| Objective, rationale and outputs for enhancing regulatory capabilities at GLCs | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Enhance regulatory capabilities at GLCs | Number III.4.1.1 |

## Objective

- Enhance GLCs' capabilities to develop regulatory strategy, dialogue with regulators, and ensure compliance to regulation.

## Rationale

- The nature of the regulatory framework has a significant impact on the operating environment for many GLCs, for example in telecoms, airlines, and electricity distribution

- However, many GLCs that operate in regulated sectors lack the capabilities to shape and execute their regulatory agenda

- Therefore, at GLC level, there is a need to build a dedicated best-in-class regulatory management team that is credible and a key participant in regulatory dialogues

## Outputs

- Strong regulatory teams in place at GLCs

- Enhanced level of syndication between GLCs and regulators, e.g., on the basis of industry-level frameworks proposed by GLCs

| Pre-conditions for success and risks of enhancing regulatory capabilities at GLCs | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | **Enhance regulatory capabilities at GLCs** | **Number III.4.1.2** |

**Pre-conditions for success**

- Strong drive from CEO of GLC and support from Board

- Buy-in from the head of regulatory department

- Full-time team, composed of 2 to 3 members with appropriate skills

- Support of external experts wherever necessary

**Risks**

- Difficulty in sourcing or lack of availability of personnel with the appropriate required profiles

# TERMS OF REFERENCE

| Next steps for enhancing regulatory capabilities at GLCs | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | **Enhance regulatory capabilities at GLCs** | **Number III.4.1.3** |

## Next steps for GLCs

- Review existing regulatory department and regulatory strategy
  - Map organisational structure, capabilities and processes of existing regulatory department
  - Review existing regulatory strategy and identify priority regulatory agenda items and relevant stakeholders
  - Receive Board approval on regulatory strategy

- Develop target organisational blue print
  - Based on international best practices and local context, draft target organisational blue print for GLC regulatory management department
  - Syndicate draft and finalise target organisational blue print
  - Receive Board approval

- Launch organisational change
  - Map gap between existing organisation and target blue print and plan implementation to close gap
  - Launch implementation

- Prepare industry-level framework to be discussed with regulator
  - Choose high priority regulatory topic
  - Have the regulatory team work on this topic to propose industry-level framework to regulator (in liaison with Regulatory Circle)

| Best practice principles for building a high performing regulatory department at GLCs (1/5) | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Enhance regulatory capabilities at GLCs | Number III.4.1.4 (a) |

---

**BEST PRACTICES FOR BUILDING REGULATORY CAPABILITIES AT GLCs**

**Mission**

**Key best practices in regulatory management involve building a regulatory organisation which:**
- Has a clear mission of maximising value creation for shareholders by establishing a fair and favourable regulatory environment
- Executes three main functions: developing regulatory strategy, providing regulatory support and managing relationships with stakeholders

**Staff & skills**
- Has a typical size of 15 to 50 employees of the right skill profile to execute those functions

**Structure**
- Is very close to the CEO, with a level of centralisation across BUs depending on the context

**Processes**
- Functions with standard key processes, such as a monthly Strategy and Regulatory Leadership Committee meeting

Source: McKinsey analysis

# SUPPORTING MATERIAL

| **Best practice principles for building a high performing regulatory department at GLCs (2/5)** | **IMPROVE REGULATORY ENVIRONMENT** | |
|---|---|---|
| | **Enhance regulatory capabilities at GLCs** | **Number III.4.1.4 (b)** |

## THERE ARE TYPICALLY THREE MAIN FUNCTIONS IN A REGULATORY DEPARTMENT…

**Mission** | **Main functions** | **Main activities**

**Mission:** *Maximize value creation for shareholders by establishing a fair and favorable regulatory environment*

**Develop regulatory strategy**
- Prioritise and manage regulatory agenda
- Conduct assessment of economic impact of regulation
- Coordinate regulatory projects

Main activities:
- Prioritise and manage regulatory agenda based on assessment of economic impact of regulation
- On each regulatory theme, structure fact-based argumentation to influence regulator and other stakeholders
- Coordinate multifunctional regulatory projects

**Provide regulatory support**
- Address regulator's requests
- Provide assistance to the organisation regarding regulatory issues and concerns

Main activities:
- Answer regulator's requests and requirements
- Handle regulatory requests and concerns posed by the organisation
- Ensure each business unit's compliance with regulation
- Disseminate regulatory knowledge throughout the organisation

**Manage relationships with stakeholders**
- Coordinate the relationship with stakeholders, in particular with the regulator

Main activities:
- Manage the relationship with the regulator and other stakeholders
- Coordinate lobbying
- Coordinate communication on regulatory issues to public opinion
- Monitor regulatory issues (at national and international level)

Source: McKinsey analysis

## …WITH DISTINCT PROFILES AND CAREER PROPOSITIONS

**Key functions** | **Profiles** | **Career propositions**

**Develop regulatory strategy**

**"Consultant"**
- Strong analytical skills
- Capable of working in and managing multifunctional teams
- Good knowledge of local regulation and industry dynamics

Career propositions:
- Allocated on a project basis (3-5 projects per employee)
- High mobility across different types of projects and business units
- Evolution from analyst to managerial role

**Provide regulatory support**

**"Process manager"**
- In-depth knowledge of regulation and industry dynamics (preferably with previous experience working for the regulator)

Career propositions:
- Deep specialisation in regulation at a detailed level
- Temporary allocation to business units in order to develop knowledge of operations

**Manage relationships with stakeholders**

**"Relationship manager"**
- Specialist in both telecommunications and regulation
- Previous experience in lobbying, and capable of developing top-level relationships with key decision and opinion makers

Career propositions:
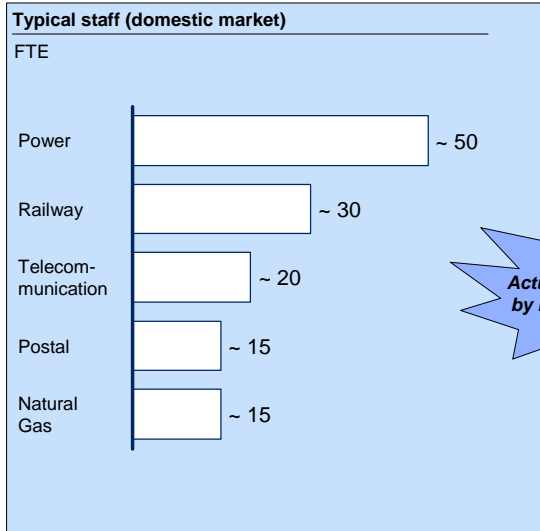- Develop high internal and external credibility

Source: McKinsey analysis

| Best practice principles for building a high performing regulatory department at GLCs (3/5) | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Enhance regulatory capabilities at GLCs | Number III.4.1.4 (c) |

## A REGULATORY DEPARTMENT NEED NOT TO BE VERY LARGE...

**Typical staff (domestic market)**

FTE

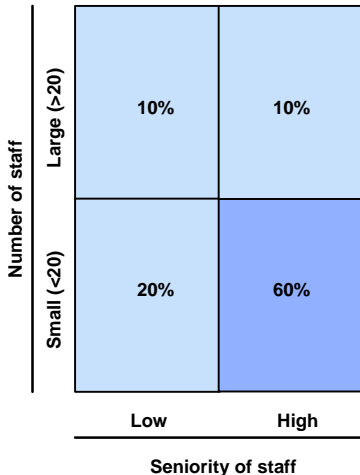| | |
|---|---|
| Power | ~ 50 |
| Railway | ~ 30 |
| Telecom-munication | ~ 20 |
| Postal | ~ 15 |
| Natural Gas | ~ 15 |

*Estimates
Actual size will be driven by industry and country context*

Source: McKinsey analysis

## ...BUT SHOULD BE STAFFED WITH HIGH PERFORMING SENIOR STAFF

**Size/ seniority of regulatory staff in US and UK utilities**

% of companies reviewed

| Number of staff | Low | High |
|---|---|---|
| Large (>20) | 10% | 10% |
| Small (<20) | 20% | 60% |

**Seniority of staff**

*"It is only natural to favour those utilities that appear more professional"* (UK regulator)

*"We put our best people into regulation"* (US utility)

*"Most high fliers have a stint in regulation."* (US utility)

*"Regulation staff have to be credible with the rest of the business or they simply cannot do their job."* (UK utility)

*"Most of our regulation staff have built up their skills over many years."* (UK utility)

*"In regulation I have the authority to set prices for the whole company, nobody queries my decisions or goes over my head"* (US utility)

Source: McKinsey analysis

| Best practice principles for building a high performing regulatory department at GLCs (4/5) | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Enhance regulatory capabilities at GLCs | Number III.4.1.4 (d) |

## THE HEAD OF REGULATORY DEPARTMENT SHOULD HAVE A HIGH LEVEL PROFILE

**Functions and responsibilities for head of corporate affairs**

- Formulate regulatory strategy

- Oversee and support business unit regulatory management

- Oversee and support business unit regulatory management

- Manage, build, and maintain relationships with highest government and regulatory authorities

- Serve as negotiator and conflict solver of last resort for regulatory topics

**Required skill profile**

**Qualifications**
- Post-graduate education level (i.e., MS, Ph.D.)
- Excellent presentation, interpersonal, and communication skills
- Ability to influence

**Experience**
- 7-10 years experience in regulatory arena and industry
- Substantial experience in negotiation with government authorities and regulators
- Substantial experience in managing and motivating people
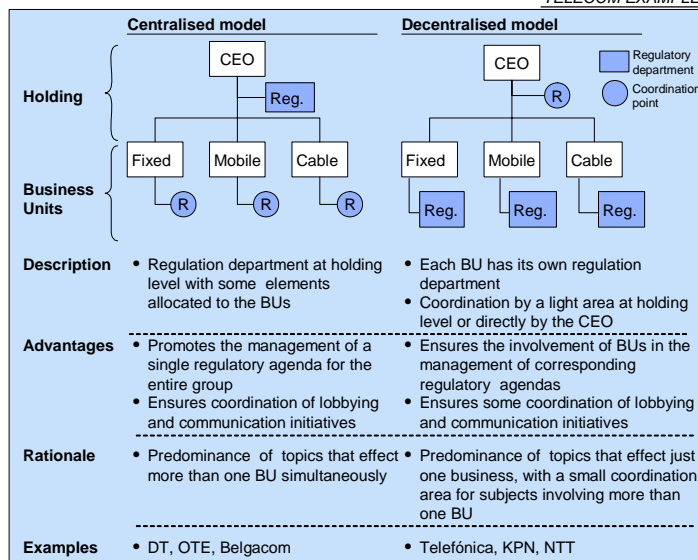
Source: McKinsey analysis

## A REGULATORY ORGANISATION REQUIRES A CLOSE LINK TO THE CEO AND A CONTEXT SPECIFIC LEVEL OF CENTRALISATION

*TELECOM EXAMPLE*

**Principles in designing a regulatory organisation**

- **Guarantee regular and frequent access to top management, e.g., CEO**

- **Ensure close involvement of BUs in the development and management of the regulatory agenda**

- **Provide for coordination of communication for efficient stakeholder management**

- **Harmonise corporate and regulatory strategy development processes as much as possible**



|  | Centralised model | Decentralised model |
|---|---|---|
| **Description** | • Regulation department at holding level with some elements allocated to the BUs | • Each BU has its own regulation department<br>• Coordination by a light area at holding level or directly by the CEO |
| **Advantages** | • Promotes the management of a single regulatory agenda for the entire group<br>• Ensures coordination of lobbying and communication initiatives | • Ensures the involvement of BUs in the management of corresponding regulatory agendas<br>• Ensures some coordination of lobbying and communication initiatives |
| **Rationale** | • Predominance of topics that effect more than one BU simultaneously | • Predominance of topics that effect just one business, with a small coordination area for subjects involving more than one BU |
| **Examples** | • DT, OTE, Belgacom | • Telefónica, KPN, NTT |

Source: McKinsey analysis

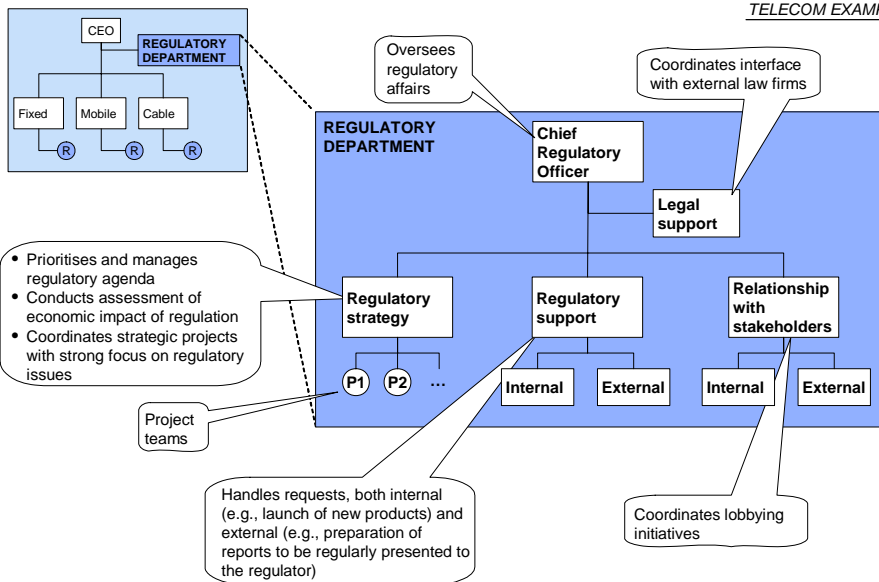| Best practice principles for building a high performing regulatory department at GLCs (5/5) | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Enhance regulatory capabilities at GLCs | Number III.4.1.4 (e) |

## DETAIL OF THE CENTRALIZED ORGANISATIONAL MODEL

*TELECOM EXAMPLE*



- Prioritises and manages regulatory agenda
- Conducts assessment of economic impact of regulation
- Coordinates strategic projects with strong focus on regulatory issues

Oversees regulatory affairs

Coordinates interface with external law firms

Handles requests, both internal (e.g., launch of new products) and external (e.g., preparation of reports to be regularly presented to the regulator)

Coordinates lobbying initiatives

Project teams

Source: McKinsey analysis

## 7 STANDARD KEY PROCESSES ARE ESSENTIAL FOR A SUCCESSFUL REGULATORY ORGANISATION

**Principles in designing a regulatory organisation**

- **Guarantee regular and frequent access to top management, e.g., CEO**
- **Ensure close involvement of BUs in the development and management of the regulatory agenda**
- **Provide for coordination of communication for efficient stakeholder management**
- **Harmonise corporate and regulatory strategy development processes as much as possible**

**KEY PROCESSES**

1. **Strategy and Regulatory Leadership Committee:** Monthly meeting with Executive Committee members and with top management of business units to monitor the evolution of projects, validate decisions, and define specific next steps

2. **Review of strategy and regulatory agenda:** Continuous review of the strategy and regulatory agenda, updated in the department weekly meetings and validated by the Strategy and Regulatory Leadership Committee

3. *Tableau de bord* **of projects:** Managerial tool aimed at monitoring the evolution of the projects. For every project, a summary – next steps, responsibilities, deadline and status – should be prepared and sent to Executive Committee members and to top management of business units

4. **Weekly department meetings:** The regulatory department should meet once a week to monitor the evolution of projects, assure timely implementation of agreed next steps, and redefine specific action plans when necessary

5. **Weekly meetings with CEO:** The head of the regulatory department should meet once a week with the CEO to discuss critical issues

6. **Participation in Executive Committee meetings:** The regulatory department should participate in the Executive Committee meetings, discussing specific strategy and regulatory issues

7. **Participation in Board meetings:** The regulatory department should also participate in Board meetings when the agenda focuses on strategic and regulatory issues

Source: McKinsey analysis

**TERMS OF REFERENCE**

| Objective and rationale for establishing a Regulatory Knowledge Network | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | **Establish a Regulatory Knowledge Network** | **Number III.4.2.1** |

## Objective
- Create a Regulatory Knowledge Network involving relevant GLCs, GLICs and other stakeholders in order to improve GLC performance and building nationwide regulatory capabilities

## Rationale
- The regulatory economics knowledge at GLICs is scarce and typically not centralised within organisations (i.e., there is no focal point for knowledge development to assist GLC investee companies). Despite the strategic importance of regulatory matters to specific GLCs , their current regulatory capabilities are very limited both in terms of breadth and depth, resulting in varying levels of compliance, and a limited ability to shape the regulatory environment. Therefore GLCs have, to date, approached shifts in their regulatory environment in a "reactive" rather than a "proactive" manner
- The consequences of the above are at 3 levels:
  - At company level, limited regulatory knowledge may result in loss of competitiveness (e.g., higher transaction costs, poor positioning for medium term investment, etc.) – especially as internationalisation of GLCs requires them to better understand the regulatory requirements and risks
  - At industry level, suboptimal regulation and insufficient compliance to regulation may lead to suboptimal situations for the industry as a whole. The lack of cross-sector regulatory networking may also result in sector-convergence trend not addressed by regulators
  - At national level, these issues translate into inability for Malaysia to improve its competitiveness against its regional rivals
- Therefore there is a need to create a Regulatory Knowledge Network to address those issues by:
  - Establishing a Regulatory Knowledge Network linking relevant stakeholders
  - Codifying regulatory knowledge (database of international best practices models, manual of regulatory economics)
  - Building capabilities by disseminating regulatory knowledge to members of the Network and their staff

# TERMS OF REFERENCE

| Outputs, expected impact, pre-requisites for success and risks of creating Regulatory Knowledge Network | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Establish a Regulatory Knowledge Network | Number III.4.2.2 |

## Outputs

- Regulatory Knowledge Network in place

- Initial codification of regulatory knowledge completed and codification ongoing

- Increased capabilities of staff at regulators and GLCs

## Expected impact

- Increase level of understanding on how to manage/better collaborate with regulator

- Strengthen GLC position in managing regulators and shifts in regulatory environment

## Pre-requisites for success

- Exhaustive identification of relevant stakeholders

- Cooperation from heads of regulation of GLCs

## Risks

- Limited support from regulators

- Insufficient capacity in regulatory teams at GLCs

| Next steps for creating Regulatory Knowledge Network | IMPROVE REGULATORY ENVIRONMENT | |
|---|---|---|
| | Establish a Regulatory Knowledge Network | Number III.4.2.3 |

## Next steps for PCG

- Launch Regulatory Knowledge Network
  - Identify, list and contact relevant stakeholders and gain agreement on their participation in the first Regulatory Knowledge Network meeting
  - Prepare material and logistics for first Regulatory Circle meeting
  - Hold first Regulatory Knowledge Network meeting (present objectives, get feedback and ideas, plan future meetings)
  - Hold regular Regulatory Knowledge Network meetings with various forms/topics (e.g., form Working Groups on competition law, price-setting, universal service obligations, etc.)

- Codify regulatory knowledge
  - Review international best practices in terms of regulatory designs, functions and cross-sector regulation
  - Identify key concepts taught in regulatory economics courses
  - Codify key concepts and best practices models into first release Regulatory Manual

- Build capabilities of Regulatory Knowledge Network members and their staff
  - Ensure dissemination of Regulatory Manual to members of Regulatory Knowledge Network and their staff
  - Identify key regulatory seminars and organise own workshops for members of Regulatory Knowledge Network (e.g., with Multimedia University)

## PROGRAMME SESSIONS FOR 2006/07

| | DATES | TOPICS COVERED |
|---|---|---|
| **Phase 1 : Capacity Building for GLCs** | | |
| **Session 1:** Overview of Regulation | 14-15 Aug 2006 | • Introduction to regulation<br>• Fundamentals of economic regulation |
| **Session 2:** Regulatory Strategy | 4-5 Sept 2006 | • Define GLCs' regulatory strategy<br>• Strategies for operating in other jurisdictions |
| **Session 3:** Regulatory Management | 20-21 Nov 2006 | • Identify optimal regulatory department structure<br>• Formulate tariff review submission |
| **Session 4:** Regulatory Communication | Jan 2007* | • Develop a proactive communication strategy<br>• Execute communication programme |
| **Session 5:** Issues on Regulation | Feb 2007* | • Discussion on major issues, i.e. Universal Service Obligations (USOs), service quality issues |
| Chairmen & CEOs Seminar | Jan 2007* | • High-level overview of regulation<br>• Create awareness on latest issues, i.e. FTAs, WTO, USOs |
| **Phase 2: Knowledge Enhancement for Policymakers and Regulators** | | |
| **Session 1:** Concepts of Good Regulation | Apr 2007* | • Fundamentals of economic regulation<br>• Defining appropriate regulatory instruments |
| **Session 2:** Identify Optimal Regulatory Structure for Malaysia | May 2007* | • Benchmarking against other jurisdictions<br>• Staffing and funding regulatory agencies<br>• Consider different forms of regulation and their applications in the Malaysian environment |
| **Session 3:** Issues on Regulation | June 2007* | • Challenges in implementing optimal regulatory structure<br>• Promoting good regulatory practices |
| **Phase 3: Consultative Circle involving Key Stakeholders** | | |
| **Session 1:** Stakeholders' Orientation | Aug 2007* | • Formation of Regulatory Circle<br>• Lessons from other jurisdictions |
| **Session 2:** Roundtable Discussion on Enhancing Regulatory Structure in Malaysia | Sept 2007* | • Role of customer consultative committees in regulation management and decision making<br>• Codify knowledge from various stakeholders |

*\* Tentative*

## THE GLC TRANSFORMATION PROGRAMME

The GLC Transformation Programme was launched by the YAB Prime Minister of Malaysia in May 2004 to transform GLCs into high-performing entities and is critical for the future prosperity of Malaysia. The launch saw the introduction of key performance indicators, Board composition initiatives, the revamp of Khazanah Nasional Berhad, as well as changes in the management of a number of GLCs.

On 29 July 2005, the GLC Transformation Manual which contained five Policy Thrusts and 10 Initiatives that are targeted to drive and enhance GLC performance was launched. The Blue Book on Intensifying Performance Management Practices was launched simultaneously.

Subsequently, on 26 April 2006, the "Green Book" on Enhancing Board Effectiveness and the "Red Book" on Reviewing and Revamping Procurement Practices were launched.

The remaining Initiatives are scheduled to be launched by end 2006.

## THE PUTRAJAYA COMMITTEE ON GLC HIGH PERFORMANCE (PCG)

To sustain the momentum created by the launch of initial measures, the PCG was formed in January 2005 to follow through and catalyse the GLC Transformation Programme. The PCG is chaired by the YB Second Finance Minister of Malaysia and comprises the Heads of Government-Linked Investment Companies (GLICs), namely Permodalan Nasional Berhad (PNB), Khazanah Nasional Berhad (KNB), Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT) and Lembaga Tabung Haji (LTH), as well as representatives from the Ministry of Finance (MOF) and the Prime Minister's Office, working together to monitor progress and to recommend further measures of improvements.

A Transformation Management Office (TMO) has been established at Khazanah Nasional Berhad which serves as the Secretariat to the PCG. The TMO is responsible for managing the roll-out of the Initiatives proposed in the Manual and reporting progress to the PCG.

## INITIATIVE 4

### IMPROVING REGULATORY ENVIRONMENT PROGRAMME

# Objective

The Initiative for Improving Regulatory Environment is a mid to long term advocacy programme to enhance the regulatory environment through engagement amongst Government-Linked Companies (GLCs), Policymakers, Regulators and other key stakeholders.

The aim of this programme is to create awareness among GLCs on the importance of establishing effective regulatory strategy and organisation; encourage, through training, the participation of GLCs and Regulatory bodies in the development of appropriate regulation agenda for their respective industries and provide a platform for the Policymakers and Regulators in developing an enhanced National Regulatory Framework.

# Rationale

The regulatory framework has a significant impact on the operating environment of many GLCs, in particular those involved in telecommunications, airlines, and utilities sectors. Moving forward, it is imperative for GLCs to strengthen their regulatory capabilities to shape and execute their regulatory agenda in support of their overall corporate objectives.

Therefore, at the GLC level, there is a need to build a dedicated best-in-class regulatory management team to effectively engage in regulatory dialogues with the Regulators and other key stakeholders, such as NGOs and consumer groups.
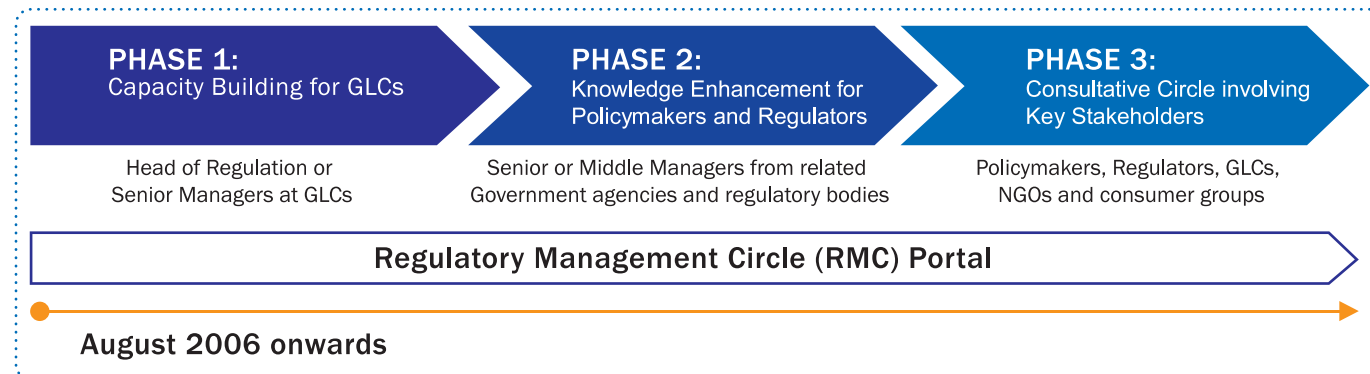
# Desired Outcome

- Build and develop capacity to strengthen regulatory teams in GLCs

- Enhance the level of engagement amongst GLCs, Policymakers, Regulators and other key stakeholders

- Provide Policymakers an additional discussion platform to enhance National Regulatory Framework

- Establish the foundation for long-term capability building through industry-academia partnership

- Explore lessons learnt from other jurisdictions in strengthening the Malaysian regulatory environment

# Improving Regulatory Environment Programme

In many instances, economically competitive nations have, at their core effective regulatory structures to facilitate business activities. An effective regulatory structure guides and allows economic participants – Policymakers, Regulatory Bodies, companies and other key stakeholders – to produce high quality products and services to fulfill customer needs.

Realising the need to further enhance the present regulatory environment, the GLC Transformation programme has developed a three-phased advocacy programme to educate, create awareness and provide a platform for all stakeholders to undertake their roles more effectively. Each phase acts as a building block towards successful execution of the next phase.



**PHASE 1:**
Capacity Building for GLCs

Head of Regulation or Senior Managers at GLCs

**PHASE 2:**
Knowledge Enhancement for Policymakers and Regulators

Senior or Middle Managers from related Government agencies and regulatory bodies

**PHASE 3:**
Consultative Circle involving Key Stakeholders

Policymakers, Regulators, GLCs, NGOs and consumer groups

**Regulatory Management Circle (RMC) Portal**

**August 2006 onwards**

## Phase 1: Capacity Building for GLCs

Five workshops for GLCs' senior and middle management staff (Overview of Regulation, Regulatory Strategy, Regulatory Management, Regulatory Communication, and a final workshop on Issues on Regulation). The objectives of these workshops are to enhance the skills and knowledge of staff in GLCs:

- to enable them to set up effective regulatory units within their organisations
- to enable GLCs to engage with Regulators more competently in the development of effective regulations
- to enable GLCs to manage and communicate regulatory issues to key stakeholders

## Phase 2: Knowledge Enhancement for Policymakers and Regulators

Three workshops for key senior and middle managers from regulatory agencies and relevant government bodies. Focus of these workshops is to impart knowledge on best practice economic regulation policies and procedures as applied in various overseas jurisdictions that have effective regulatory regimes (e.g. United States, United Kingdom, Australia and New Zealand).

## Phase 3: Consultative Circle involving Key Stakeholders

The Consultative Circle brings together all relevant Stakeholders for constructive discussions on improving the existing regulatory environment while building on a national agenda for improving public service delivery system. A potential outcome of such discussions could be to develop an enhanced National Regulatory Framework.

## RMC Portal

The RMC Portal is aimed at fostering a strong community amongst participants of the Regulatory Management Programme. It will serve as a tool to:

- enable virtual collaboration amongst participants

- share information and developments amongst participants

- provide a platform to further explore developments in economic, social, political and cultural dimensions and their impact