

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

TERMS OF REFERENCE



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

TERMS OF REFERENCE



Objective and rationale for revamping the sourcing for GLC directors

STRENGTHEN DIRECTOR CAPABILITIES

Revamp sourcing for GLC directors

Number III.2.1.1 (c)

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



Pre-conditions for success and risks

STRENGTHEN DIRECTOR CAPABILITIES

Revamp sourcing for GLC directors

Number III.2.1.2

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

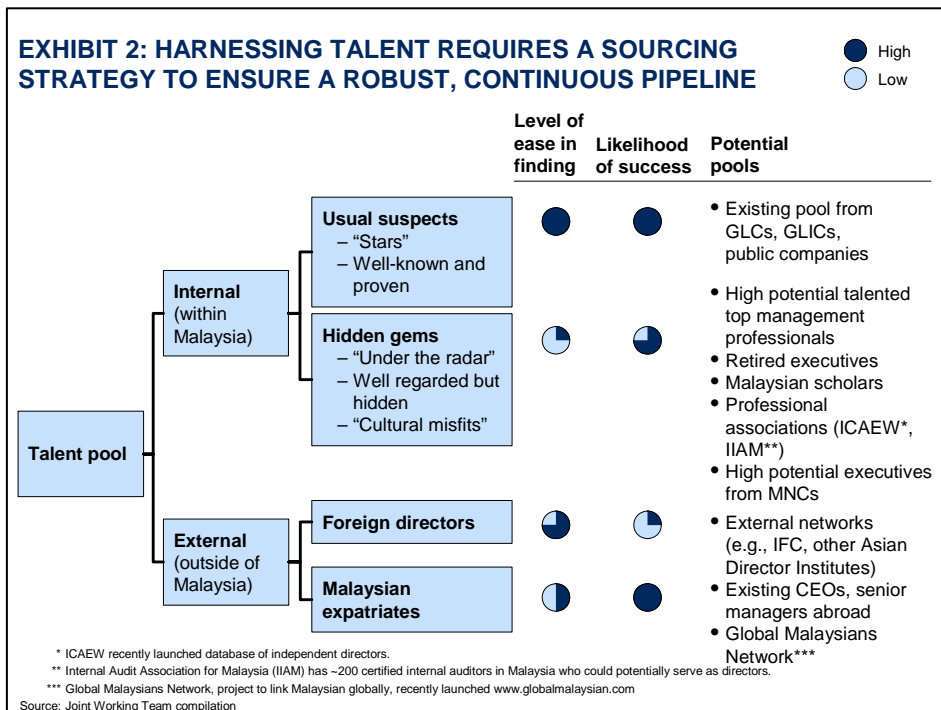


Illustrations from pilot for revamping sourcing for GLC directors	STRENGTHEN DIRECTOR CAPABILITIES	
	Revamp sourcing for GLC directors	Number III.2.1.3 (a)

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



TERMS OF REFERENCE



Illustrations from pilot for revamping sourcing for GLC directors	STRENGTHEN DIRECTOR CAPABILITIES	
	Revamp sourcing for GLC directors	Number III.2.1.3 (b)
<ul style="list-style-type: none"> ■ Sourcing strategy and process <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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



Key activities and next steps for revamping the sourcing for GLC directors

STRENGTHEN DIRECTOR CAPABILITIES

Revamp sourcing for GLC directors

Number III.2.1.4

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

TERMS OF REFERENCE



Objective and rationale for establishing Director Academy

STRENGTHEN DIRECTORS CAPABILITIES

Establish Director Academy

**Number
III.2.2.1 (a)**

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)

TERMS OF REFERENCE



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

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

TERMS OF REFERENCE



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

TERMS OF REFERENCE



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



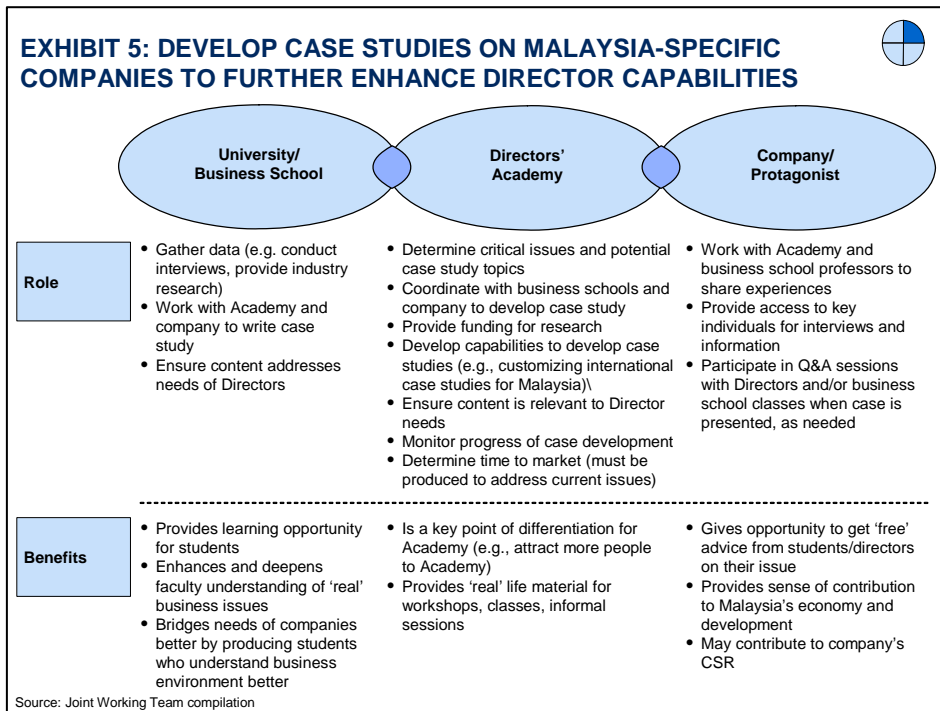
Illustrations of Director Academy design

STRENGTHEN DIRECTORS CAPABILITIES

Establish Director Academy

Number III.2.2.4 (c)

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

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

Source: Joint Working Team compilation



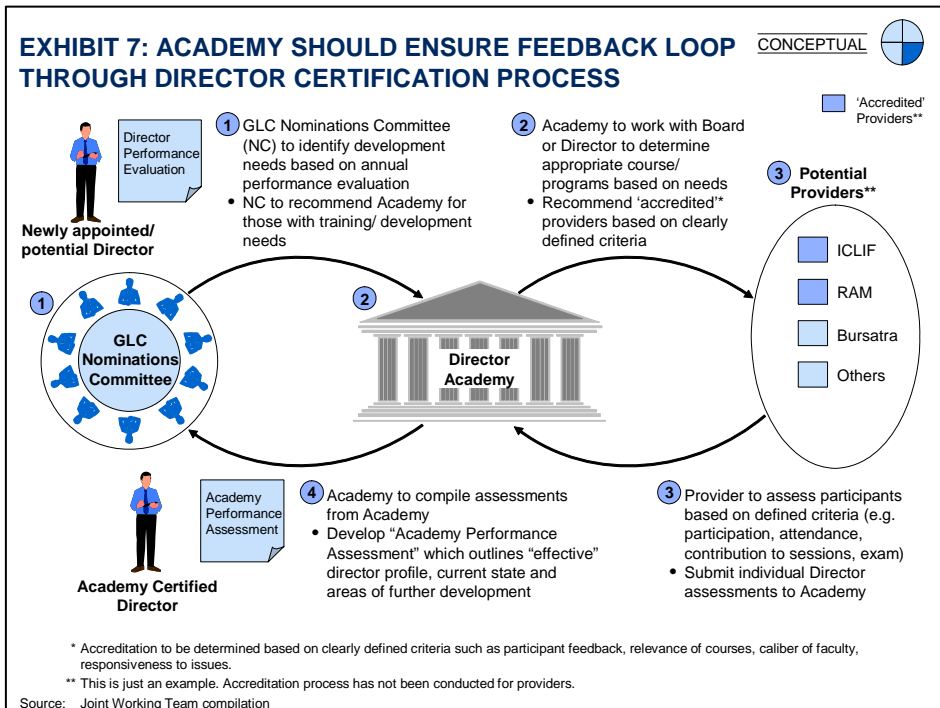
Illustrations of Director Academy design

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)





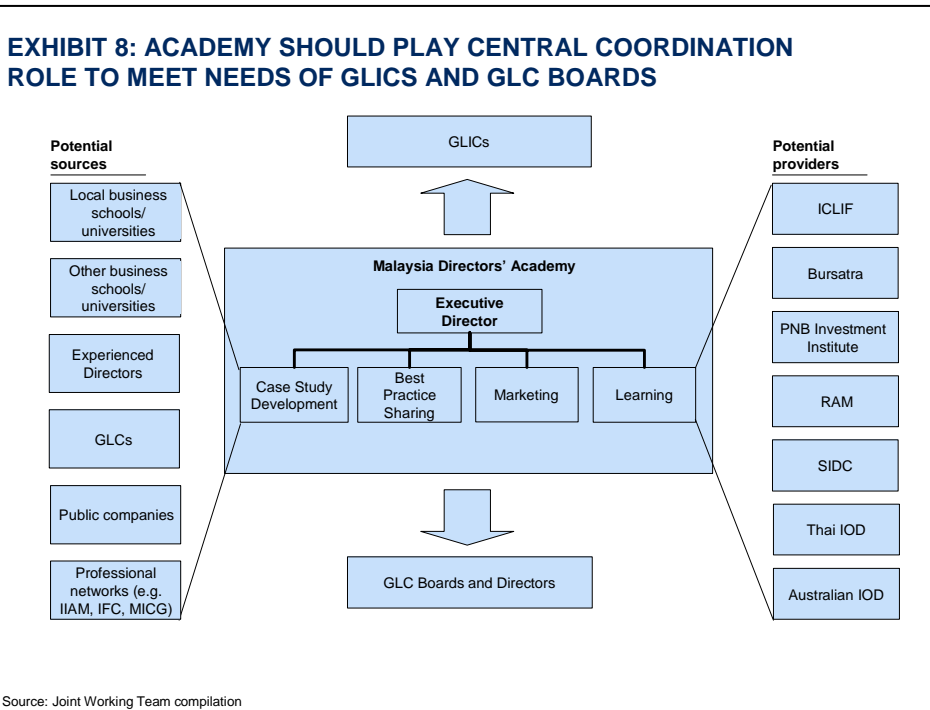
Illustrations of Director Academy design

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





MINDA
MALAYSIAN DIRECTORS ACADEMY

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DECEMBER 2006



“...DIRECTORS ACADEMY WILL BE ESTABLISHED AS A CENTRE OF LEADERSHIP EXCELLENCE. THE ACADEMY WILL PRODUCE COMPETENT DIRECTORS...WHO POSSESS EFFECTIVE LEADERSHIP QUALITIES. THE ACADEMY WILL COLLABORATE WITH WORLD-CLASS MANAGEMENT INSTITUTIONS”

(THE 2006 BUDGET SPEECH: YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI, THE HONOURABLE PRIME MINISTER OF MALAYSIA)



INTRODUCING MINDA

MOVING GLC BOARDS FROM COMPLIANCE TO PERFORMANCE

The Government-Linked Companies (GLCs) Transformation Programme was launched by the Honourable Prime Minister of Malaysia in May 2004 with the underlying intention of creating high performing entities through improved performance of GLCs.

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

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

The Green Book on Enhancing Board Effectiveness, launched in April 2006, was designed to assist Boards in achieving this. It outlines two key activities: Board Effectiveness Assessment (BEA) and Actionable Improvement Programme (AIP). One of the channels for improvement is the development of Directors through learning which led to the establishment of a Directors Academy.

The Malaysian Directors Academy (MINDA) aims to address Board performance by equipping Directors of GLCs with world class knowledge, skills and mindset to perform to a consistently high standard. To be an effective Director, performance is critical. This includes understanding the boundaries between Board and management, actively problem solving with both the Board and key management on strategic issues, whilst leveraging networks and managing multiple stakeholders in a proactive manner.

For new and potential Directors, the transition from a Management role into a Director's role and all its implications have to be addressed in a holistic manner.

EFFECTIVE DIRECTOR PROFILE

KNOWLEDGE – “What a Director knows”

- Understands fiduciary responsibility as a Director
- Understands the fundamental roles and responsibilities of the Board and Directors
- Understands and adheres to the clear boundaries between the Board and management
- Understands key industry trends (e.g. competition), geographies, and functions (e.g. operational, legal, technical) that are most relevant to the company
- Understands Malaysian cultural, social, political and developmental context
- Knows the company well enough at the right level of detail (e.g. where profit is made/lost, how customers buy, how things are manufactured, what are major talent gaps in critical positions)
- Understands shareholder expectations (e.g. dividend expectations, growth forecast) and knows key stakeholders (e.g. suppliers, regulators)

SKILLS – “What a Director can do”

- Actively and constructively solves problem (e.g. share, challenge and close) with the Board and key management
- Decisively challenges, then supports management
- Possesses business acumen from prior experiences to identify key issues and propose solutions
- Proactively uses networks and manages multiple stakeholders for the benefit of the company

MINDSET – “What a Director believes”

- Believes that performance of Director is critical (requires performance measures and consequences) and that the position is earned, not an entitlement
- Balances all shareholder and valid stakeholder interests while representing views of GLIC (if nominee)
- Behaves like an owner of the company and feels accountable to the company
- Has the integrity and courage to not act in self-interest and dissent when required
- Willing to invest adequate time and effort and not spread too thin across too many responsibilities

Source: The Green Book - Enhancing Board Effectiveness

THE MINDA APPROACH

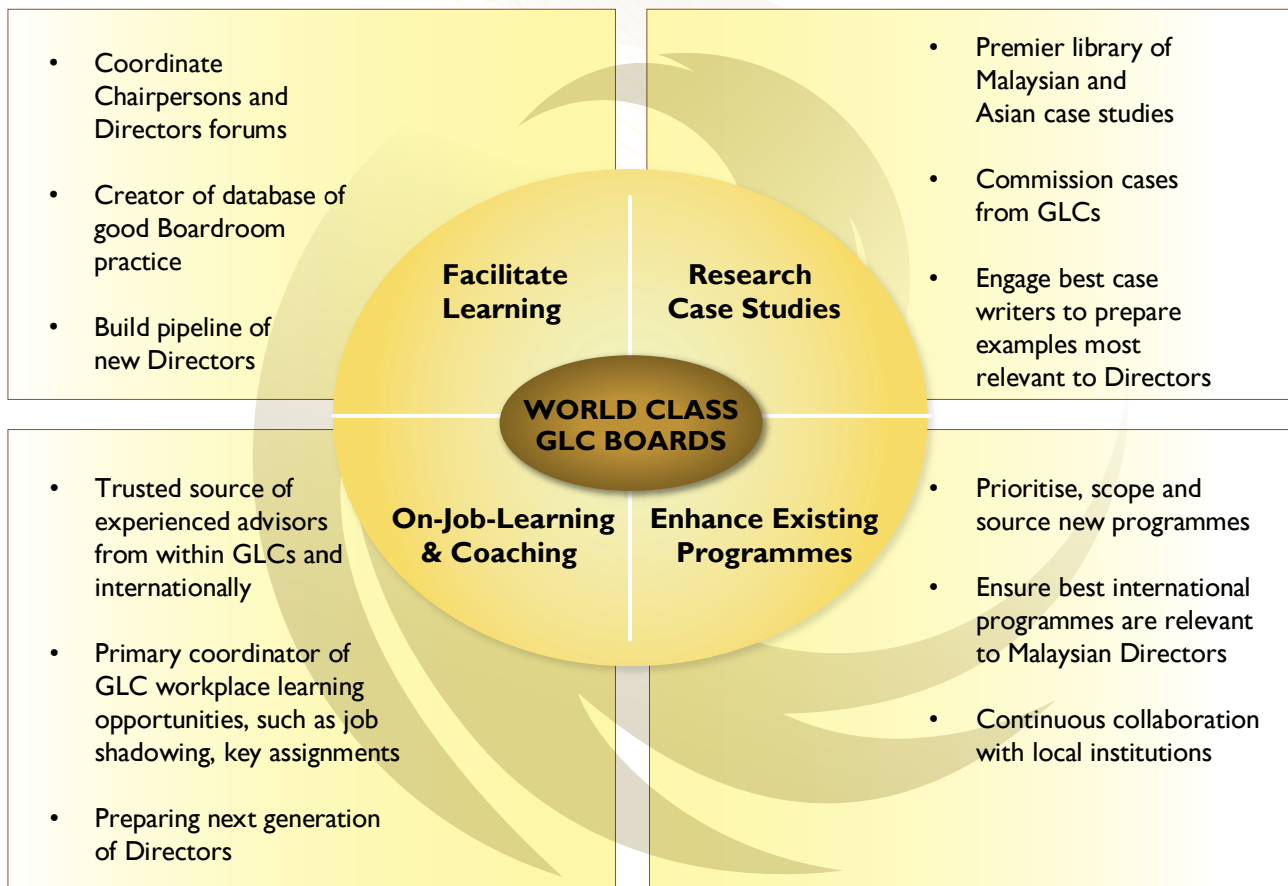
MINDA seeks to assist the Boards in focusing on its fundamental roles and responsibilities such as strategy setting, corporate performance management, development of future leaders and human capital, and risk management.

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

MINDA seeks to address this by delivering four integrated functions in a distinctive way, namely:

1. Facilitate sharing of learnings through forums, linkages and databases of best practices to build Directors' capabilities;
2. Research and develop Malaysian-related case studies to assist Directors in building knowledge on how to handle specific situations;
3. Arrange "on-the-job" learning and coaching which will be customised to an individual Director's needs; and
4. Enhance existing training and development programmes to meet the needs of Directors.

THE MINDA APPROACH - ADDING VALUE TO DIRECTORS



BUILDING OPTIMAL PARTNERSHIPS

MINDA seeks to balance the sources of learning programmes by creating partnerships with both international and local institutions. This approach will enable MINDA to draw upon the strengths of each partner.



CAPABILITY BUILDING OF LOCAL INSTITUTIONS

In its desire to enhance existing programmes and faculty resources, MINDA and IMD are embarking on a Capability Building Programme with local institutions. This will be done through numerous means including:

- Partnering with local institutions in deploying MINDA’s Flagship Programmes with the aim of transferring knowledge;
- Collaborating on local and regional research and case study development as means for knowledge sharing and personal development;
- Developing customised programmes that address local and regional development needs; and
- Establishing “Centers of Excellence” among local institutions to reduce duplication, encourage specialisation and scalability.

MINDA-IMD PARTNERSHIP



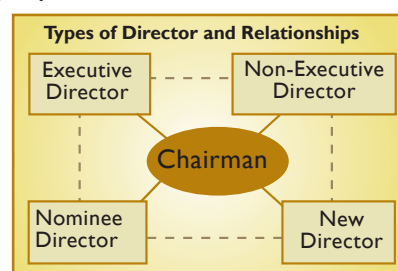
MINDA aims to provide programmes which are of world-class status, tailored specifically for Directors. To achieve this, MINDA will collaborate with leading institutions that specialise in designing and deploying programmes at Director’s level.

For its Flagship Programmes, MINDA is partnering with IMD – The International Institute for Management Development based in Lausanne, Switzerland.

IMD is the leading provider of executive education and was ranked 2nd in the world and 1st amongst European business schools for the overall quality of its programmes in the 2006 Financial Times rankings. IMD was also ranked 1st worldwide for its MBA programme in the 2005 Wall Street Journal rankings.

ADDRESSING DIRECTORS NEEDS

MINDA recognises the different types of Directors and the complexities of their roles and relationships. Therefore, the learning interventions to be designed and developed by MINDA would cater for the differing roles and issues relevant to each category. For example, Nominee Directors need to balance their obligation to the company and their duty to the shareholders whom they represent. Additionally, the Chairman and CEO must have clear boundaries, just as the Board must clearly define its roles, in particular, its boundaries with the management of the company.



KEY PROGRAMMES PLANNED IN 2007

Date*	Programme	Description	Topics Covered	Duration
February	Nominee Directors Programme	Programme designed for new Directors, introducing concepts relating to Corporate Governance and Board roles and responsibilities	<ul style="list-style-type: none"> • Conceptual overview of Corporate Governance • Key issues affecting Corporate Governance – “A Malaysian Case Study” • Board roles and responsibilities including performance, value added and leadership requirements 	3 Days
March / November	Senior Directors Programme	Personal development programme designed for experienced Directors	<ul style="list-style-type: none"> • Dilemmas, complexity and performance requirements for Boards • The role of individual Board members • The contribution to strategy and organisational development • Conflict resolution between Board and management 	3 Days
May / October	Building High-Performance Boards Programme	Programme designed to give Malaysian Directors exposure to Board members in a very international setting and a wide range of experiences in different cultures, industries and Governance frameworks	<ul style="list-style-type: none"> • Leadership of Boards • The role of Chairman and CEO • Decision biases • Risk management process • Global trends in regulation 	3 Days
July	Partner Capacity Building Programme	This programme aims at enhancing the capacity of Malaysian researchers and academics by transferring global and local knowledge into effective learning platforms for specifically described Malaysian audiences	<ul style="list-style-type: none"> • Insight into learning facilitation • Designing of learning platforms • Teaching techniques 	3 Days
September	Chairman Programme	Exclusive personal development programme designed for Chairman of Boards	<ul style="list-style-type: none"> • Role of the Chairman vis-a-vis individual Board Members • Assessing the Chairman’s performance and that of the CEO • How to manage conflicts and challenges • Leadership skills and competences of Chairmen 	2 Days

* tentative



CASE STUDY
TENAGA NASIONAL BERHAD

TENAGA NASIONAL BERHAD POWERING THE NATION – CAN CORPORATE GOVERNANCE BE THE ACCELERATOR?

Professor Ulrich Steger prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

As night fell over Kuala Lumpur on 1 September 2004, Datuk Amar Leo Moggie, Chairman of the Board of Tenaga Nasional Berhad (Tenaga), Malaysia's largest electricity utility company, was sitting in his office with Dato' Che Khalib**, the new President/CEO. Dato' Che Khalib, who was just approaching the first "100-day deadline" in office, had been brought in to accelerate the change needed in the organisation: Moving the company from a bureaucratic to a customer-focused, nimble organisation, which would be able to compete in a more challenging environment. In addition, the legacy of the Asian financial crisis – the huge debt of approximately 30 billion Ringgit¹ – was unacceptable to Tenaga and needed to be dealt with.*

The two men had walked through the proposals Dato' Che Khalib was going to present at the next Board meeting. For the beginning of the new business year, several measures were envisaged: A round of aggressive cost cutting (which would definitely be resisted by the union as it would take away some lofty legacy privileges); streamlining of the organisation – especially bringing the diverse fiefdom of the Tenaga Group closer together; and a transformation to more process-based operations.

All these actions and improvements needed to be done urgently, but Datuk Amar Leo was looking further ahead: What would the new strategy mean for relations and interactions between Board and Management? What role would the Board need to play in the conflict this change programme would clearly trigger? Was the way the Board worked living up to the new challenges? What did he as the Chairman need to change on the Board?

TENAGA NASIONAL BERHAD

Tenaga's core activities are the generation, transmission and distribution of electricity in Peninsular Malaysia. Its installed generation capacity of 10,834 MW covered approximately 60% of the country's overall installed capacity, the rest being with independent power producers (IPPs). Tenaga had a dominant role, especially in transmission and distribution sectors ("National Grid"), a dominance that often led to stringent regulatory and political interventions, notably when there was a major blackout or a tariff increase.

1. 30 billion Ringgit (RM) = US\$8.1 billion; RM 1 = US\$0.27

* now Tan Sri Datuk Amar Leo Moggie

** now Dato' Sri Che Khalib

Tenaga had several joint ventures abroad, but these activities were still relatively minor. In addition, the company was involved in the manufacture of transformers, cables and switch gears and provided a range of professional services – from consulting to property development. Tenaga also offered higher education through its Universiti Tenaga Nasional or UNITEN (refer to **Exhibit 1** for an overview of the activity range).

THE CHALLENGE AHEAD

The Group was profitable in its operation in accounting terms (refer to **Exhibit 2** for performance highlights), but far from returning its cost of capital: The typical risk-weighted average cost of capital in the electricity industry was approximately 7.5%. Considering Tenaga's dominance in the distribution sector, the risk-weighted average cost of capital would actually be less. Taking this into account, the operating profit would need to have been in the range of RM 5 billion, instead of only RM 3.3 billion in FY 2004.

There were several reasons for this gap, as Dato' Che Khalib observed:

“It is pretty clear that Tenaga has not yet finished the journey from a quasi-Government agency to a lean, competitive, customer-focused organisation. Although there has been clear progress since the privatisation in 1990 and the stock listing in 1992, we still have too many silos and are too much inward looking.”

One of the reasons for the performance gap was the complex web of regulation and Government ministries and agencies confronting Tenaga. As in every emerging country of the world, as long as electricity is regarded as a public service, it is a highly politically sensitive issue. In Malaysia, there was no single central body regulating the electricity industry – there were many: The Energy Commission reported to the Ministry of Energy, Water & Communications; the Ministry of International Trade and Industry and also the Economic Planning Unit in the Prime Minister's Office both had a say when it came to investment; the Ministry of Trade, Domestic and Consumer Affairs had a say when it came to pricing and the Ministry of Finance on issues pertaining to procurement processes and policies. Often there had been conflicting goals and interests in the past, and the results were energy prices that reflected neither the cost nor the necessary investment to fulfill the rapidly growing demand for electricity. The consequences were that the quality of the services met neither the industry's nor consumers' demands, and there were also technical problems, e.g. more than 30,000 blackouts of varying severity in one year.

Another reason for the performance gap at Tenaga was that most of the investments had been financed by debt. As some of this debt was denominated in US dollars, the Asian financial crisis in 1997/98 hit Tenaga especially hard and the debt exploded to more than RM 20 billion. Consolidating and repaying the debt was a top priority for Tenaga, and in 2004 it paid around RM 1.5 billion in interest, RM 3.5 billion in repayment of long-term borrowings and RM 5.1 billion in repayment of short-term borrowings.

But Datuk Amar Leo and Dato' Che Khalib were both convinced that Tenaga's organisation had shortcomings in itself as it was still too complex (refer to **Exhibit 3** for an overview of Tenaga's organisational structure). There was too little process efficiency in the value creation process; not enough discipline was shown in meeting targets and deadlines; and resistance was not addressed early enough – in short, all issues Dato' Che Khalib had tried to address with his change initiative.

And the pressure for performance was increasing. The Malaysian Government had recently charged Khazanah Nasional Berhad (Khazanah), the Government's investment arm, to drive the transformation programme to move Government-Linked Companies (GLCs), such as Tenaga, toward becoming high-performance organisations. The other Government-Linked Investment Companies (GLICs), mostly pension funds, supported this transformation initiative.

Khazanah's Managing Director, Dato' Azman Mokhtar, commented on this Government initiative:

"This is definitely a new step in Malaysia's economic development and nation-building. Corporate Governance and the Boards of the GLCs will play a decisive role to make this transformation happen. It is up to them to drive and implement the change. Khazanah will not micro-manage but as shareholders we will macro-manage: Set the targets, create the framework and support the implementation where needed."

Khazanah was in fact by far the largest shareholder in Tenaga with 34.3%, and – together with other GLICs – the shareholding of the Malaysian Government in Tenaga was approximately 89.0% in 2004.

CAN CORPORATE GOVERNANCE BE A TRANSFORMATION DRIVER?

Datuk Amar Leo had taken over the Chairmanship of Tenaga on 12 April 2004 after a long and successful career in the Malaysian Government, especially as Minister of Energy. Since his Chairmanship began, he had seen an almost complete renewal of the Board: Six Directors had resigned and more resignations were to come. The streamlined Board reflected a diversity of experiences and consisted of eight Directors (including the CEO) plus one alternate Director. One of the Board members was the Managing Director of Khazanah and another the Deputy Secretary-General of the Ministry of Finance (refer to **Exhibit 4**). Due to their prior experiences and services, the Board members had a strong network in the Malaysian business and political community, which helped them to argue favourably for certain strategic matters in favour of Tenaga. In addition, the composition of experienced and professional Directors assisted in ensuring professionalism and comprehensiveness in decision making.

Tenaga's Board had several committees (refer to **Exhibit 5** for details), including an Audit Committee, a Board Nomination and Remuneration Committee (BNRC), a Financial Investment Committee (FIC) and a Board Disciplinary Committee. These Committees were established to discuss relevant issues in depth and give recommendations to the whole Board before it met, in order to be able to concentrate on the most relevant issues during these meetings.

The Tenaga Group and the Board complied with all reporting requirements of Bursa Malaysia Securities Berhad (Kuala Lumpur Stock Exchange), and strengthened its application of the principles of Corporate Governance and adoption of the Corporate Governance best practices laid down in the Malaysian Code on Corporate Governance. Likewise, the frequency of Board meetings and member attendance were in compliance with the regulations and guidelines. But Datuk Amar Leo knew: Compliance is not performance!

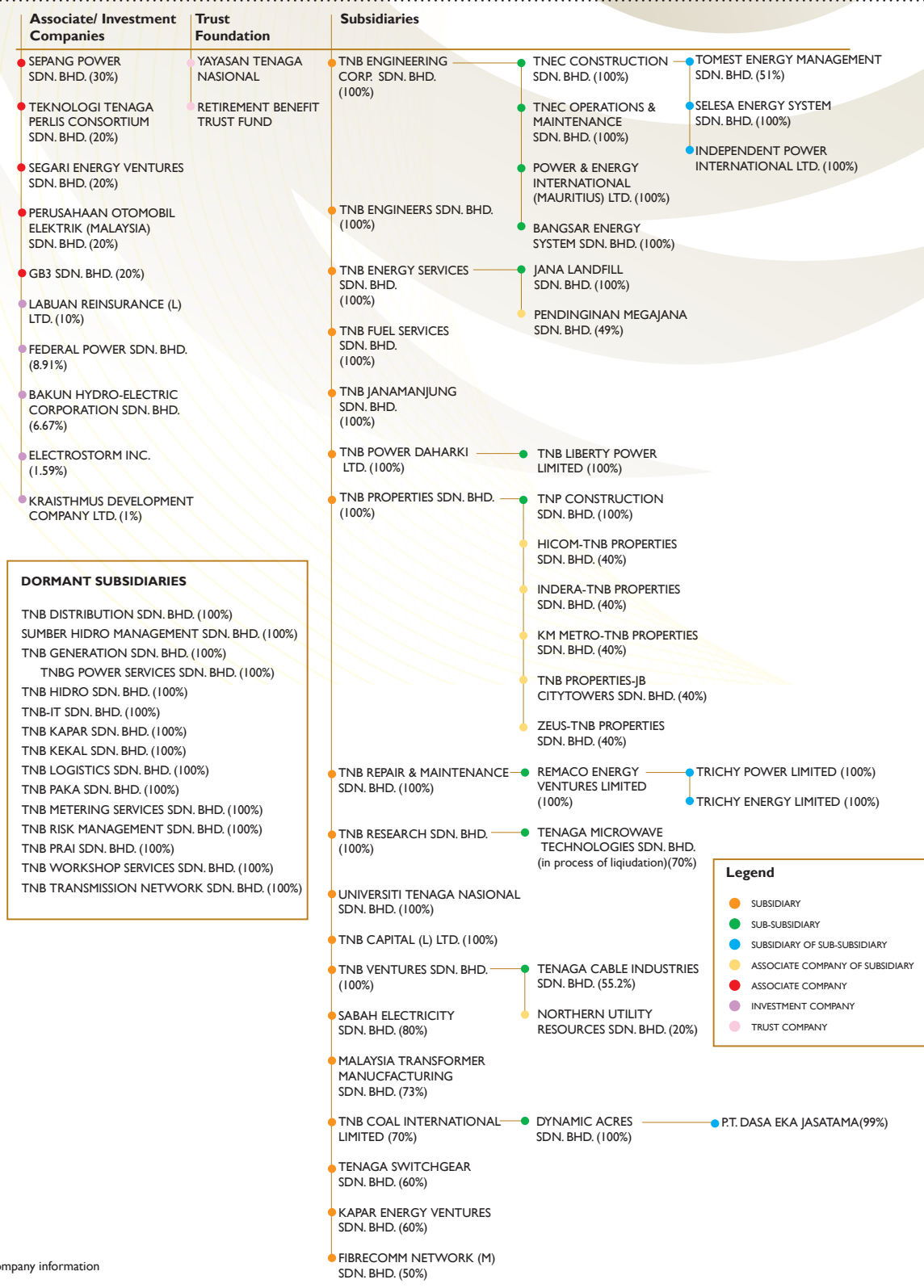
TAKING CORPORATE GOVERNANCE TO THE NEXT LEVEL

When Dato' Che Khalib and Datuk Amar Leo had finished their discussion of the proposals to be presented at the next Board meeting, night had fallen over Kuala Lumpur. After Dato' Che Khalib had left the room, Datuk Amar Leo could not stop pondering how to take the Board's work and the company's Corporate Governance to the next level: What could the value-added of the Board be? What was its role in strategy formation and implementation? What was its role towards the many, not always supportive, stakeholders? What were its roles in shaping the organisation? And vitally: How should the division of labour between Board, management and shareholders be organised and managed?

Looking out into the night over Kuala Lumpur, Datuk Amar Leo knew that he had little time to find an answer.

Exhibit I

TENAGA CORPORATE STRUCTURE – AN OVERVIEW OF THE ACTIVITY RANGE FOR 2004



Source: Company information

Exhibit 2
TENAGA PERFORMANCE HIGHLIGHTS FOR FY2000–2004

	2004	2003	2002	2001	2000
GROUP					
FINANCE (RM' million)					
Total Revenue	17,712.1	16,457.8	15,375.1	14,362.6	13,719.1
Profit Before Tax*	1,482.7	1,648.5	1,513.5	2,193.0	1,523.8
Property Plant and Equipment	53,443.7	51,768.4	50,710.7	48,270.3	45,709.6
GENERATION					
Group Installed Capacity (MW)	11,137.5	10,854.5	9,383.2	9,148.2	7,624.7
SALES OF ELECTRICITY					
Total Units Sold (GWh)	72,921.4	69,254.3	63,533.6	59,417.4	56,210.1
Sales Revenue (RM' million)	17,219.4	15,973.9	14,932.5	13,951.8	13,220.0
CUSTOMERS					
Total Number of Customers	6,323,719	6,069,561	5,789,181	5,522,325	5,311,098
EMPLOYEES (GROUP)					
Total Number of Employees	26,989	27,238	25,896	25,125	24,334
SHAREHOLDERS					
Total Number of Bumiputera Shareholders	6,526	6,778	7,118	7,631	8,182
Total Number of Non-Bumiputera Shareholders	15,726	16,471	16,669	17,277	18,792
Total Number of Institutional Shareholders	497	612	580	553	668
Total Number of Foreign Shareholders	715	702	883	1,325	2,761
Total Number of Government Agency Shareholders	42	43	54	50	45
Total Number of Nominee Company Shareholders	4,717	2,499	2,684	2,851	3,479
DIVIDENDS (GROSS)					
	18.2 sen	12.0 sen	10.2 sen	10.0 sen	10.0 sen
FINANCIAL RATIOS*					
Debt-Equity (Net of Cash) Ratio	1.94	2.11	1.98	1.66	1.85
Earnings Per Share (sen)	26.1	34.1	30.7	67.8	42.9
Net Tangible Assets Per Share (sen)	460	449	455	531	467

* The financials for 2000-2002 have not been adjusted for the provisions of MASB 29 - Employee Benefits

Source: Company information

Exhibit 3

TENAGA ORGANISATIONAL STRUCTURE IN 2004

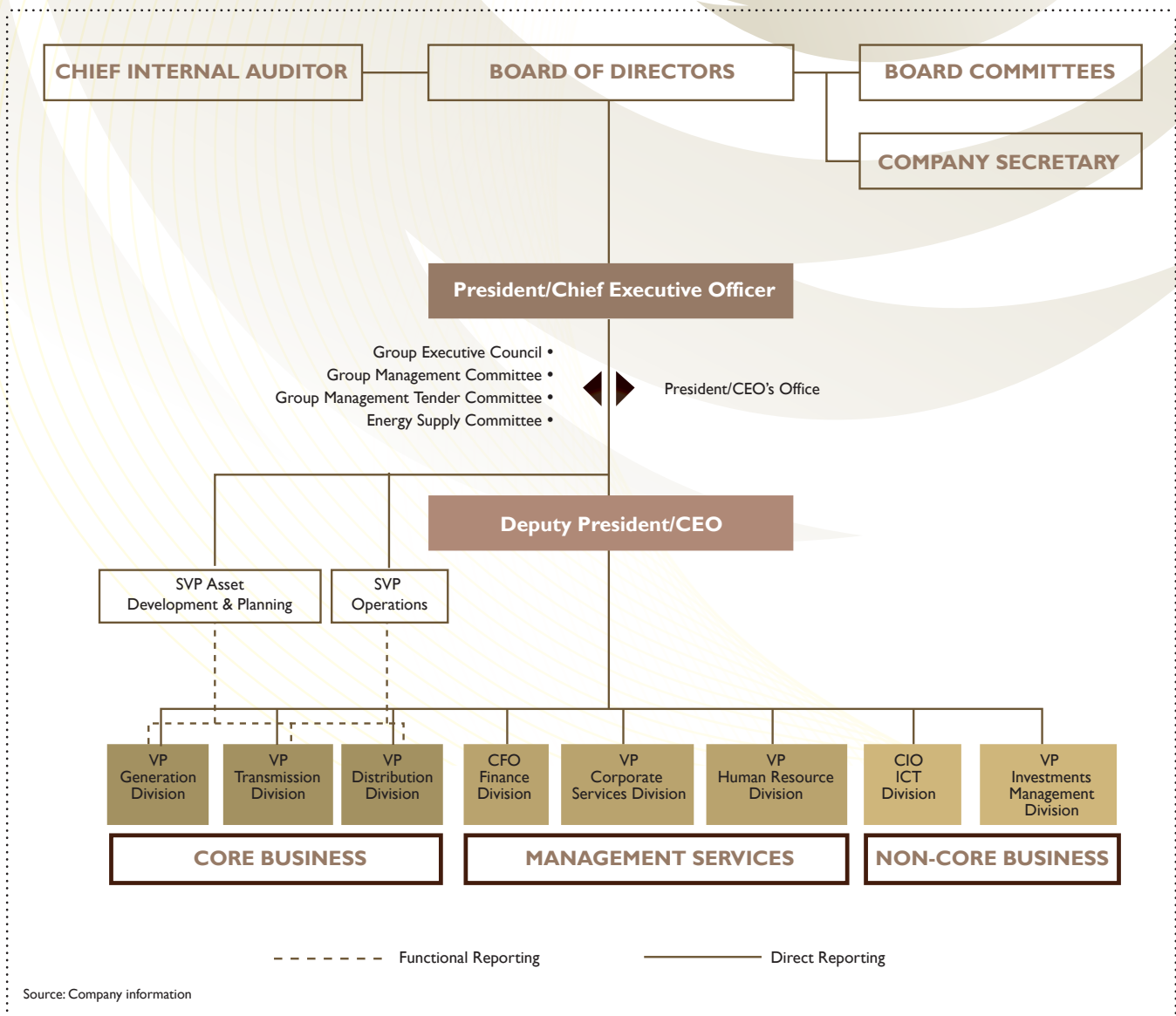


Exhibit 4

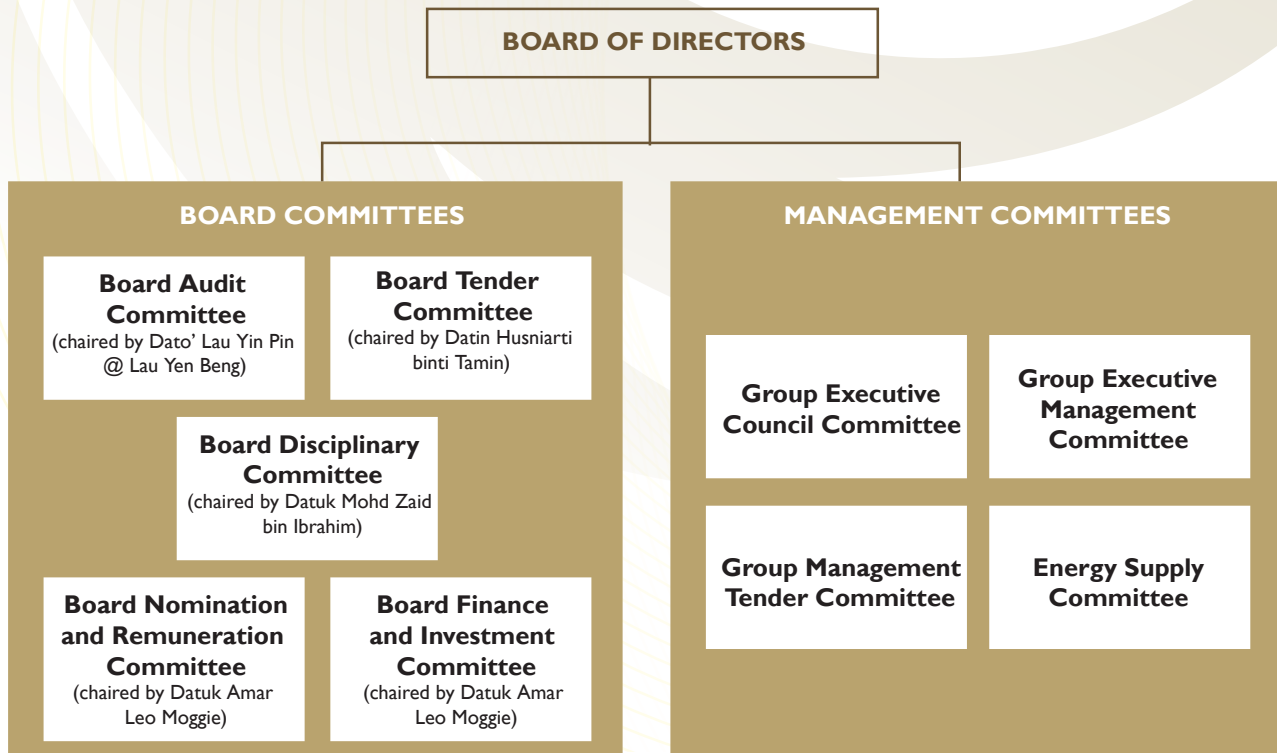
TENAGA BOARD MEMBERS IN 2004

Name	Position/Background
Datuk Amar Leo Moggie (age 63)	Non-Independent Non-Executive Chairman Held several senior ministerial posts at both federal and state levels prior to being appointed Chairman of Tenaga (e.g. Minister of Energy, Communications and Multimedia; Minister of Energy, Telecommunications and Posts)
Dato' Che Khalib bin Mohamad Noh (age 39)	Non-Independent Executive Director and President/Chief Executive Officer Has held several key positions in the private sector (e.g. Ernst & Young, Bumiputra Merchant Bankers Berhad; Managing Director and Chief Executive of KUB Malaysia Berhad)
Dato' Lau Yin Pin @ Lau Yen Beng (age 55)	Senior Independent Non-Executive Director Besides his post at Tenaga, he also sits on other Boards. He is a Fellow Member of the Chartered Association of Certified Accountants (ACCA), UK and a Chartered Accountant of the Malaysian Institute of Accountants (MIA)
Tan Sri Dato' Hari Narayanan a/l Govindasamy (age 54)	Independent Non-Executive Director Businessman (e.g. Director of SP Setia Berhad and Puncak Niaga Holdings Berhad)
Dato' Zainal Abidin bin Putih (age 58)	Independent Non-Executive Director Is also an Advisor to Ernst & Young Malaysia and Chairman of the Malaysian Accounting Standard Boards (MASB). He has served on other Boards before e.g. as Chairman of Mentakab Rubber Company Berhad
Dato' Azman bin Mokhtar (age 43)	Non-Independent Non-Executive Director Managing Director of Khazanah Nasional Berhad. He is also a Fellow of the Association of Chartered Certified Accountants and Chartered Financial Analysts (CFA) and sits on other Boards
Datuk Mohd Zaid bin Ibrahim (age 53)	Non-Independent Non-Executive Director Has extensive experience in advising on a broad spectrum of legal matters (e.g. corporate, administrative, constitutional). Has served as an advocate and solicitor of the High Court of Malaysia and notary public figure
Dato' Abdul Rahim bin Mokti (age 54)	Non-Independent Non-Executive Director Besides his post at Tenaga, he is also Deputy Secretary-General (Systems & Controls) in the Ministry of Finance and serves in other public companies as director. He has also served as Assistant Secretary (Finance Division) of the Treasury and Assistant Director of the International Trade Division, Minister of Trade and Industry
Puan Zalekha binti Hassan (age 51)	Non-Independent Non-Executive Director Alternate Director to Dato' Abdul Rahim bin Mokti Has held various key positions in the civil service (e.g. Deputy Secretary, Government Procurement, Management Division of the Ministry of Finance)
Datin Husniarti binti Tamin (age 56)	Non-Independent Non-Executive Director Has held several key positions in the civil service (e.g. Director of Energy Section, Economic Planning Unit; Deputy Secretary General (Energy), Ministry of Energy, Communication and Multimedia)
Dato' Kamariah binti Hussain (age 56)	Non-Independent Non-Executive Director Alternate Director to Datin Husniarti binti Tamin Has spent most of her civil service career at the Ministry of Finance (e.g. Assistant Secretary, Principal Assistant Secretary, Deputy Secretary of the Ministry)

Source: Company information

Exhibit 5

TENAGA BOARD STRUCTURE IN 2004



Source: Company information



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