

## Objective and rationale for revamping the sourcing for GLC directors

## STRENGTHEN DIRECTOR CAPABILITIES

Revamp sourcing for GLC directors

Number III.2.1.1(a)

### Objective

- Develop and implement a strategy for sourcing, screening and matching “effective” directors to the right boards, in accordance with skills and capabilities needed at each GLC. Learnings from the ongoing strategy design and setting up of the sourcing process and database at Khazanah have been used here to illustrate one way of addressing this issue.

### Rationale

- Based on interviews conducted with GLCs and GLICs, there is evidence that there is a shortage of ~200 “effective” directors within GLC boards.
- An “effective” director is one that possess 3 requirements – relevant knowledge, skills and mindsets. An illustration of the profile of effective directors is shown in Exhibit 1

### EXHIBIT 1: EFFECTIVE DIRECTOR PROFILE

#### Characteristics

#### Knowledge “What a director knows”

- Clearly understands the **key roles of a board/director** (e.g., developing strategy, talent management review, CEO selection and succession, performance management, risk management) and adheres to the clear **boundaries between board and management**
- Understands clearly the **expectations of the shareholders** (e.g. return on capital, growth) and knows other key stakeholders (e.g. regulators)
- Knows the **company** well enough at the right level of detail (e.g., where money is made/lost, how customers buy, how things get manufactured, what are major talent gaps in critical positions)
- Clearly understands key **industry trends** (competition), relevant **geographies** to the company, and **functions** (e.g., operational, legal, technical)
- Brings **specific and relevant ‘functional’ or ‘industry’ skills** to “the table”
- Understands **fiduciary responsibility** as a director (i.e. understands at high level what is expected)
- Understands Malaysian **cultural, social, and political** context

#### Skills “What a director can do”

- Actively and constructively problem solves** with the board and key management (e.g. share, challenge and close)
- Decisively challenges, then supports, management** (e.g. inquiring into performance deficiencies, challenge strategy)
- Possesses **business acumen** from prior experiences that enables director to identify key issues and propose solutions
- Proactively **leverages networks and manages multiple stakeholders** for the benefit of the company

#### Mindset “What a director believes”

- Believes that director performance** is critical (requires performance measures and consequences), and that position is earned (not an entitlement)
- Balances all shareholder’s interests** while being explicit when expressing 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** (i.e. has desire and not spread too thin)

Source: Joint Working Team compilation

Objective and rationale for revamping the sourcing for GLC directors	STRENGTHEN DIRECTOR CAPABILITIES	
	Revamp sourcing for GLC directors	Number III.2.1.1(b)
<ul style="list-style-type: none"> <li>■ Firstly, on the <i>knowledge</i> front, “effective” directors need to have:               <ul style="list-style-type: none"> <li>– Relevant business operational experience</li> <li>– Where applicable, international experience</li> <li>– Understanding of the key roles of a board and “adheres to” the boundaries between Board and management</li> <li>– Good working knowledge of the company and its competitive environment (e.g., profitable and unprofitable businesses, quality of leadership bench)</li> </ul> </li>   <li>■ Secondly, on the <i>skill</i> front, “effective” directors need to <i>do</i> the following:               <ul style="list-style-type: none"> <li>– Actively and constructively challenge and problem-solve with the board and management team on key roles</li> <li>– Spend sufficient time on key roles (e.g., talent review, CEO succession planning, strategy development, risk management, performance management)</li> </ul> </li>   <li>■ Thirdly, on the <i>mindset</i> front, “effective” directors need to have:               <ul style="list-style-type: none"> <li>– Clear accountability to all shareholders,</li> <li>– Performance focus</li> </ul> </li> </ul>		



# TERMS OF REFERENCE



<b>Objective and rationale for revamping the sourcing for GLC directors</b>	<b>STRENGTHEN DIRECTOR CAPABILITIES</b>	
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## Outputs from this initiative

- Khazanah has launched a pilot scheme which identifies and screens Directors with the skills and requirements GLC Boards need.
- Learnings from this pilot will be used to assist GLCs in sourcing “effective” Directors. Complete codification of these learning is expected by the end of 2005, and will include:
  - Eligibility of director and screening criteria
  - Guidelines on developing a compelling director value proposition



# TERMS OF REFERENCE



<b>Pre-conditions for success and risks</b>	<b>STRENGTHEN DIRECTOR CAPABILITIES</b>	
	<b>Revamp sourcing for GLC directors</b>	<b>Number III.2.1.2</b>

## Prerequisites for success

- Understanding of key knowledge, skill and mindset needed for each GLC board
- Board willingness to expand pool beyond usual sources
- Coordination of newly identified candidates with board/director conditioning

## Risks

- Identified candidates have limited interest in participating in GLC Boards
- Lack of willingness of GLC Nomination Committee to utilize talent pool

**Illustrations from pilot for revamping sourcing for GLC directors**

**STRENGTHEN DIRECTOR CAPABILITIES**

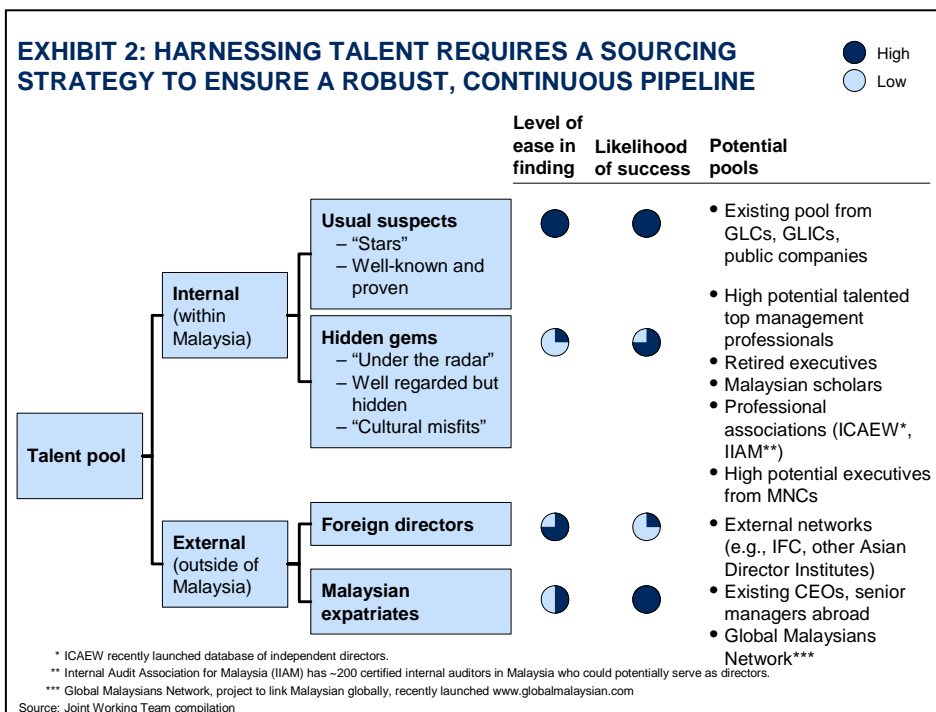
**Revamp sourcing for GLC directors**

**Number III.2.1.3 (a)**

**Illustrations from pilot**

■ Sourcing strategy and process

- Nomination Committee should make appointments based on merit and on the needs of the Board and the company’s present situation and future strategic direction. Committee is encouraged to examine international companies’ board profiles and to consider foreign directors and active CEOs of Malaysian companies
- Enlarge pool of potential directors by establishing, maintaining and leveraging a database of potential director candidates for GLCs (e.g., high-performing private sector directors, young and upcoming executives, GLC/private sector CEOs, international directors). This is not limited to talent pool in Malaysia, but also external markets, including both foreign directors and Malaysian expatriates. Malaysian talent pool, however, could hold ‘hidden gems’. An example of a robust sourcing strategy is shown in Exhibit 2



**Illustrations from pilot for revamping sourcing for GLC directors**

**STRENGTHEN DIRECTOR CAPABILITIES**

**Revamp sourcing for GLC directors**

**Number III.2.1.3 (b)**

- Sourcing strategy and process
  - In order to match ~200 directors needed today, a talent pool of >2,000 potential candidates, or >10 times of what is needed has to be screened
  - GLC Nomination committee should be involved in the process of screening director talent pool
  
- When assessing potential directors, eligibility and screening criteria should be followed:
  - Eligible GLC director should be technically competent with a strong sense of professionalism and integrity, able to foster and practice the highest standards of business within GLC
  - Screening criteria for GLC directors should include, but not be limited to: ability to add value, communicate clearly, take a wide perspective on issues, work in a team, possess organisational and strategic awareness
  
- A compelling GLC director ‘value proposition’ needs to be developed. It should cover all of the following aspects:
  - Personal satisfaction: Directors should be able to make an impact on the company. GLCs should highlight impact and role of Board in governing and leading performance of companies. GLCs should sponsor all Directors for training courses and provide access to individual coaches
  - Incentive driven: GLCs should remove ancillary benefits, but reset compensation to 50th percentile of regional peer group



# TERMS OF REFERENCE



<b>Key activities and next steps for revamping the sourcing for GLC directors</b>	<b>STRENGTHEN DIRECTOR CAPABILITIES</b>	
	<b>Revamp sourcing for GLC directors</b>	<b>Number III.2.1.4</b>

## Next steps for GLC Boards and/or GLICs

- Determine sourcing strategy
- Complete Director screening criteria and value proposition
- Syndicate skills requirements/criteria between GLC Boards/GLICs
- Develop systems/database as required
- Launch Director screening process

<b>Objective and rationale for establishing Director Academy</b>	<b>STRENGTHEN DIRECTORS CAPABILITIES</b>	
	<b>Establish Director Academy</b>	<b>Number III.2.2.1 (a)</b>

**Objective**

- Establish a Director Academy focused on equipping Boards of GLCs with directors who possess world-class knowledge, skills and mindsets. The Academy will help build and sustain a professional community of directors by providing world-class training and services. This Academy will become the top Malaysian platform for directors in terms of knowledge transfer, skill building, and best practice exchange. In addition, the Academy will also contribute filling the gap of “effective” directors across Malaysia through providing comprehensive training, conditioning and certification.

**Rationale**

- Interviews with GLC Chairmen and CEOs have identified key areas for development towards enhancing the effectiveness of Directors within boards. Primary areas for development include:
  - Understanding on role of director/board, boundaries between board and management, industry knowledge, company-specific information
  - Skills to actively and constructively problem solve and challenge management
  - Performance culture and management
  - Balancing of shareholder’s interests
- There are fundamental challenges in sourcing, development and performance management of directors that need to be tackled to close gap in number and quality of directors (Exhibit 1)
- While there are an increasing number of training programs of varying quality on areas such as fiduciary responsibilities, risk management, general roles of the board and director, and corporate governance, ongoing development of directors and boards are not sufficiently focused on building the softer skills (e.g., how to challenge constructively). Current programs are too “classroom” oriented and not tailored to specific company and board situations (Exhibit 2)



## Objective and rationale for establishing Director Academy

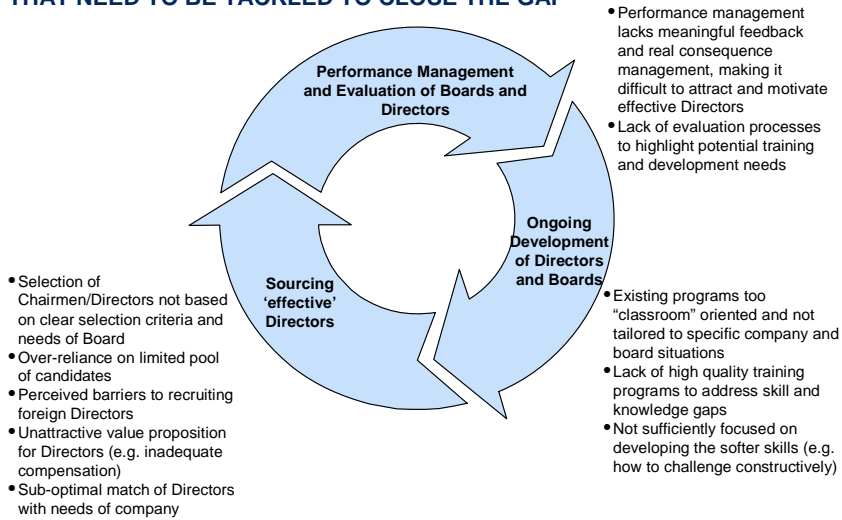
## STRENGTHEN DIRECTORS CAPABILITIES

**Establish Director Academy**

**Number III.2.2.1 (b)**

In addition, *Performance Management* of directors *should be improved*. *Effective feedback, rewards and consequences* is required

### EXHIBIT 1: THERE ARE FUNDAMENTAL BOTTLENECKS ACROSS CYCLE OF SOURCING, PERFORMANCE MANAGEMENT AND DEVELOPMENT THAT NEED TO BE TACKLED TO CLOSE THE GAP



Source: Joint Working Team compilation

### EXHIBIT 2: WHILE THERE ARE MANY DIRECTOR TRAINING PROGRAMS, THEY DO NOT SUFFICIENTLY MEET THE NEEDS OF DIRECTORS

	Challenges	Comments / Quotes
<b>Breadth and relevance issues</b>	<ul style="list-style-type: none"> <li>• <b>Lack of relevance</b> and depth</li> <li>• <b>Lack of focus on how to build softer skills</b> and over emphasis on fiduciary, compliance-related training</li> </ul>	<ul style="list-style-type: none"> <li>• "Programs are a waste of time. Not relevant to what I am doing" (Director and CEO)</li> <li>• "Based on assessing needs, know important to build "softer" skills on how to improve business performance...but currently out of Securities Commission mandate"(CEP training provider)</li> </ul>
<b>Quality-related issues</b>	<ul style="list-style-type: none"> <li>• <b>Varying levels of quality</b> and effectiveness of existing programs (e.g. too classroom oriented, not specific enough)</li> </ul>	<ul style="list-style-type: none"> <li>• "I left after half-day of a 2-day course because it was not meeting my expectations" (Director)</li> <li>• "ICLIF's GLDP helped me in my roles as CEO, director and personally" (GLC Executive Director)</li> <li>• "Quality of some technical courses, especially financial ones are useful given my legal background" (GLC Nominee Director)</li> <li>• "I flew to Hong Kong to attend "Finance for Non-Finance Directors" based on the quality of the facilitators and course content...[even though it is provided locally]" (GLC Nominee Director)</li> </ul>
<b>Target audience issues</b>	<ul style="list-style-type: none"> <li>• <b>Lack of programs tailored to experience-level</b> of directors (e.g. no programs for newly appointed Directors and experienced Directors)</li> </ul>	<ul style="list-style-type: none"> <li>• "MAP not sufficient to give me skills I need to be a director" (Potential Director)</li> <li>• "I run a company. What can they teach me that I don't already know" (Director and CEO)</li> </ul>
<b>Motivation issues</b>	<ul style="list-style-type: none"> <li>• <b>No incentives</b> or pressure for Directors to attend</li> </ul>	<ul style="list-style-type: none"> <li>• "Since CEP training requirements have been eliminated, attendance has already dropped by more than 50%" (CEP training provider)</li> <li>• "Most Directors only attend to earn required points...not really to learn or develop skills" (GLC Director)</li> </ul>

Source: Joint Working Team compilation



## TERMS OF REFERENCE



**Objective and rationale for establishing Director Academy**

**STRENGTHEN DIRECTORS CAPABILITIES**

**Establish Director Academy**

**Number III.2.2.1 (c)**

**Outputs from this initiative**

- Director Academy designed and set up. The Director Academy will focus on equipping Boards of GLCs with Directors who possess world-class knowledge, skills and mindsets
  
- The set up of the Director Academy will also include:
  - Recommended modules
  - Board and Directors for the Director Academy selected
  - Course materials developed and syndicated
  - Marketing and promotion strategy and approach

**Pre-conditions for success and risks**

**STRENGTHEN DIRECTORS  
CAPABILITIES**

**Establish Director  
Academy**

**Number  
III.2.2.2**

**Prerequisites for success**

- Leverage existing institutions and training programs
- Independent ownership to provide training/conditioning for all directors
- Do not make program mandatory but encourage voluntary participation through information sessions, workshops, etc.

**Risks**

- Lack of clear owner and accountability due to multiple institutions providing actual training
- Directors not able to attend the sessions due to time constraints
- Directors not willing to invest time and effort

**Key activities to be undertaken in establishing Director Academy**

**STRENGTHEN DIRECTORS CAPABILITIES**

**Establish Director Academy**

**Number  
III.2.2.3**

**Next steps for PCG**

- Design the Director Academy by Q3 2005
  - Agree on structure and key functions
  - Finalize organisational structure
  - Develop implementation plan
  - Syndicate concept with potential providers
  
- Business model and funding with options on who and how much to fund
  - Determine funding needs
  - Secure funding from GLICs/GLCs
  
- Recruitment of key personnel
  - Select Executive Director
  - Secure BOD, Committees
  - Recruit staff
  
- Form partnership with program providers
  - Finalize faculty and providers
  - Develop program modules with providers
  
- Marketing to ensure awareness
  - Develop marketing and communications plan
  - Recruit attendees
  
- Pilot development of module of 'on-the-job training and coaching' at GLC Boards
  
- Set up actual Director Academy in 2006
  - Secure office space
  - Finalize logistics

Illustrations of Director Academy design	STRENGTHEN DIRECTORS CAPABILITIES	
	Establish Director Academy	Number III.2.2.4 (a)

**Illustrations of Director Academy design**

- The Director Academy will focus on equipping Boards of GLCs with directors who possess world-class knowledge, skills and mindsets. Malaysia’s Director Academy is based on 9 key design principles (Exhibit 3)

**EXHIBIT 3: 9 KEY DESIGN PRINCIPLES OF ACADEMY**

- Primary customers: investors, particularly GLICs (focused on GLC directors)
- Contribute to learning through development of case studies
- Fully leverage and supplement existing providers – do not duplicate existing capabilities
- Emphasis on 'board-specific' on-the-job learning
- Efficient means of providing/sharing specific best practices among GLCs (e.g. talent management review, nominations committee processes)
- Practitioner-led (not academics or consultants)
- Set, monitor and manage to world class standards
- Non-mandatory and provided at subsidized fee
- Maintain separate, small, asset-light organization

Source: Joint Working Team compilation

**Illustrations of Director Academy design**

**STRENGTHEN DIRECTORS CAPABILITIES**

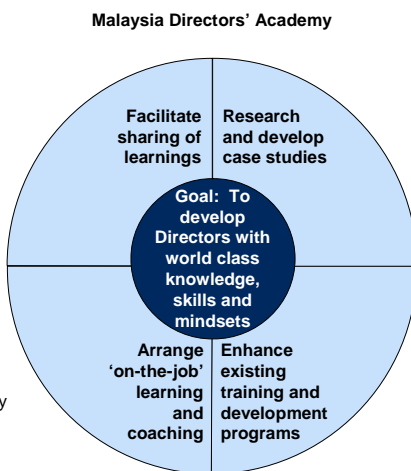
**Establish Director Academy**

**Number III.2.2.4 (b)**

- Director Academy will deliver 4 integrated functions (Exhibit 4) in a distinctive way –
  - Function 1: Facilitate sharing of learnings
  - Function 2: Research and develop Malaysia-specific case studies
  - Function 3: Arrange on-the-job learning and coaching
  - Function 4: Enhance existing training and development programs

**EXHIBIT 4: MALAYSIA DIRECTOR ACADEMY WILL FOCUS ON DEVELOPING DIRECTORS WITH WORLD CLASS KNOWLEDGE, SKILLS AND MINDSETS**

- Share learnings from various efforts initiated by different boards (e.g. Director performance management approaches)
- Arrange networking opportunities through workshops, seminars for critical new issues with expert practitioners
- Launch mentorship program for participants
- Build database of best practices for boards
- Tailor board-specific programs to meet needs of board using world-class experts
- Match experienced and highly respected coaches to boards as a coach to improve effectiveness

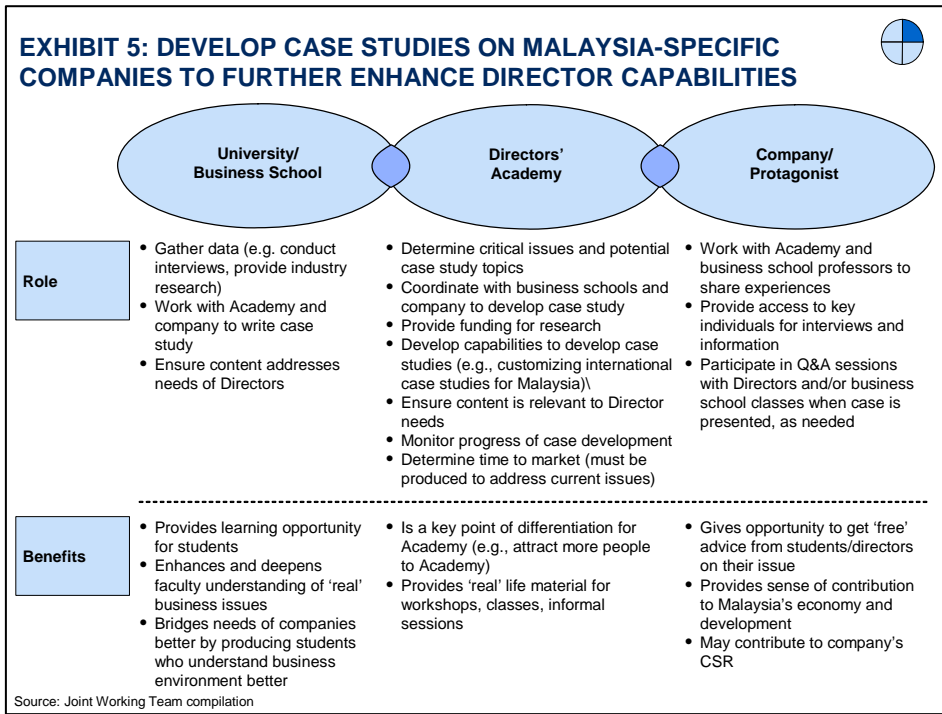


- Determine critical issues or topics for case study topics
- Coordinate with local business schools/univ. and companies to research and write case studies
- Organize discussions with protagonists
- Ensure content is relevant and on-topic given needs of Directors by providing input and monitoring process
- Anticipate learnings needs of Directors
- Prioritize, scope and source new programs
- Intensely monitor quality of programs and providers with clear consequences
- Collaborate with existing providers to enhance, expand and develop programs
- Market programs as they will not be mandatory

Source: Joint Working Team compilation

<b>Illustrations of Director Academy design</b>	<b>STRENGTHEN DIRECTORS CAPABILITIES</b>	
	<b>Establish Director Academy</b>	<b>Number III.2.2.4 (c)</b>

- On Function 2: Research and develop Malaysia-specific case studies: Work with business schools and universities to develop company case studies (or disguised cases if there are issues of confidentiality) and experiences to help directors/Boards know how to handle specific situations, such as managing relationships with Government Ministries, Regulators and controlling shareholders (Exhibit 5)



Illustrations of Director Academy design

STRENGTHEN DIRECTORS CAPABILITIES

Establish Director Academy

Number III.2.2.4 (d)

- On Function 3: Arrange on-the-job learning and coaching on building softer skills (Exhibit 6).
  - Tailor board-sponsored program to specific issues, timeline, and needs of board; then undertake the program in ‘small doses’ with the whole board over 12-18 months (e.g., improving audit committee effectiveness, how to review talent)
  - Recommend world’s best providers or experienced practitioners to facilitate critical board sessions and provide real-time feedback
  - Match experienced and highly respected coaches to boards as a player or coach

**EXHIBIT 6: ACADEMY WILL ARRANGE ON-THE-JOB LEARNING AND COACHING**

	Objective	Topics covered	Provider
<b>Company-specific workshops</b>	<ul style="list-style-type: none"> <li>• To provide on-the-job training on the "how-to" by actually doing the work with the Board</li> <li>• Tailored to company based on individual board issues, timelines, needs</li> </ul>	<ul style="list-style-type: none"> <li>• Topics will vary based on board needs but include:                             <ul style="list-style-type: none"> <li>– Developing corporate strategy</li> <li>– Managing talent and high potentials</li> <li>– CEO succession planning</li> <li>– Managing corporate performance and health</li> <li>– Risk management</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• World’s best experts, advisors, practitioners                             <ul style="list-style-type: none"> <li>– CEO Succession Planning (e.g. Egon Zehnder, Korn Ferry)</li> <li>– Understanding Leadership Bench (e.g. Katzenbach, Hay, McKinsey)</li> <li>– Strategy (e.g. BCG, McKinsey)</li> <li>– Managing performance against corporate health factors (e.g. PE firm like Clayton Dublier)</li> <li>– Managing Risk (e.g. Price Waterhouse, KPMG)</li> </ul> </li> </ul>
<b>Board / Chairmen coaches</b>	<ul style="list-style-type: none"> <li>• To observe and advise boards on how to be more effective by participating jointly in board meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Board processes</li> <li>• Role of the board</li> <li>• How to effectively challenge management</li> </ul>	<ul style="list-style-type: none"> <li>• Match experienced and highly respected coaches with boards (e.g. Malaysian ex-CEOs, directors, foreign directors, corporate governance experts, academics)</li> </ul>

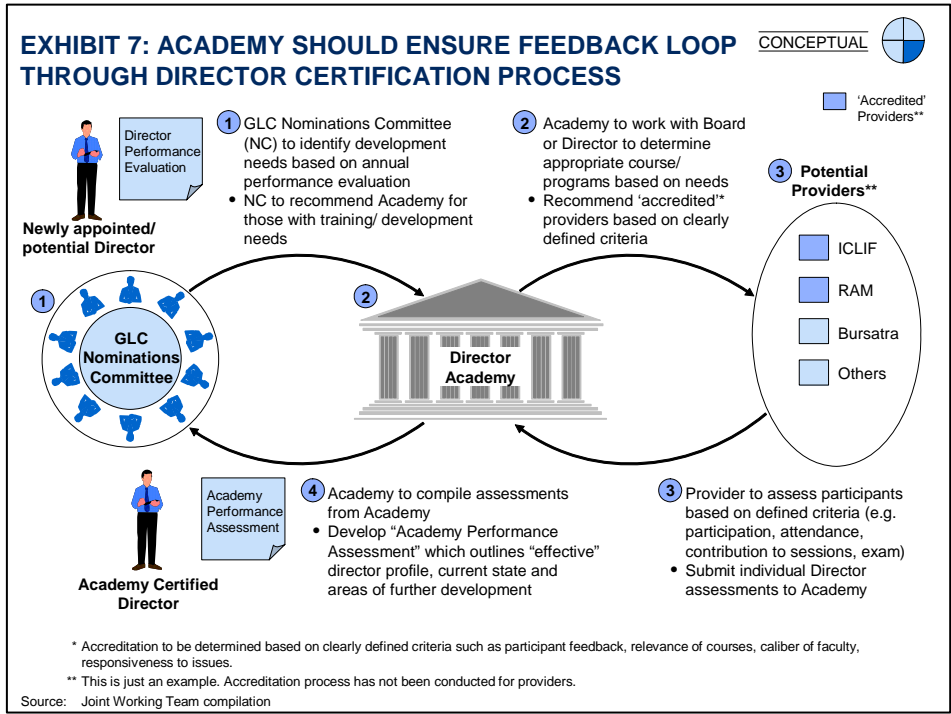
- Tailor programs to identified company-specific needs from Board evaluation
- Board to cover expenses for facilitators

Source: Joint Working Team compilation



Illustrations of Director Academy design	STRENGTHEN DIRECTORS CAPABILITIES	
	Establish Director Academy	Number III.2.2.4 (e)

- On Function 4: Enhance existing training and development programs: Leveraging and enhancing existing institutions to world-class standards while tailoring to the Malaysian context
  - Fully leverage existing programs that are adequately provided today, such as accounting, legal, general fiduciary, and compliance-related training
  - Continuously anticipate learning needs of Directors (based on feedback from Nomination Committees/directors, interviews with new directors, and selected major portfolio investors) and seek to provide for needs not currently being met
  - Prioritize, scope and source new programs from the right existing providers, as well as new providers
  - Promote programs, because most programs should not be mandatory
  - Ensure high quality of programs through setting clear standards, monitoring quality, based on participant feedback, and ensuring programs are world-class (i.e., allow market forces to create a pull for the programs)
  - Ensure feedback is provided throughout Director Certification process between GLC Nominations Committee, providers, Academy and Directors (Exhibit 7)



Illustrations of Director Academy design	STRENGTHEN DIRECTORS CAPABILITIES	
	Establish Director Academy	Number III.2.2.4 (f)

- The Director Academy should play a central coordination role among existing providers, local business schools and director community to provide for the needs of GLC Boards/directors (Exhibit 8). Facilitate and upgrade delivery of director training and forums, leveraging and enhancing existing institutions to world-class standards while tailoring to the Malaysian context

