Objectives, rationale and key initiative outputs	ENHANCE BOARD EFFECTIVENESS	
	Revamp board practices and processes	Number III.1.1.1

Objective

- Establish Guidelines for GLC Boards to enhance the effectiveness of their interactions, particularly through revamping Board practices and processes. These Guidelines should augment the existing Malaysian Code of Corporate Governance, either through the introduction of new principles, or by further illustrating with practical details and examples, the actions Boards should take to comply with the spirit and intent of the Code.

Rationale

- Although in itself not sufficient, a fundamental upgrade of GLC's Board effectiveness, and hence Board governance, will be necessary to catalyze the transformation of GLCs. Globally, a strong correlation exists between companies with good corporate governance and long-term financial out-performance. Further, institutional investors value good Board governance as much as strong financial indicators when evaluating investments – the majority are willing to pay an average premium of 20-25% for well-governed companies in Asia.
- A review of the governance of GLCs, including that of better-performing Boards, revealed several weaknesses, including *inter alia*, (i) insufficient individual and collective Board performance accountability; (ii) not enough time spent on critical issues like strategy, talent review and risk management; and (iii) focus on 'letter' rather than 'spirit' of rules and procedures, resulting in inconsistent Board processes, including Board meeting logistics and focus.
- These Guidelines, supported by related tools, best practice examples, and templates, will be designed to help Boards diagnose specific areas for improvement and provide practical potential solutions, that once adopted could raise the overall level of Board effectiveness.

Expected outputs from this initiative

- "Green Book on Enhancing Board Effectiveness" containing Guidelines as described above
- Supporting materials, including related tools to assist GLC Boards identify issues and gaps, and a collection of best practice examples and templates

TERMS OF REFERENCE

Pre-conditions for success and risks	ENHANCE BOARD EFFECTIVENESS	
	Revamp board practices and processes	Number III.1.1.2

Pre-conditions for success

- Stable Board configuration and composition
- Individual Director and collective Board willingness and commitment (particularly that of Chairman) to raising standards and performance levels

Risks

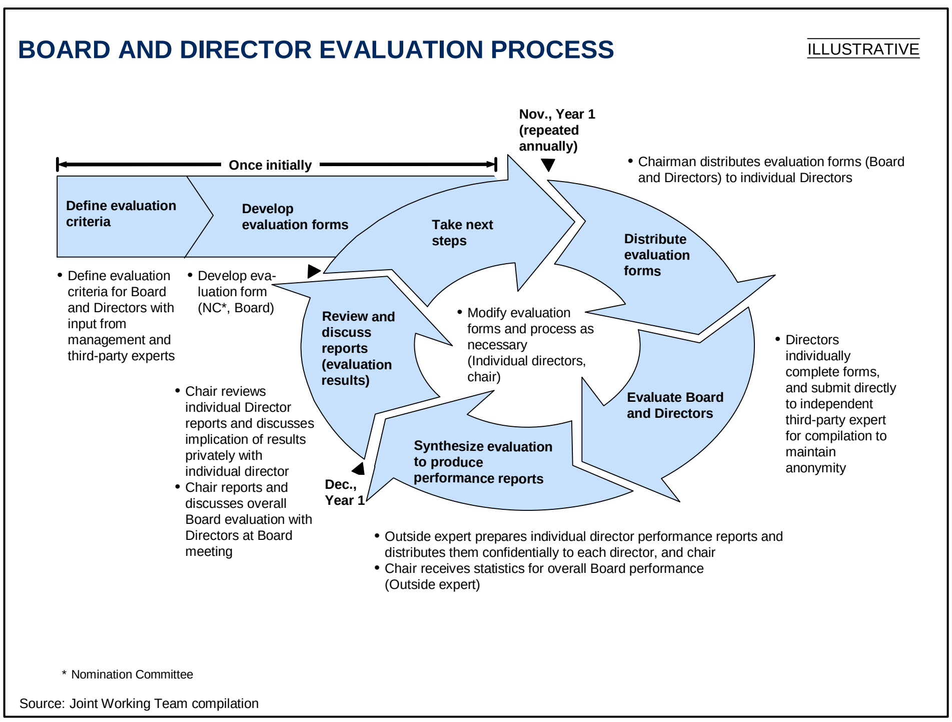
- Boards, while adopting the Guidelines, continue to focus on ‘letter’ rather than ‘spirit’ or ‘intent’

Illustrations of potential Guidelines and supporting material	ENHANCE BOARD EFFECTIVENESS	
	Revamp board practices and processes	Number III.1.1.3

Illustration of potential Guidelines to be included in the "Green Book"

On the evaluation of individual Directors and collective Board:

- The evaluation criteria for individual Board members and the Board collectively should be:
  - Transparent;
  - Customized for the company's specific needs and requirements; and
  - Explicitly linked to clear consequences for non performance



On the compensation of Directors:

- Directors' compensation should be aligned to the 50th percentile of a selection of comparable companies
- Comparable companies should be, where applicable, those companies operating in the same industry, of approximately the same size (as measured by revenue, customer base, number of employees), and subject to similar complexity and risk
- Any amendments to Directors' compensation should be recommended by the Remuneration Committee and approved by the shareholders at the Annual General Meeting

Key activities to be undertaken in preparation for the "Green Book"	ENHANCE BOARD EFFECTIVENESS	
	Revamp board practices and processes	Number III.1.1.4

Key activities to be undertaken in preparation for the "Green Book"

- Refine identification of common issues or gaps faced by GLC Boards, based on interviews conducted
- Develop draft "Green Book" and accompanying related tools
- Codify learnings from Pilot Board and incorporate into "Green Book" and related tools
- Syndicate Green Book with key stakeholders, including select GLC Boards and Securities Commission

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Putrajaya Committee on GLC High Performance (PCG)

THE GREEN BOOK

ENHANCING BOARD EFFECTIVENESS

APRIL 2006

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PREFACE

In the GLC Transformation Manual, launched on 29 July 2005, the Putrajaya Committee on GLC High Performance (PCG) put in place a framework to guide GLC Transformation. One of the main policy thrusts in this framework is the need to upgrade the effectiveness of GLC Boards.

The PCG is setting an imperative for GLC Boards to truly raise their effectiveness: to structure high-performing Boards, to ensure effective day-to-day Board operations and interactions, and to fulfill their fundamental roles and responsibilities at best practice levels.

The purpose of this document – the 'Green Book' – is to help GLC Boards to do this.

Following the 1997 Asian crisis, and with the introduction of the Malaysian Code of Corporate Governance in 2000, the overall quality of corporate governance – and Board effectiveness – in Malaysia, and among GLCs, has improved. However, more progress is required so that GLC corporate governance accelerates the transformation of GLCs.

Importantly, this Green Book is consistent with and complements the Malaysian Code of Corporate Governance by emphasising the performance aspects of Boards. It is not intended to be a comprehensive restatement of best practices, but is designed to be a helpful 'stand-alone' document that deals with some key conformance aspects of Boards and their Directors. It is also intended to be a 'living document' and so will be amended and updated as needed.

Every GLC Board is unique. The role, operating mode, and even composition of a Board has to be tailored to the company's specific context – its history and its current situation, and its priorities. Further, every GLC Board today will have its own strengths, weaknesses, challenges and aspirations. For this reason, each Board will have a different starting point. While PCG would like all GLC Boards to improve effectiveness, improvements at the Board level will be a continuous journey rather than a single event. This journey must therefore reflect each GLC Board's starting point and context.

While some of the benefits will begin to be felt immediately and continue to be gained over the next few years, it is important to stay focused since sustainable longer-term benefits are expected to play out over the next 5 to 10 years. It is essential, therefore, that GLC Boards put in place new practices by the start of 2007 to ensure that the GLC Transformation Program is on track to deliver those national benefits in the period 2010 to 2015 and set the stage for the realisation of Vision 2020.

APPROACH TO DEVELOPING THE GREEN BOOK

Much of the research and analysis into the cause and issues surrounding GLC Performance has been taken from the GLC Transformation Manual. The Green Book contains an approach to improving Board effectiveness that has been piloted at several GLC Boards. In addition to an extensive study of global best practices, valuable input was obtained through con sultation with experienced Directors and Chairmen, lawyers, auditors, corporate governance experts, Bursa Malaysia, Securities Commission, MAICSA and MICG. Such contributions are greatly appreciated.

Development of best practice guidelines and Board Effectiveness Assessment Tool

- Review of corporate governance principles and Codes, including the OECD Principles, Hermes Principles, the UK Code of Corporate Governance and IFAC Enterprise Governance
- Interviews with leading corporate governance and Board effectiveness experts (globally and in Malaysia); experienced Malaysian Chairmen and Directors

Tools are tested and refined at pilot GLC Boards

- Conducted 6 to 8 week pilots at several GLC Boards
- Board Effectiveness Assessment tools and templates tested and refined
- In-depth interviews of all Board members and key senior management
- Observed Board and Commitee meetings
- Reviewed Board agendas, Board papers, Board processes and charters with Company Secretary

Consultative syndication to finalise guidelines and tool

- Syndication conducted with Bursa Malaysia, Securities Commission, MAICSA, MICG, experienced Directors and Chairmen, leading lawyers and auditors

EXECUTIVE SUMMARY

One of the main policy thrusts in the GLC Transformation framework is to upgrade the effectiveness of GLC Boards. This Green Book focuses on the biggest challenges that GLC Boards face and sets guidelines for GLC Boards to adhere to with the overall objective of raising GLC Board effectiveness.

And to be effective, Boards must progress from just 'conforming' to also 'performing'. *Chapter One* sets out the guidelines structured along the three main components of an effective Board:

1. ***Structuring a high-performing Board*** that is led by a Chairman with strong leadership skills, who is respected by all Directors, and able to manage discussions among Directors with differing styles and personalities. The Board should preferably be no larger than 10, and have a balanced composition – with at least one-third of the Board made up of Independent Directors, and up to two Directors (with a maximum of 30% representation) from management. However, it is important that each Director has real commercial experience, specific industry or functional knowledge, which meets the company's unique context and requirements. Nomination and selection of Directors should follow a disciplined and objective process, with clear and appropriate selection criteria. Boards should develop and implement improvement programs as part of the outcome of the annual Board and Director evaluation process.

2. ***Ensuring effective Board operations and interactions*** are predicated on a clear mandate that is aligned to the company's overall priorities. Directors need to function as a cohesive team so that individual Directors' strengths can be fully used as a resource for the benefit of the collective Board and the company. Further, there needs to be a strong trust-based relationship between the Board and management, with the Board constructively challenging, and, at the same time supporting management. Management, in turn, is expected to report to the Board in a similar spirit and fashion. Streamlined logistics are also required – for example, pre-set calendars, agendas that focus on critical issues, and concise Board information that is distributed with sufficient notice.

3. ***Fulfilling fundamental Board roles and responsibilities.*** GLC Boards should move away from getting involved in operational details, and refocus their attention to the Board's fundamental roles and responsibilities: strategy setting, corporate performance management, development of future leaders and human capital, and risk management. Boards need to co-own the corporate strategy with management by being active in the development of the strategy and by setting performance targets. Once the company's goals and target KPIs have been jointly agreed, Boards need to intensify the corporate performance management to ensure that these are achieved. Increasingly, and particularly so for GLCs, Boards need to be more engaged in the development of the company's leadership pool and in the succession, termination and hiring of CEOs. As companies grow in size and complexity, the Board has a bigger task to understand and manage the company's risks. In fulfilling these roles and responsibilities, the Board should adopt a shareholders' perspective, while balancing all valid stakeholder interests.

Chapter Two provides practical suggestions for GLC Boards on how to raise their overall effectiveness, including examples of practices that GLC Boards can adopt. The chapter is structured in a question and answer format, selected to address important issues common to many GLC Boards as well as the issues that GLC Boards believe are most difficult to overcome.

Improving the effectiveness of GLC Boards to best practice standards is a continuous journey. PCG is setting an imperative that all listed GLC Boards assess their current level of Board effectiveness and then develop, and begin to implement, an actionable improvement program by December 2006.

Chapter Three provides a guide for GLC Boards on how to conduct an assessment of GLC Board effectiveness and develop an actionable improvement program.

The Chairman of the Board is responsible for ensuring this implementation effort. Boards can choose to conduct the assessment themselves or seek external support to facilitate the process.

GLC Boards are encouraged to seek external support to facilitate this process – particularly if this is the first time that any form of Board assessment has been conducted. It is often very difficult to self-diagnose and identify weaknesses and an external board governance consultant can provide objectivity while also sharing ideas and assisting Boards to develop an effective improvement program.

Once the Board Effectiveness Assessment (BEA) has been conducted, and the improvement program developed, it is important that sufficient follow-through is carried out. Boards are encouraged to schedule time in Board meetings to review the program – at least every 6 months – and the Chairman (or a designated Director) should lead this discussion. Based on the feedback of the Board, and inputs from the annual Director and Board evaluations, the program should be refined to ensure continuous Board improvement over the longer term.

The relevant GLIC will monitor that the GLC Board has completed its Board Effectiveness Assessment, developed its improvement program, and begun implementation of this program. The GLIC will provide semi-annual progress reports on their portfolio companies to the PCG.

INTRODUCTION

INTRODUCTION

VISION 2020 AND THE NATIONAL MISSION AS LAID OUT IN THE NINTH MALAYSIAN PLAN is our guiding light, informing what goals are set and how those goals are achieved. It is about putting strong, worthy ideas into action and truly becoming a 'comprehensively developed country – developed economically, developed politically, developed socially and culturally, progressive and caring'.[1]

The YAB Prime Minister has made it clear that the transformation of GLCs is a critical part of Malaysia's development and journey through the National Mission and towards Vision 2020.

There are three underlying principles of the overall GLC Transformation (GLCT) Program, namely:

(i) ***National development foundation*** **–** the GLCT 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.

(ii) ***Performance focus*** **–** the underlying rationale of the GLCT Program is to create economic and shareholder value through improved performance of GLCs.

(iii) ***Governance*** **–** the GLCT Program, while being led by the Government, fully observes the rights and governance of shareholders and other stakeholders.

PERFORMANCE OF GLCs CRITICAL TO THE FUTURE DEVELOPMENT OF MALAYSIA

The GLCT Program is important as GLCs have significant impact on the economy being producers, service providers, employers and capital market constituents. Specifically, the GLCT Program is expected to deliver significant performance outcomes for all stakeholders:

- Substantial value for investors of RM250 to 300 billion in market capitalisation of Bursa Malaysia (in other words, a doubling of current levels)
- Improved service, quality and value for money for customers
- Better job prospects and human capital development for the labour force – although this might happen only after a period of reduced employment to drive out inefficiencies
- Positive demonstration, and improved service, to the private sector to increase competitiveness and capabilities of the whole market
- Increased merit-based transparency and reduced leakage for suppliers, which will allow local and Bumiputera vendors to develop and grow
- Development of the Bumiputera community through more skilled Bumiputera employees.

1 *YAB Prime Minister Dato' Seri Abdullah Ahmad Badawi at the Nikkei International Conference on 'The Future of Asia', Tokyo, 25 May 2005 – as adapted from 'Vision 2020 – Malaysia as a Fully Developed Country'*

BOARD EFFECTIVENESS IS A CATALYST FOR GLC TRANSFORMATION

The GLCT Program, relies on three principal agents of change – the Government-Linked Investment Companies (GLICs) that can drive change through their roles as active professional shareholders; the GLC Boards that govern, guide and monitor overall company performance; and the GLC management that are responsible for driving execution and implementation, which results in improved operational and financial performance. Of these change agents, the Board is central, for it is through the Board that GLICs actively manage GLCs and, ultimately, it is the Board that governs management.

Interviews with GLICs, GLC Boards and GLC management, together with independent analyses conducted by various consulting firms and investment banks, as well as input from the Government, all highlight the need for GLCs and GLC Boards to improve their effectiveness. Further, as more and more GLCs have regional aspirations, the benchmark for improvement will not just be the leading Malaysian private sector companies but also regional and global peer organisations and businesses.

Generally, improving Board effectiveness is an imperative for any business that seeks to become a high-performing company, regardless of size and geography. There is a strong correlation between companies with good corporate governance and long-term financial out-performance. Research indicates that institutional investors place equal value on corporate governance and financial indicators when evaluating investment decisions. In emerging markets, the majority of institutional investors are willing to pay a premium for well governed companies – and in Malaysia that premium could be up to 20%.[2]

GLC BOARDS MUST PROGRESS FROM JUST 'CONFORMING' TO ALSO 'PERFORMING'

The PCG found that most GLC Boards complied with the legal form, if not necessarily the full substance, of corporate governance at its best. Today, many Boards conform with compliance and oversight requirements – but this is often at the expense of, or out of balance with, 'performance' components. Making this progression to focus on performance will be critical for GLC Boards to be able to become truly effective.

Beyond meeting statutory, regulatory and legal responsibilities[3], Directors – and the Board collectively – should ensure that the three main components to being an effective Board are in place – that is, structuring a high performing Board, ensuring effective day-to-day Board operations and interactions, and fulfilling the Board's fundamental roles and responsibilities at best practice levels. This Green Book – with best practice guidelines and a Board Effectiveness Assessment (BEA) tool – has been structured around these three components.

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2 *McKinsey Global Investor Opinion Survey 2002, updated 2004*

3 *For example, ensuring adequate disclosure and transparency of information to shareholders. Details of such responsibilities of Directors are detailed in Appendix 3*

There are three chapters in the Green Book:

Chapter 1 : Setting the guidelines for GLC Boards – *best practice standards that all GLC Boards should adhere to*

Chapter 2 : Raising GLC Board effectiveness to best practice levels – *practical suggestions for GLC Boards on how to raise overall effectiveness, including examples that GLC Boards can adopt*

Chapter 3 : Conducting an assessment of GLC Board effectiveness – *guidance for GLC Boards on conducting the Board Effectiveness Assessment and developing an actionable improvement program, with a step-by-step case example*

BOARDS SHOULD IMPLEMENT THIS GREEN BOOK BY DECEMBER 2006

The PCG expects all listed GLC Boards to assess their current level of Board effectiveness, and subsequently to develop and begin to implement an actionable improvement program by December 2006. The Chairman of the Board should be responsible for leading this implementation effort.

The relevant GLIC will monitor that the GLC Board has completed its Board Effectiveness Assessment, developed its improvement program, and begun implementation of this program. The GLIC will provide semi-annual progress reports on their portfolio companies to the PCG.

CHAPTER 1

SETTING THE GUIDELINES FOR GLC BOARDS

CHAPTER 1: SETTING THE GUIDELINES FOR GLC BOARDS

For GLC Boards to truly raise their effectiveness, they should ensure that the three main components of an effective Board are in place:

1. Structuring a high-performing Board
2. Ensuring effective day-to-day Board operations and interactions
3. Fulfilling the Board's fundamental roles and responsibilities to best practice levels.

This chapter sets out the best practice standards that all GLC Boards should strive for and then adhere to. It is important to note that these guidelines describe best practice for Boards of companies that are in 'steady state'. Being in crisis mode or in a period of early development will affect the role of the Board and the best practice standards it can adopt.

All guidelines should be pursued in totality and Boards should avoid selecting just a few to implement.

Exhibit 1.1

Components of an effective Board

1. Structuring a high-performing Board	• Structures the Board to match the company's requirements • Defines committees' role, structure and composition to complement the Board's requirements • Selects and nominates Directors using a disciplined process • Evaluates the Board as a whole and each Director regularly
2. Ensuring effective Board operations and interactions	• Makes every Board meeting productive • Ensures the quality and timeliness of all Board information • Builds trust via positive Board interaction dynamics and open communication within the Board and with management
3. Fulfilling the Board's fundamental roles and responsibilities	• Contributes to developing corporate strategy and setting of targets • Upholds a strong corporate performance management approach • Oversees development of the company's future leaders and human capital • Understands and manages the company's risks • Adopts a shareholders' perspective when making decisions • Balances valid stakeholder interests

1. STRUCTURING A HIGH-PERFORMING BOARD

Board structure and composition is the foundation of Board effectiveness. Unless and until the Board has a strong foundation, it will be challenging, if not impossible, for it to make significant improvements in its effectiveness.

1.1 Structures the Board to match the company's requirements

Every company operates within a specific and unique context, which is determined by its current situation, its aspirations and its priorities. The structure and composition of its Board, therefore, must reflect this context. However, there are some common principles that apply to all Boards.

1.1.1 Board is preferably no larger than 10 Directors

There must be a sufficient number of Directors to ensure that the Board can effectively discharge its roles and responsibilities. At the same time, the size must be contained so that the Board does not become too large and unwieldy, which could then compromise Board dynamics and the accountability of individual Directors.

The PCG reiterates the 2004 Measures[1]: that a GLC Board should be no larger than 10 Directors. However, the PCG also acknowledges that some GLCs may have legitimate reasons to warrant a larger Board. Therefore, where a GLC can demonstrate and disclose such rationale, the Board can be up to 12 Directors. Some examples of such rationale include where a GLC's business or company structure is more complex in terms of size, scope or geography and so the Board requires a wider range of specific expertise or the Board has a greater number of appropriate committees (for example Risk, Credit and Tender Committees) or has a legitimate increase in the number of its Executive Directors and needs to re-balance the Board with more Independent or Nominee Directors.

1.1.2 Board composition is balanced – no more than two Executive Directors and at least one-third of Board is independent

There must be a balance in the Board between Independent Directors, representation from management and representation from major shareholders. As defined in the Malaysian Code of Corporate Governance, and reinforced through Bursa Securities Listing Requirements[2], the higher of two Directors or one-third of the Board must be independent. However, significant shareholders should also be adequately represented – usually in proportion to the size of their investment – via Nominee Directors.

There should also be up to two Executive Directors, with a maximum of 30% representation, on the Board to maintain links between management and the Board. These Executive Directors should complement each other's areas of knowledge and expertise within the business, collectively represent the key business areas of the company and might include a potential successor to the CEO.

1 *YAB Prime Minister address at the seminar on Culture of High Performance for GLCs, 14 May 2004*

2 *Paragraph 15.02*

In some exceptional company-specific circumstances, a third Executive Director can be added to the Board. These circumstances include where additional complementary skills are required to those possessed by existing Executive Directors or where two potential successors to the CEO (rather than one clear) have been identified.

All appointments should be subject to the candidate possessing the skills and experiences that are expected of GLC Directors (refer to Guideline 1.1.4). It is better to leave a seat empty, rather than fill it with a candidate who do not meet these requirements.

A Board with a balanced composition will ensure that no individual or small group of individuals will dominate decision-making.

1.1.3 Clear separation of Chairman and CEO

The Chairman is largely responsible for creating the conditions required for the effectiveness of the overall Board and individual Directors, both inside and outside the Boardroom – including the appropriate balance of power, level of accountability and independent decision making. Even though there have been successful examples of individuals performing the combined role of Chairman and CEO, the PCG and the Code recommend that these roles remain separate and distinct.

The boundaries between Chairman and CEO should be clearly defined and reviewed if there are significant changes to the company's strategy, operations, performance or management. In any case, they should be reviewed at least every 2 to 3 years.

1.1.4 Skills and experiences in line with company's requirements

Each Director should have relevant knowledge and skills – which could come from a combination of their industry, functional or management experience and the right mindset to effectively contribute to the Board.

With the evolving strategic, operational and geographical priorities of GLCs, Boards now require new types of expertise. In particular, GLCs require Directors who have commercial experience in running or leading operations or specific functional skills such as marketing, and change management. These Directors also need to understand, and be sensitive to, the national development objectives of GLCs.

Overall, Directors should be selected based on the company's requirements – taking into account current needs, stage of development and aspirations. While not every Director will possess all the necessary and relevant skills and experience, the collective Board should adequately fulfill the company's requirements.

Further, as stated in the 2004 Measures[3], any possible conflicts of interest should be removed. It is inappropriate for government representatives who are also regulators to sit on GLC Boards.

3 *YAB Prime Minister address at the seminar on Culture of High Performance for GLCs, 14 May 2004*

1.1.5 Compensation is aligned to skill set required of Directors

The compensation of Directors on GLC Boards must reflect the higher level of skill, knowledge and experience required by the company. To attract the right Directors, and in line with the compensation philosophy advocated by the PCG in the GLCT Manual, GLC Boards should review the compensation of their Chairman and directors, and align them to at least around the 50th percentile of an appropriate peer group.

Non-Executive Directors are not eligible to participate in variable performance-linked incentive schemes due to the need to maintain appropriate checks and balances and to avoid a focus on short-term actions. Executive Directors should not receive any additional compensation to sit on the Board.

The peer group selected should reflect the same skills, experience and time commitment required of Directors, the company's current situation (for example, undergoing significant change, experiencing high growth) and the company's future aspirations (for example, to be in the top three by market share in South-east Asia). As GLCs become more regional, it will gradually become more appropriate to benchmark with companies outside Malaysia. However, care should be taken to ensure that any increase in Director compensation is always accompanied by an upgrade in the capabilites of the Board.

1.1.6 Additional selection criteria for Chairman

As described above, the Chairman is pivotal in driving Board effectiveness. To reinforce the importance of the Chairman's position, the selection criteria for Chairmen should be more stringent than that of normal Directors. In particular, Chairmen should have strong leadership skills – to lead discussions among Directors; to build a cohesive leadership team consisting of the Board and senior management; and to delegate responsibilities to other Directors, committees, and management. To do this, Chairmen must be able to secure the respect and trust of the whole Board.

In addition to proven leadership skills, Chairmen need to have recognised stature as they represent the company both domestically and abroad, and must be motivated by a sense of accountability to shareholders and desire to create value for all stakeholders.

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 Nomination Committee to ensure that he or she has the sufficient time and capacity to focus on the task which would include limiting his or her presence on other subsidiary Boards and responsibilities as appropriate.

1.1.7 Cap directorships in listed companies to 5 and in non-listed companies to 10

The PCG found that the current pool of GLC Directors is too small and has resulted in some Directors having too many commitments.

Therefore, to ensure that Directors have the time to focus and fulfill their roles and responsibilities effectively, and in line with the GLC Transformation Manual, GLC Directors cannot sit on the Boards of more than five listed companies, excluding the GLC's subsidiaries. This is a departure from the current cap of 10 as required by Bursa Securities Listing Requirements.

In addition, GLC Directors cannot sit on more than 10 non-listed company Boards, which is lower than current cap of 15 as stated in Bursa Securities Listing Requirements.[4]

1.2 Defines committees' role, structure and composition to complement the Board's requirements

The Board should establish committees to address specialised topics or specific issues more effectively. Although this limits the depth of involvement of all Directors on all issues, such committees do ensure that certain topics are discussed in depth by those individuals with the appropriate and relevant knowledge and insight. This enables Board meetings to be more efficient and effective and allows the overall Board to devote more time to the company's critical issues.

1.2.1 Only those committees necessary are established

The number of Board committees will depend on the size and complexity of the company and the size of the Board. Smaller companies will have fewer committees and some of these will have responsibility for more than one area of the company's activities.

The Code recommends that four main issues are delegated to committees: nominating Directors; assessing effectiveness of the Board and individual directors; compensation and remuneration of Executive Directors; and internal controls and the integrity of audits. Bursa Securities Listing Requirements[5] takes this one step further by requiring that all GLC Boards establish an Audit Committee. Indeed, most Boards establish Audit, Nomination and Remuneration Committees.

Outside of this, the Board must decide if additional committees are required, but should be careful never to usurp management's role and accountabilities. For example, Boards of large companies whose main activities include procurement might benefit from a Board Tender Committee. This would allow the dedicated time and discussion to ensure that the integrity of procurement procedures are being adhered to without distracting from other critical Board issues. Similarly, Boards of very large and complex conglomerates might choose to form a Strategic Planning Committee, which undertakes the detailed assessment of some BU strategic plans and budgets.

4 *Paragraph 15.06*

5 *Paragraph 15.10*

Excos, however, should only be formed to address specific situations, where it is necessary for the Board to take on greater executive roles. This should only be for up to 6 months - but in exceptional circumstances it could be extended to a maximum of 12 months. Further guidance on Excos can be found in Chapter 2.

Finally, committees that have outlived a useful purpose should be disbanded.

1.2.2 Adheres to clear charters as established by Board

As outlined in the Code, when the Board forms a committee, it also needs to clarify the role and authority of the committee and, in particular, whether the committee will act on behalf of the Board or simply has the authority to examine a particular issue and report back to the Board with a recommendation. This is usually done by establishing a charter or terms of reference (TOR). The TOR should also clearly specify the boundaries between the committees and management to ensure that the committees do not usurp management's role and accountability. The charter or TOR will inform the purpose and practice of the committee and should be reviewed every 2 years to test its continued applicability to the company's current situation.

1.2.3 Committees are composed of the 'right' Directors

The Bursa Securities Listing Requirements[6] state that the Audit Committee should consist of at least three Directors, the majority of whom must be independent, including the Chairman. In addition, at least one Director must be a member of the Malaysian Institute of Accountants or meet the Bursa Securities Listing Requirements[7]. Best practice indicates that to maintain effectiveness, this committee should consist of no more than four Directors.

The Code requires that the Remuneration Committee consists wholly or mainly of Non-Executive Directors and that the Nomination Committee consists exclusively of Non-Executive Directors, a majority of whom are independent. GLICs, via their Nominee Directors, should be represented on the Nomination Committee to ensure that the evaluation of existing Directors and selection of new Directors are in line with the company's requirements.

Other than these stipulations, the composition of committees will be at the full discretion of the Board. However, the Board should ensure that committees have sufficient critical mass so that meaningful conversations and debates can take place, but do not 'over-invest' as the Board will still usually need to endorse final decisions. Therefore, committees should comprise no more than half of the total Board. The Board should also take a holistic view as to where else directors might need to be deployed – for example, on the Boards of the company's subsidiaries.

As far as possible, the Boards should ensure the committees are composed of Directors who are skilled and able to carry out the task at hand (although committees are able to engage outside help as necessary).

6 *Paragraph 15.10*

7 *Paragraph 15.10 (1) (ii)*

1.3 Selects and nominates Directors using a disciplined process

As laid out in the Code, the Nomination Committee is responsible for recommending potential candidates to the Board for Directorship. However, it is important to note that the Memorandum and Articles of Association (M&A) of the company might stipulate that a certain person or body, including major or significant shareholders, will have the power to appoint the Directors of a company.

1.3.1 Clear selection criteria exists

The Nomination Committee should recommend to the Board a clear and appropriate selection criteria for Directorships. This recommendation should be based on an annual review of the Board's required mix of skills and experiences, taking into account the current, and future needs of the company. This review should be matched against the current composition of Directors to identify any gaps. The Board and Nomination Committee should be mindful of the Companies Act[8] requirement that an age limit of 70 years be applied for all Directors of listed companies and its subsidiries.

1.3.2 Nomination process is objective

In making its recommendations to the Board, the Nomination Committee should assess the suitability of potential candidates against the established selection criteria. Potential candidates can be identified by the Nomination Committee, existing Directors, CEO or, within reason, by any shareholder or other senior executives. Once the short-list of candidates is finalised, their names should be put forward to the Board for approval and then to the shareholders for appointment, subject to any terms in the company's articles of association.

1.3.3 Candidates sourced from likely and unlikely sources

In addition to the current pool of Directors, and the traditional sources for GLC directors, the PCG recommends that GLC Boards broaden their view of the potential pool of individuals who are suitable to be GLC Directors. In particular, the PCG recommends that, over time, GLCs proactively tap into new sources, including:

- Professionals within Malaysia – as well as Malaysian expatriates – who have deep sector or functional expertise in private organisations or are individuals who have led, or been responsible for the growth of, operating companies and/or large divisions.
- Other serving CEOs, provided there is no competitive conflict or conflicts of interest. Note that, at this stage of the GLCT Program, GLC CEOs are not permitted to sit on Boards other than those of their own subsidiaries.
- Experienced Directors from overseas – especially for GLCs that compete internationally or that are subject to increasing global competition.

In expanding the pool of potential Directors, GLC Boards should look to those individuals who understand, and are sensitive to, the national development objectives of the GLCT Program, the National Mission and Vision 2020.

8 *Section 129, Companies Act 1965*

1.4 Evaluates the Board as a whole and each Director regularly

As recommended by the Code, Boards are expected to undertake an annual evaluation of the effectiveness of the Board as a whole, the committees of the Board, and the contribution of each Director. However, 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 feedback and consequence management for under-performance.

The PCG recommends therefore that all GLC Boards perform the Board Effectiveness Assessment (as laid out in Chapter 3), which includes creating an actionable improvement program. Each year after this, the Board should complete a more traditional, shorter evaluation[9]. The PCG also recommends that another full Board Effectiveness Assessment would be worthwhile approximately every 3 to 5 years depending on the Board's progress and/or current situation. In conducting all these evaluations, Boards should be aware of confidentiality and possible sensitivities at all times.

In completing the 'shorter' annual evaluations, the Board should incorporate the following guidelines.

1.4.1 Clear performance evaluation criteria exists

Clear performance evaluation criteria should be established and communicated to all Directors. This criteria should reflect the company's current and expected position and environment. Further, the consequences of under-performance – such as no re-election or removal – should also be communicated to all Directors.

1.4.2 Nomination Committee leads the process

The Nomination Committee is responsible for recommending the performance evaluation criteria as well as leading the evaluation process, both for the Board and individual Directors. Where necessary, external support can be engaged to support the Nomination Committee. Evaluation reports should include anonymous feedback from the Directors' peers and senior management. Most importantly, the reports should include recommendations for individual Directors and the Board as a whole on how to improve or continue to develop. All reports should then be collated for the Chairman.

The Nomination Committee has the duty to recommend that Directors who do not meet the pre-agreed criteria are not re-elected or removed, and that this recommendation should be put forward to the Chairman. Adhering to this evaluation process is important as it allows for continual renewal of the Board in line with the company's requirements.

9 *Sample forms for these evaluations are included in Appendix 4*

1.4.3 Chairman leads the follow-up process

The Chairman should discuss with each Director his or her individual results and together develop a personalised action plan for the upcoming year based on the evaluation report's recommendations. Similarly, the collective Board, led by the Chairman, should dedicate part of a Board meeting to review the results for the whole Board and develop, or review the existing, improvement program.

1.4.4 Training programs address development areas

When gaps in either skills or knowledge have been identified, the Chairman should ensure that Directors individually or the Board collectively have access to necessary training programs or materials which are tailored to address these gaps – for example, attending industry conferences on new technologies, inviting analysts or experts to discuss changing trends in the industry, running team-building workshops or inviting professional 'board coaches' to enhance the quality of board interactions[10]. These programs should match up with identified development areas and not become just a 'box-checking' exercise to indicate that training has occurred.

10 *Consistent with Bursa Securities Listing Requirements, paragraph 15.09*

2. ENSURING EFFECTIVE BOARD OPERATIONS AND INTERACTIONS

The effectiveness of a Board is to a large part determined by the quality of its procedures, processes and operations. To ensure Board meetings are effective and that Directors are adequately prepared, there are a number of basic Board processes that need to be in place. An important part of this, and in line with the Code, is that Boards should appoint an in-house Company Secretary with relevant experiences and skills – taking into account the size and complexity of the company. For listed companies, it is crucial that the Company Secretary maintains an 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.

For Board operations to be truly effective, Boards should put the following guidelines into practice.

2.1 Make every Board meeting productive

As most Boards meet only several times a year, it is critical that every Board meeting counts.

Boards should meet regularly – and the actual number of meetings will depend on the nature of the company's business and the stage of its development. However, on average, Boards tend to meet six to eight times a year, potentially adding several more offsites for specific topics such as strategic planning. The Code recommends that the Directors disclose the number of Board meetings held each year to enable shareholders to evaluate if the Board is adequately in control of the company. In addition, Directors who are absent from more than 50% of Board meetings in a financial year will have to vacate office as stipulated in Bursa Securities Listing Requirements.[11]

2.1.1 Follows a set schedule

A Board calendar with draft agendas should be set for 12 months in advance and synchronised with the management planning cycle. The Board should also revisit this calendar on a regular basis to ensure that the topics are still relevant and revise as necessary.

2.1.2 Chairman determines agenda in consultation with CEO

After getting input from other Directors, the Chairman should determine the agenda with assistance from the Company Secretary and in consultation with the CEO. The agenda should address priority strategic issues, rather than detailed operational ones, and ensure that there is enough time for rich discussion. Agenda issues should be aligned with the overall company's context, including its starting situation, aspirations and priorities.

2.1.3 Adheres to a clear charter

As the Chairman and CEO must have clear roles and boundaries, the Board must also clearly define its role – particularly, its boundaries with management – and codify it in a Board charter or terms of reference (TOR). This charter should encapsulate the Board's priorities, which in turn should be aligned with the company's overall short- to medium-term priorities. The charter should also be consistent with the mandate that the Board provides to the CEO, which specifies what the CEO needs to accomplish and what freedoms and constraints the Board will provide. The Board should review the charter at least every 2 years to test its applicability to the company's current situation.

11 *Paragraph 15.05*

2.2 Ensures the quality and timeliness of all Board information

The quality of the information received by the Board is critical to Board effectiveness. All Directors have the same right of access to information – whether they are Executive or Non-Executive Directors. Information provided to the Board should not just be historical financial performance, it should also include other key leading indicators such as customer satisfaction, product and service quality, market share, market reaction and environmental impact.

2.2.1 Board papers are clear and relevant

Papers that are prepared by management for the Board should be set out logically and contain synthesised information and pertinent critical analyses. These papers should be preceded with a one- to two-page summary that lays out what is requested from the Board – for example, whether it requires an approval or endorsement or if it is for information only; the key issues, rationale, risks and decisions required; and actions required with timelines and accountabilities identified. Sometimes additional information might be necessary – such as background on competitors or industry trends – so that the Board can understand the issues clearly and have the information necessary to make a decision.

The Board should give management constructive feedback on the quality of the information and analyses received so that management is able to ensure Board papers are of a high standard.

2.2.2 Board given appropriate notice

Even the highest quality information and material will not be of value to the Board unless it is received in sufficient time to read and absorb it prior to the Board meeting. Therefore, the PCG recommends that meeting agendas are distributed at least 14 calendar days in advance, and all Board papers and any pre-reading are distributed at least 7 calendar days in advance. This allows Directors time to review material and, where necessary, conduct independent analyses or request additional material.

The Board should reinforce this practice and refrain from considering last minute agenda items during Board meetings. Genuinely urgent matters, for example acquisitions, could fall outside these timing requirements but these should be exceptions rather than the rule.

In the event that the Board conducts more than the average number of meetings per annum – that is six to eight meetings – papers can be distributed to approximately five calendar days in advance. However, once the Board moves back to an average schedule of meetings, the practice of 7 calendar days should be adhered to.

2.3 Builds trust via positive interaction dynamics and open communication within Board and with management

While the structure and composition of the Board are critical, unless Directors trust one another and are able to function as a cohesive team, the Board will not be truly effective. To achieve this trust and cohesiveness, positive interaction dynamics, and a spirit of open communication must be fostered within the Board.

Similarly, trust must also exist between the Board and management. To do so, both Board and management must ensure that interactions are credible and constructive. The Board is expected to challenge management in a supportive and constructive manner, and management in turn, is expected to report to the Board in a similar spirit and fashion. Further, once resolution is achieved, the decision should be jointly owned and supported by both Board and management.

2.3.1 Positive Boardroom dynamics and environment

The Boardroom environment, and the inter-personal dynamics of the Board, must encourage all Directors to participate in discussions. This means that no one person should dominate discussions and that when an opinion is voiced, particularly a dissenting one, it should be given a fair hearing. If an open, secure and positive environment can be created, then Directors will feel encouraged to share their views.

Discussions should be constructive, productive and effective – that is, instead of merely raising and debating issues, actual resolution or closure must be achieved. In addition, common understanding must exist among the Directors – for example, upon leaving a Board meeting, there should be consensus as to what agreements were reached and what next steps are. To support this, there should be regular and constructive feedback among Directors so that all become aware of their strengths and weaknesses and understand how to improve.

Although all Directors play an important role, the Chairman is responsible for ensuring that trust is built among Directors and that the Board operates as a cohesive team. The Chairman should lead the interactions, drawing Directors in, containing non-core discussions, facilitating debate and ensuring resolution or closure is reached.

2.3.2 Constructively challenges and supports management

While it is the role of the Board to challenge the assumptions, approach, outcomes, and performance of management, this should always be done in a constructive way. Therefore, instead of merely critiquing or pointing out flaws, errors or shortcomings, the Board should focus its discussions with management on the root causes of problems and the potential actions required to rectify. Through such discussions, the Board can leverage and impart its knowledge, skills and experiences to management – which will lend significant credibility to the Board's basis for challenging management – and demonstrate to management the value that the Board can bring. Management, in turn, has a duty to ensure that the Board is furnished with sufficient information, analysis, and options in order to make informed decisions.

Once required actions or solutions are agreed upon, the Board should then consistently encourage and support management through the implementation. Occasionally, these solutions might also require action on the part of the Board – for example, drawing on their contacts or networks. The Board and management should be expected to follow-through and deliver the necessary outcomes or outputs within the agreed time.

The Directors should also have regular discussions and feedback sessions with senior management to continue to build a working relationship.

2.3.3 Board decisions communicated promptly to management

All Board decisions should be clearly recorded in the minutes, including the rationale for each decision, clear actions to be taken with the agreed timeline, and the individuals responsible for implementation. This ensures that management understands the decisions made and are able to execute against the decision. Note that this will be subject to any legal or regulatory restrictions which could limit the level of detail of minutes.

Relevant Board decisions should be communicated verbally to management within 1 working day of the Board meeting and relevant extracts of the minutes should be distributed within 3 working days.

3. FULFILLING THE BOARD'S FUNDAMENTAL ROLES AND RESPONSIBILITIES

The PCG found that most GLC Boards complied with the legal form, if not necessarily the full substance, of corporate governance at its best. Today, many Boards conform with compliance and oversight requirements – but this is often at the expense of, or out of balance with, performance components such as results and impact.

To address this, and in line with the Code, the PCG recommends that GLC Boards should refocus their time and attention and spend about 80% of their time on the fundamental roles and responsibilities rather than on detailed operational matters. And, in so doing, Boards should adopt a shareholders' perspective and balance all valid stakeholders interests.

Based on the current context of each GLC, it will be for the Board to determine a target mix of its roles and responsibilities. For example, for a GLC in turnaround mode, the Board will want to spend much more time on managing short-term performance, managing risk and focusing on getting the right individuals into select pivotal positions. A GLC in growth mode, on the other hand, will want to spend more time on overseeing the company's strategy and the development of its future leaders.

3.1 Contributes to developing corporate strategy and setting targets

Defining a corporate goal or mission and defining the strategy to achieve it are integral to corporate success. The Board plays a key role in the following three ways.

3.1.1 Guides the strategic direction

The Board should provide guidance and overall input on the overall strategic direction and aspirations early in the planning cycle. To do this, Boards could draw on industry experts, market analysts or briefings by the internal strategy teams – all of which allows the Board to deepen its knowledge and gain perspectives prior to providing input to management.

3.1.2 Co-owns the strategy with management

Management typically bears responsibility in developing strategy, together with the Board that actively guides, challenges, and clarifies the multiple views and assumptions put forward by management. Only through this process will the end product be a strategy that both Board and management truly co-own. To reinforce this role, the Board should attend a dedicated session every year to challenge and debate strategic options with management.

3.1.3 Sets targets for management

After the strategy is decided, and the business plan and budget are completed, the Board should test the CEO's and senior management's KPIs and targets to ensure that they reflect industry trends and internal capabilities – yet still provide enough stretch and aspiration for management.

3.2 Upholds a strong corporate performance management approach

A basic but critical function of the Board is to oversee the performance of the company and determine if the business is being properly managed. The most effective way to achieve this is through adopting a strong corporate performance management[12] approach built on the use of key performance indicators (KPIs).

3.2.1 KPIs provide a balanced view

KPIs should be designed to link directly to the core values of a company's strategy as pre-determined by the Board and management. The Board should ensure that a balanced and holistic view is taken when establishing KPIs. In particular, KPIs should reflect the company's historical performance (for example, return on equity and EBITDA margin) and leading indicators (for example, capital productivity or ROCE, number of customer complaints and attrition rate of high-performing employees, quality of customer base, 'employer of choice' score and brand perception).

3.2.2 Reviews corporate performance and follows up

The Board should receive regular performance reports that indicate the current status of all corporate KPIs. Based on these reports, the Board should focus its discussions on any vital missed targets (or 'red flags') and constructively challenge management to verify root causes, and propose or endorse an action plan to get back on track. The Board needs to agree on who is accountable for executing these action plans and the timeline in which it expects these actions to be taken. The Board should then follow up in later meetings to ensure that the actions have been taken and that the expected impact has been achieved.

Similarly, the Board should note any 'out-performance' and discuss how such performance can be sustained.

3.3 Oversees development of the company's future leaders and human capital

In a global environment, where securing critical talent and skills is becoming increasingly competitive, Boards have to devote more attention to the issue of human capital management. For GLCs, the development and management of their human capital is an even more acute issue as it is one of the biggest challenges that GLCs face. The Board has five distinct responsibilities in this area.

3.3.1 Selects CEO and proactively plans CEO succession

A critical role of the Board is to select the CEO based on the context of the company – including current performance levels, competitive landscape, and aspirations of the company. Similarly, the Board should establish a clear succession model. Prior to short-listing candidates, the Board should review a full fact-base of each candidate's leadership achievements and development areas. The Board should then get to know each candidate personally through individual Directors and through dedicated Board sessions.

12 *For details on how GLCs can improve performance management, please refer to 'Blue Book Version 2.0 - Intensifying Performance Management.'*

3.3.2 Reviews the performance management philosophy

Management is responsible for evaluating the performance of each employee. However, the Board should approve the methodology for company-wide rewards and consequences; ensure that there is sufficient differentiation in performance, rewards and consequences among the entire employee pool based on their performance ratings; and approve the final bonus pool.

3.3.3 Evaluates the CEO

Upon selecting a CEO, the Board should ensure that clear expectations of the CEO are laid out in a CEO mandate. This mandate should be aligned with the Board's and company's overall priorities, and should form the basis for the CEO's KPIs and targets.

Evaluations of the CEO should be conducted at least semi-annually. The CEO's KPIs are the most relevant performance indicators for the company and it is against these targets that the Board should evaluate the CEO's performance. It is also best practice for Boards to ensure that the employment terms, KPIs, targets and corresponding compensation (including any variable performance-linked compensation) of CEOs are included in a contract.

3.3.4 Endorses performance and development plan of those in pivotal positions

Pivotal positions are the most crucial jobs with the potential to create or destory the most value to the company. The Board needs to understand the current performance, competencies and potential of those in pivotal positions, and endorse their performance and development plans based on discussions with management.

3.3.5 Understands the pool of future leaders

The Board should dedicate time to understand, and gain sufficient exposure to the overall pool of potential leaders. This begins with understanding the current and future demand for potential leaders, consequently the magnitude of any leadership gap that exists within the organisation today within the context of its current strategy. Based on this, the Board should determine if the company's aspirations need to be made more realistic in line with capabilities available or if a new, more radical approach needs to be taken to boost the pool of future leaders. Beyond understanding the overall quantity of leaders needed, the Board should also understand the strength and depth of potential leaders across the group and by key business unit, major subsidiary and job level or grade.

3.4 Understands and manages the company's risks

Understanding and managing risks is critical in protecting the company's value. The Board has three specific roles.

3.4.1 Sets the company's risk parameters

The Board's role is to establish the risk parameters, thresholds and boundaries for the company and ensure that overall corporate risks are measured and thresholds are controlled within pre-determined limits.

3.4.2 Understands major risk exposures

The Board understands major risk exposures on an aggregate basis – that is, as far as possible, all risks are rolled into a common metric such as 'cash flow at risk' or 'value at risk'. Further, the Board ensures that there are sufficient internal controls and clear mitigation plans for major risks and that these plans include accountabilities and timelines. For major risks, the Board should also have a good sense of the costs and benefits of risk mitigation, which takes into account the probability of occurrence and the magnitude of the impact of the risk.

3.4.3 Considers the risk factors in all major decisions

The Board ensures that a culture of identifying and managing risk exists throughout the organisation. One way to do this is by setting the right example, and tone, and ensure that in-depth risk analysis and quantification is conducted for all major investments or strategic decisions prior to decisions being made by the Board.

3.5 Adopts a shareholders' perspective when making decisions

The Board has a fiduciary responsibility to act in the best interest of the company. Fulfilling this responsibility can take various forms.

Boards should take into account capital market perspectives when making financial and strategic decisions to ensure long-term sustainable value creation. This means being proactive and developing an understanding of what the capital markets expect from the company in terms of its performance and strategic movements and to ensure that the company manages these expectations in a realistic manner. Board decisions must either meet those expectations or demonstrate clear and valid rationale for not doing so.

Boards should also ensure that the views of majority or significant shareholders are considered, and adopted, where such views are aligned with the interests of all shareholders. Further, minorities' interests should also be adequately protected. The most common mechanism to do this is to ensure that all related-party transactions are on an arm's-length basis and that such transactions are fully disclosed.

3.6 Balances valid stakeholders interests

GLC stakeholders include employees, customers, suppliers, regulators and the government. In making their decisions, GLC Boards will have to carefully balance and manage the sometimes opposing interests of these groups while considering the national development objectives of the GLCT Program.

Boards should first understand the economic impact of particular stakeholder interests on overall shareholder value. For example:

(i) Employees: In trade union negotiations, the Board should be engaged on the economic impact of the negotiations – including the benefits (such as intensifying performance management, which will result in better financial performance) and the risks (such as the large costs associated with potential industrial action).

(ii) Government: GLCs often have to carry social obligations such as providing universal access to basic services or develop a local and Bumiputera supplier base, even though it is uneconomical, or less than economical, for the GLC to do so. The Board should be engaged on the economic impact of these social obligations – including the benefits that the GLC derives (such as monopoly rights) and the actual costs associated with delivering the service.

Boards must then balance and trade-off conflicting interests and the primary guiding principle to do this should be to ask: what is in the best sustainable interests of all shareholders?

Finally, while it is management's primary responsibility to manage these stakeholders, the Board can use its network to support management in their efforts wherever possible. There are two ways that Boards can do this: through proactively gaining the support of key stakeholders like regulators, unions, suppliers and new customers; and through protecting the company by containing those stakeholders that have interests counter to that of all shareholders.

CHAPTER 2

RAISING BOARD EFFECTIVENESS TO BEST PRACTICE LEVELS

CHAPTER 2: RAISING BOARD EFFECTIVENESS TO BEST PRACTICE LEVELS

GLC Boards are likely to have some specific questions as to how exactly to implement Board Improvement Programs in order to raise their effectiveness to best practice standards. The purpose of this chapter is to answer some of those questions and address issues common to all GLC Boards, especially those GLC Boards believe are most difficult to overcome.

This information is structured in a question and answer format and includes useful examples and case studies to provide further guidance.

1 HOW CAN THE BOARD DEFINE ITS MANDATE AND BOUNDARIES WITH MANAGEMENT?

The role of Boards include overseeing strategy setting, corporate performance management, the development of future leaders and human capital, and risk management. Because the roles of Board and management are complementary, it is important to clearly define the mandate of each party to find the right balance between support and check-and-balance. Therefore, clear boundaries need to be drawn between the Board and management, such that the Board avoids over-focusing on operational details, which are the responsibilities of management. Management, in turn, should offer the Board open and transparent access to relevant information.

Within these broad boundaries, each GLC Board will need to determine, based on the context of the company, the precise role that it will play relative to management, and this should be discussed and agreed upon with management. The Board's roles should then be codified in a Board charter or terms of reference. (An example of such a board charter can be found in Appendix 3). Below is an example of how a typical Board might categorise the boundaries between itself and management.

Exhibit 2.1

Boundaries between Board and Management: an example

	Management's role	Board's role
Strategy development and target setting	• Develops strategic direction and plan for company based on agreed direction and boundaries • Coordinates the development of the business plan and budget across all business units	• Guides strategic direction • Challenges assumptions, priorities and options put forward by management in the strategic plan • Reviews the business plan and budget and sets targets for management
Performance management	• Establishes corporate KPIs • Monitors KPIs monthly with BUs, investigates variances and develops corrective actions if required • Cascades KPIs throughout organisation	• Reviews, approves and provides feedback on corporate KPIs and targets • Reviews results quarterly, discusses material variances, and ensures that corrective actions are taken if required
Human capital management	• Develops and implements the company's performance management system • Evaluates leadership performance and potential of all executives • Identifies the top talent pool and closely manages their performance and development plan	• Selects and proactively plans CEO succession • Reviews the performance management philosophy • Evaluates CEO • Endorses the development plan of those in pivotal positions • Understands the pool of future leaders
Risk management	• Analyses and quantifies the company's risks • Manages all risks within the boundaries set by the Board • Instils risk culture throughout organisation	• Sets the company's risk parameters • Understands major risk exposures and ensures appropriate risk mitigation approach is in place • Considers the risk factors in all major decisions
Shareholders	• Understands needs of shareholders, and communicates key decisions in transparent manner • Ensures that all disclosure or any other regulatory or statutory requirements are fulfilled	• Ensures that all shareholder views are represented and shareholders are treated equally
Stakeholder management	• Manages all stakeholder interests within boundaries agreed with the Board	• Balances and manages economic impact of stakeholder interests on shareholder value • Supports management in managing key stakeholders

The Board can take a more active role in operations if both of the following conditions are met:

- The company is in crisis mode. This includes undergoing a major turnaround, or being under a sudden external threat (for example, acquisition, changes in competition, new regulation), or facing a major internal risk
- Management does not have the capabilities or the capacity to respond as the situation demands.

In this case, and if the Board decides it is necessary to take on a greater executive role, it should only be as an interim measure. As a guide, it should typically be only up to 6 months – but in exceptional circumstances it could be extended to a maximum of 12 months. During that time, a priority for the Board would be to recruit a new management team.

There are three ways that Boards can play a greater executive role in such circumstances:

- **Require an increase in the frequency and depth of information provided to the Board.** For example, in a turnaround situation, this could include management providing weekly performance management reports on cash and profit indicators and a snapshot of the company's risk situation
- **Increase the frequency of Board meetings** to provide more frequent updates as well as additional time to delve deeper into important issues. For example, Boards that meet every quarter might now need to meet monthly
- **Establish a Board-based Exco to address the situation.** This is typically only a small subset of the Board, which can balance the trade-off between having sufficient Board representation and making decisions quickly. The Board should determine the mandate of the Exco and this can range from full power – the ability to act for the Board between board meetings – to a narrower mandate for specific functions and tasks – for example, limited to providing guidance to the new CEO during the transition.

Despite its ability to facilitate Board decision making, the Exco structure has two major shortcomings - it could usurp the role of the Board or create a two-tier Board and demotivate those Directors who are not Exco members.

To overcome this, Boards can adopt a number of measures, such as limiting the purpose or authority of Excos, or allowing deferral of decisions to the full Board, or allowing the Board to review Exco decisions.

Exhibit 2.2

Characteristics of Exco Board: an example

Purpose
- To enable the Board to act in between full board meetings
- To develop response to hostile take-over bid

Scope/authority
- To analyse options, determine appropriate reponses and negotiate with hostile bidder
- To take any action or perform any task requested by the Board

Membership

Size: 4

Chair: Chairman of the Board

Other members:
- CEO
- Directors X,Y,Z

Decision making
- Majority vote of members in attendance
- Unanimous written consent in absence of physical meeting
- Any Exco member can request deferring a decision until next full board meeting

Meeting frequency
- As frequently as needed, with a minimum of every 2 weeks
- Written report to rest of Board every 2 weeks.

Resources
- Company secretary to acts as Exco secretary
- Exco typically has authority to retain external advisers as necessary

Timeline
- Maximum of 6 months

As part of defining its boundaries with management, it will be important to separate and balance the roles of the Chairman and CEO. The Chairman, as leader of the Board, is the person primarily responsible for the overall effectiveness of the Board- both within and outside the Boardroom. The CEO, on the other hand, runs the company and is responsible for ensuring the company achieves its strategy and targets.

Exhibit 2.3

Division of roles: Chairman and CEO

Chairman roles	Potentially shared roles	CEO roles
▪ Provides leadership to the Board - Plans Board meetings, agenda - Ensures Board receives proper information in timely manner - Chairs all Board meetings - Ensures that all Directors contribute - Drives discussion toward consensus and to achieve closure on such discussions ▪ Chairs shareholder meetings ▪ Acts as company's ambassador, both within domestic market and internationally	▪ External relations, including relationship with shareholders ▪ Senior leadership development	▪ Develops and implements strategy, reflecting long-term objectives and priorities established by Board ▪ Assumes full accountability to Board for all aspects of company operations and performance ▪ Puts adequate operational plans and financial control systems in place ▪ Closely monitors operating financial results in accordance with plans and budgets ▪ Represents company to major customers, employees, suppliers, and professional associations

While the roles are complementary, there may be some overlaps which could generate conflict. Even though the Board is formally responsible for determining the roles of the Chairman and CEO, ensuring there is clarity and shared understanding from the start will reduce any confusion and limit conflict. Best practice calls for the responsibilities of each role to be set out in writing and reviewed periodically.

Choosing a Chairman-CEO combination that works together in an atmosphere of mutual trust is particularly important. The right combination will create the right environment for co-operation, facilitate the flow of information, and help the Chairman to be an effective mentor to the CEO and to revel in his or her success.

2 HOW CAN NOMINEE DIRECTORS BALANCE THEIR OBLIGATION TO THE COMPANY WITH THEIR DUTY TO THE SIGNIFICANT SHAREHOLDER?

Large or significant shareholders can nominate a number of Directors to the Board. The number of Directors is usually proportionate to the size of the shareholder's investment in the company.

These Nominee Directors have two main responsibilities: the fiduciary responsibilities that is common to all Directors (namely, to act in the best interests of the company which in the majority of cases means the shareholders as a whole) and the responsibility to accurately represent the views and opinions of his principal, the large, significant or major shareholder.

Current judicial development in the Commonwealth jurisdictions[1] suggest that Nominee Directors will not be in breach when they act with the interests of their principal other than the company in mind, provided they have a genuine belief that in so doing they are acting consistently with the interests of the company as a whole.

However, in the event that these responsibilities do conflict, the Code recommends that nominee Directors' primary obligation is to act in the best interests of the company and that their duty to the large or significant shareholder must always be subject to this.

1 *Re Broadcasting Station 2GB Pty Ltd (1964-65) NSWR 1648; Berlei-Hestia (NZ) Ltd v Fernyhough [1980] 2 NZLR 150; Cumberland Holdings Ltd H Soul Pattinson & Co Ltd (1977) 2 ACLR 307 at 318; Re News Corporation Ltd (1987) 70 ALR 419 at 436*

3 HOW CAN THE BOARD SELECT DIRECTORS WHO HAVE SKILLS AND EXPERIENCES REQUIRED BY THE COMPANY?

Even though Directors on any high-performing Board should be effective on an individual basis, it is more important that the collective ability of all Board members represent the skills and attributes required by the company. In determining which relevant skills and experiences are required, the company's current needs, its stage of development and its aspirations should to be taken into account.

With the evolving strategic, operational and geographic priorities of many GLCs, companies require Directors that have deep commercial, functional, geographical and/or relevant industry skills, knowledge and experiences.

DIRECTORS MUST BE INDIVIDUALLY EFFECTIVE

Individually, Directors need to have the relevant knowledge and skills to be able to identify key issues, constructively challenge, collaborate to solve problems, propose alternative solutions and support management. In addition, it is important that Directors have the right mindset, integrity and motivation to be able to act in the interest of all shareholders. Within the Malaysian context, Directors must also understand, and be sensitive to, the national development objectives of GLCs.

Exhibit 2.4
Ideal characteristics of an effective Director

Knowledge ***"What a Director knows"***	• Understands **fiduciary responsibility** as a Director • Understands the **fundamental roles and responsibilities of the Board and Directors** • Understands and adheres to the **clear boundaries between the Board and management** • Understands key **industry trends** (e.g. competition), **geographies**, and **functions** (e.g. operational, legal, technical) that are most relevant to the company • Understands Malaysian **cultural, social, political and developmental** context • Knows the **company** well enough at the right level of detail (e.g. where profit is made/lost, how customers buy, how things get manufactured, what are major talent gaps in critical positions) • Understands shareholder **expectations** (e.g. dividend expectations, growth forecast) and knows key stakeholders (e.g. suppliers, regulators)
Skills ***"What a Director can do"***	• **Actively and constructively solves problem** (e.g. share, challenge and close) with the Board and key management • **Decisively challenges, then supports, management** • Possesses **business acumen** from prior experiences to identify key issues and propose solutions • Proactively **uses networks** and **manages multiple stakeholders** for the benefit of the company
Mindset ***"What a Director believes"***	• **Believes that performance of Director is critical** (requires performance measures and consequences) and that the position is earned, not an entitlement • **Balances all shareholder and valid stakeholder interests** while representing views of GLIC (if nominee) • **Behaves like an owner** of the company and feels accountable to the company • **Has the integrity and courage** to not act in self-interest and dissent when required • **Willing to invest adequate time and effort** and not spread too thin across too many responsibilities

COLLECTIVE BOARD SKILLS AND EXPERIENCES IN LINE WITH COMPANY'S REQUIREMENTS

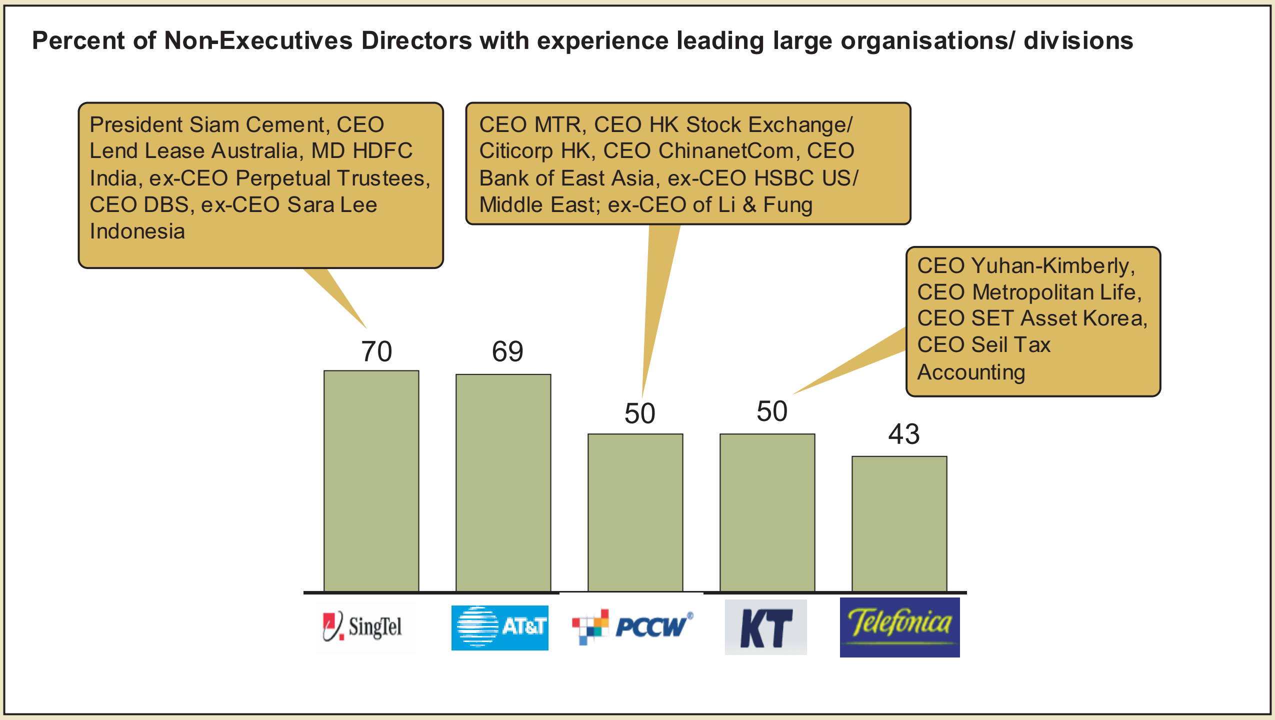
Considering the current needs, stage of development and aspirations of GLCs, the collective skills and experiences required of Directors can be achieved through:

- Appointing people who have led large organisations or divisions to deliver superior financial performance or who have grown successful entrepreneurial companies
- Supplementing this by selecting Directors based on their specific relevant functional or industry knowledge, skills and experience.

Many high-performing Boards have a significant proportion of current or former CEOs from other companies, who can contribute greatly from their practical experiences as stewards of their own companies. Below are some examples of Boards of telecom companies that include Non-Executive Directors who are, or were, CEOs, MDs, SVPs or heads of large business units.

Exhibit 2.5

Composition of directors at Telecom Boards: case examples



Souce: company websites; annual report

These Directors contribute to their Board and companies in the following ways:

- Inject business acumen, particularly in helping the management team to prioritise issues, identify solutions, and make decisions that maximise shareholder value
- Proactively use their networks to advise and benefit the company, including contacts with influential business colleagues or government
- Understand and respect the clear boundaries between Board and management.

Exhibit 2.6

Board composition at Kookmin Bank: a case example

Board composition: Total 13 Directors, 9 Non-Executives, 4 Executives

- Non-executive Directors that have been CEOs of large companies
  - Chairman and CEO, Fuji Xerox Korea
  - President & CEO, LG Household & Health Care
  - CEO, Joonang Ilbo, Sisa Media
- Executive Directors (excluding current CEO) who have led major business units
  - Former MD, SME Business & Consumer Finance Citibank
  - Former CEO, Kapco and CFO, Citibank Seoul
  - Former Country Manager, ING Bank Japan

A financial service example is Kookmin Bank, a successful bank in Korea that has recently undergone a transformation. Kookmin has a strong Board made up of former CEOs from reputable Korean companies, a leading lawyer and respected academics. In addition, Kookmin's senior management, who are represented on the Board, include former heads of large banking divisions with international experience across North Asia.

Through mapping the existing skills and experiences of the Board against the company's requirements, any gaps can be quickly identified. Subsequently, a more targeted search for Directors with specific skills and experiences can be conducted.

This mapping should also be conducted by the Nominations Committee every year to review the balance of skills and experiences of the collective Board. This will guide the committee in establishing the selection criteria for new or additional Directors.

Exhibit 2.7

Skill review of Board composition of a property development conglomerate: a case example

Nature of business

- Property development conglomerate with construction, hotel management, and basic material (e.g. cement and steel) subsidiaries

Performance of company

- Financial performance has not met market expectations over the past year
- Limited growth in domestic construction sector
- Revenues increasingly dependent on hotel management where facing stiff competition from international players

Gaps in current board

	Required experiences	Current Directors A	B	C	D	E	F	New
Function	Legal							Gap
	Risk & audit					✓	✓	
	M&A	✓				✓		
	Finance			✓			✓	
	Marketing		✓					Gap
	Operational turnaround				✓			Gap
Industry	Construction		✓		✓			
	Hotel management		✓					
	Cement		✓		✓			
	Steel	✓						Gap

In addition, the skills and capabilities of Directors can be upgraded through training and development programs - by existing providers such as ICLIF or the upcoming Directors Academy.

4 HOW CAN A PARENT COMPANY DETERMINE THE BOARD COMPOSITION OF ITS SUBSIDIARIES?

Subsidiary[2] boards, like all boards, should have a balanced composition – a mix of representation from management, representation from parent company or major shareholders, and external or independent members.

As laid out in Chapter 1 of this Green Book, there should be no more than two Executive Directors, with a maximum of 30% of the total Board – representing the management of the subsidiary on the Board of the subsidiary.

In the event that the subsidiary is listed, the Code and reinforced through the Bursa Securities Listing Requirements[3], require that the higher of two Directors or one-third of the Board must be independent.

The remaining Board positions can be filled with nominees of the major shareholder in this case the parent company.

CONSIDERATIONS FOR THE PARENT COMPANY IN SELECTING NOMINEE DIRECTORS

There are three categories of potential candidates that the parent company can select from to fill the remaining positions – (i) group or parent company management, (ii) parent company Board members, or (iii) parties external to the parent company.

Subject to the shareholders' agreement and the M&A, the parent company should ensure that the Board is balanced and consider the following factors, among others:

- Need for specific skills or knowledge as required by the subsidiary
- Need for group or parent company management to be sufficiently empowered and accountable to effect changes at the subsidiary
- Need for parent company Board to have sufficient oversight and control over the subsidiary.

Where the subsidiary needs specific knowledge and skills at Board level that go beyond what the group or parent can provide, then external parties should be appointed to the Board.

Having group or parent company management, such as Group CEO or Group CFO, on the Board of the subsidiary, empowers those who are accountable for the performance of the subsidiary. However, there are benefits to having Non-Executive Directors from the parent Board be on the subsidiary Board, such as:

1. When Directors from the parent Board have deep knowledge or experience of particular relevance or value to the subsidiary
2. When group or parent management do not have the depth or when additional Board responsibilities would overstretch them
3. When the performance of the subsidiary is poor and it is strategically important or a large contributor of profits, and greater oversight from the Main Board is required
4. When internal systems of controls or checks and balances are weak
5. When exposure to the subsidiary business would increase the overall Main Board's understanding of the company.

2 *Including wholly-owned, partly-owned and listed subsidiaries*

3 *Paragraph 15.02*

5 HOW CAN THE BOARD DEFINE ITS PRIORITIES AND ENSURE THAT THESE ARE ALIGNED WITH THE COMPANY'S OVERALL PRIORITIES?

A Board charter should define the priority issues or topics for the Board and also set out the Board's role for addressing these topics - especially with respect to management. Once these priority topics are defined, then the Board's agenda should be limited to these topics, ensuring each Board meeting is focused and productive.

However, to define the priority issues or topics for the Board, there must first be a shared understanding – among the Board members and between Board and management – on the overall direction of the company.

To develop this shared understanding, the Board must, among themselves and with management, agree on the following:

- An objective assessment of the company's current situation – that is, the outlook for the company if it continues to perform at current pace and levels
- The future aspirations of the company within a pre-determined time frame. These aspirations should be articulated in terms of financial and non-financial metrics (for example, economic profit of RM 1 billion in 5 years and top 3 by market share in South-east Asia in 3 years).

The priorities for the company can be determined based on the company's current situation and future aspirations - for example, dramatically cut costs by 20%, diversify revenue streams immediately, or develop footprint in 2 to 3 ASEAN markets either through acquisition or alliance within the next 3 years.

These priorities for the company should then guide the Board in its consideration of its priorities, which will then form the basis for future Board meeting agendas. It should be on these critical issues that the Board focuses its time and attention.

The Board should also communicate a clear mandate to the CEO and management while ensuring that both Board priorities and management mandate are aligned to the company's overall priorities. This mandate is a good way for the Board to lay out its expectations for management and therefore it should be precise and have well defined parameters.

Exhibit 2.8

Five questions that a mandate for CEO and management should answer:

	Example for an integrated financial services player
1. What are you going to accomplish?	1. Broad Southeast Asia footprint, with leadership position in domestic and 2 ASEAN markets
2. . . . to what standard?	2. #1 in terms of overall market share. #1 in terms of credit card market share. ROE of at least 15%
3. . . . by when?	3. By June 2008
4. . . . for which stakeholder?	4. Voluntary employee attrition and customer satisfaction rates to remain at current levels
5. . . . within what boundary conditions?	5. Full flexibility with respect to hiring management, rewarding performers and managing-out non-performers

6 HOW TO ENSURE THAT BOARD PAPERS AND PRESENTATIONS ARE OF HIGH QUALITY?

A common complaint among Boards is that Board papers are long and difficult to read or that they lack critical information or analyses. To overcome this problem, the Board needs to set clear expectations upfront on the quality and timeliness of material they need, and then provide an appropriate mechanism for both Board and management to obtain ongoing feedback.

Boards need to set the standards for their Board papers. This can be done by providing a template and ensuring that the material has been reviewed by an accountable senior manager whom the Board trusts. Typically, Board papers should be preceded with a short, synthesised executive summary that includes:

- Action required for Board – whether it is for approval, noting or input
- Responsible parties who prepared and reviewed the report
- Essence of the case which summarises the objective and context of the paper
- Key issues and risks, with a clear response plan
- Required actions with clear accountabilities and timelines.

In addition, the Board can showcase particularly good papers and presentations internally after making sure that any sensitive information is removed. This will provide management with a clear benchmark.

Exhibit 2.9

Executive summary: an example

BOARD PAPER AGENDA 5 (i)

Topic: Consolidation of 8 loan processing centres (LPC) to 3
Action required: Approve decision to consolidate
Submitted by: GM, Operations **Reviewed by:** Head, Retail Bank

Objective

- Consolidate 8 LPCs to 3 (KL, Penang, JB) to serve the West Coast of Peninsular M'sia in mid-Jun '06
- Savings of RM 2m p.a. (50 employees redundant, another 30 employees reassigned)

Risks/ challenges

- Need to reassign redundant employees and manage unions
- Lease of 2 locations only expire in 2009

Context/ analysis

- Consolidation is part of Wave 2 of operations efficiency improvement; 6 other local banks have done so and transportation network has improved
- Pilots (Dec '05-Feb '06) in PP showed 40% increase in labour productivity from scale benefit

Implementation plan

- Additional machinery and space at KL,PP, JB currently being sourced – Ahmad by 25/4
- Reassign notified staff – HR from 18/3 in 3 phases
- Documents to be packed, and moved in stages – Ali from 30/5 to 30/6

Other options considered and recommended decision

• Consolidate from 8 to 5	• Savings RM0.5m p.a. insufficient to justify 'project effort'
• Consolidate from 8 to 1	• Need back-up centre for risk mitigation purposes; 35% probability of missing BNM deadline caused mainly by reliability of transport network; Additional savings marginal (+RM0.3m) due to difficulty of reassigning staff in JB and Penang

Boards must choose an appropriate feedback mechanism to ensure that materials are useful and timely. For example, one leading Malaysian non-GLC Board has adopted a practice where all Board papers and presentations are subject to a 'rating' or 'grade' as a way to provide feedback to management. This is done immediately after the Board meeting and, has over time, benefited both Board and management.

To implement such a practice, Boards need to do the following:

1. Establish and agree with management the evaluation criteria that will be used
2. Communicate criteria to all relevant management
3. During the meeting, put feedback in writing (verbal comments can also be passed to the CEO)
4. Collate all input from Directors immediately after the meeting and disseminate to relevant management team members. (For most Boards, this will be the responsibility of the Company Secretary).

Exhibit 2.10

Board feedback form: an example

Topic: RMX million investment into technology X
Submitted by: Chief Technology Officer
Reviewed by: Director A

	Rating*	Supporting Remarks	Recommendations
Board Paper ▪ Conciseness ▪ Clarity ▪ Structured ▪ Analytically robust	4	▪ Clear objectives, easily understood and well laid out with clear messages supported by facts and analysis	▪ Shorten paper – for example section on background could have been abbreviated
Presentation/ Discussion ▪ Use of time ▪ Quality of articulation ▪ Focused on core issues	2	▪ Poor management of time, stuck in background rather than focusing on rationale and need for investment	▪ Start presentation with key arguments and rationale for investment ▪ Synthesise and articulate key messages rather than just reading 'off the slide'

* Scale of 1 to 5, where 5 is highest

The Chairman is responsible for ensuring that the feedback is specific, objective and constructive for management. And, as feedback is being provided to management, Directors should also be prepared to receive feedback from the CEO on behalf of the management team that addresses their contribution to the discussion.

7 HOW CAN THE BOARD WORK MORE EFFECTIVELY WITH MANAGEMENT IN SETTING STRATEGY?

Boards should co-own the corporate strategy with management. Management typically bears responsibility for developing the strategic plan, but true alignment between the Board and management can only be achieved when the Board also plays an active role in the development of the strategy. Specifically, the Board is responsible for:

- Guiding the strategic direction
- Challenging management's strategic plan
- Reviewing the business plan and budget and setting management's targets.

GUIDING THE STRATEGIC DIRECTION

Early in the planning cycle, the Board should clarify its expectations of management and guide the strategic direction of the company. Management, usually the corporate planning or strategy function, should provide the Board with synthesised information on industry trends, competitive behaviours, and the capital market's current perspective on the company (for example via analyst reports). Some companies choose to disseminate such information via a dedicated Board meeting or an off-site session. In such instances, industry experts can be invited to present their views rather than having printed material made available to the Board.

CHALLENGING MANAGEMENT'S STRATEGIC PLAN

Once the strategic direction has been established, management is responsible for translating this into a strategic plan. Once developed, Board and management hold a dedicated session – typically a 1 to 2 day offsite meetings to minimise any distractions – where the Board challenges the assumptions, priorities and options put forth by management. It is through this 'challenge' session that Board and management can have a rich and deep discussion which ultimately allows the Board to co-own the strategy.

Each major business unit should provide in its strategic plan:

- Alternative strategies considered
- Best, worst and most likely scenarios
- Key financial and non-financial measures to track the strategy's success
- Major risk factors and how management intends to address them
- Resources required: people and capital

Exhibit 2.11

Agenda for Board strategy offsite session for a conglomerate: an example

Day 1	
09:00 - 11:00	• Analyse and discuss root causes for any variances in performance – At portfolio level – At each business unit
11:00 - 11:30	• Break
11:30 - 13:00	• Review and challenge the strategic positioning of each business unit and its relevant industry (including SWOT analysis, market trends, competitor positioning, macroeconomics) – business unit 1
13:00 - 14:00	• Lunch
14:00 - 15:30	– business unit 2
15:30 - 16:00	– business unit 3
16:00 - 16:15	• Break
16:15 - 17:00	– business unit 4
17:00 - 18:00	– business unit 5

Day 2	
09:00 - 10:30	• Assess groups ability to extract value from portfolio
10:30 - 11:00	• Break
11:00 - 13:00	• Assess risk/return and maturity of portfolio and organisational capabilities to manage the portfolio
13:00 - 14:00	• Lunch
14:00 - 16:00	• Develop 5-year portfolio with corresponding key targets for each business unit
16:00 - 16:30	• Break
16:30 - 18:00	• Finalise action plans and commitments

Exhibit 2.12

Board's role during a strategy offsite session: thought starters

	Objectives of Board	Potential questions for the Board to ask
Ensures robust strategies	▪ Test assumptions about the market (customers, competitors, regulation, technologies) ▪ Add creative insight ▪ Check that full range of strategic choices are considered ▪ Push boundaries on upside potential and downside risks ▪ Force honest assessment of company's strengths and weaknesses	▪ What assumptions have you made about market trends, competitors, customer needs? If you are wrong, how will this affect your strategy? ▪ What have you assumed about the opportunities your competitors will pursue in the same period? ▪ If you had to triple your growth, which new businesses would you enter? ▪ What strategic choices are you making with this plan? What choices or ideas are you rejecting? Under what situation would you choose differently?
Ensures good process	▪ Verifies that short-term budgets reflect required investment to achieve longer-term strategic objectives ▪ Forces rigorous, fact-based analysis ▪ Lends credibility to conclusions/ direction	▪ How many customers did we survey to back this critical analysis? ▪ How were the markets around the world understood? ▪ How have you ensured that the strategic initiatives have been resourced?

The output of the strategy offsite is an agreed draft strategic plan, which management then uses as a basis for developing its more detailed business plan that includes the operating plan, 12-month rolling budget and a mid-term forecast (say 3 years). Such planning is usually conducted at the business unit level, with the corporate planning or strategy function coordinating across the business units to derive the overall corporate level plan and budget.

REVIEWING THE BUSINESS PLAN AND BUDGET, AND SETTING MANAGEMENT'S TARGETS

Once the business plan and budget is finalised, the Board has the responsibility to review and approve them. In so doing, the Board should test the management's proposed targets to ensure that they reflect industry trends and internal capabilities, yet also provide sufficient stretch or aspiration to challenge management.

8 HOW CAN THE BOARD UPHOLD A STRONG CORPORATE PERFORMANCE MANAGEMENT APPROACH?

Boards should provide oversight and the necessary checks and balances to ensure that the company's strategy and corporate targets are being achieved. To achieve this, the Board has two main responsibilities, namely to:

- Review and approve the corporate KPIs and targets
- Regularly review corporate performance.

REVIEW AND APPROVE THE CORPORATE KPIs AND TARGETS

Through the strategy planning process, management will develop operating plans and budgets which the Board should review and approve. As part of these plans, KPIs and corresponding targets will be proposed by management.

The Board should test management's proposed corporate KPI's and targets to ensure that they are linked to the underlying strategy and measure both direct value creation for shareholders and any other concrete social or development objectives of the company. In addition, these KPIs should be balanced and include measures that reflect the company's current performance as well as its future health.[4]

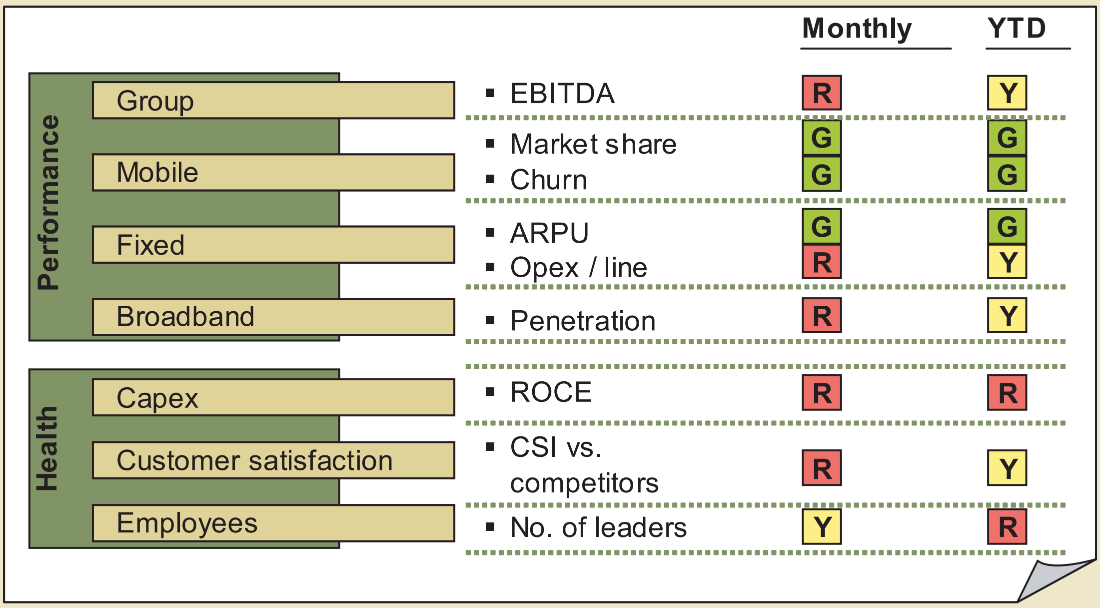
REGULARLY REVIEW CORPORATE PERFORMANCE

The Board should regularly reviews the performance of the company against its targets. While the frequency with which Boards should conduct this review will vary depending on the context of the company, the minimum is at least once every quarter.

Boards should review a corporate scorecard to highlight the most important KPIs for the company and to track the company's performance against its targets.

Exhibit 2.13

Corporate scorecard: a telecoms example



4 *Information on how to define KPIs can be found in the Blue Book v 2.0, Guideline 1.1 and its supporting materials.*

When reviewing the company's performance, the Board should focus its discussion on material 'missed' targets, particularly to understand the root causes. Thereafter, the Board needs to be confident that the proposed actions, accountabilities and timelines are adequate to rectify the situation.

To aid the Board in having a productive discussion, management should prepare synthesised reports (such as the one illustrated below). Both the CEO and senior management should guide the Board's discussion around the issues raised in this report and ensure that its implementation occurs.

While the majority of discussion should be on 'missed' targets, it is still important that good performance or 'green flags' are acknowledged. Factors for success should be identified and replicated to other parts of the business.

Exhibit 2.14

Performance management report and examples

KPI	Dec '05 status	YTD status	Root cause	Actions to rectify	Responsibility	Timeline
EBITDA	R	Y	▪ Lower EBITDA caused by lower revenues from broadband, and higher opex from mobile	▪ Review pricing scheme of broadband packages	▪ Min, SVP Operations	▪ 15/6/06
				▪ Freeze all discretionary cost spending in mobile	▪ Rizal, CFO	▪ 15/3/06
			▪ Mobile's lower revenue driven by increased churn with new competitor introducing introductory promotional pricing	▪ Refocus marketing campaign on customer segments not targeted by new entrant	▪ Ahmad, GM product development	▪ 25/5/06
Mobile market share	G	G	▪ Higher than expected acceptance of new marketing plan that target growing customer segment	▪ n/a	▪ n/a	▪ n/a
ROCE	R	R	▪ 175% cost overrun for CRM system	▪ Review budget and identify areas to lower specs	▪ Ali, Chief Procure-ment Officer	▪ 15/3/06
			▪ Implementation of cable delayed by 3 months	▪ Identify bottlenecks of project	▪ Mojan, Project Manager	▪ 31/4/06
				▪ Add another project manager	▪ Soo, SVP HR	▪ 30/3/06

Specific activities proposed to rectify the situation

Clear accountabilities and timelines

9 HOW CAN THE BOARD OVERSEE THE DEVELOPMENT OF THE COMPANY'S FUTURE LEADERS AND HUMAN CAPITAL?

The CEO, aided by the head of HR, is ultimately responsible for identifying, developing and retaining the company's talent pool. In particular, the CEO should have the discretion to appoint, evaluate and subsequently determine consequences (positive or negative) for senior management. This talent pool becomes the responsibility of the CEO, who is then personally involved in managing their development.

However, the Board has five distinct roles in overseeing the development of the company's future leaders and human capital:

- Select CEO and proactively plan CEO succession
- Review the company's overall performance management philosophy
- Evaluate the CEO
- Endorse the performance and development plan of those in 'pivotal positions'
- Understand the pool of future leaders of the group and of each business unit

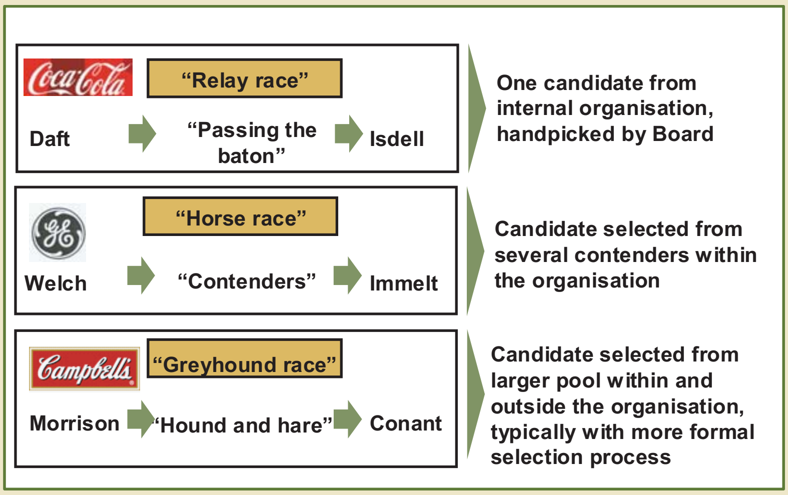
SELECT CEO AND PROACTIVELY PLAN CEO SUCCESSION

Selecting the CEO is the most significant task for the Board as, ultimately, the CEO is the person responsible for the operation of the company. More and more, investors are insisting that Boards have a credible CEO succession plan in place.

Based on the context of the company, including current performance levels, competitive landscape and aspirations of the company, the Board should establish the criteria for skills and experiences that the new CEO must meet and the Board should also decide which model is the best match for the company's culture and requirements for CEO succession.

Exhibit 2.15

CEO succession models



There are, broadly, three main types of CEO succession models. The first model, a 'relay race' involves the Board selecting one successor and ensuring that the current CEO gradually grooms the heir to ensure that he or she will have the necessary knowledge and skills to take over successfully.

The other two models involve competition between several candidates. In the second model, the 'horse race', several candidates from within the organisation compete and the Board selects the most successful candidate based on agreed criteria.

In the third model, the 'greyhound race', the pool from which candidates are selected from is wider and will include external candidates in addition to internal ones. This model requires a large time commitment from the Board. It is typically only used when there is a distinct leadership gap within the company or when the company's performance or strategy has changed dramatically, requiring a radically different style of leader.

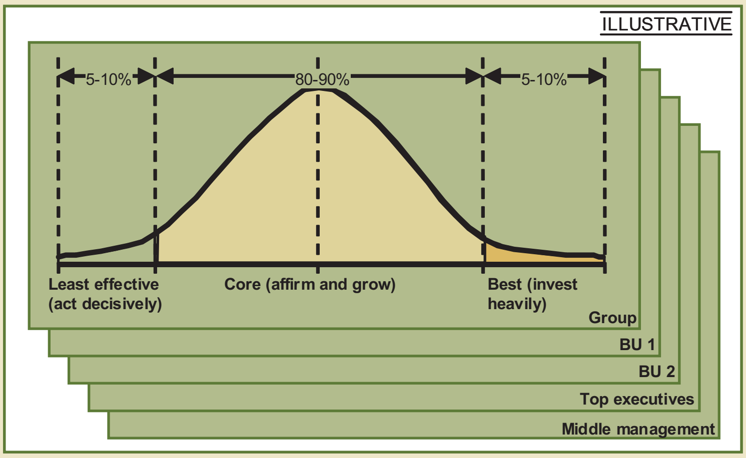
Once the succession model has been chosen and the selection criteria agreed, the Board through individual directors, should get to know each candidate personally. If the candidates are from inside the company, the Directors should play a coach and mentor role and dedicate several working sessions with the candidates each year.

REVIEW THE COMPANY'S OVERALL PERFORMANCE MANAGEMENT PHILOSOPHY

Management is responsible for evaluating the performance of each employee. However, the Board should be involved in ensuring that there is sufficient intensity in the individual performance management process – in other words, that there is sufficient differentiation between the rewards and consequences between the 'A' players and the 'E' players. At the beginning of the year, the Board should approve the compensation policies and guidelines; at the end of the year, the Board should review the distribution of employees by performance grades and the subsequent related bonus payouts.

Exhibit 2.16

Review of performance distribution



Potential questions for the Board to ask to intensify performance management:

- Is there a wide enough distribution overall? By business? By management layer?
- Does the distribution of people performance correlate with the distribution of business performance?
- How widely do the rewards (including salary and promotion) vary with performance?
- What proportion of the bottom 5 to 10% have left the company?

EVALUATE THE CEO

The Board should ensure that clear expectations of the CEO are laid out in a 'CEO mandate'. (See question 5 for an example of such a mandate). This mandate should be aligned with the company's, and the Board's, priorities.

This mandate forms the basis for the CEO's KPIs and targets, against which the Board should evaluate the CEO. In line with the 'Blue Book version 2.0: Intensifying Performance Management', it is best practice that the CEO's KPIs are balanced and linked to the strategy of the company, are formally agreed to between the Board and CEO and codified in an employment contract, and that targets are clearly linked to compensation.

The performance of the CEO should be reviewed semi-annually, and the consequences of performance – both positive and negative – should be followed through.

ENDORSE PERFORMANCE AND DEVELOPMENT PLAN OF THOSE IN PIVOTAL POSITIONS

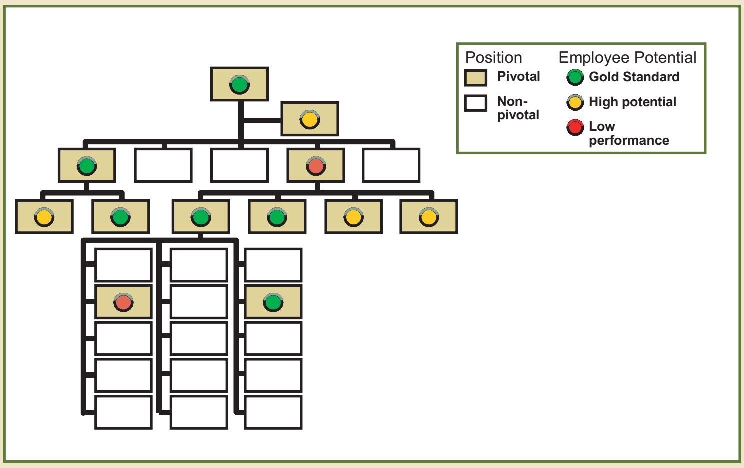
Pivotal positions are the most crucial jobs with the potential to create or destroy the most value to the company. It usually includes, but is not limited to, the CEO's direct reports. For this reason, the CEO is personally responsible for identifying these positions and evaluating the people in these positions.

Management will have to determine for themselves the appropriate number of positions that will be deemed to be pivotal. One way to approach this is to consider the complexity of scope and geography of the company. For example, a single-line, domestic business might have 10 to 15 pivotal positions, while a multiple business line conglomerate that is becoming more regional could have 25 to 50. A global multiple line business that is involved in many parts of the value chain could have up to 100 pivotal positions.

The Board's role is to endorse the individuals' performance and their development plans. The Board can contribute to, and challenge, these plans and the CEO is responsible for implementing those plans.

Exhibit 2.17

Pivotal positions: an example



Potential questions for the Board to ask:

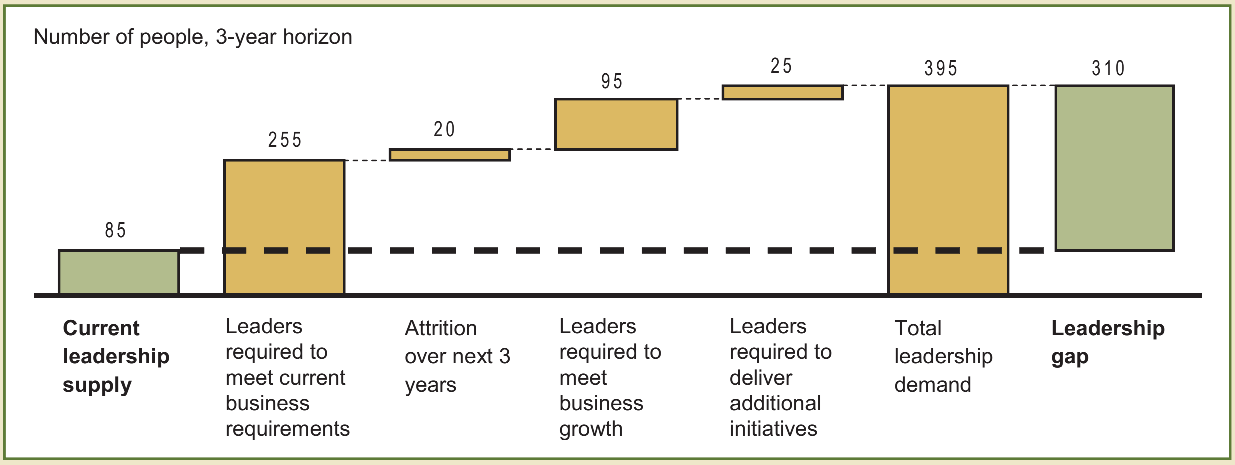
- Is there a good match between the positions and employee potential? What actions should we take, if any?
- Who are their likely successors? Do we have sufficient depth in these positions?
- Are future leaders being developed by deploying them in positions that would stretch them?

UNDERSTAND THE POOL OF FUTURE LEADERS OF THE GROUP AND OF EACH BUSINESS UNIT

The CEO's and management team's shared responsibility is to develop enough leaders within the company so that the chosen strategy can be implemented. However, the Board should also have visibility and understand the extent of any leadership gap within the company.

Exhibit 2.18

Leadership gap analysis: an example

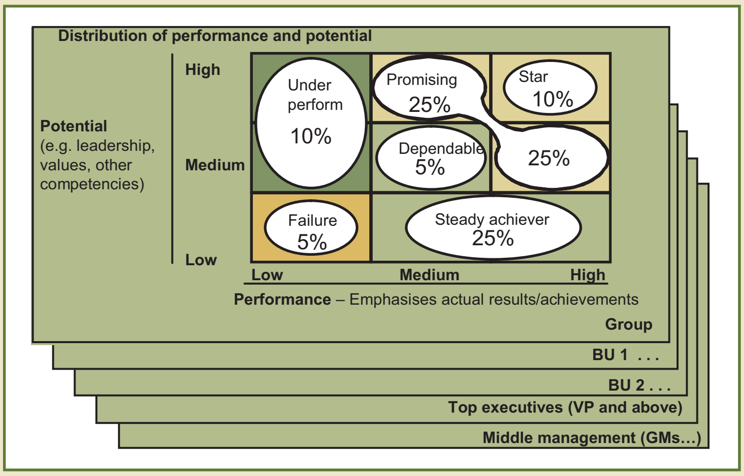


Each company should determine, based on its current strategy and future aspirations, its own definition of a 'leader'. In some cases, this will be limited to senior and middle managers but in others it will also include individuals with specific technical or industry knowledge.

The Board should also understand the strength and depth of leaders across the group: by business unit, by subsidiary, and by job level. One template or framework that is used by many leading companies globally is a performance evaluation matrix that provides the Board with a quick snapshot of the performance and potential of employees across the organisation. The task of evaluating each individual is management's, but the Board should understand the implications of the overall leadership pool.

Exhibit 2.19

Performance evaluation matrix: an example



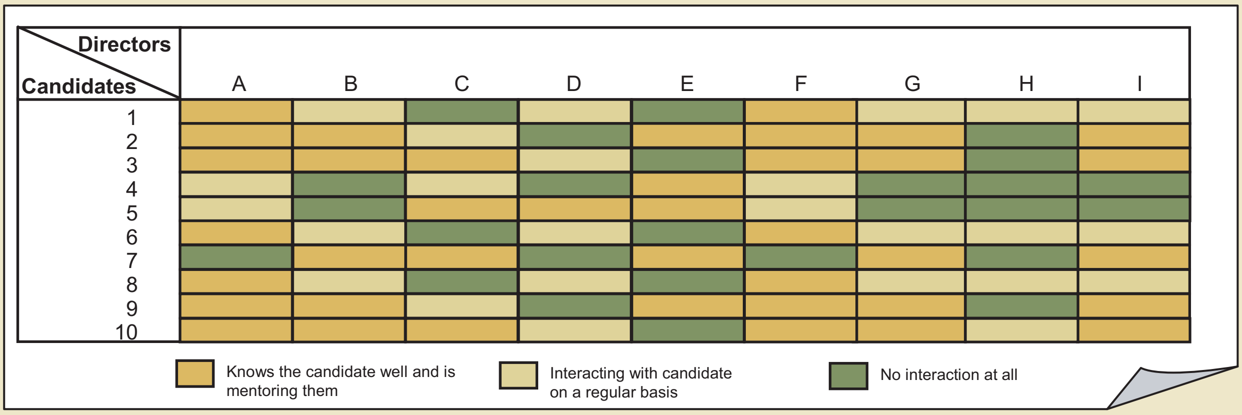
Potential questions for the Board to ask:

- Do we have a healthy proportion of 'stars'? How healthy is this by business unit and job level?
- How many of each type of leader are we short of (e.g. marketing, operations)?
- What must we do to close this leadership gap soon? (e.g. recruiting, promoting upcoming future leaders)

In addition, a candidate visibility matrix could assist the Board to track how well they know the candidates. Once the Board is comfortable that they know each candidate, they should review a complete fact-base of the candidates' leadership achievements and development needs before creating a shortlist.

Exhibit 2.20

Candidate visibility matrix: an example



For the Board to be effective in this area, it must make human capital management a priority on the Board's agenda. For most GLCs, this will mean dedicating blocks of time to discuss these issues – either during regular Board meetings or at Special Board meetings. Below is a sample half-day agenda for an offsite meeting dedicated to human capital management and some of the questions that Boards need to ask.

Exhibit 2.21

Agenda for HCM offsite: an example

Time	Topics		Potential questions for the Board
09:00 – 09:15	▪ Review the progress of overall HCM action plan		▪ What are our objectives for HCM?
09:15 – 10:00	▪ Endorse performance management philosophy ▪ Review distribution of performance reward and consequences	Performance Management	▪ What is our strategy to attract, develop and retain top talent? ▪ Is there a wide enough distribution to differentiate high performers from low performers?
10:00 – 11:00	▪ Review and debate the leadership gap within the group, and by BU and by job level ▪ Endorse CEO's recommendations on progress review of existing holders of pivotal positions (including mapping talents with key positions) ▪ Identify areas of improvements on the development programs (e.g. rotation plan) and advise how to address them	Leadership Development	▪ What is the strength and depth of our leadership 'bench'? What is the impact of this gap on our ability to achieve our targets? ▪ Who are in pivotal positions? Is there a good match between positions and employee potential? ▪ How are we balancing our performance objectives with talent development objectives?
11:00 – 11:15	▪ Break		
11:15 – 12:45	▪ Finalise the list of candidates for key executive positions (CEO/COO) ▪ Develop the individual development program to make them ready for the transition ▪ Agree on how to get to know them to help make decisions later in the year	Succession Planning	▪ What is the model chosen for CEO succession? Have we agreed on the selection criteria? ▪ Are we happy with the quality and quantity of potential candidates? ▪ How are we planning to get to know them, and what progress has been made to short-list them?
12:45 – 13:00	▪ Finalise action plans and commitments		▪ How have we progressed against our objectives for HCM?

10 HOW CAN THE BOARD GUIDE THE MANAGEMENT OF THE COMPANY'S RISKS?

Management, typically, is responsible for measuring, analysing and controlling the company's risks together with the Board that sets the parameters and provides guidance. Risk assessment should be conducted in conjunction with the development of the company's strategy, as risk will be a critical input and is closely linked to strategy.

There are many ways in which risk can be assessed but irrespective of the methodologies chosen, the Board has three specific roles:

- Determine the company's risk parameters
- Understand the major risk exposures and ensure the appropriate risk management approach is in place
- Ensure that risk is considered in all major decisions

DETERMINE THE COMPANY'S RISK PARAMETERS

When reviewing and finalising the company's strategy, the Board should be comfortable that the company is able to bear certain risks – it should approve the appropriate limits on the aggregate amount of risk for the company. In some cases, the risk capacity of a company will be a key determinant of its chosen strategy.

Some of the ways that the Board can determine the company's risk parameters include, but are not limited to, the following:

- **Establish a target credit rating.** The Board could establish a desired target rating – for example, BB. The company's risk-taking will then be limited by the need to ensure that a certain level of cash and cash flow is available at any given time to cover any interest expenses and maintain required debt-to-equity ratios in line with the target rating

- **Establish an overall risk threshold.** The Board could establish parameters to guide which risks the company should and should not take for example, all risks should be under RM10million, taking into account the estimated magnitude of the risk multiplied by the probability of it occurring

- **Establish a hurdle risk-adjusted return.** The Board could establish a minimum hurdle rate for all major decisions. This hurdle-rate could then be adjusted to take into account any additional risk that the company might have to bear. For example, if the Board determines the minimum hurdle rate to be 10%, and the quantification of risk (based on magnitude of risk and probability of impact) is estimated at an additional 2%, then the risk-adjusted hurdle for that decision would be 12%.

UNDERSTAND MAJOR RISK EXPOSURES AND ENSURE THAT THE APPROPRIATE RISK MANAGEMENT APPROACH IS IN PLACE

The Board should have an aggregated view of all the risks that the company faces to be able to understand the concentration and size of major risk exposures. It should then ensure that management, through internal controls, has put in place the appropriate risk mitigation plans – in instances where the magnitude of the risks and the costs to mitigate such risks are justified.

There are many ways that risks can be categorised – one way is to classify them into three types namely, event-driven risks, continuous risks and decision risks. The depth of the Board's role and the specific risk management approaches taken will vary by each type of risk.

Exhibit 2.22

Classification of risks

	Event-driven risk	**Continuous risk**	**Major decision risk**
	High-impact / low-probability events that result in business deterioration	Unanticipated changes in business environment that affect business performance	Conscious decisions on business scope and setup
Strategic	▪ Disruptive technologies ▪ Regulatory uncertainty	▪ Competition ▪ Demand	▪ M&A and divestitures ▪ Manufacturing footprint ▪ R&D pipeline
Financial	▪ Credit default	▪ FX/Interest rates ▪ GDP/Sector Growth ▪ Energy/Commodity Price	▪ Leverage ▪ Debt structure
Operational	▪ Operational breakdowns ▪ Strike ▪ Natural disaster ▪ War/terror ▪ Product recall	▪ Inventory obsolescence ▪ Production waste	▪ Layoff programs ▪ Capacity management
	Build differentiating risk management capabilities to minimise impact	**Manage cash flow volatility to maximise enterprise value**	**Optimise risk/return profile for decision**

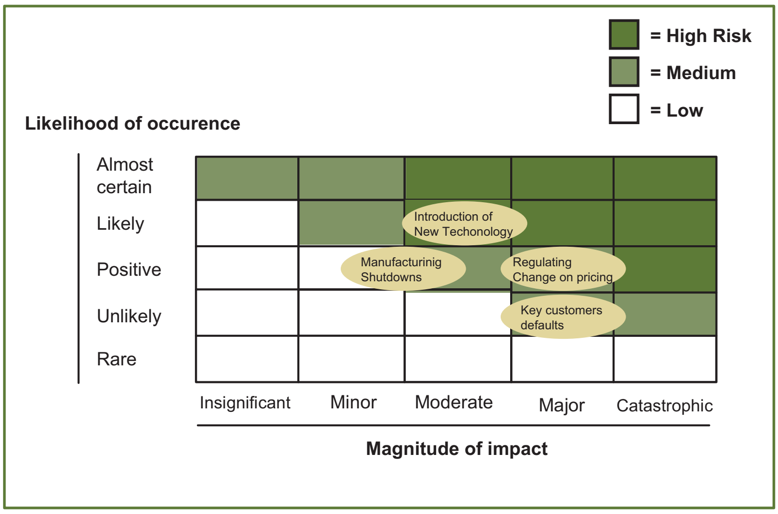
'**Event-driven**' risks involve a sudden shock that can arise from any general type of risk – including, among others, an introduction of a new disruptive technology, operational breakdowns, natural disasters, and a key customer defaulting on his credit terms. While there may be a relatively low probability of these events occurring, should they occur, the negative impact that it can have on the company might be significant.

Such event risks are usually best identified and managed by management. However, the Board should ensure that it has visibility as to what these potential risks are and that management has developed adequate mitigation plans in line with the risk parameters established by the Board.

An example of a risk-rating matrix, maintained by management, to identify, quantify and manage 'event-driven' risks is illustrated below.

Exhibit 2.23

Risk-rating matrix: an example



Potential questions for the Board to ask:

- **Are sufficient back-up plans are in place, with clear accountabilities and timelines?**
- **Are we over-investing on high impact risks with low likelihood of occurrence?**

Based on the mapping above, mitigation plans should be developed for sides which are deemed to be 'high' and 'medium'. It is important that risk mitigation plans include who is responsible and the agreed timeline for implementation – and that this is followed through. The Board must be assured that an appropriate response plan is in place should the actual event occur.

Exhibit 2.24

Risk mitigation plan for high risk events: an example

Risk title	Risk description	Action to mitigate risk	Responsibility	Review date
Product consolidation strategy	If the product line is consolidated inappropriately then market share will be lost	• Conduct focus groups with dealers to investigate product range issues • Conduct detailed competitor scan of product offerings	**Team leader** Mr. A Illustrative	30 June 2006
Regulatory approval late by 1 month	If we are unable to gain regulatory approval on time then new business cannot be written to the new entity	• Negotiate with joint venture partner to continue writing business to joint venture book • Contract local legal adviser experienced in gaining regulatory approvals	**Team leader** Mr. B Tester	31 Oct 2006

'**Major decision' risks** are those risks associated with one-time decision – such as making a significant R&D decision for a specific product, a major acquisition, or launching a company-wide layoff program. In such situations, the objective is to maximise the risk/return profile for that particular decision. For example, if the company is going to make a significant R&D investment in a specific product, there will be risks about whether the product will be accepted by consumers, the competitive reaction to the product, manufacturing and distribution risks, etc.

Once again, it will be the responsibility of the management to develop mitigation plans for the biggest decision risks – for example, conduct focus groups to increase the likelihood of consumer acceptance, study the market and analyse the potential competitive reactions. The Board, as it reviews and approves these major decisions, should ensure that the risks have been mitigated wherever reasonably practicable and cost effective to do so.

'**Continuous risks**' are unanticipated changes in the business environment that can affect business performance. These are also referred to as market risk and include fluctuations in foreign exchange or interest rates, energy prices, or sudden increase in competition. These risks are most closely linked to strategy, and as the Board is responsible for co-owning strategy with management, these risks should similarly be co-owned.

As the biggest continuous risks are integral in the formulation of the company's strategy – in addition to some traditional methods of mitigating continuous risk, such as hedging – the Board and management could choose to amend the strategic plan to better manage or mitigate these risks. As always, risk management strategies should only be implemented when the impact of the risk, and the probability of it occurring is high, and when the benefits of mitigation outweigh any associated costs.

ENSURE THAT RISK IS CONSIDERED IN ALL MAJOR DECISIONS

The Board should ensure that a culture of identifying and managing risks exists throughout the organisation. One way to do this is by setting the right examples and tone and ensuring that there is a risk analysis and quantification conducted prior to any decisions being made by the Board.

CHAPTER 3

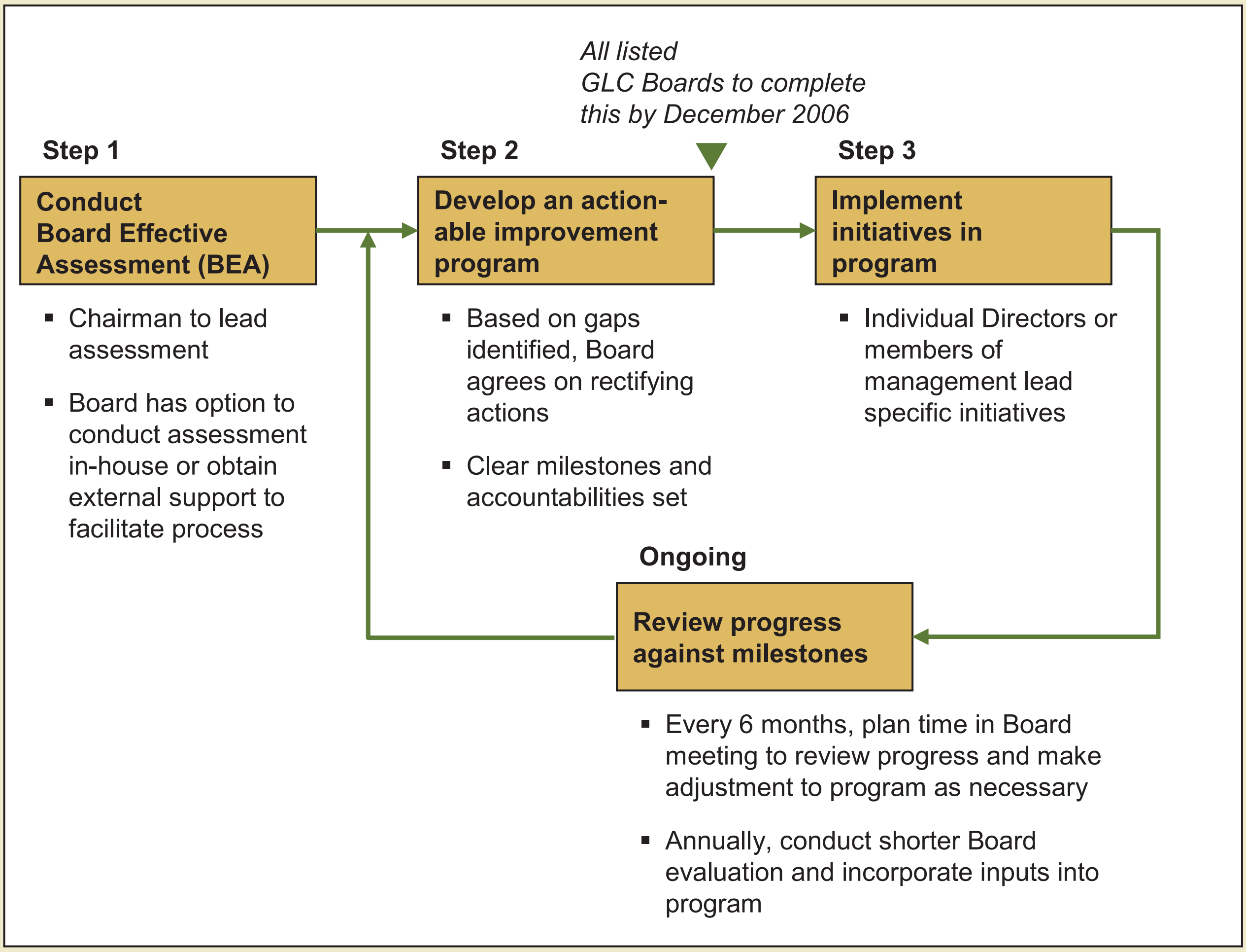
CONDUCTING AN ASSESSMENT OF GLC BOARD EFFECTIVENESS

CHAPTER 3: CONDUCTING AN ASSESSMENT OF GLC BOARD EFFECTIVENESS

BOARDS, LED BY THE CHAIRMAN, should undertake three steps to begin their journey of raising Board effectiveness – conduct an assessment on the Board's current effectiveness, then develop an actionable improvement program (which should cover the next 12 months), and begin implementation of the program. This chapter provides a guide for GLC on how to begin this process – Steps 1 and 2 in the exhibit below. Boards should then review their progress every 6 months and refine the improvement program accordingly.

Exhibit 3.1

How to raise effectiveness of GLC Boards



OPTIONS FOR COMPLETING THE BEA

The Chairman of the Board is responsible for leading this effort. Boards can choose to conduct the assessment themselves or seek external support to facilitate the process.

- ***Board conducts the BEA.*** All Board members are required to participate, and the Chairman – or a specifically designated Director – should lead the process and be responsible for preparing materials to facilitate the discussion. The discussion can form part of a Board meeting or be held as a separate session.
  Once the Board has agreed on their current strengths and weaknesses, a follow-up session should be held to develop an actionable improvement program with specific initiatives, milestones and timelines.

- ***External consultants assist Boards in completing the BEA.*** There are a number of ways in which external consultants can assist Boards in completing this assessment. Each Board should scope an approach that is tailored to their current context, and determine the external consultant that is best suited to assisting them. To obtain suggestions of potential consultants and potential options on how to structure the necessary support, GLC Boards can contact the Transformation Management Office (TMO), located within the Secretariat to PCG.

The PCG encourages GLC Boards to seek external support to facilitate this process, particularly if this is the first time that any form of board assessment has been conducted. It is often very difficult to self-diagnose and identify weaknesses, and an external board governance consultant can provide objectivity, while also sharing ideas and assisting Boards in developing an effective improvement program.

The step-by-step process

Step	The activities	Helpful tools	The result
1. Assess Board's current effectiveness	• For each component (and sub-component) determine Board's rating on a scale of 1 to 3 (where 3 is best practice) by reflecting upon the Board's current strengths and weaknesses • If the assessment is facilitated by an external consultant, then additional interviews, review of the Board's materials and minutes or observations of Board meetings will be required to gather a sufficient fact-base to determine the rating.	• Assessment grids describing criteria to meet best practice for each component *(refer Appendix 1)*	Completed BEA with a rating for all components

Step	The activities	Helpful tools	The result
2. Develop an actionable improvement program	• Based on the rating for each component (and sub-component), identify the main gaps in the Board's current level of effectiveness • Discuss the root causes of each gap, then propose, and prioritise actions to resolve them. • If external consultants are assisting to develop the program, it is important that the assessment has been agreed upon with the Board, or that there is sufficient interaction with the Directors – such as a workshop – before agreeing on the program.	• Practical suggestions, including examples that the Board can adopt *(refer to Chapter 2)* • Template to record action plan *(refer Appendix 1)*	Actionable improvement program with specific milestones, covering the next 12 months
3. Implement initiatives in program	• Nominate individual Directors or members of management to lead implementation of each initiative	• n/a	Board effectiveness improves as milestones are achieved
4. Regularly review progress	• Every six months, plan time in Board meeting to review progress achieved against improvement program established • Chairman should lead discussion, and based on feedback of Board, refine the program accordingly • Input from annual Director and Board evaluation should be incorporated in these review sessions.	• Template of Board Assessment and Action Plan *(refer Appendix 1)*	Progress and accomplishments discussed every 6 months, and improvement program refined accordingly

At the end of this chapter, there is a disguised case example of how a GLC Board conducted the assessment and developed its actionable improvement program, including the steps taken to implement the program over the first 6 months.

CASE EXAMPLE – BANK CONTOH

This is a disguised example based on the experience of several GLC Boards. The facts and characters are typical but disguised and do not refer to any particular company or individual.

SNAPSHOT OF COMPANY AND BOARD

Context of company

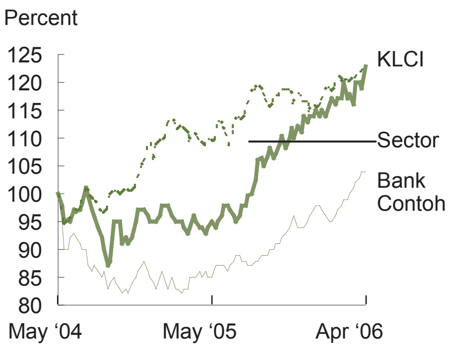
Bank Contoh is an integrated financial services company with four main subsidiaries – retail and corporate banking, asset management, insurance, and merchant banking. The bank's international presence covers eight countries and includes minority stakes in two ASEAN based banks.

In the past 2 years, the bank acquired and integrated three smaller businesses to increase its domestic market share in hire purchase leasing, credit cards and insurance.

However, the bank has consistently underperformed market expectations for the last four quarters and eight analysts downgraded their rating from 'buy' to, 'neutral' over that same period. In particular, concern has been raised about the bank's higher cost-to-income ratio compared with local peers, which is driven by high provision levels and low labour productivity.

Bank Contoh has recently hired three new executives into the senior management team following the loss of executives after the recent acquisitions. Analysts are sceptical as to whether the bank will be able to extract the synergies promised from the acquisitions.

Total return to shareholders



Fast facts on board

Composition

- 10 members – 40% independent, 30% executives and 30% representation from significant shareholder

Meetings

- 8 scheduled and 4 special meetings last year

Committees

- 4 Board Committees – Audit, Nomination and Remuneration, Credit, and Risk Management

Profile of directors

- *Chairman*: 25 years experience in many businesses – financial services, property, retail and hotel services. Nominee of GLIC and also a Director of two other companies
- *CEO*: Joined the bank 22 years ago and served in various capacities within the group before taking the helm
- *Executive Director A*: Is the MD-CEO of insurance arm and has 12 years experience in the insurance industry. Previously worked for an insurance company that merged with the group
- *Executive Director B*: Is the COO of the group. Joined the bank recently from a foreign bank
- *Independent Director C*: Is a chartered accountant and retired partner of a 'big four' accounting firm who specialises in risk management and internal controls. Chairman of Audit and Group Risk Management Committees
- *Independent Director D*: Is a former SVP at a GLC in the industrial sector and is experienced in operational turnaround
- *Independent Director E:* Has a legal background and is the former EVP of Corporate and Legal Affairs with the Securities Commission
- *Independent Director F*: Is a qualified engineer and holds directorships in three other GLCs and two private sector firms
- *Director G*: Is a GLIC nominee who started his career with the government and has held various posts in the Ministry of Trade and Industry, PM's department and Ministry of Finance. Also a Director on the GLIC's Board
- *Director H*: Is the retired GM of Credit Control division and was appointed to the Board due to his experience on credit issues. A GLIC nominee

CASE EXAMPLE – BANK CONTOH

BOARD EFFECTIVENESS ASSESSMENT: AS AT MARCH 2005

Structuring a high-performing Board	Strengths
Structures the Board to match the company's requirements	• Right size and balanced composition (3 EDs, 4 independents) • Skills and experiences well aligned to bank's requirements
Defines committees' role, structure and composition to complement the Board's requirements	• 4 committees, all well composed and adhering to clear charters
Selects and nominates Directors using a disciplined process	• Clear selection criteria established and sound process in place
Evaluates the Board as a whole and each Director regularly	• Appointed independent party to conduct peer review

Ensuring effective Board operations and interactions	
Makes every Board meeting productive	• Board calendar and agenda planned 12 months ahead
Ensures the quality and timeliness of all Board information	
Builds trust via positive interaction dynamics and open communication within the Board and with management	• Positive dynamics with active participation by all directors

Fulfilling the Board's fundamental roles and responsibilities	
Contributes to corporate strategy development and setting of targets	• 3 sessions dedicated for strategy discussion • Sufficient challenge of management assumptions, and Board jointly 'owns' strategy
Upholds a strong corporate performance management system	
Oversees development of the company's future leaders and human capital	
Understands and manages the company's risks	• Enterprise Risk Management framework in place and key risks identified
Adopts shareholders' perspective when making decisions	• Considers capital market perspectives in decision making
Balances valid stakeholders interests	• Chairman and Board has good reputation and proactively manages stakeholders

BOARD EFFECTIVENESS ASSESSMENT: AS AT MARCH 2005

Weaknesses	Best Practices to adopt	Average rating 3		2		1
	• Codify and review roles of Chairman and CEO every 2 to 3 years		X			
			X			
• Does not actively source candidates unless vacancy arises	• Proactive sourcing: Start regular review of Board skills and experiences, and shortlist suitable candidates that would be complementary			X		
• Results from reviews not followed-up, nor discussed	• Chairman to have one-on-one feedback session with Directors to tailor individual improvement plans			X		
• Too much time on operational issues. • Sessions typically run over as insufficient time allocated for Q&A	• Review Board charter to ensure includes board's priorities that are aligned with company's priorities and CEO's mandate				X	
• Papers difficult to navigate and lack key analysis • Papers only received 72 hours before Board meeting	• Board papers to contain pertinent critical analyses and be preceded by 1- to 2- page executive summary				X	
• Discussions with management overly focussed on highlighting problems, rather than solving them	• Balance can be shifted away from just highlighting problems to identifying solutions			X		
	• Set baseline, stretch and aspirational targets for management, and clearly state constraints – instead of just a single point target		X			
• Unclear what to look for in management report • Questions may be overly critical instead of constructive	• 1-page performance flash report • Board to focus majority of discussion on 'missed' targets				X	
No exposure to • Performance management principles • Top talent performance • Leadership pool	• Two half day offsites to increase exposure to HCM topics highlighted					X
• Ensure that framework is applied	• Set up Risk Management Unit to build capabilities to track continuous and strategic risks			X		
				X		
				X		

1 – Significant gaps; 2 – Meets requirements; 3 – Best practice

THE BOARD'S ASSESSMENT OF ITS EFFECTIVENESS

Structuring a high-performing Board

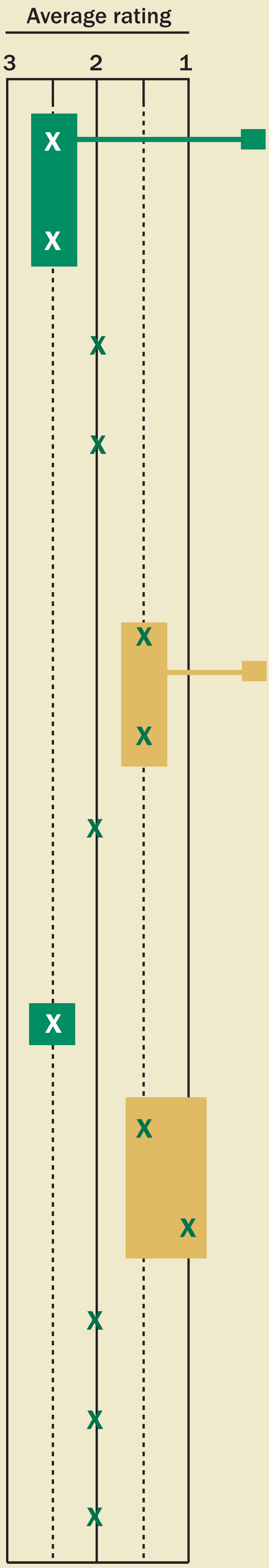
- Structures the Board to match the company's requirements
- Defines committees' role, structure and composition to complement the Board's requirements
- Selects and nominates Directors using a disciplined process
- Evaluates the Board as a whole and each Director regularly

Ensuring effective Board operations and interactions

- Makes every Board meeting productive
- Ensures the quality and timeliness of all Board information
- Builds trust via positive interaction dynamics and open communication within the Board and with management

Fulfilling the Board's fundamental roles and responsibilities

- Contributes to corporate strategy development and setting of targets
- Upholds a strong corporate performance management system
- Oversees development of the company's future leaders and human capital
- Understands and manages the company's risks
- Adopts shareholders' perspective when making decisions
- Balances valid stakeholders interests



Strengths

- Well structured Board of 10 Directors with skills and experiences that are relevant to the Bank
- Appropriate number of Directors in Board committees and Directors have necessary skills to execute responsibilities
- Board provides sufficient input into strategy setting and at the right time so it is in sync with management's planning cycle

Weaknesses

- Despite the existence of a Board Charter that clearly defines the Board's role, Board discussions tend to cover many operational issues and discussions consistently run over the allocated time
- Voluminous amount of material sent to Board without clear synthesis and without sufficient pre-reading time
- Development of future leaders and human capital management did not sufficiently feature on the Board's agenda especially considering the importance of having a strong pool of leaders to expand the Bank
- Performance management reports were difficult to navigate and discussions were not focused on identifying and rectifying the root causes that led to targets being missed

CASE EXAMPLE – BANK CONTOH

SELECTED FINDINGS FROM THE ASSESSMENT

Strengths

Board provides sufficient input into strategy setting and at the right time so it is in sync with management's planning cycle

- Board dedicates sufficient amount of time for deep and thorough discussions on strategy development. There are three specific sessions: 1) at the beginning of the planning cycle, a knowledge sharing session is facilitated by external industry experts to help the Board shape strategic direction, 2) a 2-day offsite is held to debate the strategic plan put forward by management, and 3) a final 4-hour session is allocated to approve the targets, budget and operating plan for the following year.
- Review of the agenda and minutes from the strategy sessions indicate that Board members posed questions to appropriately challenge some key management assumptions (for example, the growth rate of insurance products). In addition, the Board was proactive in jointly working with management to identify potential threats and challenges in the upcoming year (for example, potential competitor movements).
- However, it was agreed that in hindsight, the Board should have spent more time discussing and challenging management's assumptions on the timing and magnitude of synergies from the acquisitions.

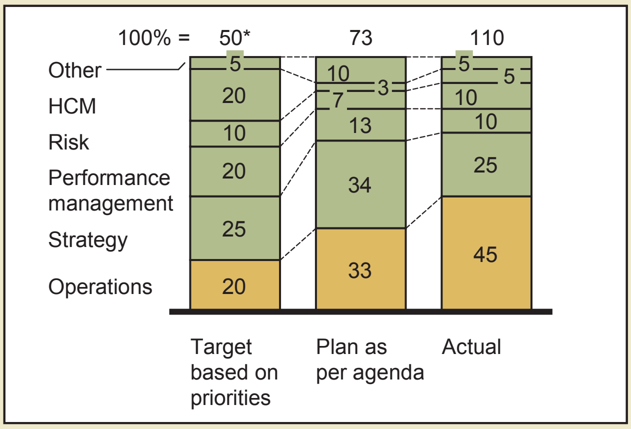
Consequently, the Board determined that their rating on this dimension was between a '2' (meets requirements) and a '3' (best practice)

Weaknesses

Despite the existence of a Board Charter that clearly defines the Board's role, Board discussions tend to cover many operational issues and discussions consistently run over the allocated time

- An analysis of how the Board spends its time during meetings revealed that actual Board deliberations are focused disproportionately on operational matters. Consequently, to make time for discussing other, more critical, topics meetings overran the allocated time.

Split of time spent at main Board meetings



* Approximately 8 meetings at 6 hours each

CASE EXAMPLE – BANK CONTOH

Weaknesses

- Further analysis indicated that the Board was spending more than the allocated time on operational matters as Directors were probing more deeply into understanding the company's operations – as they felt that it was their key role and responsibility to do so.
- It was discovered that if the Board was clearer as to what its role should be, particularly relative to management, and had greater clarity about what the Board priorities should be, then less time would be spent on operational matters.

Consequently, the Board determined that their rating on this dimension was between a '2' (meets requirements) and a '1' (significant gaps)

Development of future leaders and human capital management did not sufficiently feature on the Board's agenda especially considering the importance of having a strong pool of leaders to expand the Bank

- The Board needs to have greater visibility on HCM issues, especially as a number of major initiatives have not met internal targets due to poor execution capabilities. In addition, the Bank has seen a significant rise in attrition rates among high-performing executives.
- With the continued strategy of making domestic and regional acquisitions, the quality of the pool of future leaders is critical to overall success.
- During the last year, HCM discussions only featured twice in Board meetings: 1) to appoint several senior executives and 2) to approve the overall company-wide bonus payout. However, the discussion on compensation structure was brought to the Board too late into the cycle, which led to the Board having to approve both the outcome of the performance evaluations and compensation structure at the same time. This was not ideal as it limited management's ability to properly differentiate rewards and consequences.

Consequently, the Board determined that their rating on this dimension was a '1' (significant gaps).

CASE EXAMPLE – BANK CONTOH

HOW THE BANK CREATED ITS ACTIONABLE IMPROVEMENT PROGRAM

Based on the identified gaps, the Board prioritised its improvement program around four main areas. In developing this program, it considered the capacity of Board and management resources to implement and deliver results.

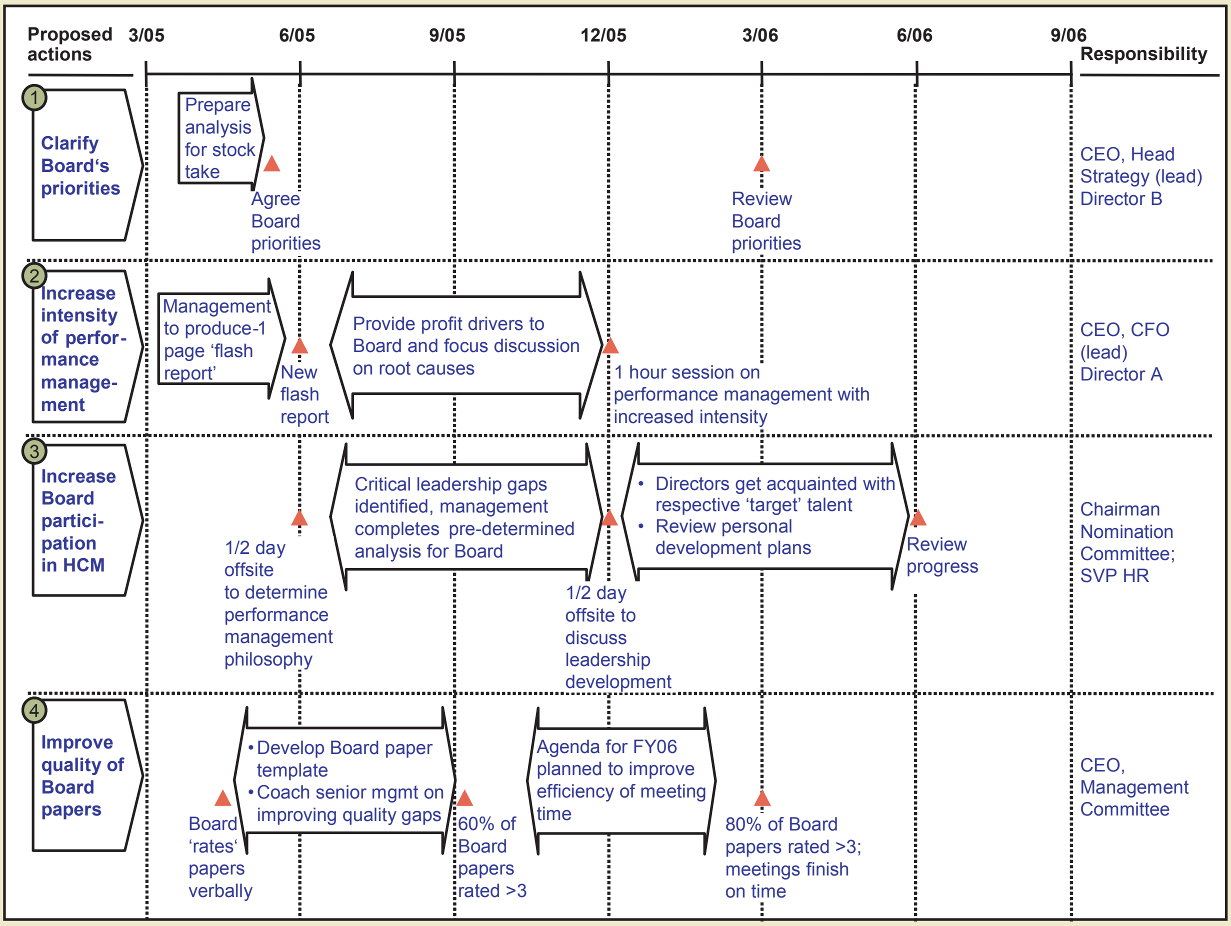
Proposed activities for Board improvement program: as at March 2005

Gaps identified	Priority	Proposed actions
1. Board unclear of its priorities, resulting in unclear focus and at times overstepping into management's roles	High	• Assess company's current situation and future aspirations to determine company's priorities • Based on that, derive Board priority topics and revise Board Charter • Focus Board meeting agenda on priority topics and delegate operational issues to management
2. Insufficient intensity in performance management discussions	High	• Allocate more time upfront to discuss reports • Request management to produce quarterly 1-page 'flash reports' that describe current performance levels • Focus discussion on identifying and rectifying root cause of material variances • Ensure that rectification plans include timeline and clear accountabilities
3. HCM not sufficiently featured on Board agenda despite its importance to overall strategy	Medium	• Dedicate 2 half-days to HCM so that Board can (i) agree on performance management philosophy, including distribution of rewards and consequences; and (ii) review and debate the leadership gap (including any plans to reduce it)
4. Board papers are difficult to navigate with varying quality of analysis	Medium	• Board to convey expectations and criteria for good Board papers to management • CEO and Company Secretary to agree on 1-page template for executive summary • Board to rate quality of papers and provide written feedback to management

CASE EXAMPLE – BANK CONTOH

Improving this Board's effectiveness is long-term journey. However, the actionable improvement program focused on achieving specific milestones within 12 months. For each action, specific milestones and individuals were assigned to lead the implementation.

Milestones for actionable improvement program: updated on December 2005



CASE EXAMPLE – BANK CONTOH

HOW THE BANK IMPLEMENTED ITS IMPROVEMENT PROGRAM

In the meeting where the Board discussed the Board Effectiveness Assessment, it also set up a dedicated 'Improvement Program' team, comprising the Company Secretary, and representatives from both management and the Board. Although, ultimately, the Chairman remains accountable for implementation, another Director was appointed to facilitate and support the Board through its improvement journey.

This was what the team implemented in the first 9 months.

1. Gained alignment on the Board's priorities
   - The facilitating Director set up a small task force from the strategy function to prepare the required analysis before the Board met and discussed their priorities.
   - The analysis included a stock-take on the company's current situation, which included internal and external perspectives on the industry and company's performance. A peer group of regional banks were chosen and key financial and operational indicators were benchmarked with this peer group.
   - Management provided different aspiration options – growing domestic market share to be at least 20% in all major products or focus growth on two niche products in both the domestic and regional market. Management also detailed their internal capabilities and identified any gaps for each option.
   - Within 2 months, the Board met for a dedicated offsite session to discuss and deliberate the options and then collectively agreed on the bank's priority: to establish a clear market leadership position in the consolidating domestic banking sector.
   - This then formed the basis for the Board's priorities: to focus its efforts for the first 12 months – capturing cost reduction/synergies, intensifying performance management, developing human capital, and managing credit risks.

2. Intensified performance management
   - Management created flash reports that are synthesised and holistic to better facilitate performance management discussions.
   - The Board requested management to prepare root-cause analyses for major variances and to propose a rectification plan with clear accountabilities.
   - The Board was provided with a profit driver analysis to identify the major 'levers' of the business and specific sessions were organised over the course of 3 months for the Board to interact with the respective business units and understand these levers in more detail.

3. Increased its visibility in the area of human capital management
   - The Board organised its first HCM offsite meeting to discuss and agree on a performance management philosophy, including the distribution of ratings, rewards and consequences.
   - Another session was organised 6 months later to discuss the Bank's leadership gap.
   - The facilitating Director spent 4 to 6 weeks working with the Senior Vice President, HR to prepare the analyses required for the meeting.
   - During this session, the Board discussed potential options to reduce this leadership gap – including implementing development plans for executives with the highest potential.

In addition, the Board agreed to kick-off a series of 'quick-wins' to improve the Board's operating mode – such as agreeing on a one-page template for an executive summary to immediately improve the quality of Board papers.

APPENDIX 1

TEMPLATE AND ASSESSMENT GRID TO DETERMINE CURRENT LEVEL OF EFFECTIVENESS

BOARD EFFECTIVENESS ASSESSMENT AT A GLANCE

Structuring a high-performing Board	Strengths	Weaknesses	Best Practices to adopt	Average rating 3	2	1
Structures the Board to match the company's requirements						
Defines committees' role, structure and composition to complement the Board's requirements						
Selects and nominates Board members using a disciplined process						
Evaluates the Board as a whole and each of the directors regularly						

Ensuring effective Board operations and interactions	Strengths	Weaknesses	Best Practices to adopt	3	2	1
Makes every Board meeting productive						
Ensures the quality and timeliness of all Board information						
Builds trust via positive interactions dynamics and open communication within the Board and with management						

Fulfilling the Board's fundamental roles and responsibilities	Strengths	Weaknesses	Best Practices to adopt	3	2	1
Contributes to corporate strategy development and setting of targets						
Upholds a strong corporate performance management system						
Oversees development of the company's future leaders and human capital						
Understands and manages the company's risks						
Adopts shareholders' perspective when making decisions						
Balances valid stakeholders interests						

1. STRUCTURING A HIGH-PERFORMING BOARD

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Structures the Board to match the company's requirements	*Size is right* • Board is large enough to fulfill all roles and responsibilities yet small enough to ensure open constructive discussion and debate • 10 Directors or less unless special circumstances exist which allow up to 12	• Although size might 'feel right', there has never been a conscious decision about the number of Directors required by the Board	• Too large (e.g. more than 10), resulting in ineffective discussion and/or decision making • Too small (e.g. less than 6) makes Directors feel over-stretched
	Board composition is balanced – and at least one-third is independent • Mix of Directors ensures that no individual or small group of individuals dominate decision making • Sufficient representation from significant shareholders • At most, there are two Executive Directors or up to 30% of Board, unless special circumstances allow for three	• (As per best practice)	• Less than one-third of the Board is independent Includes more than two Executive Directors or greater than 30% of Board (or three where special circumstances apply)
	Clear separation of Chairman and CEO • Agreed separated roles are adhered to • These roles and responsibilities are reviewed regularly (e.g. every 2 to 3 years) or when changes in company's strategy, operations, performance or management make it necessary	• Clear distinction between the roles of Chairman and CEO, and adherence to these boundaries, but never regularly reviewed	• No clear separation of roles between Chairman and CEO
	Skills and experiences in line with company's requirements • Collectively, Directors' backgrounds and experiences are relevant to the nature of the business and stage of the company's development. Include sufficient functional skills (e.g. marketing) and/or based on industry knowledge or commercial' experience • Compensation aligned to skill sets required of directors • Chairman has stature and leadership skills required • Number of directorships in listed companies capped at 5, and non-listed capped at 10	• Directors' backgrounds and experiences have been the right mix in the past but perhaps do not serve the company's best interests today • Chairman selected without consideration for additional leadership qualities • Number of directorships in listed companies capped at 5, and non-listed capped at 10	• Directors' backgrounds and experiences not balanced or relevant to current or future needs of the company • Chairman selected from among the Directors without need for additional leadership qualities • Number of directorships in listed companies greater than 5, and/or of non-listed greater than 10

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Defines committees' role, structure and composition to complement the Board's requirements	• Only those committees necessary are established The committees adhere to clear charters as established by Board • Committees are composed of the 'right' Directors – both in terms of number and type	• (As per best practice)	• Committees either not formed or not used effectively
Selects and nominates Directors using a disciplined process	*Clear selection criteria exists* • Selection criteria exists • Criteria is tailored to meet current and future needs of the company	• Selection criteria exists	• Selection criteria is formulated based on the pool of available candidates, rather than the company's needs
	Nomination process is objective • Nomination Committee identifies and objectively evaluates potential candidates against selection criteria • Candidates are put forward for approval by the Board and then by the shareholders • Nomination process is transparent	• (As per best practice)	• Nomination Committee puts forward only candidates pre-identified by an external party with vested interest
	Finds candidates from likely and unlikely sources • Nomination Committee proactively maintains a 'pipeline' of potential candidates sourced from both current channels, as well as from 'unlikely sources', such as professionals within Malaysia, Malaysian expatriates abroad, experienced overseas directors, etc.	• (As per best practice)	• Nomination Committee does not proactively identify potential Board candidates Only relies on proposals received through normal channels

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Evaluates the Board as a whole and each Director regularly	*Clear performance evaluation criteria exists* • Criteria exists for individual Directors and Board as a whole • Criteria reflects company's current and expected position and environment, and is in line with company's requirements • Criteria communicated to all Directors, including possible consequences	• Criteria exists for evaluating individual Director and collective Board performance – but criteria does not fully reflect company's current and expected position and environment	• No formal performance evaluation criteria exists for individual directors or the Board as a whole
	Nomination Committee leads the process • Nomination Committee might be assisted by external support • Nomination Committee reports back to Chairman • Evaluation reports include anonymous feedback (peer and management) as well as recommendations	• Nomination Committee leads the process (and might use external support) and reports back to the Chairman • Reports incorporate anonymous feedback from peers only	• No formal evaluation reports generated
	Chairman leads the follow-up process • Chairman discusses results with each Director and creates a personalised action plan for the coming year • Board develops a board improvement program after discussing and exploring its collective strengths and weaknesses	• Chairman reviews results and discusses implica-tions, including areas of development, with each director	• Limited, if any, follow through on evaluation reports conducted
	Training addresses development areas • Training programs are tailored to areas identified as requiring improvement • Directors proactively participate in these training sessions	• Training programs are put together but not targeted to key development areas • Participation in training programs a 'box checking' exercise	• Limited, if any, training programs

2. ENSURING EFFECTIVE BOARD OPERATIONS AND INTERACTIONS

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Makes every Board meeting productive	*Follows a set schedule* • Board calendar with draft agendas set 12 months in advance and synchronised with management planning cycle • Board revisits calendar on a regular basis (e.g. quarterly) to ensure topics are still relevant and to identify areas for improvement	• Board calendar with draft agendas set 12 months in advance and synchronised with some key events in management cycle	• Board calendar is not set in advance
	Chairman determines agenda in consultation with CEO • Chairman determines agenda with assistance from Company Secretary in consultation with CEO • Agenda addresses priority strategic issues, and not detailed operational issues, and allows enough time for rich discussion	• Chairman determines agenda with assistance from Company Secretary in consultation with CEO	• CEO or Company Secretary responsible for board agenda • Not enough focus given to priority issues and never enough time for rich discussion
	Adheres to a clear charter • There is a well-defined charter which is adhered to and reviewed at least every 2 years to test applicability to company's current situation • Board charter reflects Board roles and priorities, which are aligned with the company's overall short- to medium-term priorities • Board charter also reflects mandate provided to CEO	• There is a well defined charter which is adhered to • There is no formal mechanism for its review and tends to only be reviewed when there is an extraordinary event or crisis	• There is a charter, but Directors are largely unaware of it and it has no bearing on how the Board manages its operations • Board rarely reviews or updates the charter unless required to do so by law or regulations

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Ensures the quality and timeliness of all Board information	*Board papers are clear and relevant* • Board papers are set out logically and contain synthesised information and pertinent critical analyses and • Board papers are preceded by a 1- to 2-page executive summary • Additional information is provided when required to assist decision making • Board papers 'rated' by Board and constructive feedback provided	• Board papers are set out clearly and do contain critical analyses but are often too long with not enough synthesis • Additional information is only provided if specifically requested • No formal or regular mechanism to provide feedback on quality of board information	• Board papers are poorly organised and contain either too much information or not enough • Board passively receives what it is given
	Board given appropriate notice • Meeting agendas distributed 14 calendar days in advance • Board papers and pre-reading distributed at least 7 calendar days before board meeting	• Pre-reading material is distributed at least 5 calendar days before Board meeting	• Board papers and pre-reading material are distributed just prior to, or at, the board meeting

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Builds trust via positive interaction dynamics and open communication within the Board and with management	*Positive Boardroom dynamics and environment* • The Directors trust each other and functions as a cohesive team • Board dynamics encourage and promote participation from all Directors • Discussions are productive and effective: topics are raised, discussed, then closed or 'resolved' • Clarity and alignment on decisions and action required • Regular and constructive feedback shared among Directors to improve individual and overall participation	• Board can behave as a cohesive team, but this tends to rely on the personalities at any time rather than as a result of a dedicated team-building ethic • Board dynamics encourage participation from all Directors • While discussions are constructive, topics are not always clearly 'resolved'	• Board functions as a group of individuals rather than as a cohesive team • Discussion regularly dominated by 1 or 2 individuals; others tacitly discouraged from participating • Issues raised but without clear resolution • No clarity or alignments on decisions reached
	Constructively challenges and champions management • Discussions are open and constructive even when challenging management's views or results • Focus of discussions on root causes of issues and actively problem solve to find solutions • Supportive of management once next steps are decided Chairman (and/or Directors) provides regular coaching and feedback sessions with management	• Discussions with management are always open and constructive • Focus of discussions on root causes of issues and actively problem solve to find solutions • However, not consistently proactive in its support of management and does not look for opportunities to provide coaching and feedback outside of formal processes	• Overly critical of management and tends to focus more on shortcomings than on options or potential solutions • Board provides no coaching of management
	Board decisions communicated promptly to management • All Board decisions captured in the minutes, including rationale for each decision, next steps, clear timeline, and the individuals responsible • Verbal communication of key Board decisions to management within 1 working day, followed by Minutes extract disseminated within 3 working days of Board meeting	• Board decisions captured in minutes but details tend to be disseminated more through discussion than through rigorous documentation	• Board decisions are included in the minutes but lack clarity and precision • Minutes extracts take longer than 3 working days to reach management

3. FULFILLING THE BOARD'S FUNDAMENTAL ROLES AND RESPONSIBILITIES

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Contributes to corporate strategy development & setting of targets	*Guides the strategic direction* • Provides guidance and input on overall strategic direction and aspirations early on in the planning cycle • Plans and attends dedicated session each year to challenge and debate strategic options with management	• Provides guidance and input on overall strategic direction and aspirations when required • Challenges and debates strategic options, but this is done ad hoc rather than through a dedicated session	• Strategic direction and aspirations are set by management
	'Co-owns' the strategy with management • Questions both management and Board perspectives to ensure success of chosen strategy • Challenges and clarifies management's views and assumptions to ensure shared ownership by both Board and management	• Challenges views and assumptions proposed by management but does not contribute to the resolution of issues or doubts	• Board ratifies the strategy proposed by management with limited discussion or debate
	Sets targets for management • Tests the CEO's and senior management's targets to ensure that targets reflect industry trends and internal capabilities – and provide sufficient stretch and aspiration	• Discusses, and agrees, baseline targets recommended by management in its business plan but does not test for stretch	• Agrees with targets recommended by management in business plan • Occasionally sets targets with limited business rationale

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Upholds a strong corporate performance management approach	*KPIs provide balanced view* • Board ensures that corporate KPIs reflect the company's historical performance and includes leading indicators	• Corporate KPIs include both historical performance metrics and leading indicators – but some KPIs do not reflect the company's strategic objectives or its current operating environment	• Corporate KPIs are skewed and do not balance financial and operational indicators, or complement historical performance indicators with leading indicators
	Reviews progress and follows up • Board receives regular performance reports that indicate status of all KPIs • Board focuses discussion on any 'missed' targets and constructively challenges management to verify root causes and propose action plans to get back on track • Board agrees on the accountabilities and timeline and this information is documented in the minutes • 'Out-performance' is noted and discussed to determine how such performance can be sustained	• Board receives performance reports that indicate status of all KPIs • Board focuses discussion on any 'missed' targets	• Board 'acknowledges' performance against corporate KPIs • Board focuses discussion on financial reporting results only as per requirements of Bursa Malaysia • No clear action plan to resolve 'missed' targets

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Oversees development of the company's future leaders and human capital	*Selects CEO and proactively plans CEO succession* • Establishes CEO selection criteria • Establishes succession model for CEO • Reviews full fact-base of leadership achievements and development needs before short-listing candidates • The Board, through individual Directors, knows each candidate personally and dedicates sessions each year with candidates	• Establishes CEO selection criteria • Aware of various models for CEO succession, but chooses 'best individual' based on context and available pool, rather than on pre-determined criteria • Board gets to know top tier candidates in company either from exposure at Board meetings or at informal 'social' events	• No clear CEO selection criteria • CEO succession not part of formal Board agenda • Board has limited awareness of any of the top tier candidates
	Reviews performance management philosophy • Ensures appropriate differentiation in performance, rewards and consequences in HR plan	• Applies differentiation in performance, but link to rewards and consequences is weak	• Limited differentiation in performance and rewards and consequences
	Evaluates CEO performance • Sets clear expectations for the CEO, aligned with the company's priorities • Multiple inputs obtained in conducting review of performance, including that of senior management • Performance measured against explicit KPIs and pre-agreed targets contained within CEO contract that includes terms of performance-linked compensation	• Performance measured against explicit KPIs and pre-agreed targets that include terms of performance-linked compensation	• No clear criteria or targets established to measure CEO performance

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Oversees development of the company's future leaders and human capital (continued)	*Endorses development plans of those in pivotal* • Strong fact-based understanding of performance, competencies and potential of employees in pivotal positions • Endorses the performance and development plans put forward by management	• Limited (more anecdotal than fact-based) understanding of employees holding pivotal positions, endorses management plans with little debate or discussion	• Little, if any, participation from Board on plans for employees holding pivotal positions
	Understands pool of future leaders • Understands the existing leadership gap to execute against chosen strategy • Board dedicates time to understanding strength and depth of leadership bench in company and by business unit / subsidiary / job level, (e.g. for top 50 to 100)	• Board gets regular updates from HR and is 'aware' of top talent in company	• Human capital management is a low priority on Board agenda

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Understands and manages the company's risks	*Sets the company's risk parameters* • Establishes risk parameters, thresholds and boundaries for company • Ensures overall corporate risks are measured and thresholds are controlled within pre-determined limits	• Risk parameters, thresholds and boundaries are set for company but not always adhered to	• Company's risk parameters, thresholds and boundaries are unclear
	Understands major risk exposures • Board aggregates risks to a common metric (such as 'cash flow at risk' or 'value at risk') • Ensures mitigation plan exists for all major risks – which includes accountabilities and implementation timelines • For major risks, Board has a good sense of the costs and benefits of risk mitigation – which take into account the probability and magnitude of the impact of the risk	• Board understands key risks by category rather than on an aggregate level • Mitigation plans exist but lack robustness around accountabilities and timelines • For major risks, Board has a good sense of the costs and benefits of risk mitigation	• Board has limited understanding of key risks even at the category level • Some mitigation plans exist but lack robustness around accountabilities and timelines • Board is not fully aware of the costs and benefits of risk mitigation
	Considers the risk factors in all major decisions • Role-models desired behaviour by ensuring there is in-depth risk analysis performed for all major investments and/or strategic decisions	• Risk analysis is provided for major investment and/or strategic proposals, but the quality of analyses varies and the Board's ability to interpret the information is uneven	• Risks for major investment and/or strategic proposals are addressed superficially and are not embedded within quantitative analysis

	3 – Best practice	2 – Meets requirements	1 – Significant gaps
Adopts a shareholders' perspective when making decisions	• Takes into account capital market perspectives and expectations when making decisions • Considers views of the majority or significant shareholder and adopts them where aligned with the interests of all shareholders • Protects minorities' interest (e.g. related-party transactions are on arm's-length basis and are disclosed)	• (As per best practice)	• Unclear if decisions made by Board take into account perspectives and/or expectations of capital markets • Biased towards making decisions in favour of majority or significant shareholder or biased towards making decisions in favour of minority shareholders only • Unclear if related-party transactions are at arm's-length basis as details are often not disclosed
Balances valid stakeholders interests	• Understands economic impact of stakeholders' interest on shareholder value • Actively balances conflicting interests between stakeholders and shareholders and makes appropriate trade-offs • Proactively supports management in managing, and where necessary, containing, stakeholders	• Understands needs of major stakeholder groups – but the 'understanding' is not always based on objective facts nor properly quantified • Considers all views of stakeholders, but does not always consider trade-offs • Supports management in managing, and where necessary, containing, stakeholders	• Decisions do not balance needs of all relevant stakeholders – for example, some stakeholders feature in decisions more than others

THE BOARD EFFECTIVENESS ASSESSMENT AT A GLANCE

Structuring a high-performing Board	Strengths
Structures the Board to match the company's requirements	
Defines committees' role, structure and composition to complement the Board's requirements	
Selects and nominates Board members using a disciplined process	
Evaluates the Board as a whole and each of the directors regularly	

Ensuring effective Board operations and interactions	
Makes every Board meeting productive	
Ensures the quality and timeliness of all Board information	
Builds trust via positive interaction dynamics and open communication within the Board and with management	

Fulfilling the Board's fundamental roles and responsibilities	
Contributes to corporate strategy development and setting of targets	
Upholds a strong corporate performance management system	
Oversees development of the company's future leaders and human capital	
Understands and manages the company's risks	
Adopts shareholders' perspective when making decisions	
Balances valid stakeholders interests	

Weaknesses	Best Practices to adopt	Average rating 3	2	1

ACTIONS TO RESOLVE GAPS IDENTIFIED

Gaps identified	Priority	Proposed actions	Timing/sequence
1.			
2.			
3.			
4.			
5.			
6.			

KEY MILESTONES OF THE ACTIONABLE IMPROVEMENT PROGRAM

Proposed activities	Timeline						Responsibility
1							
2							
3							
4							
5							

APPENDIX 2

TMO CONTACT DETAILS

WHERE GLC BOARDS CAN OBTAIN ASSISTANCE

The Transformation Management Office (TMO), as secretariat to the PCG, is the central point of contact for any questions and for all implementation assistance.

Phone	:	03 2034 0000
Email	:	pcg@treasury.gov.my
Website	:	www.pcg.gov.my

The level of support and assistance needed by Boards will vary. The TMO may be able to provide Boards with more information and assistance depending on their situation and context, including:

- Assistance to Boards and Company Secretaries on how to use the tools illustrated in this Green Book
- Suggestions of potential external consultants who can facilitate the Board Effectiveness Assessment, including the development of an actionable improvement program

APPENDIX 3

USEFUL TOOLS AND TEMPLATES

EXECUTIVE SUMMARY: SAMPLE TEMPLATE

A synthesised executive summary presented with every board paper provides a good holistic view of key issues

BOARD PAPER AGENDA ITEM
Topic:
Action required:
Submitted by: **Reviewed by:**

Objective	**Risks/ challenges**
•	•

Context/ analysis	**Implementation plan**
•	•

Other options considered and recommended decision

Options	Details
•	•

BOARD FEEDBACK FORM: SAMPLE TEMPLATE

Using a feedback form after every presentation of a Board paper provides a transparent and helpful mechanism for each Director to recommend follow-up and improvement actions for management

Topic:
Submitted by:
Reviewed by:

	Rating*	Supporting Remarks	Recommendations
Board paper ▪ Conciseness ▪ Clarity ▪ Structured ▪ Analytically robust	__	▪	▪

	Rating*	Supporting Remarks	Recommendations
Presentation/ Discussion ▪ Use of time ▪ Quality of articulation ▪ Focused on core issues	__	▪	▪

* Scale of 1 to 5, where 5 is highest

PERFORMANCE MANAGEMENT REPORT: SAMPLE TEMPLATE

A structured report provides a clear overview of root causes of the underperformance of each KPI, and clarifies accountabilities and timeline to rectify the situation

KPI	Month status	YTD status	Root causes	Actions to rectify	Responsibility	Timeline
•	R Y G	R Y G	▪	▪ ▪	▪ ▪	▪ ▪
•	R Y G	R Y G	▪	▪ ▪	▪ ▪	▪ ▪
•	R Y G	R Y G	▪	▪ ▪	▪ ▪	▪ ▪
•	R Y G	R Y G	▪	▪ ▪	▪ ▪	▪ ▪
•	R Y G	R Y G	▪	▪ ▪	▪ ▪	▪ ▪
•	R Y G	R Y G	▪	▪ ▪	▪ ▪	▪ ▪

BOARD EVALUATION FORM: SAMPLE TEMPLATE

An annual assessment of the Board – facilitated by an external consultant if necessary – allows an overall evaluation of the Board's effectiveness

BOARD EVALUATION CRITERIA

	Board structure	5	4	3	2	1	Comments
1.	Board composed of Directors with appropriate mix of skills to match company's requirements	☐	☐	☐	☐	☐	
2.	Directors are given appropriate adequate training and development opportunities	☐	☐	☐	☐	☐	
3.	Committees have been assigned appropriate tasks	☐	☐	☐	☐	☐	
4.	Committees are effectively fulfilling their functions	☐	☐	☐	☐	☐	
	a. Audit	☐	☐	☐	☐	☐	
	b. Nomination	☐	☐	☐	☐	☐	
	c. Remuneration	☐	☐	☐	☐	☐	
	d. ____________	☐	☐	☐	☐	☐	
	e. ____________	☐	☐	☐	☐	☐	
5.	I am satisfied with my committee assignments	☐	☐	☐	☐	☐	

	Board operations and interaction	5	4	3	2	1	Comments
	Board meetings						
1.	Board meetings are at the about right frequency (x times per annum) and length	☐	☐	☐	☐	☐	
2.	Allocation of time for items on the agenda is about right	☐	☐	☐	☐	☐	
3.	I find sitting on the Board stimulating and rewarding	☐	☐	☐	☐	☐	
	Board papers						
4.	Board papers are well synthesised with critical analyses	☐	☐	☐	☐	☐	
5.	Board papers have been consistently handed out with sufficient time for preparation	☐	☐	☐	☐	☐	
6.	Board papers have sufficient content and coverage on						
	a. Strategic direction	☐	☐	☐	☐	☐	
	b. Performance against the annual financial plan	☐	☐	☐	☐	☐	
	c. Performance of key business units	☐	☐	☐	☐	☐	
	d. Management of key risks	☐	☐	☐	☐	☐	
	e. Management of human capital	☐	☐	☐	☐	☐	
	f. Management control systems	☐	☐	☐	☐	☐	
	g. Technology issues	☐	☐	☐	☐	☐	
	h. Legal issues & compliance	☐	☐	☐	☐	☐	
	i. Financial disclosure	☐	☐	☐	☐	☐	
	Board communication						
7.	Conduct of board meetings allow for an open and constructive communication style (encourages focused discussion, questioning and expression of various viewpoints)	☐	☐	☐	☐	☐	
8.	I have sufficient access to the Chairman	☐	☐	☐	☐	☐	
9.	I have sufficient access to the management	☐	☐	☐	☐	☐	

5 = Strongly Agree 4 = Agree 3 = Neutral 2 = Disagree 1 = Strongly Disagree

Source: Korn/Ferry International, PricewaterhouseCoopers, The Boston Consulting Group , McKinsey & Company

BOARD EVALUATION FORM: SAMPLE TEMPLATE (CONTINUED)

BOARD EVALUATION CRITERIA

	Board roles and responsibilities	5	4	3	2	1	Comments
1.	I have a clear understanding of how my role differs to that of management	☐	☐	☐	☐	☐	
2.	Board has successfully delivered value to shareholders and other stakeholders	☐	☐	☐	☐	☐	
3.	Board ensures effective policies on investor relations program to all relevant stakeholders	☐	☐	☐	☐	☐	
	Strategy planning						
4.	Board has an appropriate level of involvement in developing the company's strategy	☐	☐	☐	☐	☐	
5.	Board has sufficient understanding in external trends, competitive threats and opportunities critical to company's future performance	☐	☐	☐	☐	☐	
6.	Board has sufficient knowledge about the major business issues to provide adequate advice and probing	☐	☐	☐	☐	☐	
	Performance management						
7.	Board effectively monitors KPIs throughout the year	☐	☐	☐	☐	☐	
8.	Board effectively follows-up on implementing issues raised in previous meetings	☐	☐	☐	☐	☐	
	Human capital management						
9.	Board has sufficient visibility of pool of future leaders (e.g. identified leadership gap to execute chosen strategy)	☐	☐	☐	☐	☐	
10.	Board ensures succession planning and the appointment, training and motivating of the CEO	☐	☐	☐	☐	☐	
11.	Board ensures succession planning and the appointment, training and motivating of key executives	☐	☐	☐	☐	☐	
	Risk management						
12.	Board has adequate risk management procedures in place	☐	☐	☐	☐	☐	

Overall comments

1. Please describe any area of expertise that you think would be beneficial to our Board that is not represented in the current membership.

2. If for some reason you could no longer serve on the Board, whom would you recommend as your successor?

3. Is there anyone else you would recommend for the Board in any area of expertise?

4. What, if any, is the most significant change that you would recommend for our Board's practices?

5 = Strongly Agree 4 = Agree 3 = Neutral 2 = Disagree 1 = Strongly Disagree

Source: Korn/Ferry International, PricewaterhouseCoopers, The Boston Consulting Group, McKinsey & Company

ANNUAL DIRECTOR EVALUATION FORM: SAMPLE TEMPLATE

An annual assessment of the Directors provides the opportunity to identify areas of improvement

DIRECTOR SELF/PEER EVALUATION

	Director									
	A	B	C	D	E	F	G	H	I	J
Contribution to interaction										
1. Shares information or insights										
2. Participates actively in board activities, works constructively with peers										
3. Takes strong constructive stands at board or committee meetings where necessary										
4. Encourages feedback from Board										
5. Encourages meetings to focus on the agenda										
6. Confronts conflicts and participates in finding a resolution										
Quality of input										
7. Provides logical honest opinions on issues presented										
8. Provides unique insight to issues presented – has valuable skills										
9. Prioritises context of issues to be in line with objectives										
10. Motivates others to get things done, is decisive and action-oriented										
11. Provides realism and practical advice to board deliberations										
12. Applies analytical and conceptual skills to the decision-making process										
13. Communicates persuasively in a clear and non-confrontational manner										
Understanding of role										
14. Adds value to board meetings – attends meeting well prepared										
15. Takes initiative to request for more information										
16. Ensures that individual contribution is relevant – up-to-date with developments										
17. Focuses on accomplishing the objectives										
18. Assess and link short-term issues to the long-term strategy										
19. Ensures performance of financial and human capital, keeping in mind the strategic plan when making investment decisions										
Chairman's role										
20. Chairman is able to lead the Board effectively – encouraging contribution from all members										
21. Chairman and CEO have a good working relationship										
22. Chairman and CEO understand their respective roles										

5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1 = Strongly Disagree

Please state the names of the Director numbered above

A. Chairman ______________________
B. CEO ______________________
C. ______________________
D. ______________________
E. ______________________
F. ______________________
G. ______________________
H. ______________________
I. ______________________
J. ______________________

5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1 = Strongly Disagree

Source: PricewaterhouseCoopers, McKinsey & Company

THE BOARD CALENDAR: EXAMPLE

The Chairman should set the calendar 12 months in advance, but maintain the flexibility for Directors to make any necessary amendments

	Agenda item	March	June	Sept	Dec
Full Board	• Approve minutes of previous meetings	✗	✗	✗	✗
	• Review actual vs. budgeted financial results	✗	✗	✗	✗
	• Review performance vs. competitors	✗		✗	
	• Approve unbudgeted capital expenditures over RMxmillion	✗	✗	✗	✗
	• Review HCM issues	✗✗		✗	✗
	• Review/approve strategic plan		✗	✗✗	
	• Approve annual budget	✗	✗	✗	✗
	• Approve committee reports				✗
	• Litigation review		✗		
Audit committee	• Review audit plan		✗		
	• Consider tax planning opportunities		✗		
	• Assess insurance coverage			✗	
	• Approve internal audit schedule				✗
	• Appoint external auditors			✗	
	• Meet alone with external auditors	✗			
	• Review management letter	✗			
Remuneration committee	• Approve senior management bonus payments	(As per approval schedule)			
	• Approve stock allocations	(As per approval schedule)			
	• Compare senior management compensation with industry averages		✗		
Nomination Committee	• Coordinate board self-assessment			✗	
	• Present results of board self-assessment				✗
	• Propose slate of board and committee appointees				✗

AUDIT COMMITTEE CHARTER: EXAMPLE

All committees should adhere to a clear charter as established by the Board

AUDIT COMMITTEE CHARTER

	Description

Composition	• At least 3 Directors, majority independent
	• At least 1 of the Directors must be a Malaysian Institute of Accountants (MIA) member or have 3 years working experience*:
	  ▪ Passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Acts 1967
	  ▪ Member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967
	• No alternate Director as member of the Audit Committee

Responsibilities	▪ Oversee internal control structure to ensure operational effectiveness and protect company's assets from misappropriation
	▪ Assist the Board to identify and manage principal risks
	▪ Review quarterly and year-end financial statements prior to approval by the Board, focusing on
	  ▪ Changes in accounting policies and practices, and its implementation
	  ▪ Significant adjustments arising from audit
	  ▪ Review the going concern assumption
	▪ Review internal audit function to be adequately resourced and able to undertake its activities independently and objectively
	▪ Review external audit function and report to the main Board by making recommendation on
	  ▪ Appointment of external auditors – considering fees, independence and objectivity
	  ▪ Audit plan – nature and scope of audit, and co-ordination if more than one audit firm
	  ▪ Audit report and any letter of resignation from external auditors Review any related party transactions and conflict of interest situations
	▪ Review and follow-up on any issues raised by internal / external auditors – report to *Bursa Malaysia* if issue is not satisfactorily resolved

Authority	▪ Explicit authority to investigate matters within its term of reference ▪ Full and free access to company information, records, properties and personnel; and have sufficient resources to perform duties ▪ Direct communication channels with external auditors and person(s) carrying out audit function and able to convene meetings with external auditors, without the presence of executive board members, at least once a year ▪ Flexibility to obtain independent professional advice ▪ Immediate access to reports on fraud / irregularities from internal audit ▪ Attendance of other Directors at the committee's discretion and invitation only

* Consistent with Chapter 15 of Bursa Securities Listing Requirements

Source: Bursa Securities Listing Requirements, Malaysian GLCs' Charters

REMUNERATION AND NOMINATION COMMITTEE CHARTER: EXAMPLE

All committees should adhere to a clear charter as established by the Board

REMUNERATION COMMITTEE CHARTER

	Description
Composition	▪ At least 3 Directors, wholly or mainly non-executive ▪ Maximum of 6 months for committees with less than the minimum of 3 members ▪ Chairman who is supportive of company plans and policies

Responsibilities	▪ Review individual remuneration packages for Executive Directors and recommend to the Board on
	  ▪ All elements of the remuneration package – terms of employment, reward structure and fringe benefits
	  ▪ Annual increments and ex-gratia payments for Executive Directors
	▪ Ensure that Executive Directors abstain from the deliberations and voting on decisions in respect of their remuneration package
	▪ Endorse remuneration packages for senior management and make recommendation to the Board to do similarly

Authority	▪ Access to the full company records, properties and personnel ▪ Obtain independent professional advice and expertise necessary to perform its duties ▪ Access to advice and services of the Company Secretary

NOMINATION COMMITTEE CHARTER

	Description
Composition	▪ At least 3 Directors, exclusively non-executive, majority of which independent ▪ Maximum of 6 months for committee to have less than minimum of 3 members

Responsibilities	▪ Recommend to the Board on appropriate board size and ensure that any director term limits within the Articles of Association are adhered to, including:
	  ▪ Every AGM, 1/3 of the Board retires, *or*
	  ▪ Every Director retires at least once in 3 years
	▪ Review annually Board's mix of skills and experiences to ensure in line with company's requirements
	▪ Coordinates evaluation process of Directors and collective Board
	▪ Proactively maintains a pipeline of potential appointees to the Board and/or committees

Authority	▪ Access to the full company records, properties and personnel ▪ Obtain independent professional advice and expertise necessary to perform its duties ▪ Access to advice and services of the Company Secretary

Source: Malaysian GLCs' Charters

APPENDIX 4

STATUTORY, REGULATORY AND LEGAL RESPONSIBILITIES OF DIRECTORS

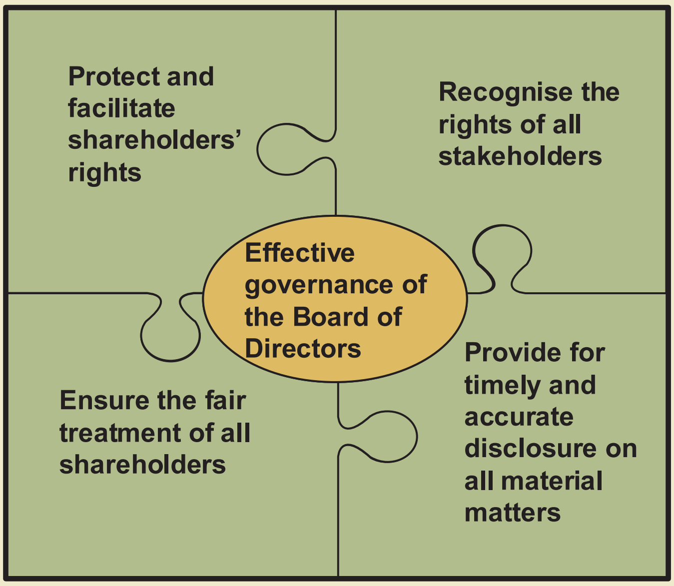
THE BOARD LIES AT THE HEART OF CORPORATE GOVERNANCE

'Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.'

The Malaysian Code of Corporate Governance

The OECD Principles of Corporate Governance – deemed to be the international benchmark of standards for corporate governance – established the Corporate Governance Framework, which is built around four main objectives. At the heart of this framework, is the effective governance of the company's Board of Directors.

The OECD Corporate Governance Framework



The Board of Directors is responsible for ensuring the strategic guidance of the company and effectively monitoring management while being accountable to the company and its shareholders.

The Board's governance roles and responsibilities, however, unlike the other corporate governance objectives, is effected predominantly through codes and recommended practices rather than through legislation.

The four objectives outlined in the Corporate Governance framework are covered by a separate and distinct body of rules. The definition, protection and facilitation of the exercise of shareholder rights are embodied within the Memorandum and Articles of Associations, the Companies Act and by general common law. The equitable treatment of all shareholders is codified in the Companies Act while provisions for timely and accurate disclosure on all material matters is provided for via the need for AGMs/EGMs (and other modes of communication with shareholders) as defined in the Companies Act and by Bursa Securities Listing Requirements. Finally, the recognition of the rights of all stakeholders – for example, the rights of creditors and employees are also enshrined in statute, regulations and common law.

Because of this, and with the Board at the heart of corporate governance, Directors are saddled with a series of statutory, regulatory and legal responsibilities. A summary of the most critical responsibilities are highlighted in the following pages.

STATUTORY, REGULATORY AND LEGAL RESPONSIBILITIES OF DIRECTORS

LEGAL RESPONSIBILITIES OF DIRECTORS

Section 132(1) of the Companies Act imposes upon Directors the general duty 'to act honestly and use reasonable diligence in the discharge of the duties of his office'. However, this statement is not an exhaustive statement of a Director's duties. A Director has three broad categories of duties: fiduciary duties; duties of skill, care and diligence; and statutory duties.

A Director's fiduciary responsibility to 'act honestly' essentially covers three propositions. Pursuant to section 132 (5) of the Companies Act, a Director must act in what he honestly considers to be the company's interest and not in the interests of some other person or body. This is a Director's main and overriding duty. Second, a Director must not place himself in a position where his duty to the company and his personal interests may conflict. Third, a Director must employ the powers and assets that he is entrusted with for the proper purposes, and not for any collateral purpose.

As far as duties of skill, care and diligence are concerned, these duties are merely aspects of a Director's duty not to be negligent in the discharge of his functions. And statutory duties are mandated by the Companies Act and, in the case of listed companies, by Bursa Securities Listing Requirements and the Securities Commission Act (SCA). The most critical are highlighted below.

Key statutory and regulatory responsibilities of Directors

Topic	Responsibility	Source
Duty of disclosure	• Directors to disclose interest (direct or indirect) in contracts or arrangements with any company in the Group or property held which may give rise to a conflict of interest – such disclosure to be in given in writing to the Board	Section 131, CA
	• To disclose any proposals or transactions amounting to a Related Party Transaction requiring announcements, circulars, or shareholders' approval, not being in the ordinary course of business	Bursa Securities Listing Requirements
Duty to ensure that accounts are properly prepared	• To approve quarterly results and annual audited accounts	Section 169, CA and Bursa Securities Listing Requirements
	• To approve remuneration of auditors (where, as is usual, shareholders have delegated this power to the Board) and make recommendation for appointment and removal of auditors after which approvals from the shareholders are to be sought	Section 172, CA
	• To ensure that the accounts of the company are made out in accordance with applicable approved accounting standards	Section 166A, CA

Topic	Responsibility	Source
Protecting shareholder rights	• Calling of annual general meetings, extraordinary general meetings and approving notices	Sections 143 & 144
	• Making appropriate recommendations in respect of matters that are specifically reserved for the approval of shareholders in general meetings	Bursa Securities Listing Requirements
	• Approval of all annual reports, prospectuses, circulars, provisional allotment letters and listing particulars	Bursa Securities Listing Requirements
	• Approval of announcements, press releases made by the company	Bursa Securities Listing Requirements
	• Approval of replies to queries from Bursa Securities on any non-routine or extraordinary item	Bursa Securities Listing Requirements
Changes to company's course of business	• Corporate restructuring, mergers and takeovers	Section 176, CA and Section 33B, SCA and Malaysian Code of Take-overs and mergers 1998
	• Submission/applications to regulatory authorities, i.e. Foreign Investment Committee, Securities Commission, Ministries for any new issues or other corporate proposals falling under Section 32B of the Securities Commission Act, 1993 and ensuring institution of proper due diligence processes	SCA
Amendments to capital structure of company	• Recommendation of buy-back of company's own shares	Section 67A, CA and Bursa Securities Listing Requirements
	• Changes relating to the company's capital structure or its status as a public listed company	Section 176/64 CA and Bursa Securities Listing Requirements
Delisting and winding up of company	• Requests for voluntary delisting	Bursa Securities Listing Requirements
	• Requests for voluntary suspensions	Bursa Securities Listing Requirements
	• Winding up of company or any of its subsidiaries	Section 217, CA
	• Appointment of liquidator	Section 227, CA

Topic	Responsibility	Source
Administration of company	• Fixing the financial year end of the company	Section 169, CA
	• Setting up of registered office of the company	Section 119, CA
	• Adoption of the Company Seal	Section 16, CA
	• Closure of Company's Register of Members (for dividend payments)	Section 160, CA Bursa Securities Listing Requirements
	• Appointment of Share Registrars	Section 48, CA
	• Allotment of shares	Sections 60, 62 and 365, CA
	• Capitalisation of reserves or share premium	

APPENDIX 5

REFERENCES

REFERENCES

- Bursa Malaysia, Listing Requirements of Bursa Securities
- Colin B. Carter and Jay W. Lorsch, 'Back to the Drawing Board: Designing Corporate Boards for a Complex World'
- David A. Nadler, Beverly A. Behan and Mark B. Nadler, Building Better Boards: A Blueprint for Effective Governance
- Finance Committee on Corporate Governance, Malaysian Code of Corporate Governance, 2000
- Lee Hishammudin Advocates and Solicitors, 'Corporate Governance: A Director's Practical Legal Guide, Malaysia'
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- Legal Research Board, Securities Commission Act 1965
- MAICSA, Model Board Charter
- Paul P. Brountas, 'Boardroom Excellence'
- Ram Charan, Boards that Deliver

ACRONYMS AND ABBREVIATIONS

BU	Business Unit
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operations Officer
The Code	The Malaysian Code on Corporate Governance
ED	Executive Director
EBITDA	Earnings before interest, tax, depreciation and amortisation
GLC	Government-linked Company
GLCT Program	Government-linked Companies Transformation Program
GLIC	Government-linked Investment Company
HCM	Human Capital Management
HR	Human Resources
IFAC	International Federation of Accountants
KPI	Key Performance Indicators
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MIA	Malaysian Institute of Accountants
MICG	Malaysia Institute of Corporate Governance
MD	Managing Director
PCG	Putrajaya Committee on GLC High Performance
ROCE	Return on Capital Employed
SMEs	Small-Medium Enterprises
SVP	Senior Vice President
TOR	Terms of Reference
TMO	Transformation Management Office

EXHIBITS

Notes

PROGRESSING GLC BOARDS FROM JUST CONFORMING TO ALSO PERFORMING

GLCs to adhere to best practice guidelines *(Chapter 1)*

- Structures the Board to match the company's requirements
- Defines committees' role, structure and composition to complement the Board's requirements
- Selects and nominates Directors using a disciplined process
- Evaluates the Board as a whole and each Director regularly

- Makes every Board meeting productive
- Ensures the quality and timeliness of all Board information
- Build trust via positive interaction dynamics and open communication within the Board and with management

- Contributes to developing corporate strategy and setting of targets
- Upholds a strong corporate performance management approach
- Oversees development of the company's future leaders and human capital
- Understands and manages the company's risks
- Adopts a shareholders' perspective when making decisions
- Balances valid stakeholder interests

Practical suggestions, including examples, that GLC Boards can adopt *(Chapter 2)*

GLCs to conduct Board Effectiveness Assessment (BEA) *(Chapter 3)*

How to raise effectiveness of GLC Boards

All listed GLC Boards to complete this by December 2006

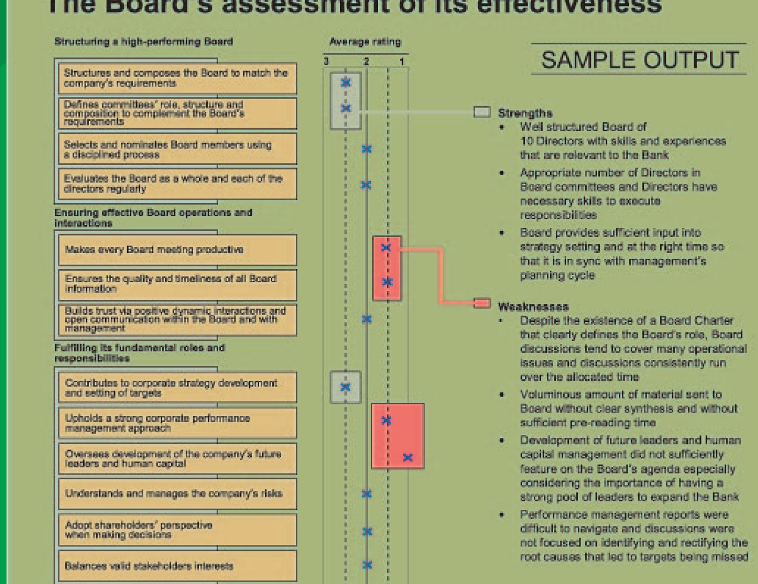
Step 1 — **Conduct Board Effectiveness Assessment (BEA)**
- Chairman to lead assessment
- Board has option to conduct assessment in-house or obtain external support to facilitate process

Step 2 — **Develop an actionable improvement program**
- Based on gaps identified, Board agrees on rectifying actions
- Clear milestones and accountabilities set

Step 3 — **Implement initiatives in program**
- Individual Directors or members of management lead specific initiatives

Ongoing — **Review progress against milestones**
- Every 6 months, plan time in Board meeting to review progress and make adjustment to program as necessary
- Annually, conduct shorter Board evaluation and incorporate inputs into program

The Board's assessment of its effectiveness



Milestones for actionable improvement program: updated on December 2005