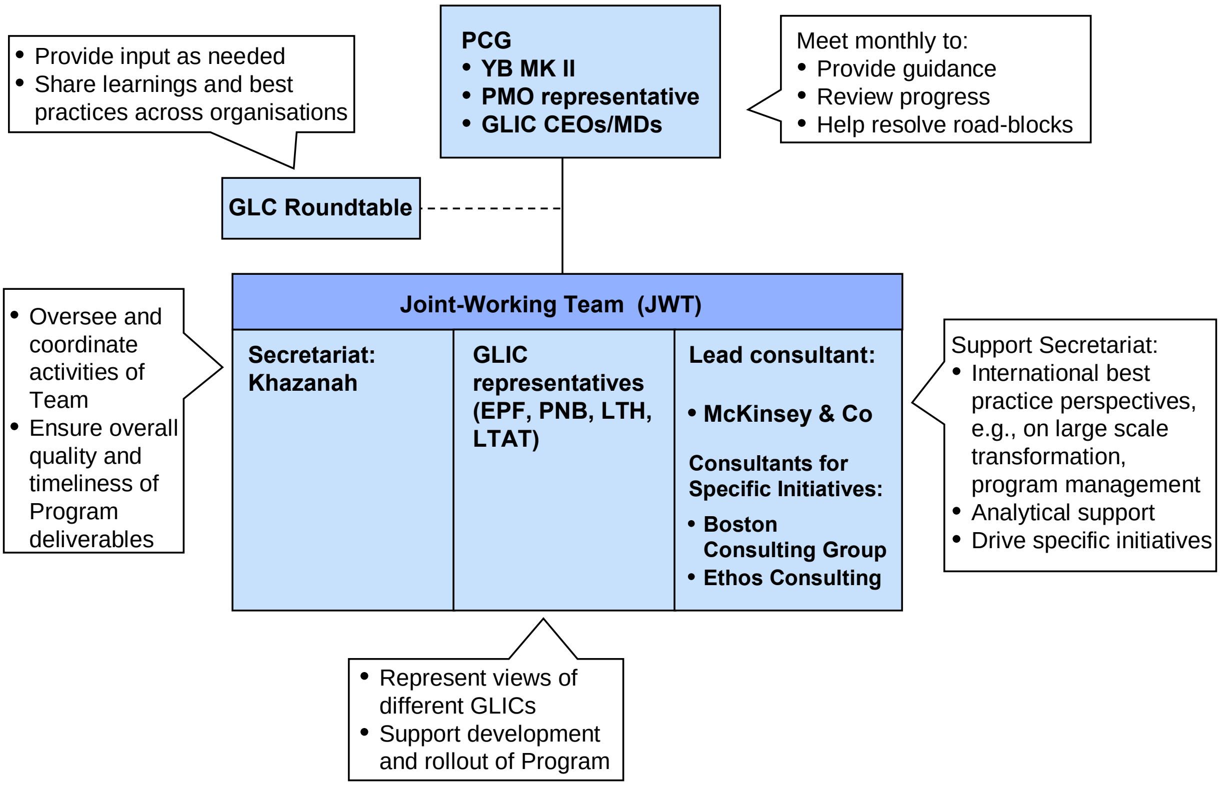
Exhibit 7
GLC TRANSFORMATION FOUNDATION – '2004 MEASURES'

2004 Measure	Description
1 Guidelines on KPIs and PLC	• Referred to as the 'Blue Book' • Provided a framework to design and implement fact-based monitoring, assessment and rewarding of the performance of GLCs executives • Performance contracts for senior management
2 Board composition reform	• Reduce number of Board members to 10 • Required a broader and more balanced representation of expertise • Removal of regulators from Boards
3 Revamp of Khazanah	• From a passive to an active shareholder • Mandate of driving the transformation of GLCs in its portfolio • Building regional and international investments and linkages
4 Senior management and Board changes	• In line with new phase at several major GLCs, e.g., Tenaga Nasional, Telekom Malaysia • Signal of government's commitment to GLC transformation

Source: Joint Working Team compilation

PCG formed in 2005. To sustain the momentum created by the launch of measures in 2004, in January 2005, the Putrajaya Committee for GLC High Performance (PCG) was formed. The PCG is chaired by YB Minister of Finance II and reports to YAB Prime Minister. Membership of the PCG consists of the heads of PNB, EPF, Khazanah, LTAT and LTH, and representatives from the Ministry of Finance Inc. (MKD) and the Prime Minister's Office. Khazanah also acts as the Secretariat to PCG and chairs and drives the PCG Joint Working Team which consists of representation from all GLICs. Lead consultant to the PCG was McKinsey & Company while other consultants, notably the Boston Consulting Group and Ethos Consulting, contributed to specific initiatives in the program (see Exhibit 8).

Exhibit 8
STRUCTURE OF THE PCG AND JWT



Source: Joint Working Team compilation

The PCG has met a total of seven times since its formation in January 2005. Its principal mandate is to design and implement comprehensive national policies and guidelines to transform the GLCs into high performing companies, and establish the institutional framework to first program-manage and subsequently to oversee the execution of these policies and guidelines.

Over the course of the last seven months since January 2005, the PCG through the JWT conducted a significant amount of research and analysis into the causes and issues surrounding GLC performance. Various research methodologies were employed including more than one hundred interviews, review of relevant best practices, regional and international benchmarking, and a review of existing policies and legal frameworks governing GLCs. The various research and analysis conducted are detailed in Exhibit 9.

Exhibit 9
SUBSTANTIAL ANALYSIS AND RESEARCH CONDUCTED TO DERIVE RECOMMENDATIONS

Analysis of GLCs' operating framework	1. Benchmarking of GLC performance against Malaysian and regional peers 2. Identification of traits and characteristics of the best and worst performing GLCs 3. Review of lessons learnt from previous GLC transformation initiatives launched 4. Review of relevant Malaysian laws, policies, and guidelines that directly or indirectly influence GLC governance, strategy and operations
Interviews	5. Over 100 interviews conducted involving: • GLIC CEOs • Chairmen and CEOs of the largest GLCs • Nominee and independent directors on Boards of GLCs • Leading foreign and domestic institutional investors • Leaders within the private sector and key Malaysian opinion leaders • Strategy, HR, and Procurement managers at GLCs
Best practices	6. Review of successful transformation cases around the world, including a detailed presentation of Telefonica's transformation into a global champion 7. Analysis of global 'professional shareholders' leveraging 'five lenses', namely, leading corporate governance practices; GLICs in other markets; major pension funds; leading private equity firms; and leading conglomerates 8. Study of the UK, New Zealand, Singapore, Indonesia and China to understand their experiences with a national program to transform state-owned enterprises 9. Review of best practices at GLCs such as Petronas and at non-GLCs, including Shell Malaysia

Source: Joint Working Team compilation

Deliverables of the PCG in 2005 and 2006. Over the course of 2005 and 2006, the main deliverables of PCG are in three interrelated areas, of which most have been fully or partially completed at this stage:

1. **Policy Guidelines**[4] that set the policy framework for GLC Transformation addressed to the three principal agents for change, namely at the GLIC level, the GLC Board level, and within GLCs themselves. These Guidelines are launched today on 29th July, 2005 and organised along five Policy Thrusts:

    a. Clarify the GLC mandate in the context of national development;

    b. Upgrade the effectiveness of Boards and reinforce corporate governance of GLCs;

    c. Enhance GLIC capabilities as professional shareholders;

    d. Adopt corporate best practices within GLCs; and

    e. Implement the GLC Transformation Program.

[4] As contained in Section II of this Transformation Manual, pages 17 to 50

2. **GLC Transformation Program 2005/2006 Initiatives**[5]**.** Building on the 2004 Measures, **Ten Initiatives** have been identified to be developed, launched and implemented across GLCs over the next 12 to 17 months, that is between now and July to December 2006. The ten Initiatives, as listed in Exhibit 10 below, have been identified on the basis of their importance as levers for change, their large potential impact on value, and the unique ability of PCG to drive change in these areas.

   The Initiatives are organised into 'Execution Books' that detail 'how' selected Policy Guidelines are to be implemented. They contain, inter alia, terms of reference, guiding principles, and supporting material including walkthrough examples, templates, tools and forms. To support the roll-out of these Initiatives, in certain instances pilots will be undertaken at select GLICs and GLCs to create momentum and to test execution challenges.

EXHIBIT 10

TEN OVERARCHING THEMES OF INITIATIVES

Initiative	Description
1 Enhance Board effectiveness	'Green Book' on enhancing Board effectiveness through revamping Board practices and processes (based on pilot) to be distributed by December 2005
2 Strengthen Directors capabilities	Director Academy to be established by mid-2006. Strategies for sourcing effective Directors currently being developed with pilot.
3 Enhance GLIC Monitoring and Management functions	Learnings from pilot GLIC to enhance the processes and capabilities of its M&M function and establish 'nominee director term sheets'
4 Improve regulatory environment	Guidelines to assist GLCs in building regulatory capabilities based on pilots and the development of a Regulatory Knowledge Network involving relevant GLICs and GLCs. Initiative expected to be launched in Q4 2005.
5 Clarify social obligations	'Silver Book' with Guidelines to assist GLCs in clarifying and quantifying their social obligations based on 2 pilots. Initiative expected to be launched in Q4 2005.
6 Review and revamp procurement	'Red Book' to provide best practices, clarification on government policies and the role of GLCs in developing local suppliers, based on pilots, to be distributed by Q4 2005.
7 Optimize capital management practices	'Purple Book' with Guidelines for GLCs to optimize capital management, which is expected to be distributed by Q1 2006.
8 Manage and develop leaders and other human capital	'Orange Book' to provide guidance to GLCs to develop programs to identify, cultivate and develop leaders and other human capital, expected to be distributed by Q2 2006.
9 Intensify performance management practices	'Blue Book' Version 2.0 launched. Other initiatives to driver performance, such as Headline KPIs, implementation of EVA/VBM expected to be launched by Q1 2006.
10 Enhance operational improvement	'Yellow Book' with guidelines on managing non-core assets, and 'Brown Book' on customer charters expected by end of 2006, as examples of Initiatives to drive operational improvement and therefore value creation at GLCs

Source: Joint Working Team compilation

[5] As contained in Section III of this Transformation Manual

3. A multi-level **Communications Program** to address various stakeholder groups involved in and impacted by the GLC transformation program. A GLC Transformation Program Communications Team is being formed within the JWT of the PCG located at Khazanah.

The two first deliverables, combined, are referred to as the **"GLC Transformation Manual".** This Manual is designed as a codification of the principles and practices of GLC Transformation and is structured as a living document that allows it to be updated in modular form as the 2005/2006 Initiatives are rolled-out, as lessons learnt result in iterative changes and as further improvements, additions or deletions to Policy Guidelines and Initiatives are made.

***Next steps and execution timeline*.** The GLC Transformation Program is a long-term program where the full benefits are expected to be gained over the long run. PCG has set a target of ten years to 2015 (see Exhibit 11) for the nation to reap the full benefit with intermediate phases where partial yet significant impact can be achieved. In this regard, PCG has identified four phases of implementation.

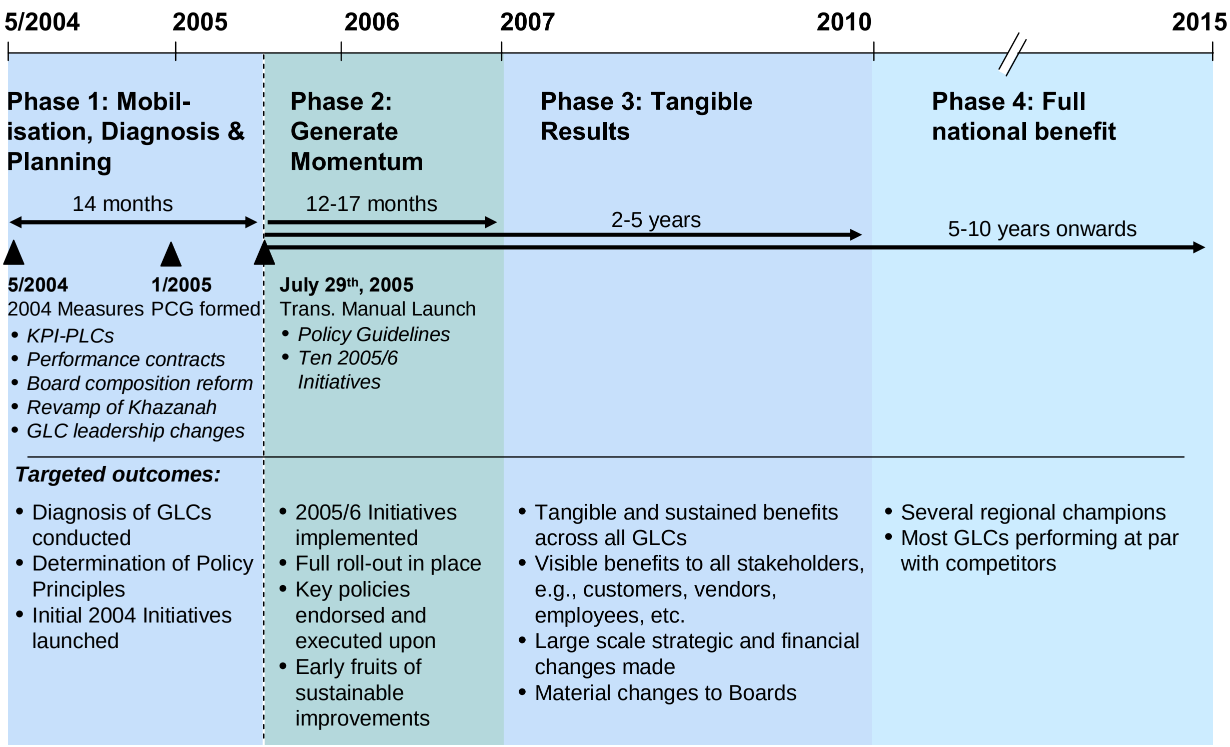
1. *Phase 1: Mobilisation, diagnosis and planning* (14 months from May 2004 to July 2005). This is the current phase that started with the launch of the 2004 Measures in May 2004 and the subsequent implementation of the measures that include the KPI-PLC Guidelines, introduction of performance contracts, changes in the principles of board composition, leadership changes in key GLCs and the revamp of Khazanah. This is followed by the program management approach to GLC Transformation driven by the formation of PCG in January 2005 culminating in the launch of the Policy Guidelines and 2005/06 Initiatives today, 29th July 2005. It should be noted that during this phase, several of the more advanced GLCs have already implemented many of their own programs in the areas identified by the Initiatives, for example in procurement, capital management and board effectiveness.

2. *Phase 2: Generating momentum* (17 months from August 2005 to December 2006). Moving from Phase 1 to Phase 2 involves the task of rolling out and implementing fully the Policy Guidelines and Initiatives identified in Phase 1. PCG targets that at the end of this phase, all the Initiatives will be launched. PCG expects that this phase will likely experience many test cases in implementation and will require strong support and oversight from PCG and from the highest levels of Government. PCG targets that the early fruits of sustainable improvements will begin to emerge at this stage. This will be crucial in meeting capital market and stakeholder expectations that have begun to be built in over the last 12 months or so since the launch of the 2004 measures.

3. *Phase 3: Tangible and sustainable results* (in 2 to 5 years from now, that is between 2007 to 2010). PCG expects that tangible and sustained benefits of across the GLCs will start to be visible to the investment community and all other stakeholders in this timeframe. It is envisaged that many large-scale strategic and financial changes would have been made by this stage, structurally strengthening the balance sheets and the competitive position of GLCs. Further, the Board and Executive bodies of many GLCs will have seen material changes, as the implementation of intense performance management will start to drive the replacement of Board members and executives who do not deliver on targets.

4. *Phase 4: Full national benefits* (in 5 to 10 years from now, that is between 2010 to 2015). PCG targets that towards the end of this phase, GLCs will be performing at least at par with non-GLC peers and competitors in the Malaysian market while several GLCs would have cemented positions as regional champions.

Exhibit 11
GLC TRANSFORMATION IS A LONG-TERM PROGRAM



Source: Joint Working Team analysis

The following section highlights Policy Guidelines grouped under five Policy Thrusts that are designed to spearhead the program. **While the Government is providing this enabling environment for GLCs to perform, it will be the collective and individual determination of Chairmen, Boards, and CEOs of GLCs and GLICs to lead and execute on this journey. The success of this program will be an important building block in the journey towards the achievement of the noble aspirations of Vision 2020.**

Policy Thrust 1: Clarify the GLC mandate in the context of national development

Guideline 1.1: Define the underlying principles for GLC Transformation

From the foregoing, there are three underlying principles of the GLC Transformation Program summarised as follows:

1. ***National development foundation*** – the GLC Transformation Program is a subset of the broader national development strategies that include the principles of growth with equity, improving total factor productivity, the development of human capital, and the development of the Bumiputera community.
2. ***Performance focus*** – the underlying rationale of the GLC Transformation Program is to create economic and shareholder value through improved performance at GLCs. Hence, specific policy guidelines and initiatives will be driven by principles of performance and meritocracy within the broader national development focus described above.
3. ***Governance, shareholder value and stakeholder management*** – the GLC Transformation Program, while being led by the Government, fully observes the rights and governance of shareholders and other stakeholders. Hence, the policy measures to be implemented come in the form of policy guidelines rather than rules that GLCs are expected to implement through their Board of Directors in line with good governance. In addition, and within the context prescribed above, GLCs are expected to engage in managing other valid stakeholder interests, in particular those of employees, customers, suppliers and the Government itself as regulators and policy makers.

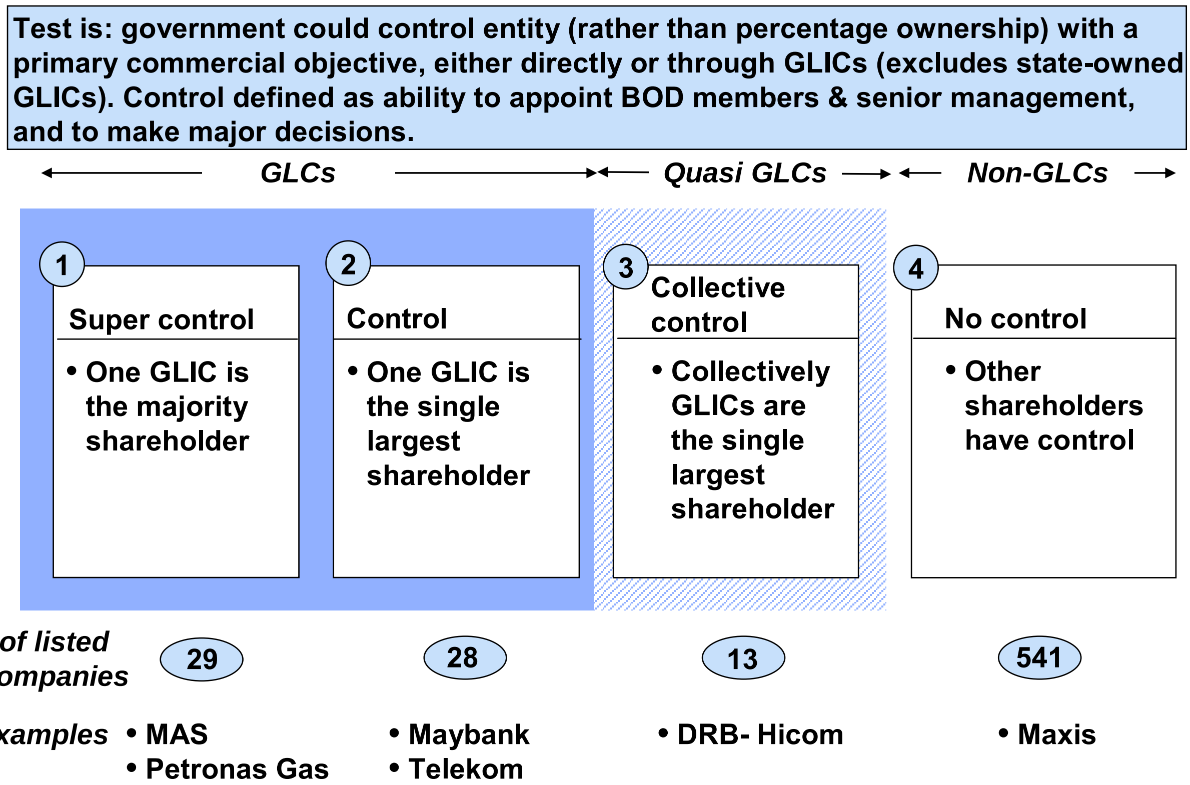
The specific Policy Guidelines, Initiatives and other pronouncements described in the GLC Transformation Program, the Transformation Manual and all other related documents, current and future, will be subject to the proper interpretation and context of the preamble and underlying principles as laid out in the previous pages.

Guideline 1.2: Define GLCs and the applicability of the Guidelines and Initiatives

The test of what constitutes a GLC is defined by control rather than percentage ownership. Essentially, a GLC as defined in this Transformation Program, is where control of a company is exerted by a GLIC, either in terms of super control (where one GLIC is the majority shareholder) or simple control (where a GLIC is the single largest shareholder). Control is defined by the ability to exercise and influence major decisions such as appointment of Board members and senior management, award of tenders and contracts at the Board and so on.

This Transformation Program, its Guidelines and Initiatives apply to GLCs held by federal-level GLICs, where super control or simple control is exercised or exercisable. Subsidiaries of such GLCs would also fall within the purview of this Program. This Program excludes state-controlled or state-linked companies and it excludes quasi-GLCs as highlighted in Exhibit 1.1 below.

Exhibit 1.1
STANDARD DEFINITION OF GLCS



Source: PCG

Guideline 1.3: Clarify the objectives and roles of Government, GLICs and GLCs

Clarity of objectives and roles of each component of the GLC ecology. While the focus of this Transformation Manual is on Guidelines and actionable Initiatives for GLICs and, in particular, GLCs, the starting point for such an exercise requires a proper understanding of the objectives of the main components within the GLC ecology, namely GLCs, GLICs and the Government itself. In the analysis and interviews conducted by the PCG, unclear and multiplicity of objectives of GLCs is generally cited as a challenge for the Boards and Management of GLCs. While specific areas of this Manual address this, such as the Guidelines and Initiatives on Social Obligations, several general principles and modalities are established henceforth.

Recognizing the various roles of Government in socio-economic management as a Social Developer, Economic Developer, Regulator and Investor[6]. While there are some overlaps between these roles, proper delineation, in general, allows for better focus, clarity of objectives and division of duties and accountability. This also helps to provide greater clarity for GLCs in its engagement with the various branches of Government.

It should nonetheless be noted that the distinctions between the classifications are not so discrete and there are necessarily some overlaps between the various roles of Government. In any case, there are several national development policies and initiatives that run across all functions such as the drive for greater integrity, improving the public delivery and promotion of local and Bumiputera vendors.

Understanding the relationship between the Government and GLICs/GLCs. In the governing of GLICs and GLCs, proper balance and process needs to be observed in respect of the relationship and interaction between the Government and the GLIC/GLC.

In its role as an Investor, in wholly-owned GLCs, the issue of minority interests does not arise and hence the Government as a 100% investor is free to drive key decisions without reference to any other shareholder. In non 100% owned and especially listed companies where there are significant minority shareholders, the Government's position is similar to a major shareholder in companies with multiple shareholders in that the rules and regulations of corporate governance apply whereby interaction is generally done through the channels of the Board of Directors, where the Government or GLIC may be represented in the majority.

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6 To illustrate, examples of the various roles, respectively, include provision of law and order and national security services such as Police and Armed Forces, promotion and development of the Multimedia Super Corridor, the exercise of regulatory functions by the Malaysian Communications and Multimedia Commission (MCMC), and Khazanah Nasional as the investment arm of the Government.

In its role as a regulator or as a developer, the interaction between the Government and the GLIC/GLC is generally similar to that of the Government and any other non-GLC, except that a GLC by virtue of being controlled by the Government may be subjected to a greater requirement to comply with Government policies, including additional social obligations. In cases where GLCs are subjected to higher than usual social or non-commercial obligations, the recommended practice framework is covered in Guideline 4.2 on *Corporate Social Responsibility and clarifying social obligations and investments.*

Historically, the areas of procurement and compensation are areas where Board decisions in some GLCs require additional approvals from the Government in order to comply with Government policy. Going forward, in due course, it is anticipated that the mechanism for Government's policy imperatives on procurement and compensation will shift to the GLC Policy Guidelines and Initiatives that will require all GLCs to comply.

Guideline 1.4: Promotion of the Bumiputera community

PCG reiterates that a fundamental principle of the Government's economic policy in pursuing the objectives of Vision 2020 is to strive for growth with equity. A cornerstone of this policy is the continued promotion and development of the Bumiputera community. In this regard, the GLC Transformation Program will continue to be a significant policy instrument to execute Government's policies with regard to the development of the Bumiputera community, with the ultimate aim of preparing the Bumiputera community and the nation towards greater competitiveness.

PCG believes that the objectives of making GLCs better performing companies and the development of genuine Bumiputera suppliers and vendors as well as the development of Bumiputera human capital within GLCs are not mutually exclusive but, rather, are mutually reinforcing objectives. The aim is to strive towards a mutually reinforcing relationship where stronger GLCs are able to be better developers of Bumiputera SMEs and human capital that in turn contribute back to the strengthening of the GLCs itself.

There will be specific areas where Bumiputera development will be strengthened under the GLC Transformation Program. In particular, it is envisaged that the Initiatives of improving procurement practices will include targeted improvements in the Bumiputera Vendor Development Program.

Implementation Timeline

Guidelines 1.1 to 1.4 will take effect immediately.

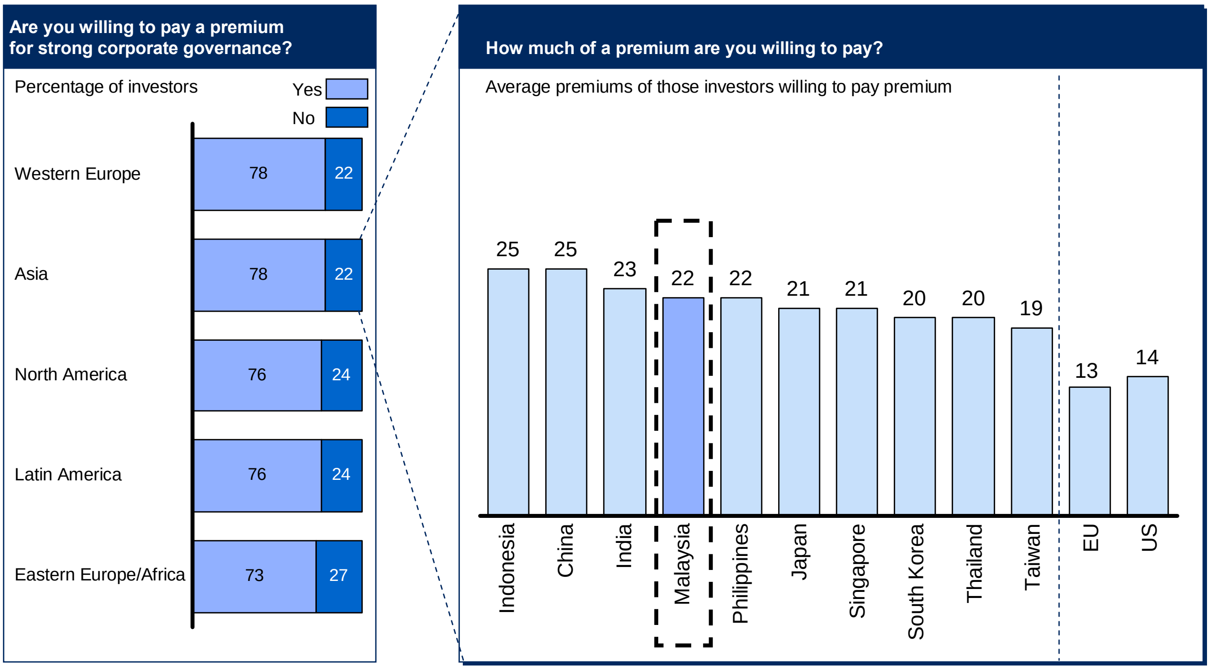
Policy Thrust 2: Upgrade the effectiveness of Boards and reinforce the corporate governance of GLCs

Although in itself not sufficient, a fundamental upgrade of GLCs' Board effectiveness and the corporate governance of GLCs will be necessary to catalyse the transformation of GLCs. Globally, a strong correlation exists between companies with good corporate governance and long-term financial out-performance. Further, institutional investors do value good Board governance as much as strong financial indicators when evaluating investments.

According to several studies, the majority of investors are willing to pay an average premium of 20-25% for well-governed companies in Asia (see Exhibit 2.1). In Malaysia, while Board effectiveness and corporate governance has improved significantly in recent years especially after the introduction of the Malaysian Code of Corporate Governance (the Code) in March 2000, more progress is required, especially with regard to the impact and role of GLC Boards.

Exhibit 2.1

INVESTORS ARE EVEN WILLING TO PAY A PREMIUM FOR WELL-GOVERNED COMPANIES, PARTICULARLY IN EMERGING MARKETS



Source: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002; validated through interviews, 2005

A review of the governance of GLCs, including that of top-performing GLC Boards, revealed several opportunities for improvement in the following areas;

a. Widening the breadth and mix of Board membership to include broader expertise and experience, for example, greater operational and technical experience in addition to financial expertise;

b. Greater focus on more high level and high impact matters such as strategy, risk management, talent management and succession planning. The review found many Boards were bogged down by too-detailed operational matters that are better served by management;

c. Simplifying and improving Board meeting logistics and focus;

d. Improving individual and collective Board performance accountability; and

e. Improving clarity over the appropriate level and mode of involvement and interactions between shareholders, Board members and management.

Overall, the review found that GLC Boards, in the main, complied with the legal form if not necessarily the full substance of corporate governance at its best, i.e., where the conformance aspects of governance (centred around compliance and oversight) may tend to dominate rather than balance the performance components of the same governance (centred around results and impact). To address this, the PCG recommends several changes and improvements to the governance of GLCs, with the following objectives:

1. Refocus the role and mandate of GLC Boards;
2. Strengthen GLC Board composition;
3. Strengthen GLC Board performance management; and
4. Upgrade Board structure and processes.

These Guidelines reinforce the recommendations contained in the Malaysian Code of Corporate Governance.

Guideline 2.1: Refocus the role and mandate of GLC Boards

Guideline 2.1.1: Refocus the Board on critical roles

GLC Boards need to devote enough time and attention and refocus on the core responsibility of Boards. In general, this covers two broad areas of strategy and development of the company and in governing management. While the list below is not exhaustive, PCG expects six areas of focus for GLC Boards:

1. *Shareholder value*. To adopt and understand a shareholder's perspective, including understanding the capital markets' views of the company's performance and the capital market implications of strategic and financial decisions. To also ensure that all shareholders are treated fairly;
2. *Strategy development*. To contribute to corporate strategy development and setting stretch aspirations for management;
3. *Oversight on management*. To monitor performance and health of the company and senior management;
4. *Succession planning*. To develop senior management and drive succession planning;
5. *Risk management*. To understand and manage key risk factors of the company; and
6. *Stakeholder management*. To balance valid stakeholder interests, where appropriate, in line with Government policies and to balance with increasing shareholder value.

Guideline 2.1.2: Define conditions under which the Board can take on a more active role

Notwithstanding that the Board is required to play a more high-level oversight and business development function, there may be specific circumstances under which the Board can take on a more active role in operations if both of the following conditions are met:

- The company is in major turnaround situation, under sudden external threat (e.g., acquisition, changes in competition, new regulation), or is undergoing a period where a major internal risk has materialised; and
- The existing management team does not have sufficient capabilities nor the capacity to respond quickly as the situation demands.

In the event that the above conditions are met and the Board decides it is necessary to take on a greater executive role, it should only be as an interim or transitional measure, and generally, as a guide, should only be for a maximum of six months and certainly no longer than 12 months. In that time, a key target for the Board is to actively recruit a new management team.

Guideline 2.1.3: Create clear separation between role of Chairman and CEO and reinforce importance of the Chairman's role by tightening the selection criteria

The role of the Chairman is pivotal in creating the conditions for overall Board and individual Director effectiveness, both inside and outside the boardroom, including an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. While there have been many successful examples of individuals playing both the role of the Chairman and the CEO, PCG reiterates the recommendation of the Code that the roles of Chairman and CEO be clearly separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

To reinforce the importance of the Chairman's position, the selection criteria for Chairmen should be more stringent than that of normal Directors. Further, given that the time and dedication required to effectively fulfil the role of the Chairman is significant, the onus lies with the Chairman and the nominating GLIC to ensure that he or she must have sufficient time and capacity to focus on the task by limiting his or her presence on other Boards and responsibilities as appropriate.

Guideline 2.2: Strengthen GLC Board composition

In 2004, important measures were already put in place to strengthen the Board of GLCs, including a cap on the number of Directors on a Board to ten and the removal of direct sector regulators on Boards in view of inherent conflicts. To further build on these measures, PCG recommends a further strengthening of the composition of the GLC Board through four main steps:

Guideline 2.2.1: Expand pool of potential GLC Directors

From the review by the PCG, the current pool of GLC Directors is too small and results in some Directors holding too many mandates. In addition, with the evolving strategic, operational and geographic priorities of GLCs, Boards are beginning to require new types of expertise, particularly in deeper functional skills such as marketing, organisational design, and change management. While recognizing that not every Director will individually possess all necessary and relevant knowledge and experience, the objective is to ensure that on a collective basis, every Board will be as balanced and reasonably complete in its availability of these skills as possible. Therefore, the PCG recommends an augmentation of the potential pool of individuals suitable for GLC Director roles. In particular, PCG recommends that GLICs and GLCs proactively leverage new sources, namely:

- Professionals with deep sector or functional expertise from private sector organisations;
- Other serving CEOs, provided there is no competitive conflict or conflict of interest. Nonetheless, GLC CEOs at this relatively early stage of GLC transformation are not permitted from sitting on other boards apart from the boards of its own subsidiaries. Exemptions to this rule may be given on a case-by-case basis through the GLIC by application to the PCG;
- Especially for GLCs that are competing internationally or are subjected to increasing global competition, to consider from a pool of experienced international directors.

Guideline 2.2.2: Cap number of Directorships in listed companies to five

As described above, due to the limited pool from which Directors are drawn today, many Directors could be overstretched. Therefore to ensure that Directors have the time to focus and be effective Board members, it is recommended that the cap on the number of listed Boards that a Director of GLCs can sit on be limited to five.

Guideline 2.2.3: Reinforce the role of the Nomination Committee

To reinforce that as laid out in the Malaysian Code on Corporate Governance, the Nomination Committee should be responsible for nominating candidates for the Board (including the role of the Chairman) according to the pre-set selection criteria and for assessing Directors on an on-going basis.

Guideline 2.2.4: Establish Director Academy to upgrade Directors learning in line with increasingly demanding role

At present there is only one mandatory course over a Director's tenure. Even the most experienced individuals require a greater amount of training and development to be able to perform their Board member roles effectively. Therefore, in addition to existing programs, Director's capability building effort should be established to prepare Directors with issues of commitment, knowledge/skills, sound/independent judgement, constructive problem-solving and understanding the limit of their roles and responsibilities.

Exhibit 2.2
MALAYSIA DIRECTORS' ACADEMY WILL FOCUS ON DEVELOPING DIRECTORS WITH WORLD CLASS KNOWLEDGE, SKILLS AND MINDSETS

- Share learnings from various efforts initiated by different boards (e.g., Director performance management approaches)
- Arrange networking opportunities through workshops and seminars for critical new issues with expert practitioners
- Launch mentorship program for participants
- Build database of best practices for boards

- Tailor board-specific programs to meet needs of board using world-class experts
- Match experienced and highly respected coaches to boards as a coach to improve effectiveness

- Determine critical issues or topics for case study topics
- Coordinate with local business schools/ universities and companies to research and write case studies
- Organize discussions with protagonists
- Ensure content is relevant given needs of Directors by providing input and monitoring process

- Anticipate learning needs of Directors
- Prioritize, scope and source new programs
- Intensely monitor quality of programs and providers
- Collaborate with existing providers to enhance, expand and develop programs
- Market programs as they will not be mandatory

Source: Joint Working Team analysis

Therefore, one of the Initiatives identified is the creation of a Director Academy to be established by the second quarter of 2006, which will focus on equipping Boards of GLCs with Directors that have world class knowledge, skills and mindsets.

As detailed in Exhibit 2.2, this Academy will deliver four integrated functions, namely, facilitate sharing of learnings through forums, linkages and databases of best practices to build Director capabilities; research and develop Malaysia-specific case studies to assist Directors (and Boards) in building knowledge on how to handle specific situations; arrange 'on-the-job' learning and coaching which will be customised to individual Board's needs; and enhance existing training and development programs.

Guideline 2.3: Intensify GLC Board performance management

As the diversity and experience/expertise of GLC Directors increases, so does the need for more rigorous performance management. The PCG recommends two important steps to intensify GLC Board performance management.

Guideline 2.3.1: Align Directors' compensation to benchmarks

In line with the compensation philosophy advocated by PCG, GLC Boards should review the compensation of their Chairman and Directors, and align them to the 50th percentile of an appropriate peer group.

Guideline 2.3.2: Conduct an annual review of Director and Board performance

The Malaysian Code of Corporate Governance recommends that all Boards should conduct an annual evaluation of Board and Directors' performance. A review of major GLCs found that this has not been uniformly implemented across all GLCs. Further, based on a survey of Main Board companies that have a formal performance evaluation process, only a few actually follow through with actual consequence management for under-performance, for example by ensuring that the affected Director is not re-elected. PCG reiterates that Boards should conduct an annual review of Directors and Board performance as advocated by the Code.

Guideline 2.4: Upgrade board structure and processes

Guideline 2.4.1: Tighten structure and operating mode of Board committees

Though most Boards have established Audit, Remuneration and Nomination Committees, their structure and operating mode should be more clearly developed and implemented. A starting point to review is to ensure that the charters or terms of reference of Board Committees are up to date and relevant.

To be effective, a company should have, in line with the Malaysian Code on Corporate Governance, at least three committees: Audit, Remuneration and Nomination Committees, as well as any additional committees which may be deemed necessary depending on the circumstances of the company (e.g., Tender Committee).

Guideline 2.4.2: Implement standard Board processes to best practice levels

To ensure Board meetings are effective and Directors are adequately prepared, basic Board processes need to be in place. Boards should appoint an in-house company secretary with relevant experience and skills, bearing in mind the size and complexity of the company. For listed companies, it is crucial that the company secretary maintains up-to-date knowledge of listing and regulatory requirements and is in a position to advise the Board and its Committees on compliance matters as appropriate.

In addition, an effective Board requires certain processes to be put in place. For example:

- Comprehensive synthesised information with supporting documents for board meetings are distributed with adequate notice of not less than seven days in advance of Board meetings. While for certain urgent issues it may not be possible to fully comply with this requirement, this should be the exception rather than the rule. Therefore, the Board should instil discipline in management by refraining from considering last minute agenda items during Board meetings;
- Board calendars are set for the next 12 months in advance;
- The Board should set expectations with management with regards to regular agenda items to be deliberated at each board meeting.
- All Board members should strive to familiarise themselves with the Company's operations and keep themselves updated with the industry.

Given the onerous responsibility of Directors, the Board should also ensure that the Company takes out adequate Director's Liability insurance.

Implementation Timeline

The recommendations laid out above are broad principles which will be further supplemented by detailed guidelines through the 'Green Book on Enhancing Board Effectiveness' that will be distributed to all GLC Boards by 31st December 2005. It should be the responsibility of the Chairmen of all GLC Boards to implement these principles, guidelines and actions by 1st January 2007.

GLICs should also monitor the implementation of these principles, guidelines and actions across their portfolio companies and report on progress to PCG on a quarterly basis.

Policy Thrust 3: Enhance GLIC capabilities as professional shareholders

While the emphasis of the Program remains on GLCs, GLICs play a critical role, particularly as catalysts or triggers of change. In many cases, GLICs are controlling shareholders with Board representation and therefore have significant oversight responsibilities. Where GLICs are small stakeholders, they are increasingly active, even if this is merely through exercising their shareholder rights. Further, as detailed under Policy Thrust 1, GLICs are the key conduit for Government to support and influence GLCs.

There is a clear rise in active shareholding across different types of institutional investors around the world, for example pension funds, private equity, Government investment companies, and conglomerates. These institutional shareholders have found that increased levels of 'activeness' have been required in order to deliver superior returns to their fund holders. This has taken the form of selecting Directors with more time and relevant expertise, equipping these Directors with perspectives on the industry/company, setting clear expectations on targets, and ensuring the right consequences/rewards for the CEO. However, most importantly, active management does not require nor equate to bypassing good Board governance practices or taking management actions, in fact, it reinforces the true role of Boards, namely to effectively govern and oversee management.

In order for GLICs to be effective shareholders (and Board members), their strategy and mandate needs to be affirmed, and their internal organisation, capabilities, and processes need to be upgraded to fully deliver on their mandates and strategies. This Policy Thrust provides corresponding guidelines for GLICs.

Guideline 3.1: Clarify and prioritise the mandates and strategies of GLICs

There are two distinct categories of GLICs – those fully-owned by the Government, namely, Khazanah and MKD, and the 'privately funded' but where Government plays an important statutory or guarantor role, namely EPF, LTAT, LTH, PNB, and KWAP. It is critical to restate that these GLICs have different shareholders, hence different mandates and different investment strategies. Consequently, GLICs have differing interests, priorities and perspectives with regard to investment opportunities, divestment strategies and time horizons, and approach to monitoring and influencing their portfolio companies.

To date, GLICs have communicated their mandates and priorities as detailed in Exhibit 3.1 and 3.2 below.

Exhibit 3.1

CURRENT GLIC MANDATES AND PRIORITIES (1/2)

GLIC	Current communicated mandates and strategies
Permodalan Nasional Berhad	"To enhance the economic wealth of the Bumiputera community in particular and to contribute towards the growth and prosperity of the nation for the benefit of all Malaysians. To promote share ownership in the corporate sector among the Bumiputera and to develop opportunities for suitable Bumiputera professionals to participate in the creation and management of wealth."
Menteri Kewangan Diperbadankan	"Responsible for holding investments on behalf of the Government of Malaysia and to manage these investments in line with national interest."
Khazanah Nasional Berhad	"To maximize shareholder value of investments and to shape selected strategic industries in Malaysia, nurturing their development and doing so with the objective of pursuing the nation's long-term economic interests. Entrusted to explore strategic investment opportunities in new sectors and new geographies."
Employees Provident Fund	"To provide retirement benefits to its members through efficient and reliable management of their savings. Also committed towards the nation's socio-economic development through prudent investments."

Source: Joint Working Team compilation

Exhibit 3.2

CURRENT GLIC MANDATES AND PRIORITIES (2/2)

GLIC	Current communicated mandates and strategies
Lembaga Tabung Angkatan Tentera	"To provide retirement and other benefits to other ranks of the Armed Forces and to enable officers and mobilized members of the volunteer forces in the service to participate in a savings scheme. To offer retraining for the retiring and retired personnel of the Armed Forces of Malaysia."
Lembaga Tabung Haji	"To enable Muslims to save gradually to support their expenditures during the pilgrimage. To enable Muslims to have active and effective participations in investment activities permissible in Islam through their savings. To protect, safeguard interests and ensure the welfare of pilgrims during pilgrimage by providing various facilities and services."
Kumpulan Wang Amanah Pencen	"To assist the government to finance pension payments and other retirements benefits to Malaysian civil servants."

Source: Joint Working Team compilation

As the key lever for Government to influence GLICs is via its mandate, the existing mandates of GLICs, and therefore corresponding investment strategies and performance targets, should be subject to periodic review to test its continued relevance.

Guideline 3.2: Build best-in-class functions in line with individual mandates

GLICs, as professional shareholders, play a critical role in guiding, influencing and, if required, sanctioning GLCs, hence complementing the capital market role in this regard. It is therefore critical that GLICs are fully equipped with the necessary skills, functions and processes to effectively play this role.

Guideline 3.2.1: Build shareholder capabilities commensurate with that required to support respective mandates

Based on a GLIC's mandate (and corresponding strategic and performance targets), GLICs should review and align their internal organisation, processes and capabilities to relevant benchmarks. These peer benchmarks should include private equity firms, active or passive institutional investors (including pension funds), or a mix of the above depending on the nature of a GLIC's mandate.

Guideline 3.2.2: Align professional profiles, compensation and performance expectations with private sector benchmarks

The guidelines on compensation that apply to GLCs also apply to GLICs that include inter alia, the principles with regard to KPIs, performance linked compensation and performance contracts.

Guideline 3.2.3: Select Nominee Directors based on skills necessary to fulfil GLC needs

In line with good corporate governance, GLICs will independently nominate Nominee Directors, based on the relevance of their qualifications for individual GLC needs. In line with Guideline 2.2.3 above, once identified, the identity of the candidate should be provided to the Nomination Committee that then proposes the candidate to the Board for final approval.

A term sheet codifying the interaction mode between GLICs and their Nominee Directors should be established and this term sheet should include:

- Clarification of GLICs expectations of its Nominee Director with respect to required reporting from the Nominee Director to aid in the GLIC's monitoring activities,
- Establish standard operating procedures for the flow of information between the GLC, Nominee Director and GLIC; and

- Detail the support that the GLIC will provide the Nominee Director, for example through training, access to analytical support, additional information and insight on the company, industry, and economic environment, with the objective of enhancing his ability to effectively play the role of a Nominee Director.

Guideline 3.2.4: Build GLC Transformation Program monitoring capabilities and processes

GLICs have oversight responsibility for ensuring the effective roll-out and implementation of GLC Transformation Program Initiatives, including the implementation of principles, guidelines and actions contained within this document, to GLCs within their respective portfolios. As such, on a quarterly basis, GLICs should submit a report on the progress of their portfolio companies to their respective Boards and to the PCG in respect of the progress of implementation of the GLC Transformation Program.

GLICs should, therefore, ensure that they build the necessary capabilities and processes to ensure that this monitoring function is carried out effectively.

Implementation Timeline

With the exception of Guideline 3.2.1, which should be implemented by 1st January 2007, all other Guidelines should be implemented by GLICs immediately, and no later than by 1st January 2006.

Policy Thrust 4: Adopt corporate best practices within GLCs

At the core of the Transformation Program is a need to fundamentally improve, organically, the underlying strategic, operational, and organisational performance of GLCs. In addition to strategic clarity, and short term economic measures to raise performance to benchmark levels, there is also a need to enhance the quality of human capital at GLCs and develop appropriate measures to monitor and evaluate the performance of management and employees. These are among the factors required to ensure that improvements in performance are sustainable.

In this regard, PCG has identified seven areas for corporate best practices to be implemented, covering regulatory management, corporate social responsibility and socially-oriented investments, procurement, capital management, leadership and human capital management, performance management (including KPIs and performance-linked compensation), and operational improvements including right-sizing the organisation.

Based upon PCG’s analysis, these were identified as opportunities for the greatest value creation. These areas are not intended to be exhaustive and indeed the identification of these seven themes does not preclude GLCs from continuing with existing ongoing work of continuous operational improvements. On the contrary, the identification of these Guidelines and Initiatives around the seven areas for best practice reinforces ongoing work in these areas.

Guideline 4.1: Improve regulatory environment

Many GLCs operate in regulated sectors, where arms-length, proactive and constructive relationships with the regulators is of significant importance not only to the GLC, but also to the nation in terms of contributing towards an orderly development of the sector.

Guideline 4.1.1: Develop regulatory relations capabilities at GLCs

GLCs should devote sufficient resources to engage in constructive dialogue with regulators in a proactive and ongoing basis. Significant value, or even competitive advantage, can be derived from being at the forefront of regulatory knowledge within any specific industry.

These regulatory capabilities built by GLCs should be in the form of a senior dedicated team (usually reporting directly to the CEO) with strong expertise to:

- Develop a Regulatory Agenda – determine internally consistent objectives and key regulatory levers, and define optimum and acceptable outcomes;
- Conduct detailed Economic Analysis to quantify the value of all alternatives.

Additionally, as an extension of the regulatory relations function, the management of external relations and public affairs is also key in keeping cordial and constructive relations, namely:

- Management of key stakeholders, including inter alia, the regulator, Government, unions, suppliers, consumer organisations and members of Parliament;
- Driving external communications – develop communication material and manage press relations.

As a 2005/6 Initiative, recommended best practices for regulatory management is targeted to be issued by mid-2006.

Develop 4.1.2: Develop regulatory knowledge network at GLICs

A key role that GLICs can play for their portfolio companies and other GLCs in heavily regulated sectors is to independently build deep regulatory knowledge, particularly with respect to developments in, and lessons from, other countries. As active shareholders, GLICs can share this expertise with GLCs and advise GLCs to determine how best to shape their strategy in the context of evolving regulation. In addition, GLICs, in their role as a national trust agency, can ensure that a broader more optimal regulatory environment is achieved that is beneficial for its GLCs and all other stakeholders, such as the private sector and customers.

Guideline 4.2: Corporate Social Responsibility (CSR) and clarifying social obligations and investments

CSR is a well established best practice even in the most laissez-faire of markets. For GLCs in particular, CSR and social or less-than-commercial obligations are a particularly important area given GLCs proclivity to provide socially-oriented or less-than-commercial public goods. This is particularly so due to the service-orientation of many GLCs, as well as Government being the default provider of such public goods through its GLCs.

There are many examples, from the more obvious such as the provision of rural electricity, universal telecommunication service obligations and rural air services; to the less obvious such as the provision of services on loss-making developmental international airline routes, provision of electricity to a structurally loss-making state and the financial shortfalls arising from contractual price or toll increases that have not been implemented.

The duality of commercial and social objectives, when excessive, potentially creates a number of less than optimal outcomes. Firstly, the ambiguity of objectives may create conditions for non-performance and moral hazards, in that management may selectively hide behind one or the other objectives ("I cannot perform because I am imposed with these extra social objectives" and/or "I cannot help these social causes because I need to perform"). Secondly, such uncertainty usually translates into excessively high, incommensurate risk premiums that result in higher costs of capital and lower capital values for GLCs. However, on the reverse, it should be noted that in practice, in return for taking on a higher than usual responsibility of social obligations, GLCs often may receive certain preferential treatment.

In regard to CSR and social obligations, as a guide GLCs should consider the following steps as a codification of minimum best practice:

a. Clarify their social obligations in coordination with relevant regulators and ministries, as well as attempt to identify the costs, and benefits, if any, of such obligations;

b. Where such social roles and related costs are significant and beyond the affordability of the GLC, then the GLC should review and seek alternative funding options, for example from relevant Government ministries.

As a 2005/6 Initiative, GLCs are encouraged to identify, clarify, measure and, where appropriate, make transparent their social obligations by mid-2007. Guidelines codified in a "Silver Book" to assist GLCs is targeted to be developed and distributed by PCG in the second quarter of 2006.

Guideline 4.3: Review and revamp procurement practices

The total procurement spend of the "G-15" GLCs is estimated to be around RM55 billion per annum. Therefore, any optimisation in procurement practices would result in significant savings, for both capital and operating expenditure. Such realised savings will go straight to the GLCs' bottom lines. Additionally, better procurement practices could also lead to higher revenues for GLCs, for example, as better quality products are purchased at lower prices, service delivery lead times could be reduced and service quality could be enhanced, therefore leading to higher customer retention.

Furthermore, greater integrity and efficiency in procurement processes will also enhance Malaysia's standing in corporate governance and transparency. This, in turn will increase Malaysia's attractiveness as an investment and business destination.

For GLCs, optimising procurement can be segregated into three areas of focus, requiring different approaches:

a. *Strengthen GLC procurement policies.* By addressing GLC procurement policies, both voluntary and involuntary leakages can be minimised. GLC Board and senior management governance processes should be revamped in line with these policies as ultimate control mechanisms to the procurement function. For example, GLC Boards can separate procurement requisition and payments with clear Limits of Authority, and establish conditions for the use of different procurement methods e.g., tenders vs. direct negotiation;

b. *Optimise GLC procurement processes.* This approach focuses on improving existing procurement processes to enable faster delivery of products purchased, at lower prices, with higher quality. To achieve this, improvements required could include:

   i. Structured approaches to reduce unit cost e.g., aggregating demand, or standardising specifications;

   ii. Streamlining procurement processes to exclude non-procurement related processes such as specifications and field trials;

   iii. Implementing sanction procedures (e.g. signed documentation at each step of the procurement decision making process) and procurement related KPIs to reduce voluntary leakages (e.g. graft), and enhance accountability.

c. *Establish a stable and competitive supplier base.* A robust supplier management program can help GLCs achieve competitive advantages in terms of ensuring a stable and long term supply of core products of high quality at low prices. For GLCs, there are three aspects of supplier management programs-

   i. Strategic Supplier Management program which focuses on establishing long term relationships with suppliers of strategic products (e.g. core banking systems for a bank, engines for an automotive manufacturer);

   ii. Bumiputera Vendor Development Program which emphasises the capability development of quality bumiputera vendors in sectors consistent with Government focus; and

   iii. Supplier Management program which leverages on continuous supplier evaluation and feedback to help suppliers improve their product quality, reduce prices and enhance service levels.

A ‘Red Book’ with guidelines on procurement policies is targeted to be launched in the fourth quarter of 2005 with complete implementation by all GLCs by 1st January 2007.

Guideline 4.4: Optimise capital management

Effective capital and balance sheet management can also be a source of value and competitive advantage for many GLCs – particularly those in capital intensive businesses.

GLCs should therefore review existing capital management policies, in particular, options to:

- *Improve capital expenditure efficiency*, by (i) ensuring there is a close alignment of capital allocation with corporate strategy, and (ii) ensuring that on a portfolio basis, capital expenditure is optimised. This can be achieved through developing and applying a clear methodology to evaluate and analyse projects and balance the portfolio to ensure alignment with overall corporate strategy, and prioritise on the most value-creating projects;
- *Enhance working capital management*, by revamping existing collection processes and adopting best practices (for example from leading credit card players). This would include (i) account segmentation based on will and ability to pay (not just by number of days overdue), (ii) managing phone use on overdue accounts, (iii) revising of interest penalty charges, and (iv) selling write-offs;
- *Define the optimal capital structure* by first defining the optimal debt, equity and cash proportions, and thereafter reducing or refinancing debt to minimise interest payments. In addition, as many GLCs sometimes sit on very large excess cash positions, they should regularly review a variety of options to manage this cash. In particular, they should consider, amongst others, developing (and communicating) a dividend policy, and establishing guidelines for share buyback programs.

A 'Purple Book' with guidelines on capital management policies will be issued by PCG to all GLCs by the first quarter of 2006 with complete implementation by all GLCs expected by the end of 2006.

Guideline 4.5: Manage and develop leaders and other human capital

In a knowledge-driven world, a company's human capital will increasingly be the most important competitive advantage and differentiator. GLCs must enhance their approach to human capital management and quickly close the gap between GLCs and the best private sector companies in Malaysia and their peers internationally. Learning from other companies that manage talent exceptionally well, PCG recommends that GLCs should:

- **Create an attractive employee value proposition**. GLCs should engineer attractive propositions from an employee point of view, particularly in roles where competitive global talent markets are taking shape (e.g., petroleum engineers, business leaders, airline pilots), with market compensation being only one component of such a proposition. GLCs need to articulate and deliver non-financial opportunities such as accountability to pursue unique growth opportunities with high personal development, and a compelling mission and shared values that provide inspiration and direction;

- **Source and develop talent.** Firstly, GLCs should be precise about the types of talent that they are seeking to attract. Secondly, GLCs should use innovative channels to bring them in, for example via summer internships, or through customers and suppliers. In addition to formal training, GLCs should focus more systematically on using jobs (or projects) to develop talent and to use modalities such as coaching and mentorship. In addition, other best practices including a Young Leaders or High Potential program and an annual talent review should be instituted;
- **Cultivate a talent mindset in the line (not just in Human Resource)** GLCs should shift the accountability and ownership for talent management to line managers. Line managers, starting with the CEO, should personally drive talent management by being involved in recruiting, finding development opportunities, providing concrete feedback, etc. In addition, the HR organisation should provide quality and timely support to the line, and some GLCs may need to revamp their HR organisation to ensure they have the credibility, capabilities and capacity to deliver this support.

PCG recommends that all GLCs develop programs to identify and cultivate leaders and other human capital by the end of 2006. To assist GLCs in this endeavour, an “Orange Book” with Guidelines on developing and managing leaders and other human capital will be developed and distributed by PCG to all GLCs in the second quarter of 2006.

Guideline 4.6: Intensify performance management practices

Intensifying performance management practices across all GLCs is an important lever to improve overall performance. In terms of sequencing, performance management, involving *inter alia*, KPIs, performance linked compensation (PLC), and performance contracts were among the key GLC Measures launched in May 2004. More than a year later, the PCG has conducted an audit of the implementation of the KPIs and PLC Guidelines which has led to an update of the Guidelines announced last year. The emphasis on performance management will ensure the organisation focuses on the right business priorities and improves the attraction, development and retention of outstanding talent. GLC’s should intensify performance management by:

- **Setting balanced KPIs relevant to monitor value creation.** Each GLC should have between five to eight KPIs with outcome targets along financial, customer, operational and organisational dimensions that are tightly linked to its specific strategy. The targets for each KPI should be benchmarked against comparable international peers. The CEO should be responsible for the implementation of quality KPIs and for reporting a subset of these KPIs as 'Headline KPIs' to the market;
- **Rigorous performance reviews.** There should be two distinct types of performance reviews. Firstly, business performance reviews where performance against targets should be reviewed every quarter resulting in a real understanding of major variances and a concrete action plan to further improve performance. Secondly, personal performance reviews should be on a semi-annual basis where each manager's performance is reviewed against targets, resulting in differentiated evaluations with meaningful personal feedback, rewards and consequences;
- **Differentiated rewards and consequences linked to performance.** While base pay should be market competitive against industry peers, GLCs should offer meaningful performance bonuses that vary significantly with individual performance. Promotion, recognition and other non-financial rewards should also be based on merit (not tenure) and highly correlated with performance. In addition, GLCs are expected to manage low performers in a firm but fair way where consistently low performers are helped out of the organisation, if no alternative position that better matches their skills and motivation is available.

Moving forward, to address the issues above, PCG will refine and re-launch, under the 2005/6 Initiatives, an updated version of "Intensify Performance Management", i.e., "Blue Book" Version 2.0, by the third quarter of 2005. PCG recommends that all GLCs begin implementing the Guidelines contained within this "Blue Book" by 1st January 2006, with completion by 1st January 2007.

Similarly, over the course of the next six to nine months, PCG is expected to design and launch other initiatives with the objective of intensifying performance management practices at GLCs. As with the "Blue Book", it is recommended that GLCs implement those initiatives within the determined timeframe.

Guideline 4.7: Enhance operational improvement

A key element to improving GLC operational performance will be to enhance overall operating excellence, both on the cost and revenue side.

Guideline 4.7.1: Focus on core businesses

In an environment of limited financial and leadership resources, focusing on the core businesses is essential to limiting resource fragmentation while upgrading the performance of a company’s most important assets/businesses. This is particularly true for GLCs whose portfolio of activities have grown over time due to a variety of factors, including strategic intent, entrepreneurial activities, social roles, and restructuring related businesses. In general, GLCs have not divested as much as they have invested and/or developed, resulting in several GLCs with unfocused and poor performing portfolios of businesses and activities.

GLCs typically have to deal with two different types of non-core businesses:

a. Legacy non-core businesses – namely activities or businesses that are not directly linked or relevant to their main business activities. Examples of this include holding and managing real estate (unless the GLC is a property developer), owning and running education centers, or managing housing facilities. In this instance, GLCs typically lack the competitive advantage to drive the business, or have to re-direct resources (from core business) to manage these non-core businesses. Therefore, GLCs should be encouraged to identify options to disengage from these activities or consolidate them with other companies (GLC or otherwise) that have the relevant skills and capabilities, and may also benefit from these services;

b. Underperforming non-core businesses – namely secondary businesses that may be related to the core mission of the GLC but is systematically underperforming financially, either because its scale, skills or scope is uncompetitive. In this instance, unless the GLC believes that there is a very strong strategic and economic rationale to continue to maintain and develop this business, GLCs should be encouraged to identify options to either improve their position (for example through partnerships, including potentially international partnerships) or exit the business.

As part of their ongoing strategic and performance assessment, PCG recommends that GLC Boards should regularly review their portfolio of businesses and activities, identifying those that are non-core (legacy or underperforming), and determine an appropriate disengagement approach, based on recommendations from Management.

In particular, GLICs by virtue of having a common parentage of GLCs, are in a unique position to identify synergies between GLCs in their portfolio, in terms of potential merger, acquisition and divestment possibilities.

As a 2005/6 Initiative, PCG recommends that GLCs identify options to manage non-core assets by mid-2006. A "Yellow Book" with Guidelines to assist GLCs in this endeavour will be developed by PCG and distributed to all GLCs by the third quarter of 2006.

Guideline 4.7.2: Identify options for 'right-sizing' GLC organisations

Options to right-size an organisation could include, but are not limited to Voluntary Separation Schemes (VSS), outsourcing, franchising or re-engineering certain key activities to drive down the current cost levels, yet maintain (or enhance) current levels of productivity.

- VSS – GLCs may consider and implement, as appropriate, VSS schemes. Such schemes are to be sensitively designed, implemented and communicated to employees;
- Outsourcing – this is most appropriate for activities that are not strategic, nor core to the GLC (also usually where the GLC is not the most skilled), and can be performed by a third party (usually a specialist) at a lower cost at quality levels that are equal or better. Examples include call centres, IT support, HR processing, billing and logistics;
- Franchising – a contractual relationship between two parties, whereby the franchisee adopts and legally complies with a business value proposition brand, and operating system developed (and usually training and support) by the franchiser. This requires GLCs to make a trade-off between potential benefits arising from lower costs, more rapid market expansion or penetration, and risk sharing, and the disadvantages of reduced financial upside, strategic freedom and brand control. For example, New Zealand Post franchises delivery to certain areas to its former van drivers/postmen. In this case, postmen/van drivers own and run their own assets (i.e., trucks), and are paid a fee for delivering mail, but operate within the strict guidelines established by New Zealand Post. New Zealand Post benefits from higher performance levels at a lower cost;
- Re-engineering – this would include both re-engineering of corporate centres and of operations. Corporate Centre functions like Finance, HR, Strategy need to be re-engineered to ensure that they are lean units which are only doing activities that add value to the business. Operations should be re-engineered to simultaneously deliver higher quality, timeliness and efficiency;

- Redeployment and retraining – as part of the above 'right-sizing' initiatives, GLCs should seek to redeploy and/or retrain employees based on their 'skill' and 'will', be it within the GLC or as a result of the 'right-sizing' effort, e.g., as a franchisee or deployment to an outsourcer.

As a 2005/6 Initiative, GLCs should identify options for 'right-sizing' their organisations by the end of 2006.

Guideline 4.7.3: Develop customer charters

Customers are a critical stakeholder and high performing companies continuously strive for a high level of customer satisfaction in order to build customer loyalty.

Organisations that are able to articulate their value proposition to customers through Customer Charters and Customer Agreements enjoy:

- Improved customer confidence in services provided;
- Increased customer perceived value of services;
- Points of differentiation amongst competitors;
- A basis for more transparent and better relations with regulators in regulated industries such as electricity and telecommunications.

Customer Charters and Agreements are particularly relevant for GLCs operating in monopolistic conditions, as they act as an enabler to ensure focus on customer needs and raises the accountability of the organisation to providing the correct level of customer service.

For many GLCs, the starting point should be to first develop a business case to support the increase in service. The business case must clearly identify the most critical service elements, current service levels for each of these critical service moments, target service levels that are economically viable, and an action plan to improve service.

GLCs should then do two things in parallel:

- Develop and issue customer charters for the most critical service areas, where the charter should promise minimum service level targets and meaningful compensation to the customer if the GLC fails to deliver against targets;
- Re-engineer service operations to ensure that the process is reliably delivering services to the target levels. Naturally, the approach taken by each GLC will vary according to the nature of their business, their customer types, and the targets set.

Once charters are established and the service operations have been redesigned, customer service needs to be continuously measured against these target levels.

As a 2005/6 Initiative, PCG recommends that GLCs operating in natural monopolies, particularly those in the service sectors, should develop and issue customer charters by the end of 2006. Guidelines contained within a ‘Brown Book on Customer Charters’ is targeted to be distributed by PCG to GLCs by mid-2006.

Implementation Timeline

PCG recommends that the Boards and senior management teams of GLCs should ensure complete implementation of the 2005/6 GLC Transformation Program Initiatives by the proposed deadlines as established for each individual initiative.

GLC Boards, and similarly GLICs (via their Nominee Directors and monitoring departments) should monitor the progress of the implementation of these Initiatives.

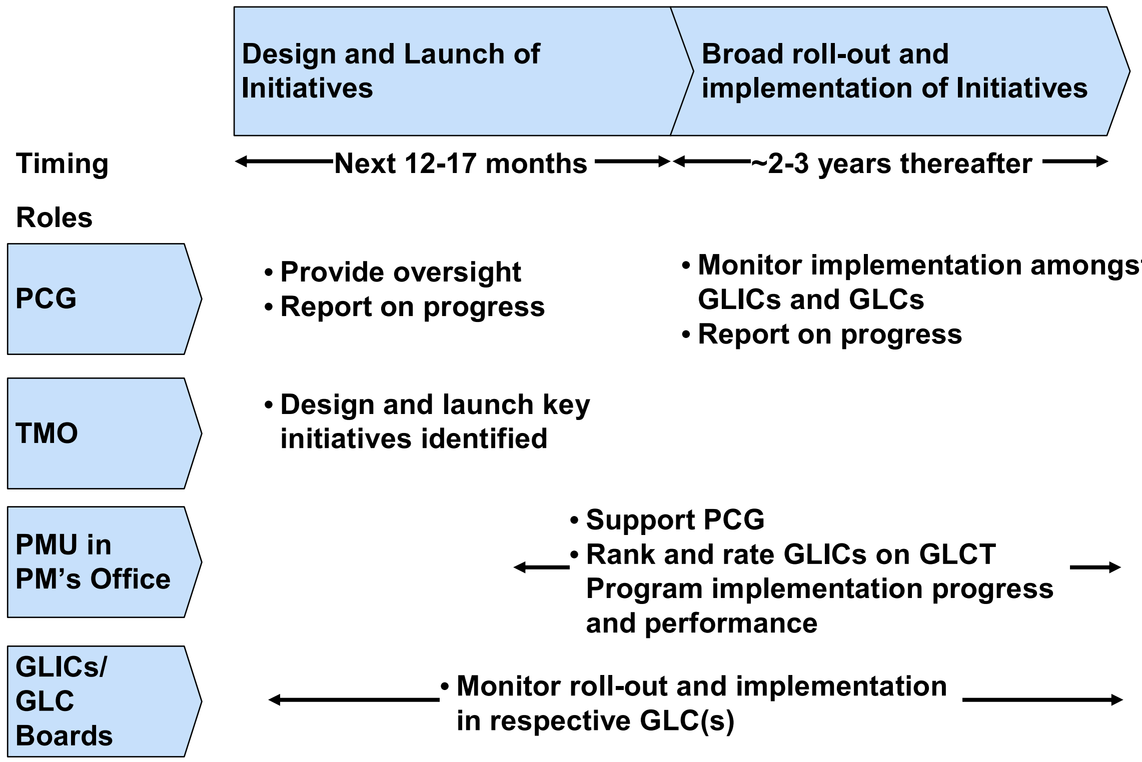
Policy Thrust 5: Implementing the GLC Transformation Program

Given the magnitude of the Transformation Program and the interdependencies between its various components, a deliberate and well-coordinated execution effort will be necessary to meet its objectives. Given its significant impact on Malaysia's future economic competitiveness, the Program's full and timely implementation will be a national level imperative.

Ultimately, GLC Boards and GLICs bear the responsibility of overseeing the transformation of GLCs. However, as described in the preceding chapters, the current capabilities and configuration of GLC Boards and GLICs may not be sufficient in their current state to carry out the whole set of tasks required to successfully execute the GLC Transformation Program.

Exhibit 5.1

ULTIMATELY, GLICs AND GLC BOARDS WILL BE ACCOUNTABLE FOR IMPLEMENTATION OF THE GLC TRANSFORMATION PROGRAM



Source: Joint Working Team analysis

Therefore, in order to ensure that implementation is executed well, PCG is undertaking a program management approach with the following four guidelines and action points:

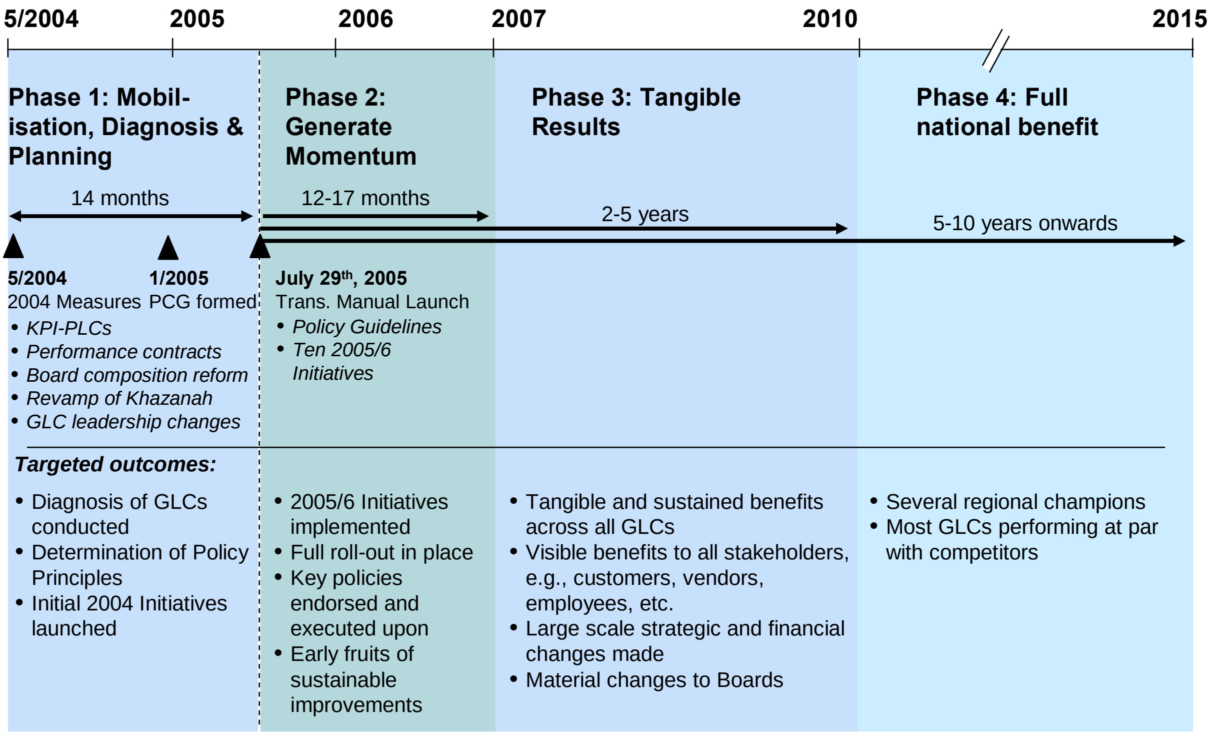
Guideline 5.1: Clear implementation applicability, responsibility and timeline for GLCs and GLICs

To be clear, the GLC Transformation Program as embodied in this Transformation Manual and associated pronouncements and documentation is intended to apply to all GLCs and GLICs.

The Policy Guidelines and Initiatives should be implemented through the Boards of Directors and management of GLCs and GLICs. The Guidelines and Initiatives are part of Government policy. While there are no specific sanctions for non-compliance to the Guidelines and Initiatives, the Government expects that the Guidelines and Initiatives will be implemented within the timeframe allotted, and that these policies will represent best practice for GLCs with a view to imbuing a culture of high performance within the national development framework.

To reiterate, the Government expects the GLC Transformation Program to be a long-term program where the full benefits are only expected to be reaped over an eight to ten year period to 2015 (see Exhibit 5.2). Nonetheless, the PCG expects that over the short to medium term, tangible results can be achieved with the proper adoption and implementation of the Guidelines and Initiatives.

Exhibit 5.2
GLC TRANSFORMATION IS A LONG-TERM PROGRAM



Source: Joint Working Team analysis

Guideline 5.2: Task and equip PCG to implement and monitor

From January to July 2005, PCG was tasked with the analysis and design of the GLC Transformation Program, much of which is contained in this Transformation Manual.

August 2005 marks the point at which PCG moves into roll-out and implementation mode. In line with this new phase, the PCG's role will shift from that of a policy advisory committee to one that should now focus on (i) monitoring the progress of the GLC Transformation Program, (ii) providing guidance to GLICs and Boards of GLCs on implementing the Program Initiatives, and (iii) reviewing, amending, and updating Policy Guidelines and Initiatives whenever required. During this phase, the Joint Working Team of the PCG is evolving into a Transformation Management Office (TMO) that will also act as a secretariat to the PCG and will be housed as per the JWT at Khazanah.

As a start, following through from the launch of the Transformation Manual on 29th July 2005, the contents of the Manual and the GLC Transformation Program will be communicated and disseminated to the Boards and senior management of all GLCs. It is envisaged that this process covering over 55

GLCs will take between three to six months, to be convened for example at the next Board meeting of each GLC.

With reference to the anticipated ten-year horizon of the GLC Transformation Program, it is envisaged that the PCG will be required for up to half of the duration from 2005 to 2010 before its functions can be taken over by GLICs.

Guideline 5.2.1: Review GLC Transformation progress quarterly

PCG is expected to meet on a quarterly basis to assess the progress of the implementation of the GLC Transformation Program Initiatives. In this review, PCG should rely on four separate inputs, namely:

- Economic and financial performance of GLCs as reported in publicly available information;
- Overview from TMO of the progress in launching the various initiatives as described in Policy Thrust 4;
- Update by each GLIC on progress in rolling-out and implementing Program Initiatives across individual portfolio companies;
- Presentations by select GLCs on relevant Program Initiatives and transformation related topics.

Over and above this, the PCG through the TMO will be conducting ongoing interviews, research and analysis with a view to continuously update and improve the Transformation Manual as a source of reference and driver of the program. The PCG itself should report to the YAB Prime Minister on a quarterly basis as to the progress of the program.

Guideline 5.2.2: Publish a GLC Transformation Annual Report

PCG should publish an Annual Report on the status of the GLC Transformation Program. This Report should highlight progress achieved, identify areas for improvement, and make recommendations with respect to policy changes, if any. The first Annual Report should be published in 2006 and is envisaged to be a modular section within the Ministry of Finance’s annual Economic Report that is released by convention with the annual federal budget usually in September/October every year.

In addition, it is envisaged that the PCG should at periodic intervals as necessary, communicate progress of the GLC Transformation Program to shareholders and key stakeholders, including employee groups, suppliers, customers, and members of Parliament

Guideline 5.3: Establish a program management approach to implementation

In order to ensure there is constancy and follow through, a program management approach is being established, first through the Transformation Management Office during the program design and roll-out phase over the next 17 months, and subsequently through a Program Monitoring Unit (PMU) within the Prime Minister's Office.

Guideline 5.3.1: PCG to continue to launch and monitor GLC Transformation Program Initiatives through the TMO

As described in the foregoing, the PCG, through the TMO, has outlined Policy Guidelines and identified ten Initiatives that are contained in Section III that follows.

Moving forward, the PCG recommends that GLICs continue to commit to maintaining the TMO as the core team to drive the design and launch of the Transformation Program Initiatives. The responsibilities of the TMO shall be the following:

- Develop, evaluate and prioritise new initiatives in line with themes and objectives as laid out in Chapter 4;
- Launch the Initiatives identified above, including identifying pilots, assembling the relevant working team, monitoring progress, managing interdependencies across initiatives and de-bottlenecking any execution issues, whenever required;
- Ensure codification and dissemination of learnings/best practices from pilots and initiatives across GLCs and GLICs. For example, via the creation and dissemination of "Books" with guidelines, workshops led by pilot candidates, facilitating the creation of 'Centers of Excellence' at GLICs and/or GLCs.

The TMO should report on its progress to the PCG every quarter. The launch of all the 2005/6 Program Initiatives should be completed by the end of 2006, at which point the TMO will be dissolved.

The ten Initiatives for 2005/6 should be rolled-out over the next 17 months. The Initiatives are work in progress and Section III of this Manual highlights the various stages of these Initiatives. Each initiative will have the following:

- Terms of Reference: A description of the Initiative outlining "what" to expect;
- Guiding Principles: A set of detailed guidelines to assist GLCs in their effort to implement the initiatives derived from the Policy Guidelines. All GLCs are encouraged to adopt and adhere to Guidelines.

- Supporting Material for Guiding Principles: Where relevant, this will elaborate on the Guiding Principles by providing examples, templates and other information;

Exhibit 5.3 highlights the status of the 2005/6 Initiatives as of July 2005 as an illustrative example.

Exhibit 5.3

STATUS OF 2005/6 INITIATIVES

✓ Included in Transformation Manual as of July 29th, 2005

Initiative	Terms of reference	Guiding Principles	Supporting Materials
1 Enhance Board effectiveness	✓	'Green Book' (Q4 2005)	
2 Strengthen Directors capabilities	✓		✓
3 Enhance GLIC Monitoring and Management functions	✓		
4 Improve regulatory environment	✓		✓
5 Clarify social obligations	✓	'Silver Book'	
6 Review and revamp procurement	✓	'Red Book' (Q4 2005)	
7 Optimize capital management practices	✓	'Purple Book'	
8 Manage and develop leaders and other human capital	✓	'Orange Book'	
9 Intensify performance management practices	✓	✓ 'Blue Book Version 2.0'	✓
10 Enhance operational improvement	✓	'Yellow Book'	

Source: Joint Working Team compilation

Guideline 5.3.2: Establish a GLC Transformation Program Monitoring Unit (PMU) within the Prime Minister's Office

As TMO completes its role in launching and implementing the Initiatives, a Program Monitoring Unit shall be set up within the Prime Minister's Office to support PCG in its GLC Transformation oversight tasks. This Unit should have three main roles:

a. Assemble, consolidate, benchmark, and analyse information on the economic and financial performance of GLCs. This information should be sourced from the respective GLICs on a quarterly basis;

b. Codify the progress of the overall GLC Transformation Program, including rating and ranking individual GLCs and GLICs on their progress in implementing Program Initiatives. This information should be sourced from the respective GLICs and also the PCG on a quarterly basis;

c. Assist PCG in preparing its communications to various stakeholders, including the publication of its Annual Report.

This PMU should be established approximately six months prior to TMO completing its role (estimated mid-2006), and should initially be supported by the TMO up until a full dedicated team can be assembled.

Guideline 5.4: PCG and eventually PMU within the Prime Minister's Office as a channel to ensure compliance

There is a high degree of variability amongst the types and performance levels of GLCs today, and therefore the starting points for individual GLCs is unequal. It is inevitable that the time taken and the magnitude of success that each GLC will achieve will also vary. Over time, with strengthened governance, strictly enforced policies and strong senior management, key corporate decisions should be progressively made on a purely commercial basis, with the exception of any formal non-commercial role that GLICs or GLCs are mandated to take on.

In the meantime, it is likely that breaches of the letter or spirit of various aspects of the GLC Transformation Program will occur from time to time. Most of these breaches can be addressed through existing mechanisms within GLCs, GLICs, regulators, Ministries and other relevant bodies. However, for a few others, such mechanisms may not exist.

To provide a final avenue or channel for addressing such breaches, during its existence, the PCG that reports to the Prime Minister shall play this role. Once the PMU within the Prime Minister's Office is formed, targeted for mid-2006, the PMU will assume this role.

The role of this channel is as a check for compliance to receive information about potential breaches, investigate the reality and materiality of such potential breaches, and if verified as real, report such breaches to the Prime Minister. A confidential hotline should be set-up whereby employees, management or Board members of GLCs, and GLICs can report breaches or violations of policies and guidelines developed in conjunction with the GLC Transformation Program, with full anonymity. In addition, this channel could also provide guidance, as a neutral sounding-board for any sensitive or complex issues faced by GLCs or GLICs.