TERMS OF REFERENCE

Objective and rationale for reporting Headline Performance Indicators and Economic Profit	INTENSIFY PERFORMANCE MANAGEMENT	
	Enhance market monitoring	Number III.9.2.1

Objective

- GLCs to report relevant Headline KPIs (e.g., revenue growth, Return on Equity or other profitability measures) and Economic Profit to the financial markets on a quarterly basis. It is recommended that this initiative is started immediately in order for it to be implemented in conjunction with the next quarterly reporting cycle.

Rationale

- Currently, GLCs announce/report company's performance on a regular basis but focus only on historical financial performance. Hence, the reporting methods do not communicate utilization of company's capital and company's projected future performance.

- Reporting Economic Profit and Headline Performance Indicators will increase transparency on both business performance and priorities of the GLCs. Improved transparency will make the GLCs more attractive from an investor perspective, leading to greater market confidence. Furthermore, it will increase accountability of the GLC CEO and other senior management members and is thus expected to further improve the performance of GLCs.

- In addition, it is considered 'best practice' financial reporting to report Headline KPIs and to focus on Economic Profit (a concept that is being used by an increasing number of Malaysian companies).

- Finally, it will build GLC capabilities to self-assess performance and to set realistic targets for their portfolio companies.

Expected output from this initiative

- Headline KPIs and Economic Profit to be reported by all GLCs on a quarterly basis

- Increased market value of GLCs (market confidence in GLCs expected to improve because of increased transparency in business performance and priorities)

Prerequisites for success and risks	INTENSIFY PERFORMANCE MANAGEMENT	
	Enhance market monitoring	Number III.9.2.2

Prerequisites for success

- Appropriate skills within the GLCs to self-assess and report on company's performance
- Reporting to be consistent and on a quarterly basis
- Reporting to be made public to create pressure for implementation of initiative on GLCs

Risks

- Limited capabilities in GLCs to implement initiative
- Data reported inaccurate due to inconsistency in assessment methods

Key activities and next steps	INTENSIFY PERFORMANCE MANAGEMENT	
	Enhance market monitoring	Number III.9.2.3

Next steps and key activities to be undertaken by PCG to complete the initiative

- PCG to draft Guidelines for GLCs
  - GLCs should start reporting their Headline Performance Indicators and Economic Profit no later than by the end of 2005
  - Reporting should happen on a quarterly basis in conjunction with the publishing of quarterly results

- PCG Secretariat to follow-up on status of implementation in the GLCs
  - Ensure that GLCs can direct potential questions to the PCG Secretariat for clarification
  - Follow-up on progress well in advance of deadline (i.e., Secretariat to follow-up in September, 2005) by contacting the GLCs

TERMS OF REFERENCE

Objective, rationale and expected output when tightening CEO KPIs	INTENSIFY PERFORMANCE MANAGEMENT	
	Tighten CEO KPIs	Number III.9.3.1

Objective

- Strengthen performance management by focusing on the CEO and other senior management members, based on the Guidelines in the 2005 version of the "Blue Book".
- This entails tightening the "personal KPIs" and Performance Linked Compensation (PLC) schemes for the CEO and senior management members with the appropriate consequence management (i.e., rewards and consequences) put in place.

Rationale

- Performance management is a key lever for corporate performance and implementation of all performance management systems should start with the CEO and other senior managers.
- GLCs have been moving toward improving performance management since the 2004 when the KPI/PLC initiative was codified in the "Blue Book".
- However, a recent audit in some of the major GLCs has shown that the quality of implementation of the 2004 KPI/PLC is inconsistent across GLCs, in particular in terms of linking personal KPIs with corporate strategy and value creation plans, and of formalising CEO contracts including personal KPIs. Hence, there is a need to standardise the performance management systems in all GLCs.

Expected output from this initiative

- Guidelines for GLCs to:
  - ➢ Establish process to review individual performance of senior management. CEO and top management evaluated according to their contribution to value creation
  - ➢ Define appropriate compensation system for senior management according to their performance
  - ➢ Set-up programs focused on training the board in the two pilot GLCs on how to use KPIs linked to value creation and ensure quality of performance management system

Prerequisites for success when tightening CEO KPIs	INTENSIFY PERFORMANCE MANAGEMENT	
	Tighten CEO KPIs	Number III.9.3.2

Prerequisites for success

- Must be driven by Chairman and CEO, with support from Board members of pilot GLCs
- Full access for initiative working team to existing KPIs, evaluation and compensation information for CEO and Top Management in the pilot GLCs

Risks

- Top management of pilot GLCs are reluctant to grant the working team access to key documents, such as the CEO contract and PLC scheme.
- Lack of buy-in from board to review current performance management system, e.g., board reluctant/unwilling to review current CEO contract and/or PLC scheme

Objective and rationale for tightening CEO KPIs	INTENSIFY PERFORMANCE MANAGEMENT	
	Tighten CEO KPIs	Number III.9.3.3

Key activities to be undertaken by PCG to complete initiative

- Determine pilot candidate

- This pilot will provide valuable learnings for the implementation of similar systems in other GLCs and will ultimately improve the performance of the pilot GLCs through an increased focus on the most important business priorities

- Within the pilot the following activities should be undertaken:
  - Understand existing performance management system focusing on the CEO and senior management in the pilot GLCs
    - Review existing KPIs for CEO and senior management
    - Understand current PLC scheme
    - Review current people review process (including rating of managers, feedback discussions and system for rewards and consequences)
  - Design new performance management system covering the CEO and other senior management members
    - Based on value creation levers and strategy identify gap between existing KPIs and company's value creation plan
    - Revise current CEO contract with the Board in order to tighten it and link CEO KPIs to corporate value creation
    - Initiate process to cascade down to Top Management KPIs, including PLC scheme design
    - Design/revise people review system (e.g., participants, frequency, format etc.)
  - Train board members
    - Conduct workshop with board to:
      - Share conclusions of the diagnosis and suggested changes in KPIs, PLC scheme, and people review processes
      - Elaborate on benefits from good performance management systems based on best practice case examples
  - Codify learnings from the implementation in the Transformation Manual

- It is important to note that this initiative should not prevent any non-pilot GLCs from taking the necessary steps to improve or develop their own performance management system consistent with the Guidelines in the "Blue Book" Version 2.0 (per III.9.1)

TERMS OF REFERENCE

Objectives, rationale, key initiative outputs and preconditions for success	INTENSIFY PERFORMANCE MANAGEMENT	
	Manage non-performers	Card number III.9.4.1

Objective

- The objective of this initiative is twofold:
  - Develop best practices and case examples on how to manage low- and/or non-performers including identifying root causes for low performance, providing training, deployment, and potentially termination.
  - Clarifying the current labour laws for the benefit of all GLCs, in particular to better understand the existing labour laws and required processes in managing low- and non-performers

Rationale

- The presence of low- or non-performers in organisations can negatively impact its overall morale, culture, and ultimately performance. First, low- or non-performing managers are unable to develop, attract or retain high performers. Second, it signals to average and high performers that low- and non-performance is acceptable, thereby undermining the development of performance cultures
- Termination of such low- or non-performers should not be the first, or only answer:
  - Training should be provided where the root cause of poor performance is the lack of skills/capabilities
  - Where training is insufficient, then low- or non-performers should be considered for re-deployment but only where another better-matching opportunity exists
  - However, where neither of the above apply, then termination should be considered.

Expected outputs from this initiative

- Guidelines, best practices, and case examples on managing low-and non performers, including a report on current Malaysian labour laws on legal circumstances, processes and framework under which low-and non-performers can be fairly terminated

Prerequisites for success

- Strong drive from CEO of GLC and top management, including buy-in from HR
- GLCs’ willingness to begin and continue execution momentum

Risks

- Corporate culture in GLCs resistant to developing a performance culture
- Public backlash against the termination of employees

Objective and rationale for implementing EVA	INTENSIFY PERFORMANCE MANAGEMENT	
	Implement EVA	Number III.9.5.1

Objective

- The objective of this initiative is to implement Economic Value Added/Value-Based management (EVA/VBM) at GLCs to improve the management processes and systems in order to help manage the main value drivers of the company:
  - It is a system that attempts to improve company performance by focusing the attention of managers at all levels of the organisation on how their decisions affect shareholder value
  - Since shareholder value can be approximated by Discounted Cash Flow (DCF) value analysis, EVA/VBM attempts to instil skills and processes that lead GLC managers to make decisions which maximize the company's DCF value rather than the usual accounting-based measures

- This initiative will help the GLCs to develop a stronger emphasis on value creation within corporate culture. In the longer term it will help improve both the health and performance of GLCs – supporting the "Intensifying Performance Management" effort

- Establish centre of excellence that can give the adequate support to other GLCs on the implementation of similar processes

Rationale

- EVA/VBM broadens the capabilities of operating managers to include long-term balance sheet factors in decision making and can significantly improve dialogue across an organisation
  - DCF and Return On Invested Capital (ROIC) are the foundation of Value-Based Management, based on the premise that a core objective of any corporation is to maximize shareholder value
  - Although DCF is generally accepted as the best way of making investment decisions, it is not universally used, especially in GLCs. The use of DCF and ROIC for all management decisions including strategy evaluation, divestitures, and new product introductions is an integral part of EVA/VBM

- In many GLCs the management processes and systems to set strategy and business targets can be improved. The lack of optimal systems often leads to poor visibility in the key drivers of the companies' performance and therefore there is often a low emphasis on value creation in GLCs

Expected output, pre-conditions for success and Risks of implementing EVA	INTENSIFY PERFORMANCE MANAGEMENT	
	Implement EVA	Number III.9.5.2

Expected output from this initiative

- Implementation of the initiative at a pilot GLC:
  - Increased focus on value creation
  - Enhanced visibility of GLC's performance
  - Improved financial performance
  - Codified learnings to be included in the Transformation Manual and leveraged by other GLCs
- Learnings from pilot codified for dissemination to other GLCs

Prerequisites for success

- Other GLCs properly leveraged learnings which must be adequately codified
- Achieve right level of complexity as there is a danger in going too deep in several dimensions and becoming unable to work the necessary links between all the value-creation levers identified (particularly on cross-unit activities)

Risks

- EVA/VBM efforts are slowed down due to complicated nature of the business structure of some GLCs (multiple business units with different core businesses)
- Tendency to lose priority over other business activities due to requirement for heavy involvement of many managers

Key activities and next steps to implement EVA across GLCs	INTENSIFY PERFORMANCE MANAGEMENT	
	Implement EVA	Number III.9.5.3

Key activities to be undertaken by to complete the initiative

This process will be initiated with a pilot

- Codify key learnings from EVA/VBM implementation at selected GLC by Q2 06

- Leverage learnings to ease implementation of EVA/VBM in other GLCs (where relevant) and feedback experience into codified material to ensure the creation of a centre of excellence

- Selected GLC to engage external help to support EVA/VBM implementation and transfer needed skills

- Assessment of current management processes and systems and strategy
  - Understand current management processes and systems
  - Understand current strategy
  - Clarify gaps in current management processes and systems
  - Revise current strategies and develop action plans

- Complete design of EVA/VBM
  - Develop organisational blueprint for relevant business unit(s)
  - Launch EVA/VBM in relevant business unit(s)

- PCG to ensure codification of EVA/VBM learnings including
  - Implementation plan
  - Pitfalls
  - Procedures in policy paper
  - Rough estimate of budget
  - Benefits from implementation

Key success factors for successful implementation of EVA	INTENSIFY PERFORMANCE MANAGEMENT	
	Implement EVA	Number III.9.5.4

- **Go beyond the usual process**
  - Combine financial perspective, for example Return on capital employed (ROCE) with analysis of strategic issues
  - Bring in the business perspective through focus on core processes
  - Start top-down to set the stage for discussion

- **Address the dilemma between focus and completeness**
  - Select value drivers in each year as the basis for agreement of targets
  - Monitor all value drivers through a comprehensive reporting system

- **Bring in the business perspective**
  - Understand front-line business perspective through discussion with centre managers
  - Involve key personnel

- **Secure impact through consequent incentive design**
  - Ensure EVA/VBM impact through tailor-made incentive system, e.g.,
    - Higher variability of pay
    - Focus on few targets
    - Non-financial incentives
  - Create transparency of individual performance

- **Control complexity through constant prioritizing**
  - Concentrate on core processes
  - Limit
    - value drivers per process
    - value drivers per centre
    - criteria per value driver