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Lembaga Tabung Haji

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Malaysian Airline System Berhad

Malaysian Employers Federation

Malaysian Franchise Association

McKinsey & Company

Ministry of Entrepreneur and Co-Operative Development

Ministry of Finance

Ministry of Human Resource

Perbadanan Nasional Berhad

Petroliam Nasional Berhad

POS Malaysia and Services Holdings Berhad

PricewaterhouseCoopers

Prime Minister's Office

Sime Darby Berhad

Telekom Malaysia Berhad

Tenaga Nasional Berhad

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TABLE OF CONTENTS

PREFACE

The GLC Transformation Manual launched on 29 July 2005 by the Putrajaya Committee on GLC High Performance (PCG) establishes a framework to guide Government-Linked Companies (GLCs) in their transformation efforts. Policy Thrust 4 of the GLC Transformation Manual advocates the adoption of corporate best practices at GLCs, which include amongst others, the enhancement of overall operational efficiency/effectiveness as captured under Initiative 10 of the GLC Transformation programme. This is aligned to the three underlying principles of the GLC Transformation (GLCT) programme, namely to support the national development agenda, to create economic and shareholder value through improved performance at GLCs, and for GLCs to implement the GLCT programme through their Board of Directors in line with the principle of good governance.

The objective of Initiative 10 is to encourage the adoption of best practices via the implementation of a Framework for Continuous Improvement (Framework) at GLCs. Initiative 10 will be implemented via a series of Workshops, Seminars and Roundtable sessions (the Programme) facilitated by experienced industry practitioners and is intended to serve as a forum to institutionalise the Framework at GLCs. In instances where GLCs have some form of framework for operational enhancement that is producing tangible results in place, the proposed Framework can serve to complement (where applicable) the existing processes and reporting systems.

The purpose of this document is to serve as reference material for the Programme (Reference Document) to support the proposed Framework which is based on an approach referred to as "the 3Es for Operational Excellence" – Evaluation, Efficiency and Execution. The 3Es approach is described in more detail in Section 2 of the Reference Document. The focus of the Reference Document is intended to set out a structured approach for GLCs to identify opportunities for enhancing operational efficiency/effectiveness and to ensure this approach is institutionalised at GLCs.

Example options and case studies for improving the performance of core and non-core activities are provided in Sections 3 and 4 of this Reference Document. However it should be noted that there is an extensive body of published research and reference materials from industry practitioners and academicians that GLCs can refer to when evaluating or implementing these options. This document is therefore by no means intended to be an exhaustive guide on the topics relating to continuous improvement and operational enhancement.

The Reference Document was developed using substantial research and input from key stakeholders, including government ministries, selected Government-Linked Investment Companies (GLICs) and GLCs as well as subject matter experts, both within and outside Malaysia.

In implementing the Framework, GLCs should consider the relationships between this Initiative and other GLC Transformation initiatives, and their corresponding synergies and implications. As prescribed in the Blue Book on Performance Management, operational improvement targets are to be cascaded as Key Performance Indicators (KPIs) to relevant business units and captured in the Performance Management system. Similarly, the Red Book's procurement related targets (for example, improving procurement cycle time) should also be viewed together with internal operational improvement initiatives as laid out in Section 3.

Rationalisation of assets and investments/holdings to improve asset productivity are complementary to guidelines in the Purple Book[1] which focuses on the optimisation of capital management practices at GLCs. Also, when considering options to manage investments/holdings or assets for purposes of social contributions, GLCs should refer to the Silver Book. Efforts to optimise operational efficiency/effectiveness also bear impact on enhancing shareholder value and can be measured by economic profitability which is aligned to the principles to be advocated in the Value Based Management (VBM) Programme[1]. In implementing operational improvement initiatives as set out in this Reference Document, GLCs should also develop a framework to identify and manage talent at GLCs as prescribed in the Orange Book[1].

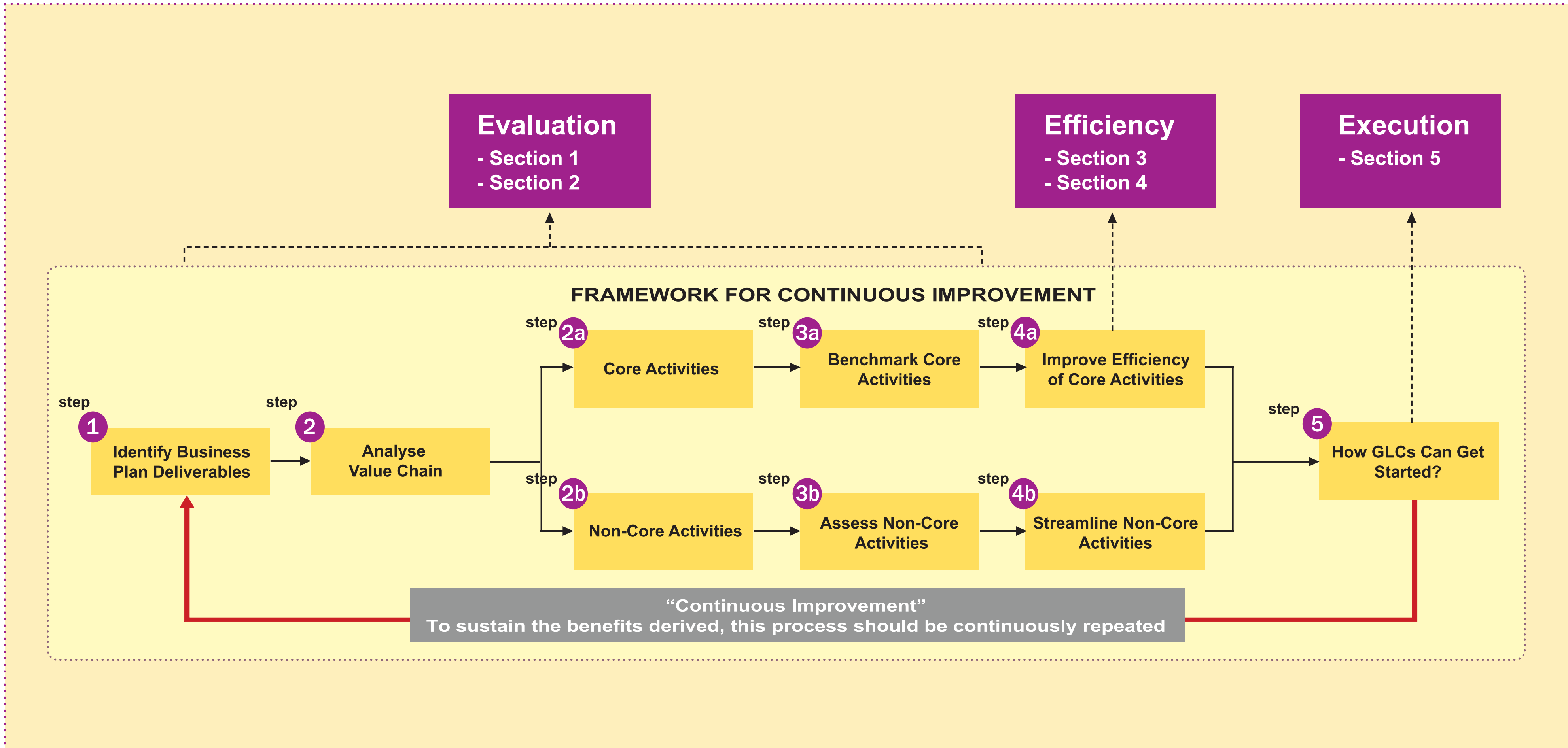
The main emphasis of this Initiative 10 is grounded on the principle of continuous improvement; that GLCs must inculcate this mindset of continuous improvement in its day-to-day operations and relentlessly focus on enhancing productivity of its labour and capital to attain continuous and sustainable operational efficiency/effectiveness.

1 *The Purple Book, VBM Programme and Orange Book are due to be launched by end 2006.*

HOW TO FIND WHAT YOU NEED IN THIS REFERENCE DOCUMENT

It is recognised that there are many ways for GLCs to strive to achieve operational excellence. Given the different industries and operating environment under which GLCs undertake their activities, a structured Framework for Continuous Improvement (illustrated below) serves as a guide to assist GLCs to evaluate, select and execute initiatives to enhance operational efficiency/effectiveness.

While each section of this Reference Document can be read independently, we recommend that you read the whole document.



SECTION 1

WHY CONTINUOUS IMPROVEMENT?

SECTION 1: WHY CONTINUOUS IMPROVEMENT?

Why is continuous improvement necessary for GLCs?

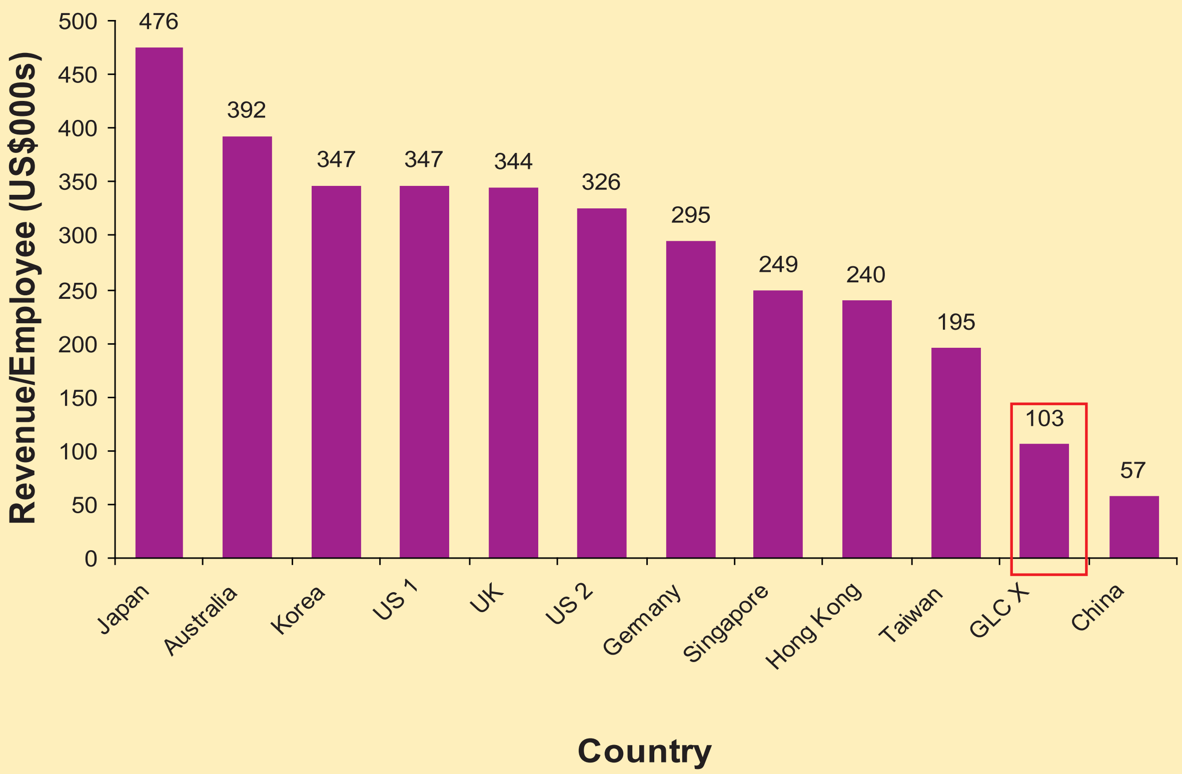
Operating performance of GLCs continues to lag on many fronts.

- Performance of GLCs continues to lag that of their domestic counterparts (i.e. non-GLCs):
  - Poorer return on equity (ROE) – GLCs on average generate ROE of 11.3% vs 13.7% for non-GLCs[2];
  - Lower productivity – GLCs profit per employee averaged RM109,000 compared to RM127,000 for non-GLCs[3];

- Performance of GLCs continues to lag that of their global industry peers. Refer to Exhibit 1 below.

EXHIBIT 1

REVENUE/EMPLOYEE – BENCHMARKING OF A MALAYSIAN GLC WITH ITS PEERS IN A SIMILAR INDUSTRY



Source: PCG Analysis (2005 Data)

2 & 3 *Based on 2004 financial results for KLCI 100 companies*

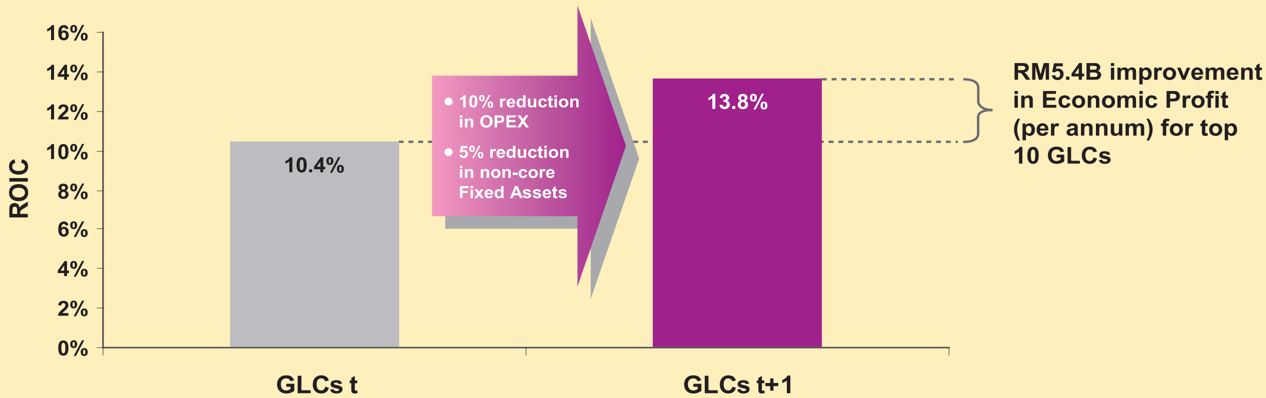
Operational improvement will deliver significant financial benefits

Benchmarking of typical cost savings achieved by companies implementing operational improvement initiatives suggest that GLCs could potentially reduce operational expenditure (OPEX) by up to 20-30% per annum.

Based on financial data for the 10 largest GLCs (by invested capital), a conservative 10% reduction in OPEX (excluding impact of procurement related savings set out in the Red Book) coupled with an assumed 5% reduction in non-core fixed assets would translate into a 3.4% improvement in their Return on Invested Capital (ROIC) which would in turn positively impact Economic Profit. Refer to Exhibit 2 for further details.

EXHIBIT 2

FINANCIAL IMPACT OF OPERATIONAL IMPROVEMENT INITIATIVES



A reduction of OPEX by 10% and Fixed Assets by 5% for 10 largest GLCs, can potentially result in a 3.4% improvement in ROIC and an increase in Economic Profit of RM5.4 billion per annum[1].

Note 1 - This analysis excludes the enhancement of revenue streams from operational improvements

Source: PCG Analysis

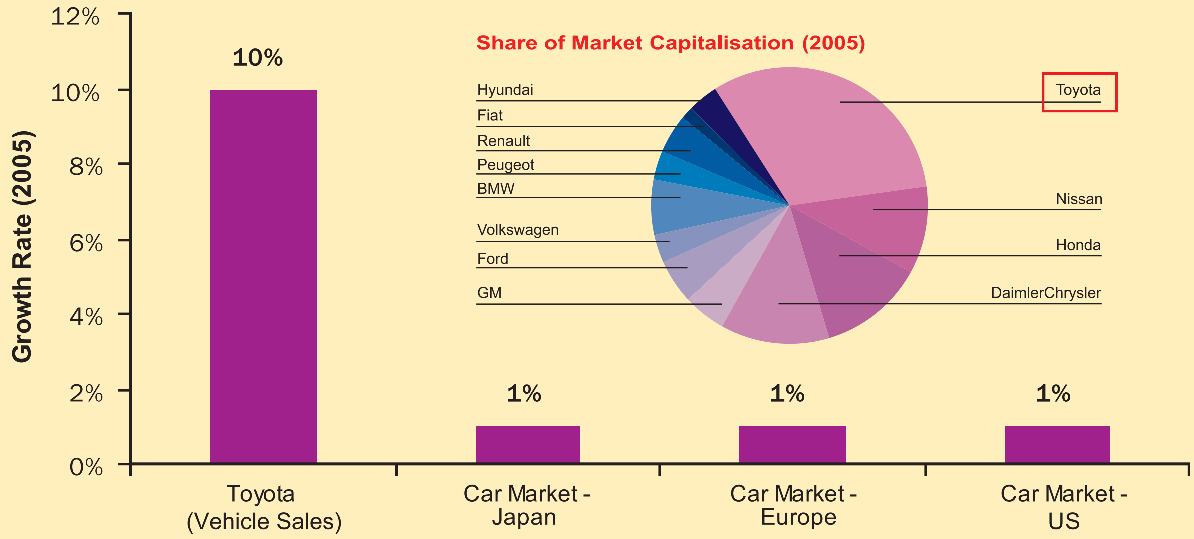
Improving operational efficiency is not a "one-off" measure

Leading global companies, such as General Electric, Toyota, and Citibank, have achieved significant growth in revenue and profitability over a long period by instilling a mindset of continuous improvement in their organisations.

One of the early pioneers of continuous improvement, Toyota continues to lead the automotive industry as a result of its ongoing commitment to the concept. More than 40 years after the introduction of its *Kaizen* (perpetual improvement), the company is still gaining market share worldwide and outperforming its global competitors. Refer to Exhibit 3 for details.

EXHIBIT 3

THRIVING ON CONTINUOUS IMPROVEMENT



Source: UBS Wealth Management Research 2005

In these leading organisations, the pursuit of operational improvement is not carried out on a "one-off" basis, but on a continual basis to drive costs down and deliver benefits to their customers.

In Malaysia, PETRONAS serves as a prime example of an organisation that has embraced a culture of continuous improvement. Refer to Exhibit 4 below.

EXHIBIT 4

OPERATIONAL IMPROVEMENT IS NOT A ONE-OFF EVENT AT PETRONAS

PETRONAS

Operational efficiency and reliability have long been a focus of PETRONAS, and has become one of the key drivers of the company's success. PETRONAS' revenue and net profit for the Financial Year ended 31 March 2006 rose 22% compared to the previous period, standing at RM167 billion and RM44 billion respectively.

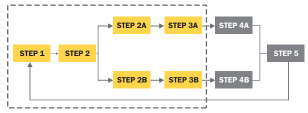
While the initial temptation may be to attribute this increase to the stronger crude oil prices, in reality other aspects of PETRONAS' operations such as operational efficiency also have a role to play. As PETRONAS President and CEO, Tan Sri Dato Sri Mohd Hassan Marican remarked, "*if the reliability of your plants is down, you cannot fully capitalise on the high price. This year our gas plants and liquefied natural gas (LNG) plants were working at close to 99% reliability rate and the contribution from this reliability factor is quite high.*"

PETRONAS **continues to emphasise on improvement in operational efficiency** through regular benchmarking and use of technology and innovative processes in both its upstream and downstream operations to position itself among the top quartile performers.

Source: The Edge Malaysia, 3 July 2006 and PETRONAS Financial Highlights, June 2006

SECTION 2

ASSESSING GLCs' STARTING POSITION



SECTION 2: ASSESSING GLCs' STARTING POSITION

Framework for Continuous Improvement

Enhancing operational efficiency/effectiveness at a GLC will not only improve revenue and cost efficiency, but also allow a GLC to allocate more resources and capital to higher value-adding activities.

The proposed Framework is based on a structured approach referred to as "the 3Es for Operational Excellence" – Evaluation, Efficiency and Execution.

1. **Evaluation** – *This stage involves the development of a systematic and structured approach to identify opportunities for operational enhancement. This includes identifying clear Business Plan deliverables, mapping and analysing the GLC's value chain to identify core/non-core activities and benchmarking those core activities to identify gaps (revenue, cost, productivity, asset utilisation etc). For non-core activities/assets, data collection and analysis will be required to support activities in the second stage.*

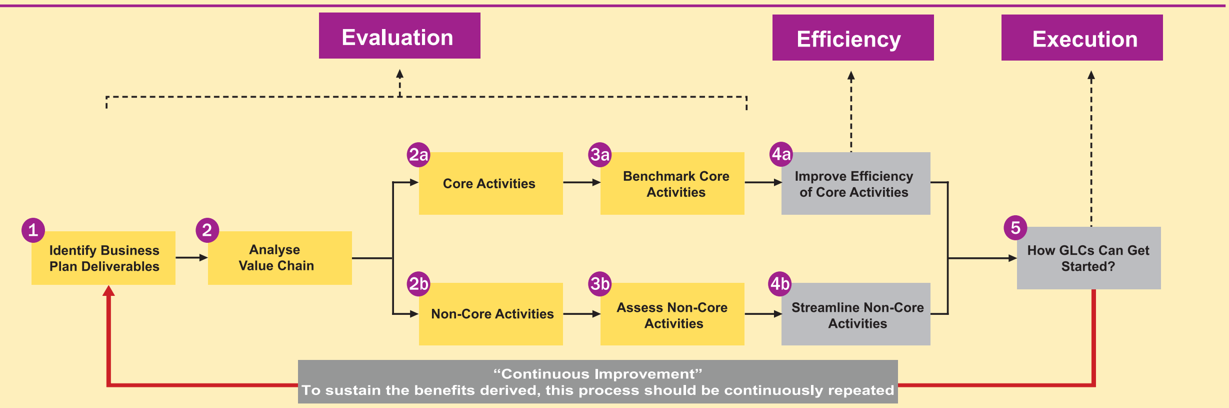
2. **Efficiency** – *Based on analysis and data from the Evaluation stage, GLCs can assess and select option(s) to enhance efficiency/effectiveness of core activities. For non-core activities, various options that will improve efficiency/effectiveness of capital and resource allocation are to be considered.*

3. **Execution** – *Having evaluated options for improving the efficiency/effectiveness of operations, an implementation plan with quantified deliverables, timelines and responsibilities matrix should be developed. Progress of these initiatives need to be tracked, measured and reported to the Board on a quarterly basis by Management.*

This 3Es approach consists of five key steps as outlined in the exhibit below:

EXHIBIT 5

SUMMARY OF FIVE-STEP APPROACH TO ENHANCE OPERATIONAL EFFICIENCY



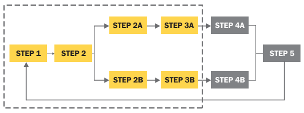
Key Deliverables

- Review Business Plan - strategic direction, target segments, product portfolio, critical success factors etc.
- Map out key activities currently undertaken by the GLC along the value chain
- Identitfy 'Core' and 'Non-Core' activities
- Benchmark to identify 'gaps' for improvement (for Core acitvities)
- Data Collection and analysis for Non-Core activities and assets

- Identify options to enhance efficiency of operations (Core)
- Identify options to streamline assets and investments/holdings (Non-Core)

- Appoint Project Champion
- Formalise implementation plan
- Deliverables, timelines and responsibilities
- Tracking and reporting

Source: PCG Analysis



Section 2 of this Reference Document will focus on Steps 1 to 3, while Steps 4a and 4b will be covered in Section 3 and Section 4 respectively. Section 5 will outline the immediate action steps that GLCs will have to undertake to get started.

This 3Es approach to operational improvement can be used as a framework by GLCs in times of stable state environment as well as in their turnaround/transformation programmes.

Identifying areas for improvement

In identifying areas for operational improvement, there are four key areas that GLCs should focus on:

1. The revenue derived from operational improvement activities (e.g. identifying/removing revenue leakages).

2. The cost and quality of operational improvement activities (e.g. by re-engineering processes within the activity).

3. The efficient use of fixed assets such as Property, Plant and Equipment (PP&E) related to the activities (e.g. by a sale/leaseback arrangement).

4. The optimisation of investments/holdings structure to support the operational improvement activities.

Another useful methodology for identifying areas for improvement is the DuPont analysis which seeks to assess a company's Return on Assets as a function of its net profit margin and the efficiency of its asset base (or Asset Turnover). This is a useful methodology that will assist a GLC in measuring:

1. The effectiveness with which assets are being used to produce Revenue and to identify opportunities to improve Net Profit Margin by reducing costs items (examples of which include Logistics, Administrative or Interest expense).

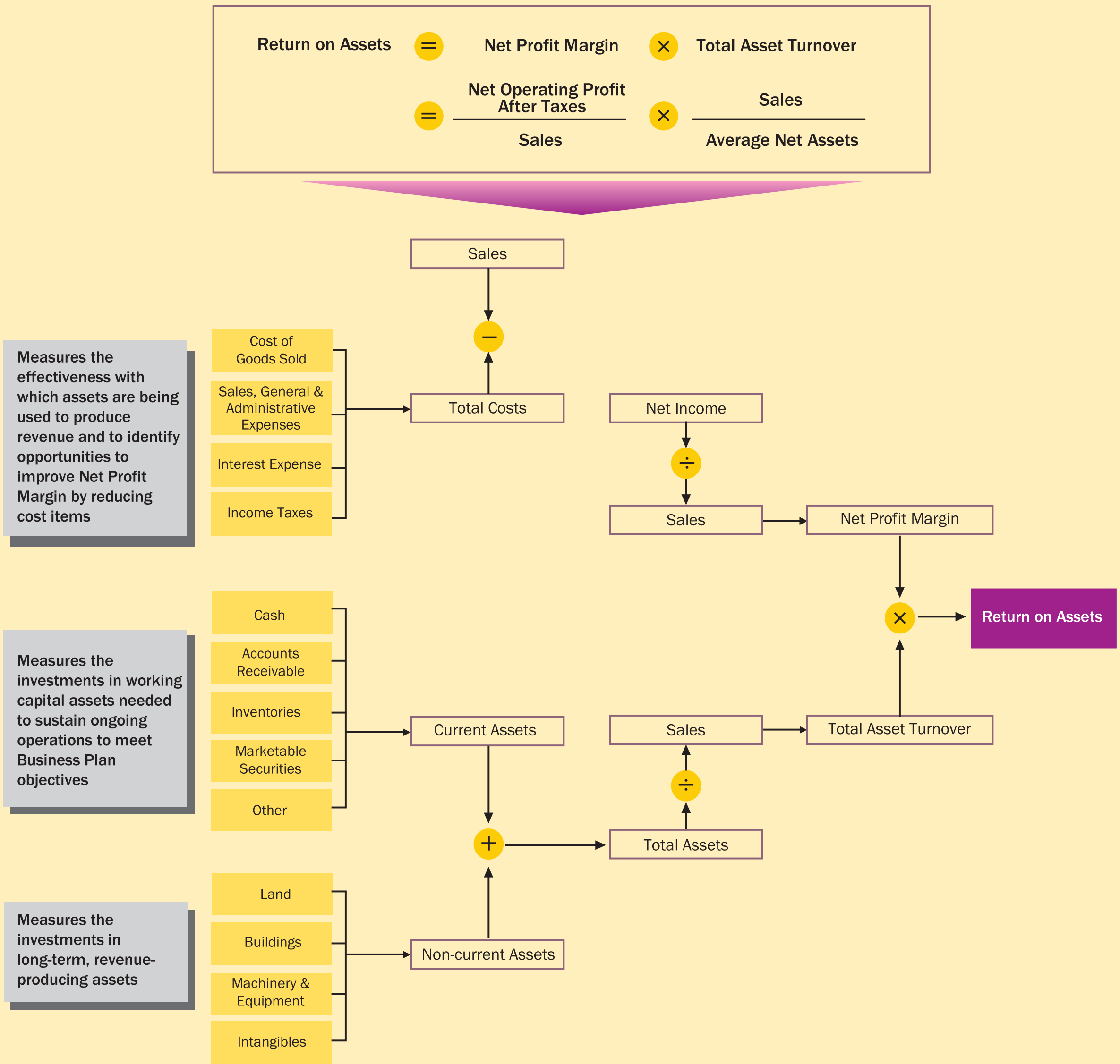
2. The efficiency of working capital assets needed to sustain ongoing operations to meet Business Plan objectives (examples of which include Inventory/Stock and Accounts Receivable).

3. The efficiency of investments in long term assets to generate revenue (examples of which include Land, Buildings and Machinery).

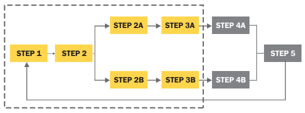
Exhibit 6 below seeks to decompose the DuPont model to illustrate this approach in identifying areas for improvement.

EXHIBIT 6

THE DUPONT MODEL



Source: PCG Analysis

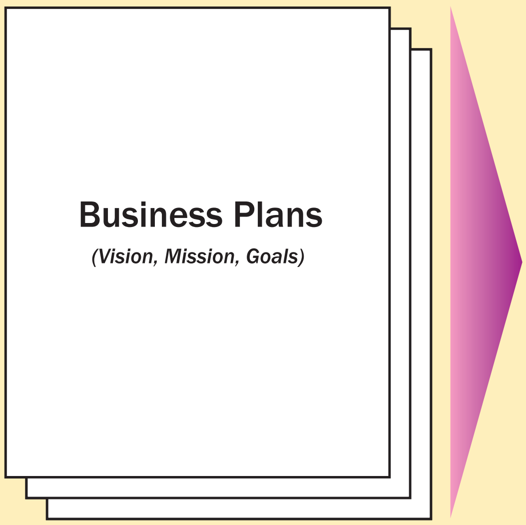


Step 1 – Identify Business Plan Deliverables

As Business Plans serve as the reference to drive the direction an organisation takes, they form the basis and the starting position for launching operational improvement initiatives. Affirming the Business Plan and direction will help GLCs clarify and focus on the actions required to achieve their targets.

EXHIBIT 7

REVIEW BUSINESS DIRECTION



Illustrative questions to be addressed

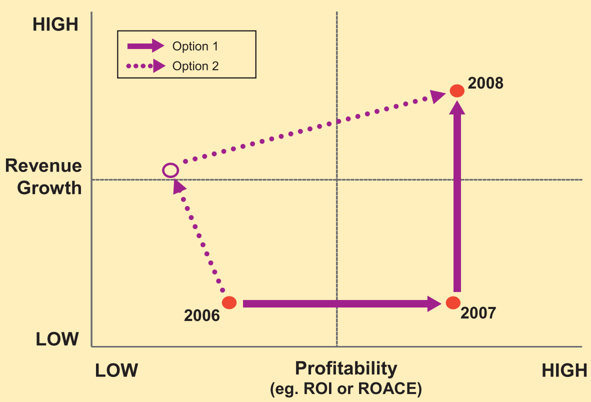
- What is our vision, mission and strategic direction?
- Who are we targeting – customer segments/geography?
- What are we delivering to them – products/services?
- What are the critical success factors to meet shareholder's return, revenue and cost reduction targets?
- What are the potential opportunities and challenges?
- Who are our stakeholders?
- Does the Business Plan identify any businesses that are unrelated or non-core?
- Are the assumptions underpinning the Business Plan realistic - growth, penetration, benchmarks etc?

Source: PCG Analysis

In identifying Business Plan deliverables, it is critical that GLCs determine Business Plan objectives and ensure that any strategic considerations on potential 'trade-offs' are identified upfront. This is critical to ensure that options for enhancing operational efficiency/effectiveness will reinforce the Business Plan objectives. Exhibit 8 below provides a example of the approaches evaluated at a GLC prior to embarking on its transformation programme.

EXHIBIT 8

CASE STUDY - STRATEGIC CONSIDERATION ON POTENTIAL 'TRADE-OFFS'



As part of its Business Plan review exercise, this GLC identified capability and resource constraints in targeting both Growth and Profitability (Option 2). Its Economic Profit was already negative and Profitability was lagging - therefore there was a significant risk of 'back pedaling' in terms of Profitability. The GLC decided that focus in 2006 would be on profitability (as opposed to Revenue Growth) as illustrated by Option 1. Following this, its operational enhancement initiatives were targeted at supporting this objective.

Source: PCG Analysis

The outcome of the Business Plan review serves as an input to the value chain analysis in Step 2.

Step 2 – Analyse Value Chain

Using the results of Step 1, GLCs can then analyse their value chain to identify which activities are critical to support its business direction. The value chain analysis (VCA) will typically involve the following considerations:

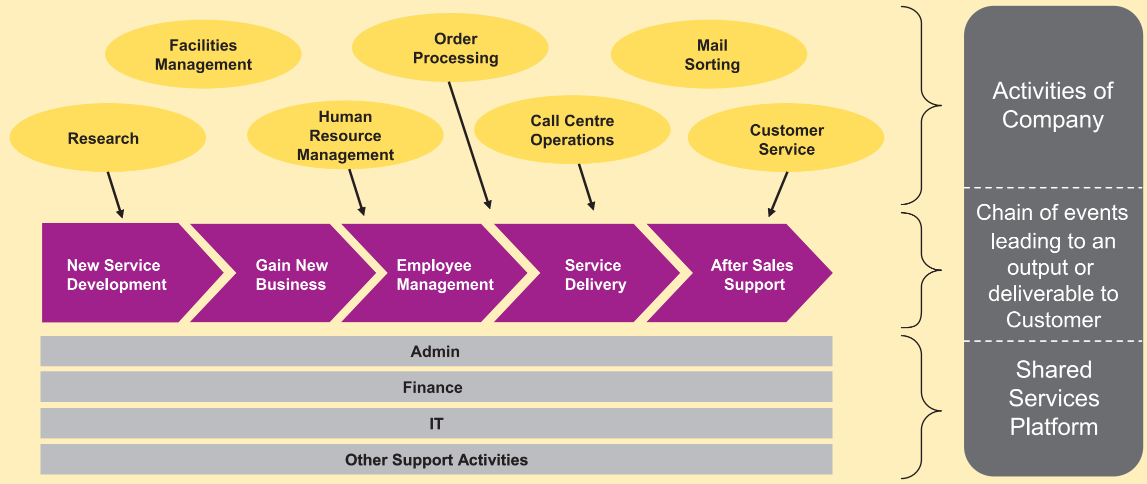
1. Identify all functions and activities existing within the organisation.
2. Visualise the chain of events leading to an output or deliverable to the customer.
3. Identify which activities are relevant and core to the GLC in meeting its Business Plan deliverables.
4. Map all functions and activities the company performs within its value chain.
5. Any activity or function that is not required to meet a Business Plan deliverable or that cannot be mapped to the value chain can be considered as a non-core activity.

An illustration of a VCA is provided in Exhibit 9.

EXHIBIT 9

VALUE CHAIN ANALYSIS

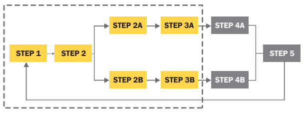
Illustration of a Value Chain Analysis of a Company Operating in a Service Industry



- What are the key deliverables to meet the Business Plan objectives?
- What are the elements/activities required to meet the deliverables identified in the Business Plan and that support the value chain?
- What are the core competencies and challenges within each element of the value chain?
- What are the areas in which the company does and does not want to participate?

Questions to Identify Core and Non-Core Activities

Source: PCG Analysis



The VCA will help GLCs develop a perspective of the activities which are critical in delivering the key deliverables of the Business Plan and which are not. This will help differentiate and prioritise between **core** and **non-core** activities for the GLC.

EXHIBIT 10

ILLUSTRATION OF CORE AND NON-CORE ACTIVITIES FOR A PHARMACEUTICAL COMPANY

Industry: Pharmaceutical

Sample Core Activities

- Research and Development
- Proprietary Software, Code and Content Development
- Intellectual Property, Patents, Trademarks etc.

Defining Characteristics

- Most profitable customers
- Most strategic capabilities
- Most critical product offerings
- Most important channels of distribution

Sample Non-Core Activities

Call Centre[1], Fleet Vehicles, Office Buildings

Note 1 : The analysis of what is 'Core' and 'Non-Core' may differ from company to company (even if they operate in the same industry). In the final analysis, the decision is dependant on the company's Business Plan objectives and value chain analysis. For example a Call Centre may be considered as being 'Core' for a company that has identified customer service quality and proximity to customers as critical success factors.

Source: PCG Analysis

In identifying non-core activities or assets, GLCs should also consider the value of the said activity or asset to its 'natural owner' which would typically be a company that undertakes the activity as part of its core business. An illustration of this would include the value of fleet management activity and assets to a vehicle fleet management company.

The VCA will also allow GLCs to identify and address business/operational risks and weaknesses, and opportunities for improvement. When analysing their value chain, GLCs need to deep-dive into the details of each activity to better understand the various aspects that affect the activities at different stages of the value chain. The key aspects that should be considered include:

- Stakeholder influences and expectations;
- External factors and their implications;
- Critical success factors that affect growth and profitability; and
- KPIs that reflect the influence of the various factors above.

Step 3a – Benchmark Core Activities

In enhancing the operational efficiency/effectiveness of core activities, the GLC needs to first benchmark its performance indicators (as illustrated in Exhibit 11). The result of this exercise will help GLCs determine and select the appropriate improvement initiatives for their core activities.

Benchmarking

Benchmarking performance indicators will help GLCs identify and prioritise areas for improvement. There are various critical factors that GLCs need to consider when undertaking benchmarking, including:

- Avoid benchmarking in isolation – GLCs should consider external factors such as industry dynamics and competitive positioning.
- Determine the most effective performance indicators to benchmark as illustrated in Exhibit 11 below.

EXHIBIT 11

SAMPLE BENCHMARKS

	Productivity metrics benchmark across industries	Cost metrics benchmark within company
Telecommunication	• Return on Assets • Return on Equity • User/Employee	• Average OPEX per User • EBITDA Margin • CAPEX/Revenue
Energy	• Return on Assets • Return on Equity • Sales/Employee	• Operating Cost/kwh • EBITDA Margin
Automotive	• Return on Assets • Return on Equity • Units sold/Employee	• Operating Cost/Unit Car • EBITDA Margin
Banking	• Cost to Income Ratio • Return on Assets • Return on Equity	• Cost to Income Ratio • NPL Ratio • Leverage Ratio
Airline	• Cost/ATK • Passenger/Employee • Load Factor	• Cost/ATK • Yield • EBITDA Margin

Source: The Boston Consulting Group, 2006

- Determine the appropriate levels to benchmark across the various levels of the organisation as illustrated in Exhibit 12.

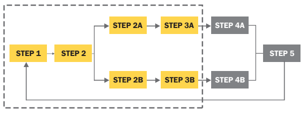
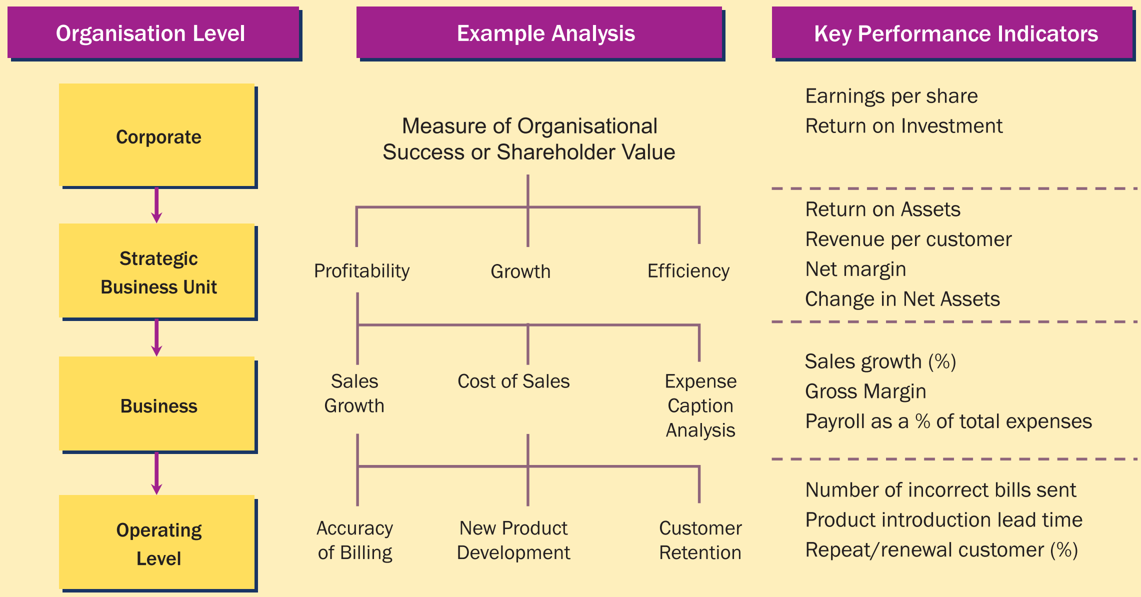


EXHIBIT 12

VARIOUS LEVELS OF BENCHMARKING WITHIN AN ORGANISATION



Source: PCG Analysis

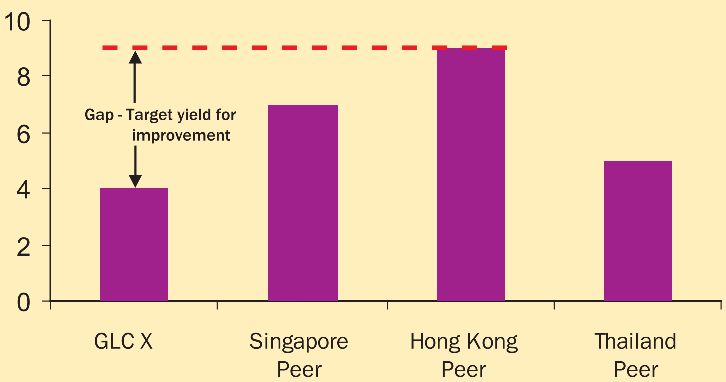
An illustration of a benchmarking by a Malaysian GLC against its domestic and regional peers in developing its turnaround plan is provided in Exhibit 13.

EXHIBIT 13

CASE STUDY ON REGIONAL BENCHMARKING

In developing its business turnaround plan, one of the first things a GLC did was to benchmark its revenue against its local and regional peers.

Benchmarking - Revenue / Unit Measure (US Cents)



Initial analysis illustrated root causes as being weak pricing and revenue management as well as poor sales and distribution channels. This analysis illustrated the need for the GLC to focus on revenue maximisation initiatives to improve its yield.

Source: PCG Analysis

Following the benchmarking exercise, GLCs will need to identify the gaps and prioritise areas and develop an action plan for improvement.

Benchmarking should be institutionalised by establishing an appropriate tracking and measurement system. Doing so will require:

- Mobilising resources and competencies required to implement the exercise;
- Management commitment to drive the implementation; and
- Continuous tracking and reporting to relevant stakeholders.

Sources of Benchmarking Information:

Annual Reports	Balance sheet, P&L statements, etc.
Analyst Reports	Credit agencies
Government/ NGO Publications	e.g. Bank Negara Malaysia, Economic Planning Unit, etc.
Market Research	
Industry Reports	Market Research Agencies.
Participation in Industry Benchmarking	Various industry master plans: e.g. Capital Market Master Plan, Financial Sector Master Plan, etc.

EXHIBIT 14

MAJOR PITFALLS OF BENCHMARKING

Inappropriate benchmarks	Superficial analysis of information	Poor understanding of internal processes	Timeline or unit of measure not consistent

Source: PCG Analysis

Step 3b – Assess Non-Core Activities

GLCs should focus their management resources and capital on core activities; non-core activities should therefore be evaluated for alternative management and treatment. This may involve the divestment of associated investments/holdings and assets or other treatment mechanisms (see Section 4 for further details).

In order for GLCs to appropriately select and apply the divestment options, they will first need to collect relevant and comprehensive data, and assess the financial and operational performance of these investments/holdings and assets based on this data.

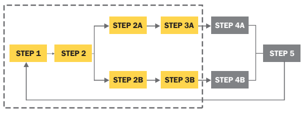
The data collection activity should be focused on two aspects of the GLC's business:

I. **Non-core investments/holdings; and**
II. **Non-core fixed assets.**

I. Non-Core Investments/Holdings

Data for financial and operating metrics (i.e. performance indicators) of non-core investments/holdings (e.g. discounted cash flow analysis, net tangible asset valuation, implications of consolidation adjustments etc.) will assist GLCs in assigning a fair value for these non-core investments/holdings and related assets.

GLCs should also endeavour to analyse and quantify other related costs in terms of management time and resources allocated, as well as benefits (e.g. brand synergies, access to customers etc.) for its non-core investments/holdings.



II. Non-Core Fixed Assets

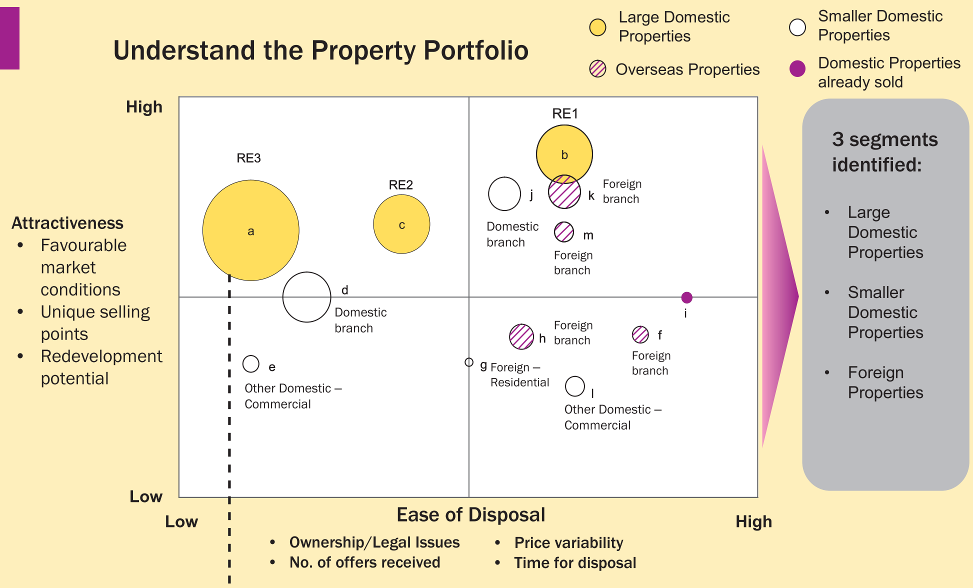
In many instances, property forms a large proportion of a company's fixed assets. GLCs should adopt a structured approach to evaluate its property portfolio. An example of such an approach is provided in Exhibit 15.

EXHIBIT 15

EVALUATING THE PROPERTY PORTFOLIO

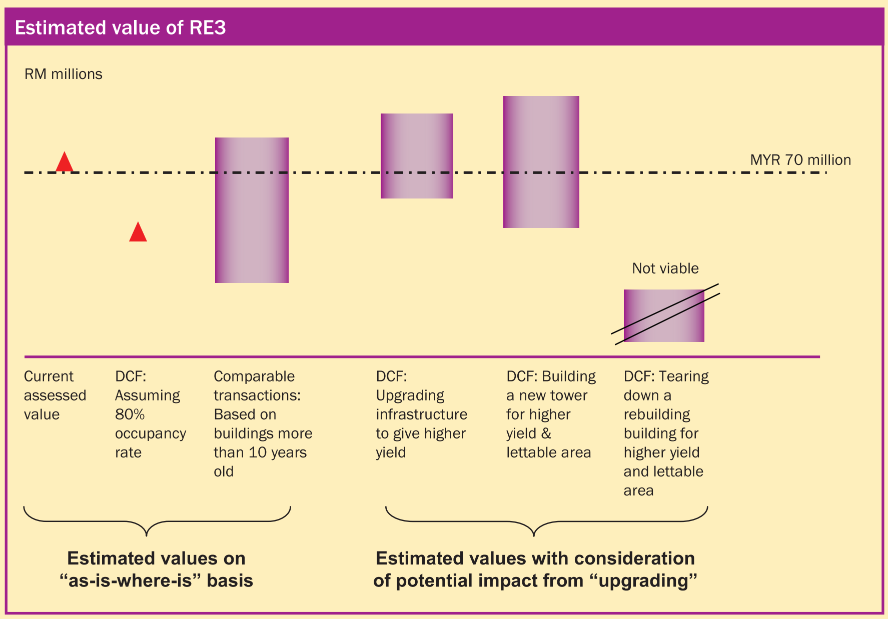
STEP 1

Understand the Property Portfolio



STEP 2

Conduct Preliminary Valuation for Individual Real Estate

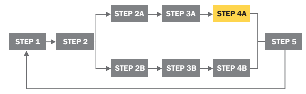


* DCF –Discounted Cash Flow

Source: PCG Analysis

SECTION 3

IMPROVING OPERATIONS FOR CORE ACTIVITIES



SECTION 3: IMPROVING OPERATIONS FOR CORE ACTIVITIES

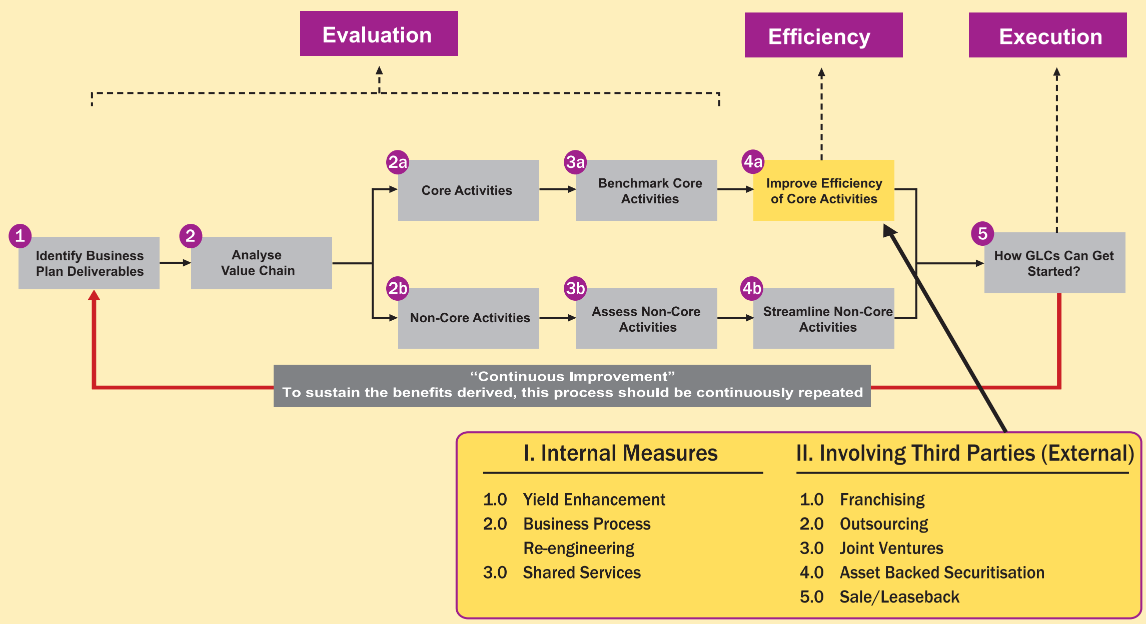
This section focuses on the "Efficiency" stage, where based on the analysis and data from the "Evaluation" stage (Section 2), GLCs can then evaluate and identify option(s) to enhance efficiency/effectiveness of core activities. The various options available for GLCs to improve the efficiency/effectiveness of their core activities[4] can be generalised into two categories:

- Improvement measures that take place within the organisation (internal measures).
- Improvement measures that involve a third party (external measures).

To provide GLCs with an appreciation of the range of options and their characteristics, this Reference Document provides examples of possible measures within these two categories (see Exhibit 16 below).

EXHIBIT 16

INTERNAL AND EXTERNAL OPERATIONAL IMPROVEMENT OPTIONS FOR CORE ACTIVITIES



Source: PCG Analysis

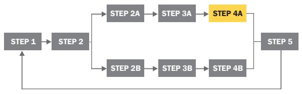
Implementation of these measures will have an impact on GLCs' workforce through measurable KPIs that are established and cascaded down in the performance management system and captured in the Balanced Scorecard system.

I. Internal operational improvement measures

Three improvement measures that occur primarily within an organisation are:

1.0 Yield Enhancement
2.0 Business Process Re-engineering (BPR)
3.0 Shared Services

4 *Options in Section 3 may also be applicable to non-core activities that are retained (i.e. where the status quo is maintained as discussed in Section 4).*



Option 1.0 – Yield Enhancement

Benchmarking of yield (or other revenue related metrics) will be critical in identifying opportunities for enhancing revenue streams to improve a GLC's ROA and operating margins.

In identifying opportunities for yield enhancements, GLCs should evaluate and analyse its 'end-to-end' processes for revenue recognition. Key areas that GLCs need to focus on include:

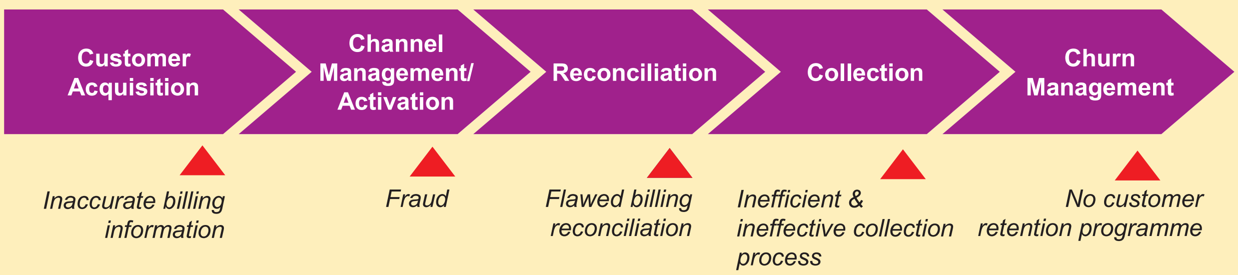
- **Customers**: An 'end-to-end' analysis - from customer acquisition and channel management/activation; to reconciliation, collection as well as churn management - will identify significant opportunities for revenue enhancement.

  Additionally, GLCs need to have a proper understanding of their customer database to identify new potential revenue streams and future product development strategies[5].

- **Operations**: Revenue leakages, inefficient/inaccurate billing, poor 'bad debt' recovery, fraud and long response times to customer complaints are all illustrations of operational factors that contribute to poor yields.

An end-to-end analysis of a GLC's revenue cycle will be useful in reinforcing its revenue assurance initiatives and identifying potential leakages. Some of the potential sources of revenue leakage are illustrated in the following Exhibit.

EXHIBIT 17
POTENTIAL LEAKAGE POINTS IN THE REVENUE CYCLE



Source: PCG Analysis

Yield enhancement initiatives will typically involve the following process:

- Benchmarking (historical and industry) analysis will provide indications of areas in need of improvement.
- An internal due diligence of process flows and responsibility matrices will be critical in identifying yield enhancement opportunities.
- Identify and quantify opportunities to enhance existing yields.
- Develop a plan with milestones and assign responsibilities across the relevant business units and functional cost centres.
- Track and report progress of initiatives across the company against the milestones.

5 *These considerations impact an organisation from a sales and marketing perspective rather than an operational improvement perspective.*

What is the value proposition to GLCs?

- Maximises revenue and focus on top-line performance.
- Allows for accurate financial reporting and forecasts.
- Allows faster resolution of credit issues.
- Reduces billing errors and delays.
- Improves revenue tracking and control.

Case Study – Yield Enhancement

A GLC providing retail services embarked on a project to better understand its operational costs and yield (profitability) of its products and services.

Starting Position

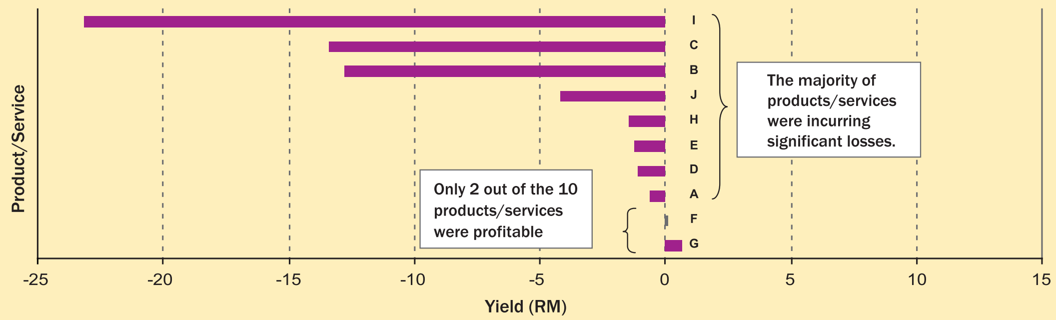
- The GLC's retail business was loss making.
- Poor understanding of cost structure and yield of its products and services.
- High overheads due to inefficiency of processes.

Steps Taken

- The GLC set up a project team to study and analyse the cost structure and the yield of its products and services.
- The findings of the team included:
  - Only 10% of the service centres were profitable.
  - Only 2 out of 10 products/services offered were profitable (refer to Exhibit 18).
  - For provision of some products/services, the tariffs the GLC charged its business partners were below cost.
  - "Transfer Pricing" to other related business units were well below cost.

EXHIBIT 18

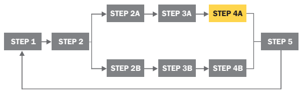
PRODUCT AND SERVICE PROFITABILITY/YIELD



Outcome

- The GLC used the findings of the study to effectively price new products and services and also to revise its pricing strategy.
- The GLC renegotiated its tariffs with existing business partners and reviewed the basis for its transfer pricing.
- The GLC realigned its processes to improve the yield of its products and services.
- The GLC also explored new activities to enhance the productivity of its service centres.

Source: PCG Analysis



What do GLCs need to consider when implementing Yield Enhancement Initiatives?

- Implementation of yield enhancement initiatives should be preceded by:
  - A review and analysis of yields from existing products and services.
  - A study of the root causes of revenue leakages prior to design and implementation.

- Any yield enhancement initiative should be complementary and streamlined to the GLC's overall marketing strategy, which could include amongst others:
  - Enhanced operational processes and competencies to support the development of creative and innovative products, services, and solutions.
  - Improved and focused resources and systems to protect the GLC's 'core' sources of revenue by utilising its data warehousing and churn management capabilities.
  - Enhanced backroom and call centre operations (with cycle time and quality related service levels) to support a more aggressive channel/alliance management strategy.

Option 2.0 – Business Process Re-engineering

BPR involves the redesign of business processes to achieve improvements to critical measures of performance, such as cost, quality, service and turnaround time.

What is the value proposition to GLCs?

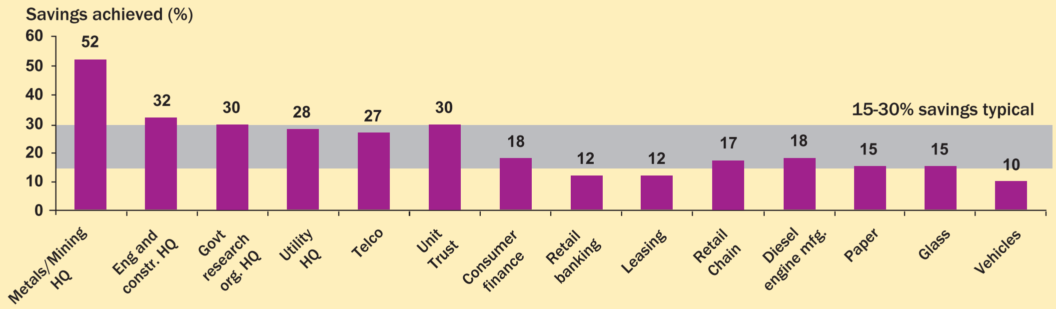
- Cost reduction – achieved through elimination of work duplication, rework, removal of non-value adding activities and reorganised work units. (Refer also to Exhibit 19 on 'Delayering').

EXHIBIT 19
DELAYERING

In addition to the BPR related activities undertaken, GLCs should also consider options for 'Delayering' its organisational structure by identifying and removing excess management layers. This is generally carried out in conjunction with organisational redesign initiatives for maximum effectiveness. Other factors for consideration in organisational redesign would include:

- Identify functions that are redundant or can be replicated by other resources within the organisation.
- Structure must be focused on improving the internal delivery mechanism.
- Establish appropriate transfer pricing mechanism to rationalise internal demand for services.

Typical management cost savings through delayering across different industries



Source: The Boston Consulting Group, 2006

- Service quality – both external and internal customer services will be greatly enhanced. The GLC will be delivering more customer-oriented quality services, through new and improved business channels.

- Efficiency – re-engineered processes will result in quicker turnaround time and improvement in management and overall decision-making.

- Transparency and improved performance – improved security on transactions/processes and minimisation of risk exposure through better controls will further promote transparency and corporate governance.

- Cost reductions (e.g. lower cost of inventory management, transportation and warehousing, packaging) and improved customer satisfaction (e.g. from time-based delivery and make-to-order programmes) may also arise from improvements to the GLC's supply chain process.

- Synergy – created by leveraging on new technologies and achievement of economies of scale by consolidating transaction processes.

What do GLCs need to consider when implementing BPR?

- Typically, BPR implementation should not take longer than six months and is based on the total "end-to-end customer experience", e.g. from the time the customer enters the doors of a post office or a banking hall until he leaves having completed all services and transactions satisfactorily.

- Place the customer at the centre of the re-engineering effort – concentrate on re-engineering fragmented processes that lead to delays or other negative impact on customer service.

- Three success factors that have been identified in successful BPR projects are:
  - Sustained management commitment and leadership;
  - Realistic scope and expectations; and
  - Effective communication and change management.

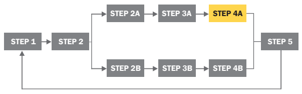
- The case study on the next page illustrates how BPR has helped to reduce the number of processes at an organisation by 35%.

Enhancing the value of GLCs Business Processes – the Lean and Six Sigma approach:

Various methodologies have been used by organisations worldwide to enhance and improve the value of their business processes.

The ***Lean*** method first popularised in a manufacturing environment (Toyota for example), is now widely practised in other industry sectors. The methodology is based on a set of principles and practices to reduce costs through elimination of 'waste' and simplification of operational and support processes.

Another approach is the ***Six Sigma*** methodology that has been successfully implemented in a number of Fortune 500 companies like Motorola and General Electric (GE). This approach focuses on reducing variability by streamlining processes and eliminating defects. It is based on a statistical target of reducing variability in a given process to 3.4 defects per million.



Case Study – Implementing BPR

The following case study provides an example of some drivers that may lead to a BPR exercise, as well as the typical implementation steps involved.

A leading regional organisation embarked on BPR exercise to improve its internal processes.

Starting Position

- Key issues faced were:
  - Inefficient capacity utilisation.
  - Duplication of roles and activities.
  - Excessive controls.
  - Roles and responsibilities not clearly defined.
  - Manual processing.
  - Poor cycle-time.
- This contributed to sub-optimal productivity, inefficient use of resources, high operating costs, and poor customer service.

Steps Taken

- The BPR project was conducted in three stages:

  Stage 1 – Conceptual Design (to identify, assess and streamline existing activities).

  Stage 2 – Detailed Process Design (to realign roles and skills based on the new activities).

  Stage 3 – Implementation.

EXHIBIT 20

BPR DEVELOPMENT AND IMPLEMENTATION STAGES

Stage 1: Conceptual Design

- Review current processes.
- Confirm BPR business objectives.
- Review business requirement.
- Conduct future state visioning.

Stage 2: Detailed Process Design

- Develop "To-Be" process models.
- Develop process detail designs.
- Develop "To-Be" future cost analysis.
- Design "To-Be" infrastructure.
- Design new business delivery channels.

Stage 3: Implementation

- Develop position and job descriptions.
- Conduct skills audit and skills matching.
- Develop Standard Operating Procedures manual.
- Train for new roles.
- Implement new processes.
- Monitor implementation.

Key Outcomes

- The organisation successfully streamlined and enhanced its activities.
- The number of sub-processes was reduced by 35%.
- Additional revenue was generated by introducing revised/new charges to customer for existing/new services.
- The organisation identified areas for automation to achieve further cost savings and improve cycle time.

Source: PCG Analysis

Option 3.0 – Shared Services

Shared Services may be defined as the consolidation or centralisation of common activities across different departments or business units which are pooled by a dedicated Shared Services provider (a separate business unit or department). This is based on efficiencies of scale and to improve customer service, enhance quality, and reduce cost.

What is the value proposition to GLCs?

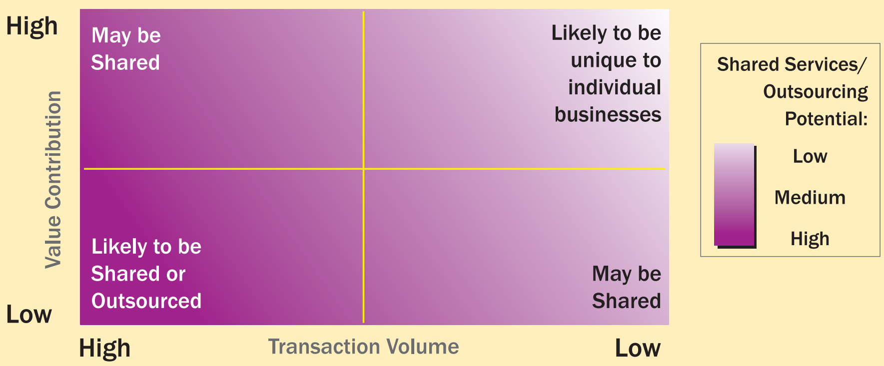
- Revenue enhancement – may be derived from a number of sources made possible by Shared Services. For example, through extending service offerings to external customers, acquisition and divestiture, or investment income from improved cash management.
- Cost reduction – by eliminating redundant activities, increasing organisational flexibility for reorganisation and managing internal demand through service level agreements (SLAs); cost levels may be reduced by 20% to 40%[6].
- Capital avoidance – by consolidating activities, investment in multiple technologies, real estate, etc; capital investment requirement may be reduced.

What do GLCs need to consider when implementing Shared Services?

- SLAs must be in place and monitored to ensure satisfactory delivery of the required services. This should also be measured periodically to assess savings and value.
- The SLA should emphasise incentives rather than penalties to create a win-win situation for all parties.
- The Shared Services centre should be scalable to cope with acquisitions and divestments.
- The existing technological platforms and systems affected by Shared Services should be integrated as much as possible.
- Successful industry practitioners indicate that Shared Services is typically applied to low value but high volume transactions.

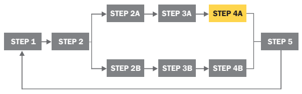
EXHIBIT 21

SHARED SERVICES/OUTSOURCING APPLICATION MATRIX



Source: PCG Analysis

6 *Source: PCG Analysis*



- The practice of ongoing refinement of processes needs to be built into the system.
- The case study below details how a large conglomerate was able to reduce costs of selected activities by 27% through its Shared Services centre.

Case Study – Implementing Shared Services

A local conglomerate with a diversified portfolio business (ranging from construction to travel and leisure) embarked on establishing a Shared Services centre.

Starting Position

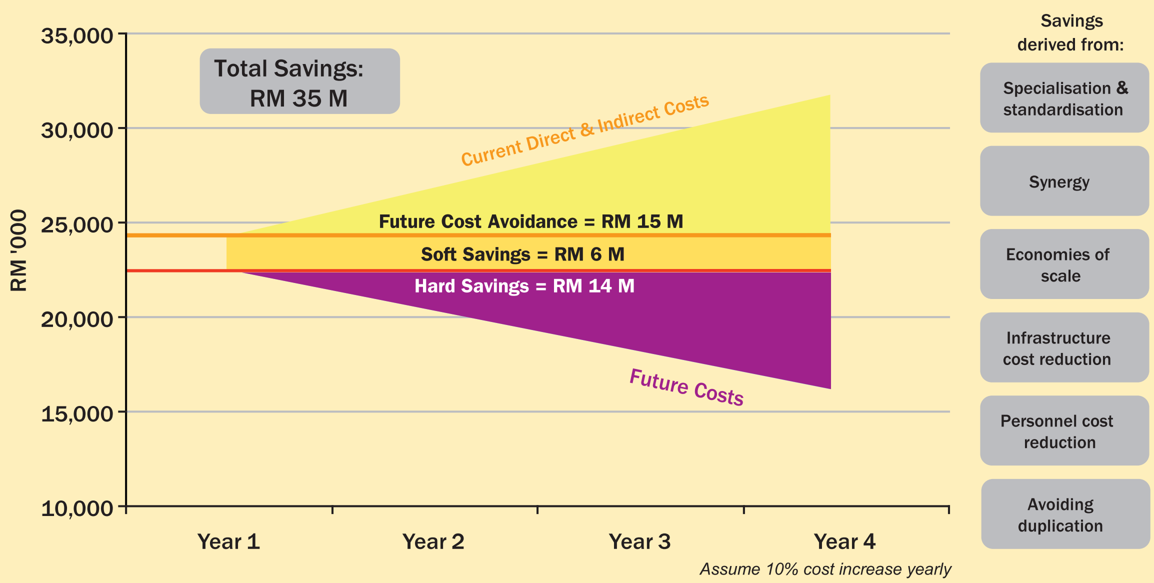
- Numerous subsidiary companies are managed by individual, designated managers.
- Each subsidiary company:
  - Manages its own bottom-line;
  - Has its own operating staff, budget and management style;
  - Decides on its own partners, vendors and suppliers; and
  - Reports its own business strategy and output to top management.
- Increasing costs and heightened competition led to a decision to share key internal support activities amongst the subsidiary companies.

Steps Taken

- The conglomerate selected three support activities for each subsidiary to share.
- It then collected in-depth information to:
  - Assess the potential for sharing the activities;
  - Develop the business case covering the Shared Services centre's strategy, initial design, potential cost savings and improvement initiatives.
- This was followed by designing and implementing the Shared Services centre over a period of four years (refer to Exhibit 22 for details).

EXHIBIT 22

TOTAL SAVINGS FROM IMPLEMENTING SHARED SERVICES



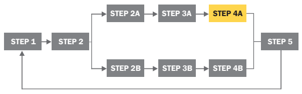
continued...

Key Outcomes

...

- The conglomerate was successful in establishing its Shared Services centre and managed to reduce its costs in these activities by 27%, while avoiding 33% of future costs.
- In-depth development of the business case and strong leadership support were the key success factors in launching the Shared Services centre.
- Subsequent to the establishment of the Shared Services centre, the scope of work has been expanded to cover new activities.

Source: PCG Analysis



II. External operational measures involving third parties

The five options for operational improvement involving third parties are:

1.0 Franchising;
2.0 Outsourcing;
3.0 Joint Ventures;
4.0 Sale/Leaseback; and
5.0 Asset Backed Securitisation (ABS).

Option 1.0 – Franchising

Under a franchising arrangement, the franchisor grants another party the right to use its name and sell its products or services. The franchisor transfers relevant operating systems, technical expertise, marketing systems, training systems, management methods and other necessary information to the franchisee.

A franchisor also typically provides ongoing training and support to the franchisee throughout the life of the franchise agreement. Franchising will affect staff who are currently undertaking the activity to be franchised (affected staff).

What is the value proposition to GLCs?

- Improved capital efficiency – the franchisee contributes capital required to expand the business, enabling the GLC to achieve a higher Asset Turnover Ratio (ATR) and increase its ROA.

- Rapid growth – franchising increases the ease of expanding a company's presence in the market, and contributes to greater brand awareness whilst enabling sharing of operational risk amongst its network of franchisees.

- Scale benefits – franchising allows a company to raise more funds than would be justified solely by the value of the assets it owns (i.e. operations managed by franchisees add to the overall value of the franchising company). In addition, a franchisor can reap savings from the increased buying power of purchasing for the entire franchise system.

- Smart partnership – provides career and entrepreneurship development opportunity to loyal and committed staff to become franchisees whilst ensuring productivity and service excellence.

- The following case study illustrates how franchising successfully helped double the sales of a multinational organisation in Malaysia over a 5-year period.

Case Study – Implementing Franchising

A multinational organisation franchised its retail operations to expand its distribution network, enhance sales and reduce its capital investment.

Starting Position

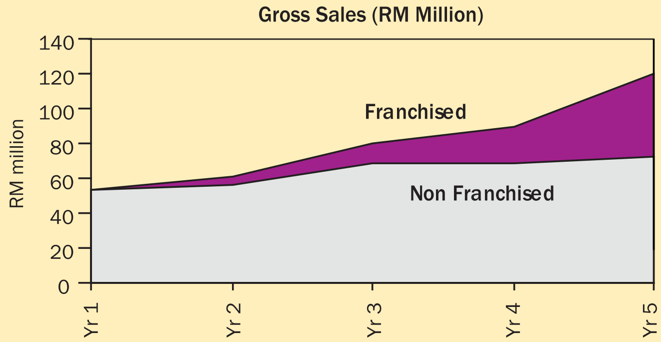
- The company was experiencing low growth rates with its traditional model of expansion (setting up new stores of its own).
- Although it had stores in major cities, it lacked a presence in many parts of the country.

Steps Taken

- The franchisor reviewed its business plan and established the long-term strategic direction for its franchising operations.
- It then ascertained and prioritised issues with the potential to affect the success of its franchise operations, and developed specific strategies and action plans to address them.
- Five critical success factors were identified to guide the implementation of its franchising initiative. These included:
  - Franchisees must be carefully selected to ensure fit to the intended programme;
  - Proper orientation must be provided for franchisees;
  - Capital funding required from franchisees must be feasible (i.e. franchisees must be able to generate margins);
  - A detailed and comprehensive operating manual must be developed; and
  - Adequate marketing support must be given to franchisees.
- This process was reiterated over the years to further enhance the franchise operation.

EXHIBIT 23

FRANCHISING CONTRIBUTION TO SALES

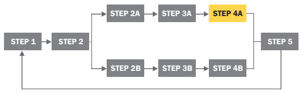


Franchising allowed the company to experience significantly improved business growth

Key Outcomes

- The franchising initiative succeeded in growing the company's business:
  - Sales more than doubled within 5 years; and
  - Franchising contributed nearly half of total (gross) sales.
- Because of the success it achieved in Malaysia, the company introduced the revised franchising concept to its businesses around the world.

Source: PCG Analysis



What do GLCs need to consider when implementing Franchising?

- Appropriate level of capital required of franchisees (amount must allow franchisees to be profitable).
- Identifying and facilitating access to "seed capital" sources and financing from Malaysian Government Agencies (e.g. MECD, MFA, PNS, etc.)[7].
- Appropriate support structure (for training, recruitment and selection process) that promotes and nurtures a win-win situation for both the franchisor and franchisee needs to be developed and continuously enhanced.
- Developing an attractive value proposition for affected staff to transfer to the franchisee.
- Willingness of the franchisee to absorb the affected staff.
- Options and strategies for dealing with fixed assets which are "housing" the operations to be franchised.
- Ensuring compliance to the provisions of the Franchise Act 1998.

Option 2.0 – Outsourcing

Outsourcing may be defined as re-allocating selected company activities to an external firm that specialises in those operations. Contractual arrangements define the specific roles and responsibilities of each party, as well as the cost of services provided. Outsourcing also has the potential to affect staff who are currently undertaking the activity to be outsourced (affected staff).

What is the value proposition to GLCs?

- Improving service quality – through standards established in SLAs, access to best practices and new technologies as well as access to skills and core competencies of a specialised service provider. There is also an increased focus on the customer.
- Reducing costs – eliminating direct and indirect costs for outsourced activities, and avoiding future costs related to outsourced areas.
- Improving capital efficiency – removing non-essential assets from the balance sheet releases capital for investment elsewhere. This will help GLCs to improve their respective ATR and ROIC.
- Significant degree of improvement – outsourcing provides an opportunity for GLCs to obtain a quantum leap in operational efficiency/effectiveness improvement.

7 *Ministry of Entrepreneur and Co-operative Development, Malaysian Franchise Association, Perbadanan Nasional Berhad*

- The following case study highlights key implementation considerations and business performance improvement as a result of an outsourcing exercise undertaken by a GLC.

Case Study – Implementing Outsourcing

A Malaysian GLC outsourced its IT operations in an effort to better manage the IT issues within its organisation.

Starting Position

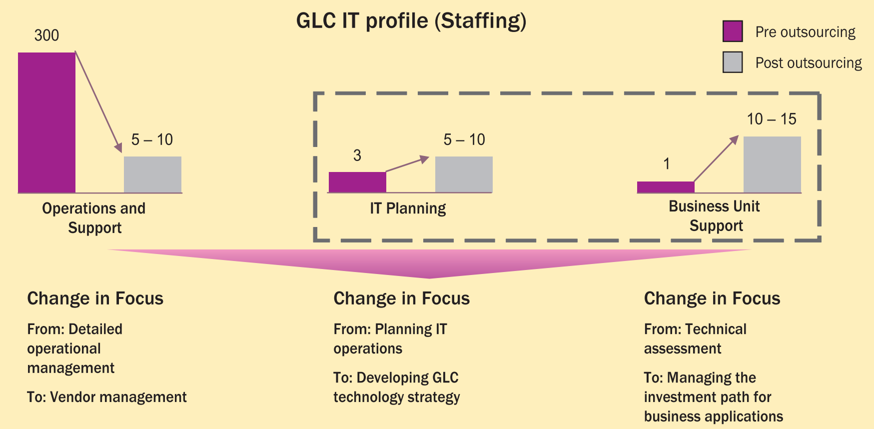
- The GLC had under-invested in business application upgrades and complexity reduction. The level of IT investment as a percentage of revenue was nearly half the industry average.
- Existing IT staff did not possess the skill sets needed to enhance the GLC's IT capability to the desired level.
- Much of the IT department's time was spent on IT operational issues.

Steps Taken

- The GLC developed a business case detailing its current situation and clarifying the need for IT outsourcing to an independent company.
- The GLC then entered into a long term relationship with a global IT specialist to manage its IT operations, the terms of which were captured in an outsourcing contract and master services agreement.
- Processes were enhanced and service levels were defined in an SLA.
- IT staff were given incentives to join the outsourcing vendor, who then screened staff for suitability. Staff who were not taken up by the outsourcing vendor were offered Voluntary Separation Scheme (VSS) or redeployed.
- Five out of seven IT areas were outsourced to the selected vendor under a phased approach, while the GLC retained responsibility for IT planning.

EXHIBIT 24

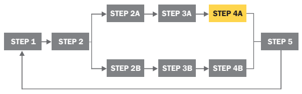
CHANGES IN ORGANISATION AND FOCUS – PRE & POST OUTSOURCING



Key Outcomes

- Stability and availability of IT services improved.
- The GLC was able to refocus on driving IT enabled business performance improvement.
- The exercise allowed the GLC to identify opportunities for asset consolidation/reduction as well as better manage and forecast its future IT related OPEX.

Source: PCG Analysis



What do GLCs need to consider when implementing Outsourcing?

- Scope of services provided by the third party, together with a responsibility matrix.
- Performance measures to track level of services (e.g. volume, quality, other associated KPIs).
- Potential to negotiate with service provider on transfer of affected staff to the service provider.
- SLAs to capture specific performance levels, cost recovery, respective roles and responsibilities, duration of service.
- Outsourcing agreement should include contractual terms and conditions to address the risks inherent in the transition of services (including terms for an exit strategy).
- Implications for negotiation of unplanned service requirements after the agreement is signed.
- Critical mass, capability and track record of service provider.
- Cost of re-integrating activity to the organisation (as part of a potential exit strategy).
- Successful industry practitioners indicate that outsourcing is typically applied to low value but high volume transactions. (Refer to Exhibit 21)

Option 3.0 – Joint Ventures

Joint Ventures contribute to operational efficiency/effectiveness by optimising a GLC's allocation of capital for those investments/holdings and assets that support core activities. In addition, the synergies derived from a Joint Venture will assist GLCs to derive higher ROIC and Economic Profit.

Joint Ventures can also serve as a means of gradually passing control of investments/holdings to potential buyers after a period of co-management.

What is the value proposition to GLCs?

- A GLC may choose to engage in a Joint Venture if it can justify that there is potential for synergies to be developed by partnering with another party.
- There is a potential to provide GLCs access to capital, technology "know-how" or valuable skill sets it may not otherwise have.
- Entering a Joint Venture may be preferable to outsourcing for critical activities or related investments/holdings as it allows a GLC to maintain greater control over the functions involved.

What do GLCs need to consider when implementing a Joint Venture?

- Choice of partner – the Joint Venture partner must be able to collaborate with and contribute to the GLC for the expected synergies to arise in the partnership.

- Management attention/overhead – in a Joint Venture, the management attention/overhead typically increases for both sides. Care must be taken to ensure that this does not exceed the benefits derived from the partnership.

Option 4.0 – Sale/Leaseback

As with Joint Ventures and ABS, the Sale/Leaseback option contributes to operational efficiency/effectiveness by optimising the GLC's allocation of capital for those investments/holdings and assets that support core activities. In a Sale/Leaseback arrangement, the GLC sells an asset to a provider of finance and leases it back.

What is the value proposition to GLCs?

- One-time positive cash flow effect and deleveraging of gearing ratios.

- Lease operating expense is tax deductible.

- Potential reduction in management and maintenance expenses.

What do GLCs need to consider when implementing a Sale/Leaseback?

- Attractiveness of assets to investors.

- The cost to lease must be lower than the cost to own.

- The GLC should retain the right to repurchase the asset at the end of the lease.

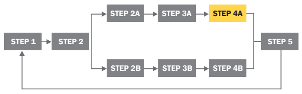
Option 5.0 – Asset Backed Securitisation (ABS)

As with Joint Ventures, ABS contributes to operational efficiency/effectiveness by optimising a GLC's allocation of capital for those assets that support core activities. In implementing ABS, the GLC obtains funding by issuing a bond secured against a pool of assets.

What is the value proposition to GLCs?

- By implementing ABS, the GLC reduces its asset base and frees up capital, thereby improving its business focus and the efficacy of working capital.

- ABS also helps the GLC to reduce excess assets and consolidate its facilities/locations.



What do GLCs need to consider when implementing ABS?

- The principal factor influencing the success of ABS is the quality of the assets to be securitised.

- GLCs may also need to consider the degree of market saturation for the assets affected.

Post implementation - Human resource considerations

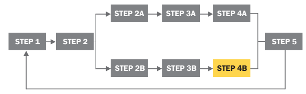
In implementing the various options above, GLCs must recognise that its manpower requirements in terms of skill sets and competencies will be affected.

When the transfer of staff to an external or third party is involved (e.g. in the case of outsourcing), under existing employment regulations the external or third party is not obliged to make offers of employment to the affected staff. Nevertheless, GLCs should seek to strike a balance between the targeted cost savings and efficiency gains which it seeks to achieve through the outsourcing exercise, against facilitating continued employment for the affected staff.

It is incumbent upon GLCs to adopt the necessary measures to address the skill sets and competency requirements arising from the adoption of the operational efficiency/effectiveness initiatives. Also any 'surplus' situation which may arise and the consequential costs should be taken into account during the planning/ budgeting exercise.

SECTION 4

IMPROVING OPERATIONS FOR NON-CORE ACTIVITIES



SECTION 4: *IMPROVING OPERATIONS FOR NON-CORE ACTIVITIES*

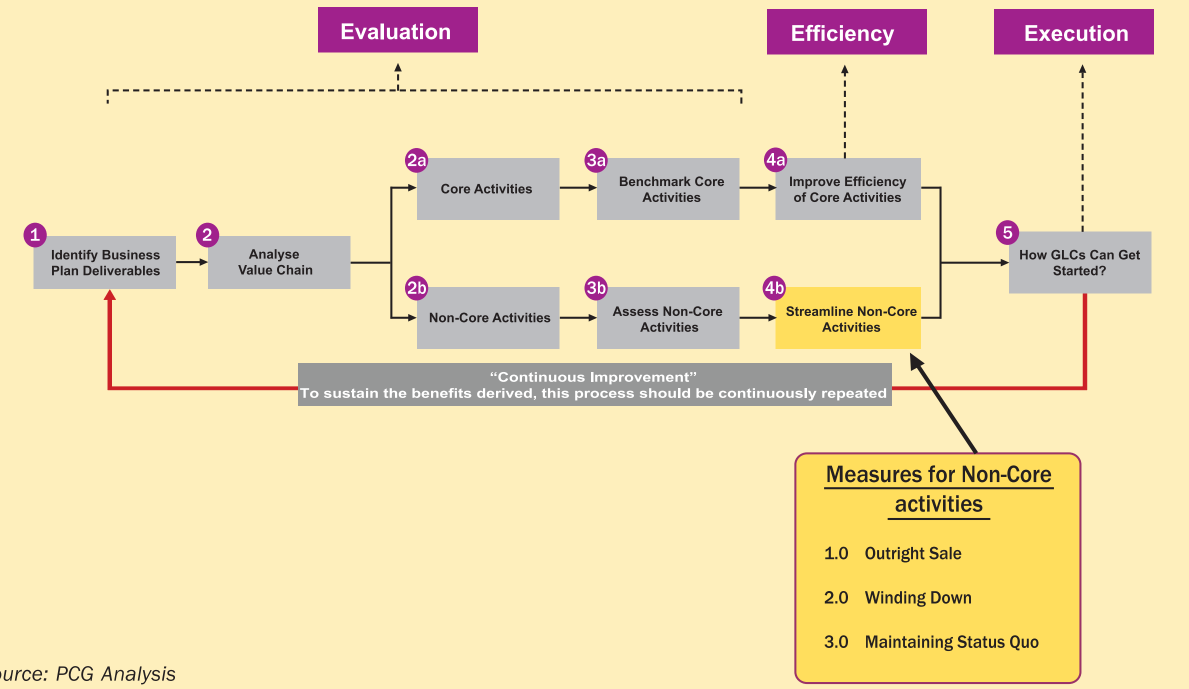
Operational improvement options - Non-core activities

Similar to Section 3, this section focuses on the "Efficiency" stage, where option(s) for streamlining non-core activities are identified and evaluated. There are several options which GLCs may choose from to deal with non-core activities (See Exhibit 25 below). The three options covered in this Reference Document are:

- *1.0 Outright Sale;*
- *2.0 Winding Down; and*
- *3.0 Maintaining the Status Quo.*

EXHIBIT 25

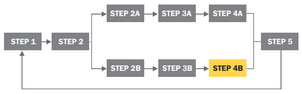
IMPROVEMENT OPTIONS FOR NON-CORE ACTIVITIES



Source: PCG Analysis

Option 1.0 – ***Outright Sale***

Outright sale contributes to operational efficiency/effectiveness by off-loading the management and financial burden of maintaining the investments/holdings and assets associated with non-core activities. An outright sale involves the complete divestiture of the selected investment/holding or asset, that will help to improve the GLC's ROIC and Economic Profit.



What is the value proposition to GLCs?

- Streamlined business focus – by redistributing financial and non-financial resources freed up by the sale.
- Reduced risks and liabilities to a GLC holding company that may arise as a result of holding company type guarantees.

What do GLCs need to consider when implementing an Outright Sale?

- Appropriate pricing of investment/holding or asset.
- One-time positive cash flow effect and market saturation for the affected asset.
- How to evaluate the useful economic life of assets in order to properly schedule replacement (allowing the company to have funds available to provide for asset replacement purposes).
- A potential one-off hit to the P&L should not be a determining factor not to sell, as divestiture will serve to free up management resources and capital for more effective use. GLCs should evaluate the short-term pain against the long-term gains.
- Adequate pre-sale preparation (e.g. vendor due diligence, preferred disposal terms).
- Incentives for buyer (e.g. guaranteed demand for a certain time frame).
- Comprehensive list of buyers to generate a competitive bidding environment.
- Selecting a buyer who is financially and reputationally sound to minimise transaction completion risk.

Option 2.0 – Winding Down

Winding down is the closure and cessation of a business operation, typically with a view to eventual liquidation (winding-up of the relevant business activity). Similar to an outright sale, the winding down option contributes to operational efficiency/effectiveness by off-loading the management and financial burden of maintaining the investments/holdings and assets associated with non-core activities.

What is the value proposition to GLCs?

- Potential to stop losses sooner than under a divestment scenario.
- Reduces inefficiencies within the organisation allowing for the creation of a leaner and more focused corporate structure.

What do GLCs need to consider when implementing a winding down exercise?

- Ensure that retained operations are not disrupted or adversely affected. The effects on customers, suppliers, other business partners must be considered, and a transition plan should be put in place (e.g. a well defined communication strategy).

- There may be activities within investments/holdings being wound down that the GLC wishes to retain. One option to deal with these activities is to merge them into the retained businesses.

- Redundancy costs (displacement of employees).

- Impact on realisable asset values.

Option 3.0 – Maintaining Status Quo

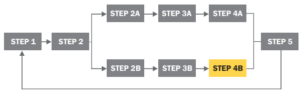
While the options discussed above deal with measures to dispose of the investments/holdings or assets supporting non-core activities, under some circumstances GLCs may choose to maintain the status quo.

GLCs may need to maintain selected investments/holdings or assets for a number of reasons which could include amongst others:

- To fulfil an ongoing social contribution, GLCs may be required to maintain selected non-core investments/holdings or assets. In this scenario, GLCs should refer to Chapter 4 of the Silver Book to evaluate options for reshaping or exiting their contributions.

- In exceptional circumstances, GLCs may identify a situation where the disposal of a non-core investment/holding or fixed asset needs to be deferred because the timing for divestment is not appropriate or because holding on to the investment/holding or asset offers valuable strategic options for the future.

  In such circumstances and provided that management time and resources are not misallocated during this holding period, the CEO should advise and seek approval of the GLC Board with some guidance on the timeline and conditions for divestiture envisaged.



Post implementation - Human resource considerations

In implementing the options above, GLCs should recognise that the organisational manpower requirements would be affected by any move to exit or wind down an investment/holding or the disposal of an asset.

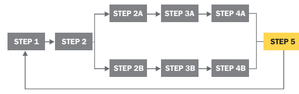
Where the affected employees can be redeployed within the organisation, this should be carried out as soon as possible and their training and orientation requirements should be addressed immediately.

Where redeployment is a possible option, GLCs need to take into account factors such as skill-job fit, relevant experiences and the ability of the affected employee to perform in the redeployed position following a short time frame of familiarisation.

Any ‘surplus’ situation in connection to displaced employees and consequential costs should be taken into account during planning/budgeting exercise.

SECTION 5

HOW GLCs CAN GET STARTED?



SECTION 5: HOW GLCs CAN GET STARTED?

This section focuses on the "Execution" stage involving implementation of the selected option(s) for core and non-core activities. GLC CEOs should spearhead this Initiative to improve operational efficiency in their organisations. Exhibit 26 provides guidance on the action steps to be undertaken. With the support of a Project Champion, CEOs should ensure that the operational enhancement initiatives:

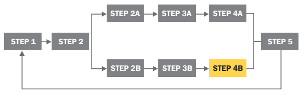
- Obtain the support and approval of the Board of Directors; and
- Are viewed as a business priority and secure adequate support and resources from the organisation.

EXHIBIT 26
IMMEDIATE ACTION STEPS FOR GLCs

A. **Mobilisation**	**CEO to Appoint an Internal Project Champion** • Assign roles and responsibilities and clarify mandate of Project Champion • Project Champion to participate in the Workshops, Seminars and Roundtable sessions • Project Champion to obtain agreement of CEO on high level timelines, targets, resources and reporting frequency
B. **Evaluation**	**Identify Business Plan Deliverables** • Review and affirm strategic direction • Confirm Business Plan deliverables **Value Chain Analysis** • Map all activities to value chain • Identify core and non-core activities **Conduct Benchmarking and Assessment** • Benchmark performance indicators for core activities • Assess the financial and operational performance for non-core activities
C. **Efficiency**	**Select Options for Improving Operations** • Identify gaps and options for core and non-core activities • Prioritise the options and support with business case • Determine and quantify benefits to be achieved • Present and obtain Board approval on the plan
D. **Execution**	**Track Progress and Benefits Captured** • Establish a programme management plan with milestones and a responsibility matrix • Develop and put in place a process and structure to track the progress of operational improvement initiatives • Track/measure the level of benefits captured from implementation and report progress to Board on a quarterly basis

Attributes of a Project Champion

- Possesses a direct reporting line to CEO/MD.
- Has a cross functional perspective across all business units. Examples of typical positions include Chief Operating Officers, Directors of Operations, Chief Financial Officers, Heads of Strategy etc.
- Able to programme manage initiatives across various functional workstreams (both revenue and cost centres).
- Credible and respected within the organisation - able to function as an effective 'change agent'.
- Able to see the big picture, understands overall business objectives and has good attention for details.



As indicated in Exhibit 26, the results of the initiatives must be continuously monitored to ensure implementation follow-through and success. To accomplish this, GLCs should put in place a systematic tracking mechanism which includes:

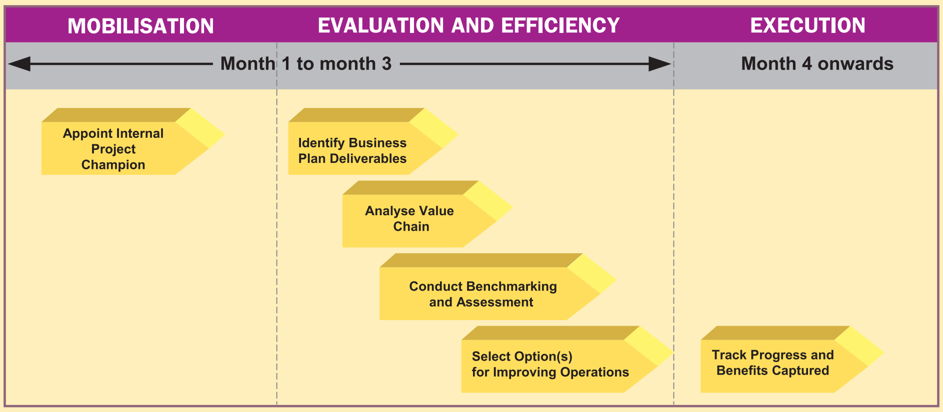
- Well-defined communication lines with target audience;
- A set of relevant and actionable KPIs with stretch goals; and
- A structured tracking process, including roles, responsibilities and reporting frequency.

A progress report on the operational improvement initiatives should be prepared by the GLC CEO and presented to the GLC Board on a quarterly basis.

It is envisaged that GLCs should target to complete an assessment within three months, and focus on implementation from the fourth month thereafter.

EXHIBIT 27

PROPOSED IMPLEMENTATION TIMELINE FOR IMMEDIATE ACTION STEPS

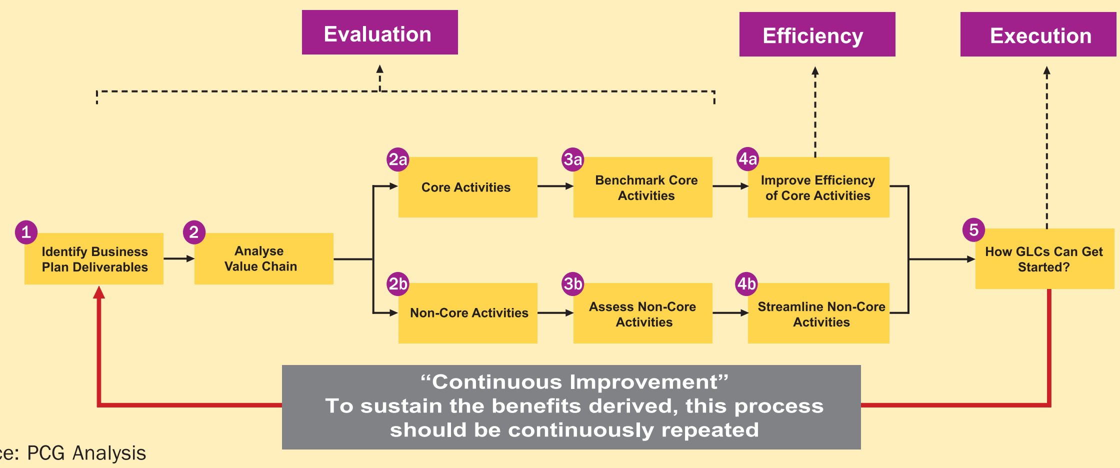


Source: PCG Analysis

As GLCs undertake steps to improve their operations, they should recognise that industry dynamics and the competitive landscape are continuously evolving. To sustain the benefits derived from these efforts, GLC CEOs need to ensure ongoing commitment and discipline from the entire organisation to continuously review operations for identifying further opportunities for improvement.

EXHIBIT 28

SUSTAINING OPERATIONAL IMPROVEMENT



Source: PCG Analysis

Programme sessions

A series of Workshop, Seminar and Roundtable sessions facilitated by experienced industry practitioners will be organised to serve as a forum to institutionalise the Framework at GLCs. Refer to Exhibit 29 below.

EXHIBIT 29
PROGRAMME SESSIONS FOR 2006/07

	TOPICS COVERED
Session 1: Kick Off Workshop	• Framework for Continuous Improvement • Evaluation stage – best practices and case studies
Session 2 Efficiency & Execution	• Options for Improving Efficiency (Outsourcing, Shared Services, BPR, Lean and Six Sigma approaches) • Execution framework and capacity building • Best practices illustrations and case studies
Session 3: Workforce Effectiveness	• Organisational effectiveness • Manpower planning
Session 4: Roundtable Session on Customer Charter	• Enhancing customer satisfaction • Making customer charters work
Optional Session: Franchising Circle	• Roundtable discussions with PNS and MFA • Positioning and best practices • Financing options

ACRONYMS AND ABBREVIATIONS

ABS	Asset Backed Securitisation
ATK	Available Tonne Kilometres
ATR	Asset Turnover Ratio
BPR	Business Process Re-engineering
CEO	Chief Executive Officer
CRM	Customer Relationship Management
EBITDA	Earnings Before Income Tax, Depreciation, and Amortisation
GLC	Government-Linked Company
GLCT	GLC Transformation
GLIC	Government-Linked Investment Company. These include Permodalan Nasional Berhad (PNB), Khazanah Nasional Berhad (KNB), Lembaga Tabung Angkatan Tentera (LTAT), Employees Provident Fund (EPF) and Lembaga Tabung Haji (LTH)
HR	Human Resource
IT	Information Technology
KLCI	Kuala Lumpur Composite Index
KPI	Key Performance Indicator
LNG	Liquefied Natural Gas
MECD	Ministry of Entrepreneur and Co-operative Development
MFA	Malaysian Franchise Association
NBV	Net Book Value
NGO	Non-Governmental Organisation
OPEX	Operating Expenditure
P&L	Profit and Loss
PCG	Putrajaya Committee on GLC High Performance, comprising YB Minister of Finance II and CEOs/ Managing Directors of PNB, KNB, LTAT, EPF and LTH
PNS	Perbadanan Nasional Berhad
PP&E	Property, Plant and Equipment
ROA	Return on Assets
ROE	Return on Equity
ROIC	Return on Invested Capital
SLA	Service Level Agreement
TMO	Transformation Management Office
VBM	Value Based Management
VCA	Value Chain Analysis
VSS	Voluntary Separation Scheme

LISTS OF EXHIBITS

Notes