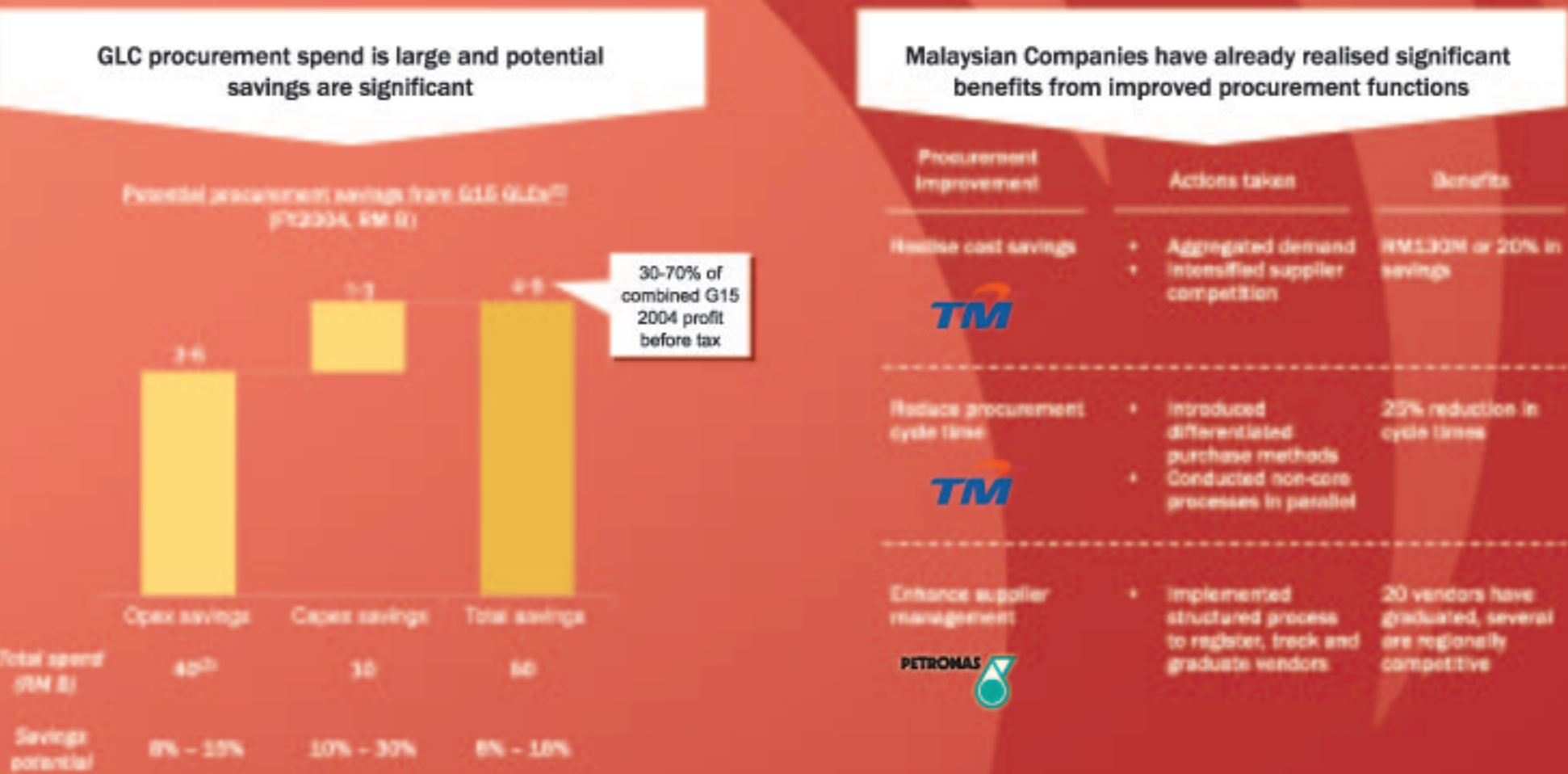


# RED BOOK AT A GLANCE



## Chapter 1: Importance of procurement

Significant Benefits Can Be Realised From Improving Procurement



## Chapter 5: Getting started - Ensuring traction for a procurement initiative

GLC Boards And CEOs Have Specific Implementation Roles

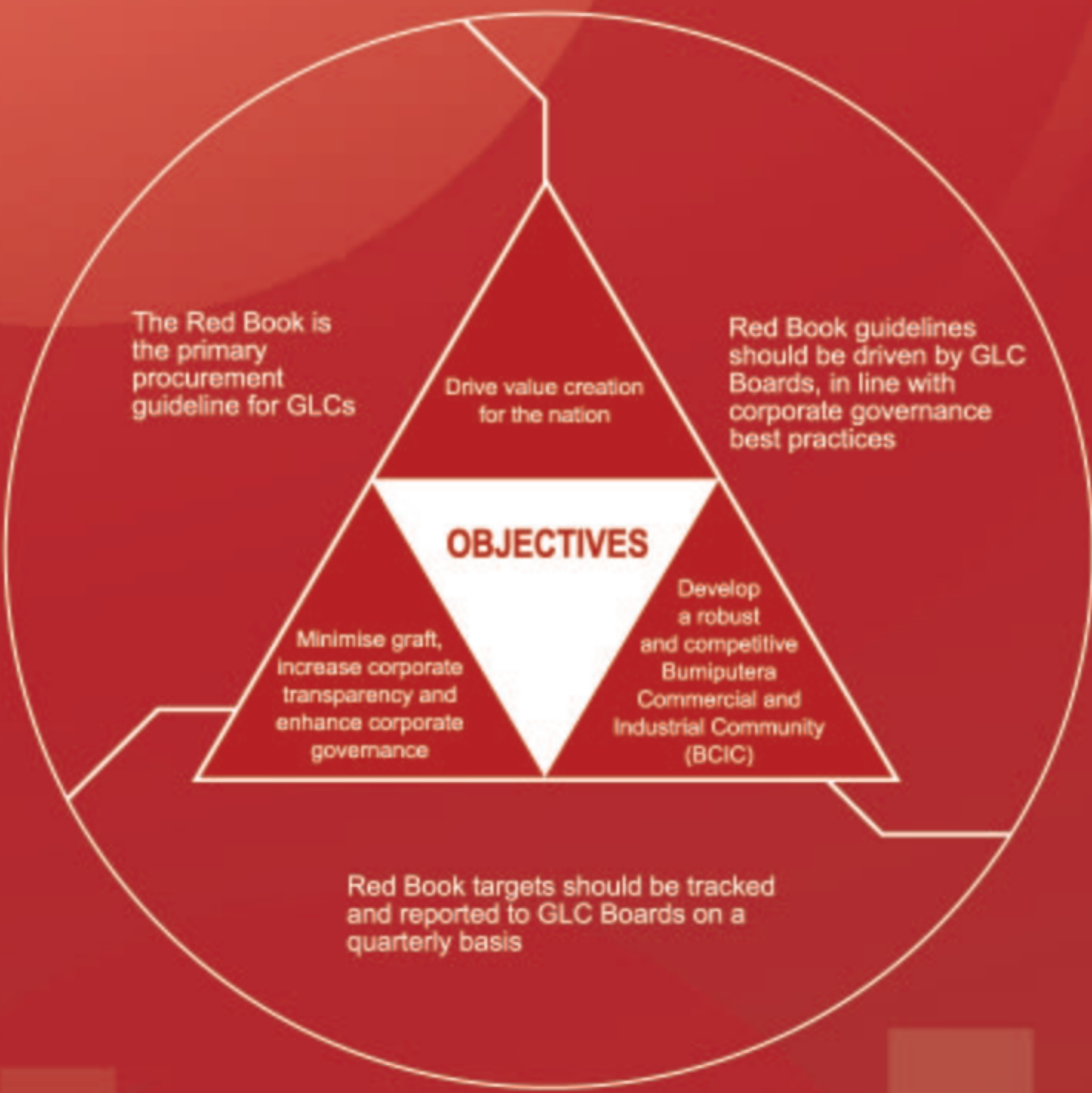
- To create a strong platform for implementing the Red Book, GLC Boards should:
1. Adopt the Red Book as the primary reference for procurement best practices
  2. Set initial top-down CEO targets and milestones in relation to Red Book implementation
  3. Where appropriate, elevate the reporting line for the Head of Procurement to no more than two levels below the CEO
  4. Where appropriate and relevant to the GLC, revise current procurement policies and targets based on Red Book's approach
- To initiate a procurement initiative and gain immediate traction, GLC CEOs should:
1. Establish the importance of the procurement initiative and its implications for the organisation
  2. Gain immediate traction in the organisation by:
    - Appointing an internal initiative champion
    - Validating an initial assessment on procurement issues and gaps
    - Determining procurement priorities and scope of the initiative
    - Setting timelines, targets and reporting frequency
    - Communicating with procurement teams on need for change
    - Securing Board approval on procurement plan

## Chapter 4: Approach to procurement best practice implementation

Example Of A Gap Analysis

| Topics                                   | Assessment            | Rationale for assessment   | Potential action steps to address gaps   |
|--|-----------------------|--|--|
| Category purchasing strategy             | Logging Best Practice | <ul style="list-style-type: none"><li>Most analyses undertaken on an ad-hoc basis</li><li>Sourcing centre processes, operational staff decides</li></ul> | Perform systematic analysis on each product category   |
| Proactive supplier management            |                       | <ul style="list-style-type: none"><li>Significant use of retailers</li><li>Supplier portfolio being rationalised for some categories</li></ul>           | Reduce number of suppliers used and buy directly from distributor                                  |
| Sourcing coverage                        |                       | <ul style="list-style-type: none"><li>Difficult as most key products are service-based</li></ul>   |  |
| Specification standardisation            |                       | <ul style="list-style-type: none"><li>Business units (BUs) require customised specifications</li></ul>   | Redefine role of sourcing centre to include validation of specification                            |
| Demand aggregation and management        |                       | <ul style="list-style-type: none"><li>Concrete commodities not consolidated across BUs</li></ul>   | Consolidate volumes across BUs and geographies   |
| Supplier development programmes          |                       | <ul style="list-style-type: none"><li>No supplier partnerships, or development programmes in place</li></ul>   | Increase number of frame agreements to lock-in prices and provide suppliers with tasks/load demand |
| Enablers, e.g., process and organisation |                       | <ul style="list-style-type: none"><li>Sourcing centre too administrative and passive</li></ul>   | Enhance role of sourcing centre  |

## PRINCIPLES



## Chapter 2: Guidelines on supporting national development

Recommended Approach Increases GLC Flexibility And Focuses On Results

- Simple
- Driven by GLC Boards
- Summary description
- Red Book approach supports three national development objectives
- Promote use of local content
  - Ensure Bumiputeras' equity share of economic growth
  - Develop capabilities of local and Bumiputera vendors
- Approach uses spend targets to quantify and monitor GLC support for the national development objectives
- Approach is applicable to all listed GLCs
- Spend targets are determined and approved by Boards based on type and size of GLC procurement spend

## Chapter 3: Procurement best practices

GLCs Should Implement Best Practices That Are Relevant To Their Organisations

| Key objectives of Red Book guidelines            | Description  |
|--|--|
| Minimise total cost of ownership                 | <ul style="list-style-type: none"><li>Reduce total cost of ownership of products procured, resulting in initial and on-going cost savings by using appropriate levers and tools such as specification and demand management, and e-procurement</li><li>The cheapest bid may not necessarily be the most cost effective over the life of the product</li></ul>                                  |
| Ensure efficient procurement cycle times         | <ul style="list-style-type: none"><li>Enhance procurement unit effectiveness by consistently delivering products requisitioned in a timely and efficient manner, resulting in, for example, reduced downtime, additional revenues and enhanced competitive responsiveness</li></ul>  |
| Enhance transparency and eradicate corruption    | <ul style="list-style-type: none"><li>Minimise opaqueness in the procurement process by adopting a clear disclosure policy and leveraging on e-procurement where possible</li><li>Cultivate an ethical working environment that will reduce graft, enable products to be purchased at competitive market prices, and ultimately improve profitability</li></ul>                                |
| Enhance organisation capabilities and governance | <ul style="list-style-type: none"><li>Develop a strong in-house procurement unit to support the company's long term profitability objectives</li><li>Establish robust mechanisms to ensure agreed practices and processes are adhered to</li></ul>   |
| Establish a stable and competitive supplier base | <ul style="list-style-type: none"><li>Build strong, long-term relationships with strategic suppliers and help develop local vendors</li><li>Use continuous evaluation and feedback to drive down costs and improve quality and service</li><li>Help develop capable Bumiputera vendors by establishing a programme that focuses on capability enhancement, evaluation and graduation</li></ul> |

(1) GLS GLCs are Telekom Malaysia Berhad, Maybank Berhad, Sime Darby Berhad, Tenaga Nasional Berhad, Bumiputra-Corona Holdings Berhad, Prasarita Holdings Berhad, Malaysian Airline System Berhad, Golden Hope Plantations Berhad, Afriq Holdings Berhad, Kumpulan Sahaja Berhad, Boustead Holdings Berhad, IHH Holdings Berhad, UEM World Berhad, Malaysian Resources Corporation Berhad and Malaysian Building Society Berhad

(2) Excludes regulated fuel cost, independent power producer contracts, international telecommunication outpayments, universal service obligation outpayments and any other non-sourcing related costs

Source : Red Book



# THE RED BOOK

## PROCUREMENT GUIDELINES & BEST PRACTICES

THE RED BOOK | PROCUREMENT GUIDELINES & BEST PRACTICES

Putrajaya Committee on GLC High Performance (PCG)

Putrajaya Committee on GLC High Performance (PCG),  
Transformation Management Office,  
Level 37, Tower 2, Petronas Twin Towers,  
Kuala Lumpur City Centre,  
50088 Kuala Lumpur, Malaysia  
Tel: +(603) 2034 0000 Fax: +(603) 2034 0008  
Email: [pcg@treasury.gov.my](mailto:pcg@treasury.gov.my) Website: [www.pcg.gov.my](http://www.pcg.gov.my)

APRIL 2006



# ACKNOWLEDGEMENTS

---

The Putrajaya Committee on GLC High Performance (PCG) would like to thank the following for their support and input into the development of this procurement initiative.

Affin Holdings Berhad  
BIMB Holdings Berhad  
Boustead Holdings Berhad  
Bumiputera-Commerce Holdings Berhad  
*(formerly Commerce-Asset Holding Berhad)*  
Economic Planning Unit, Prime Minister's Office  
Elektrisola (Malaysia) Sdn. Bhd.  
Employees Provident Fund  
Ernst & Young  
Federation of Malaysian Manufacturers  
Golden Hope Plantations Berhad  
Integricity Sdn. Bhd.  
Intel Technology Sdn. Bhd.  
Innovation Associates Sdn. Bhd.  
Khazanah Nasional Berhad  
Kumpulan Guthrie Berhad  
Lembaga Tabung Angkatan Tentera  
Lembaga Tabung Haji  
Malayan Banking Berhad  
Malaysia Building Society Berhad  
Malaysian Airline System Berhad  
Malaysian Resources Corporation Berhad  
McKinsey & Company  
Ministry of Entrepreneur and Cooperative Development  
Ministry of Finance  
Open University Malaysia  
Persatuan Pengilang dan Industri Perkhidmatan Bumiputera Malaysia  
Persatuan Usahawan Tenaga Malaysia  
Petra Perdana Berhad  
Petroliam Nasional Berhad  
Permodalan Nasional Berhad  
Prime Minister's Office  
Proton Holdings Berhad  
Pruvent Association  
Sarawak Shell Berhad  
SD Card Technologies Sdn. Bhd.  
Shell Malaysia Berhad  
Shell Regional Centre for Procurement, Malaysia  
Sime Darby Berhad  
Sourcing Value Pty. Ltd.  
Telekom Malaysia Berhad  
Tenaga Nasional Berhad  
The Boston Consulting Group  
Trade Provider Sdn. Bhd.  
Trax Associates Sdn. Bhd.  
Time dotCom Berhad  
UEM World Berhad  
Wong & Partners



# TABLE OF CONTENTS

---

|   |           |
|---|-----------|
| <b>PREFACE AND RED BOOK OBJECTIVES</b>                                    |           |
| <b>1 IMPORTANCE OF PROCUREMENT</b>  | <b>1</b>  |
| <b>2 GUIDELINES ON SUPPORTING NATIONAL DEVELOPMENT</b>                    | <b>7</b>  |
| 2.1 Proposed implementation approach                                      | 10        |
| <b>3 PROCUREMENT BEST PRACTICES</b>                                       | <b>13</b> |
| 3.1 Minimise total cost of ownership                                      | 17        |
| 3.2 Ensure efficient procurement cycle times                              | 24        |
| 3.3 Enhance transparency and eradicate corruption                         | 27        |
| 3.4 Enhance organisation capabilities and governance                      | 32        |
| 3.5 Develop a stable and competitive supplier base                        | 35        |
| <b>4 APPROACH TO PROCUREMENT BEST PRACTICE IMPLEMENTATION</b>             | <b>45</b> |
| <b>5 GETTING STARTED - ENSURING TRACTION FOR A PROCUREMENT INITIATIVE</b> | <b>51</b> |
| 5.1 Participation from the GLC Board                                      | 53        |
| 5.2 Participation from the GLC CEO  | 54        |
| 5.3 Tracking the procurement transformation initiative                    | 56        |
| <b>ACRONYMS AND ABBREVIATIONS</b>   | <b>59</b> |
| <b>LIST OF EXHIBITS</b>   | <b>60</b> |
| <b>LIST OF TABLES</b>   | <b>61</b> |



## HOW TO FIND WHAT YOU **NEED IN THE RED BOOK**

You can use the questions and references below as a guide to the Red Book's contents, and to help you choose the most relevant sections of the book for your organisation.

While each chapter of the book can be read independently, we recommend that you read the whole book to fully understand and be able to apply the procurement guidelines.

| Questions  | References                         |
|--|------------------------------------|
| 1. What are the policies and guidelines on procurement?  | Refer to Chapter 2                 |
| 2. Are the procurement practices in your organisation achieving the best possible results? <ul style="list-style-type: none"><li>Are you paying market prices?</li><li>Are cycle times acceptable?</li><li>Is the purchasing process transparent and fair?</li><li>Do you have an anti-corruption programme?</li><li>Are you getting access to the right quality/right technology relative to competitors?</li></ul>   | Refer to Chapters 3.1, 3.2 and 3.3 |
| 3. Does your procurement organisation reflect best practice? <ul style="list-style-type: none"><li>A procurement head no more than 2 levels below the Chief Executive Officer (CEO)</li><li>Ability to attract and retain talent</li><li>Clear Key Performance Indicators (KPIs) related to procurement</li><li>Appropriate checks and balances</li></ul>  | Refer to Chapter 3.4               |
| 4. Do you have a vendor development programme (VDP)?<br>Is your VDP effective?   | Refer to Chapter 3.5               |
| 5. Do you believe that implementing the Red Book procurement initiatives will be challenging? <ul style="list-style-type: none"><li>Do you believe a comprehensive diagnostic is required?</li><li>Are you aware of the capability gaps in your procurement function?</li><li>What does the Government-Linked Company (GLC) CEO and/or Board of Directors need to do to initiate procurement initiatives?</li><li>How will procurement initiatives be tracked?</li></ul> | Refer to Chapters 4 and 5          |



## PREFACE AND RED BOOK OBJECTIVES

Many companies have embraced procurement as a key lever to support significant value creation. With strong procurement functions, companies have been able to:

- Reduce the total cost of ownership (TCO) of products (including services) they purchase;
- Shorten the cycle time of their procurement process, resulting in lower revenue losses and higher customer satisfaction;
- Minimise corruption (and value destruction from this);
- Increase the value add from, and strategic relevance of, their procurement functions;
- Better manage their suppliers, resulting in long term security of supply of higher quality products at competitive prices; and
- Support national developmental objectives, including vendor development.

Several local companies, including GLCs, have embarked on procurement transformation initiatives and have realised substantial benefits. Table 1 highlights the experiences of these GLCs.

**Table 1: Examples of Malaysian experiences in transforming procurement**







| Category of procurement improvement  | Description of starting situation   | Key Red Book initiatives undertaken   | Impact  |
|--|---|---|---|
| <b>Reduce total cost of ownership</b><br> | Supported multiple suppliers for each product category it purchased<br><br>→ Higher cost and an uncompetitive supplier base     | Red Book pilot: Reduced number of suppliers used to aggregate demand and realise economies of scale<br><br>Intensified supplier competition by using electronic bidding | Saved approximately RM130M, or an average of 20% for five purchases, in 2005  |
| <b>Shorten cycle time</b><br>             | Open tenders, with long cycle times, the most commonly used purchase method<br><br>→ Substantial delays for many core purchases | Developed differentiated purchase methods to reduce reliance on open tenders<br><br>Rebalanced company's limits of authority  | Shortened cycle time by 25%<br><br>Further reduction in average cycle times are expected with the full implementation of the Red Book |

Table 1: Examples of Malaysian experiences in transforming procurement (cont.)

| Category of procurement improvement  | Description of starting situation   | Key Red Book initiatives undertaken   | Impact  |
|--|---|---|---|
| <b>Improve process integrity</b><br>          | <p>Procurement processes are not sufficiently robust and are subject to interferences</p>   | <p>Red Book pilot:<br/>Introduced comprehensive supplier and employee codes of conduct and revised supplier contract terms to discourage unethical behaviour</p> <p>Strengthened procurement audit to improve policy adherence and enforcement</p>  | <p>Recently implemented; impact to be seen in the coming months</p>   |
| <b>Improve procurement capabilities</b><br> | <p>Procurement was established as an administrative back-office function</p> <p>→ Procurement function did not attract good talent, resulting in minimal value add to the company</p>                 | <p>Re-organised procurement function, including</p> <ul style="list-style-type: none"> <li>Establishment of a CPO position with direct reporting line to the CEO; and</li> <li>Strengthening of procurement capabilities, by building teams to conduct market intelligence, develop purchasing strategies and manage suppliers</li> </ul> | <p>Better knowledge of the supplier markets</p> <p>More coherent and effective purchasing strategies resulting in lower cost for the company</p>                              |
| <b>Manage suppliers</b><br>                 | <p>Manages its suppliers to ensure product quality, price performance and high service levels</p> <p>→ Develops local vendors in key focus areas where Petronas can provide significant value add</p> | <p>Created robust registration process that all vendors are subjected to</p> <p>Implemented system that continuously tracks vendors' performance. Corrective action is taken against non-performing vendors</p>   | <p>Currently developing approximately 40 vendors</p> <p>20 vendors have graduated from the vendor development programme; several are now regionally competitive companies</p> |

**Table 1: Examples of Malaysian experiences in transforming procurement (cont.)**

| Category of procurement improvement   | Description of starting situation  | Key Red Book initiatives undertaken   | Impact  |
|---|--|---|---|
| <b>Support national developmental objectives</b><br> | Procures from local and Bumiputera vendors, but occasionally faces the issue of non-genuine Bumiputera vendors, i.e., local or foreign companies that represent themselves as Bumiputera companies | Strengthened definition of “Bumiputera vendors”, by including: <ul style="list-style-type: none"> <li>Ministry of Finance (MoF) definition of Bumiputera vendors;</li> <li>Assessment of vendors’ facilities and capabilities to provide goods and services as claimed; and</li> <li>Assessments of vendors’ actual use of facilities and capabilities</li> </ul> | Able to identify, and work with, genuine Bumiputera vendors |

In July 2005, PCG launched ten initiatives to transform GLC performance. One of these initiatives was to revamp and improve procurement<sup>1</sup> practices. PCG recognises that GLCs are commercially-driven entities managed by independent management and Boards of Directors, and believes that GLCs will benefit from a set of best practice procurement guidelines.

This document, the ‘Red Book’, is written for use by GLC Board members, CEOs and Chief Procurement Officers (CPOs). It lays out the recommended guidelines for GLCs to put PCG’s procurement initiative into practice. The Red Book:

1. Describes national development objectives relating to procurement, including how the GLCs could support local and Bumiputera vendors;
2. Is a reference manual for procurement best practices;
3. Describes the steps GLCs should go through in implementing procurement best practices; and
4. Defines roles and accountabilities for GLC Boards and CEOs in improving procurement practices.

**The Red Book has five chapters:**

1. The Importance of Procurement
2. Guidelines on Supporting National Development
3. Procurement Best Practices
4. Approach to Procurement Best Practice Implementation
5. Getting Started - Ensuring Traction for a Procurement Initiative

Whilst the Red Book is meant for GLCs, Government-Linked Investment Companies (GLICs) may choose to adopt the Red Book.

<sup>1</sup> Procurement in this document is defined as ‘all processes from requisition to supplier selection, contract management and invoicing for goods and services’

Accompanying the Red Book is the Red Book Appendix, a detailed 280 page document which contains implementation guidelines, 'how to' guides and examples of best practices. The information in the Appendix is expected to be of most value to GLC CPOs and their direct reports. Circulation of the Red Book Appendix will be limited to GLC CEOs and CPOs.

The Red Book was developed using substantial research and input from key stakeholders, including government ministries, selected GLICs and GLCs, key suppliers and Non-Government Organisations (NGOs). The approach used is described below.

## 1. National development objectives

- Review of all existing government policies and guidelines on procurement;
- Identification of government policies and guidelines that affect GLC procurement and the reasons for putting these policies and guidelines in place;
- Assessment of GLCs' understanding of, and support for, government policies and guidelines; and
- Consultation with various government agencies, including the Prime Minister's Office (PMO), Economic Planning Unit (EPU), MoF and the Ministry Of Entrepreneur And Cooperative Development (MECD), to discuss and refine the policies and guidelines published in the Red Book.

## 2. Best practices focusing on

- Driving value creation
- Increasing process efficiency
- Reducing corruption
- Enhancing organisational capabilities
- Improving supplier management, including vendor development

- Interviews and discussions with:
  - various GLCs, local best-in-class companies, Multi-National Companies (MNCs) and local vendors, including Petronas, Sarawak Shell and Intel Malaysia, to understand procurement challenges faced by GLCs and identify effective local procurement practices for GLCs; and
  - other organisations such as Persatuan Pengilang & Industri Perkhidmatan Bumiputera Malaysia, Persatuan Usahawan Tenaga Malaysia and Pruvent Association (Telekom Malaysia Berhad's vendor association), to better understand the challenges faced by local vendors.
- In-depth research to understand the:
  - lessons from procurement initiatives undertaken by companies in various industries around the world, leveraging on The Boston Consulting Group's knowledge from over 600 procurement improvement assignments; and
  - approaches used in other countries and by leading MNCs, to create value through vendor development, for the procuring companies as well as for local communities.
- Detailed working sessions with Telekom Malaysia Berhad, Tenaga Nasional Berhad, Malaysian Airline System Berhad, UEM World Berhad, Sime Darby Berhad and Proton Holdings Berhad, to share and refine proposed guidelines.
- Pilots of best practices in Telekom Malaysia Berhad and Tenaga Nasional Berhad, to ensure that the Red Book is relevant and effective in the Malaysian context.

## USING THE RED BOOK

---

GLCs are encouraged to use the Red Book as their primary source of procurement guidelines. These guidelines should complement the business judgement that GLC Boards, CEOs and Procurement Officers apply in seeking procurement outcomes that support the GLCs' drive to create value for shareholders, as well as all valid corporate social responsibilities of GLCs.

Where required, GLCs, depending on the starting conditions of their procurement functions, are encouraged to leverage on procurement best practices from other sources to supplement the Red Book.

It is recommended that all listed GLCs adopt and apply the relevant Red Book procurement guidelines by the end of 2006.

The importance of procurement will vary from GLC to GLC, depending on matters such as the kinds of products procured and how much a GLC spends on procurement each year. On balance, it will be more important to improve procurement in a large public utility with significant capital expenditure, for example, than it will be in a financial services company.

GLCs are therefore encouraged to develop procurement improvement initiatives that are:

- Integrated to their overall business improvement strategy;
- Relevant to their organisation;
- Aimed at achieving the procurement best practice objectives; and
- Consistent with the Red Book implementation approach.

In line with the broader GLC transformation effort, GLCs should document their approaches to implement their procurement initiatives. These approaches should be endorsed by the respective GLC Boards.

The Red Book guidelines define clear roles and accountabilities for GLC Boards and CEOs in improving procurement practices:

1. The Boards should review and approve the procurement policies, processes, KPIs and targets, and empower the CEOs to implement the procurement improvement initiatives. The Boards should periodically review implementation progress.
2. The CEOs should be responsible for the overall design and implementation of the procurement improvement initiatives, and for defining procurement KPIs and targets, as well as for tracking performance against those targets.



The background features a light gray field with several overlapping squares in various shades of gray. A large, faint, curved shape in a light beige or tan color sweeps across the middle of the page. Thin, light gray curved lines also intersect the composition.

# CHAPTER 1

---

## IMPORTANCE OF PROCUREMENT



# CHAPTER 1: IMPORTANCE OF PROCUREMENT

As mentioned by the Prime Minister on several occasions, procurement is an important tool to:

1. **Drive value creation for the nation:** “These initiatives (procurement and corporate governance) will increase shareholders’ returns in the medium term as well as enhance the operating environment of other companies dependent on the services of GLCs.”<sup>2</sup>
2. **Minimise corruption, increase corporate transparency and enhance corporate governance:** “Going forward, I have directed all government linked companies to review their procurement systems so as to be more transparent and accountable.”<sup>3</sup>
3. **Develop a robust and competitive Bumiputera Commercial and Industrial Community (BCIC):** “This (Transformation) programme will also promote many national development priorities, including the development of a more competitive and resilient Bumiputera enterprise community.”<sup>4</sup>

For GLCs, procurement is an important driver of business performance.

1. **GLCs’ procurement spend<sup>5</sup> is substantial**

Procurement spend for the G15<sup>6</sup> GLCs was estimated at approximately 50% of revenues, or approximately RM50 billion in 2004. This represented an estimated 70% of total listed GLC procurement spend and some 10% of the country’s GDP in that year.

2. **GLCs’ procurement practices lag local and international best practices**

Interviews and discussions with key GLCs identified at least five common shortcomings:

- a) Failure to buy products in the right quantities, and at the right specifications and prices, resulting in higher TCO;
- b) Inefficient and ineffective procurement processes, resulting in long cycle times;
- c) Opaqueness and ambiguity in the procurement process, resulting in leakages and corruption;
- d) Inadequate infrastructure to support procurement, including flaws in organisation and governance; and
- e) Non-existent or ineffective VDPs.

---

<sup>2</sup> Investor Conference, 22 June 2005

<sup>3</sup> World Ethics and Integrity Forum, Bernama News Report, 29 April 2005

<sup>4</sup> GLCT Manual Launch, 29 July 2005

<sup>5</sup> Defined as total operating and capital expenditures adjusted for non-sourcing related costs, e.g., staff costs, depreciation, amortisation, finance charges, etc.

<sup>6</sup> G15 GLCs are Telekom Malaysia Berhad, Malayan Banking Berhad, Sime Darby Berhad, Tenaga Nasional Berhad, Bumiputra-Commerce Holdings Berhad, Proton Holdings Berhad, Malaysian Airline System Berhad, Golden Hope Plantations Berhad, Affin Holdings Berhad, Kumpulan Guthrie Berhad, Boustead Holdings Berhad, BIMB Holdings Berhad, UEM World Berhad, Malaysian Resources Corporation Berhad and Malaysian Building Society Berhad

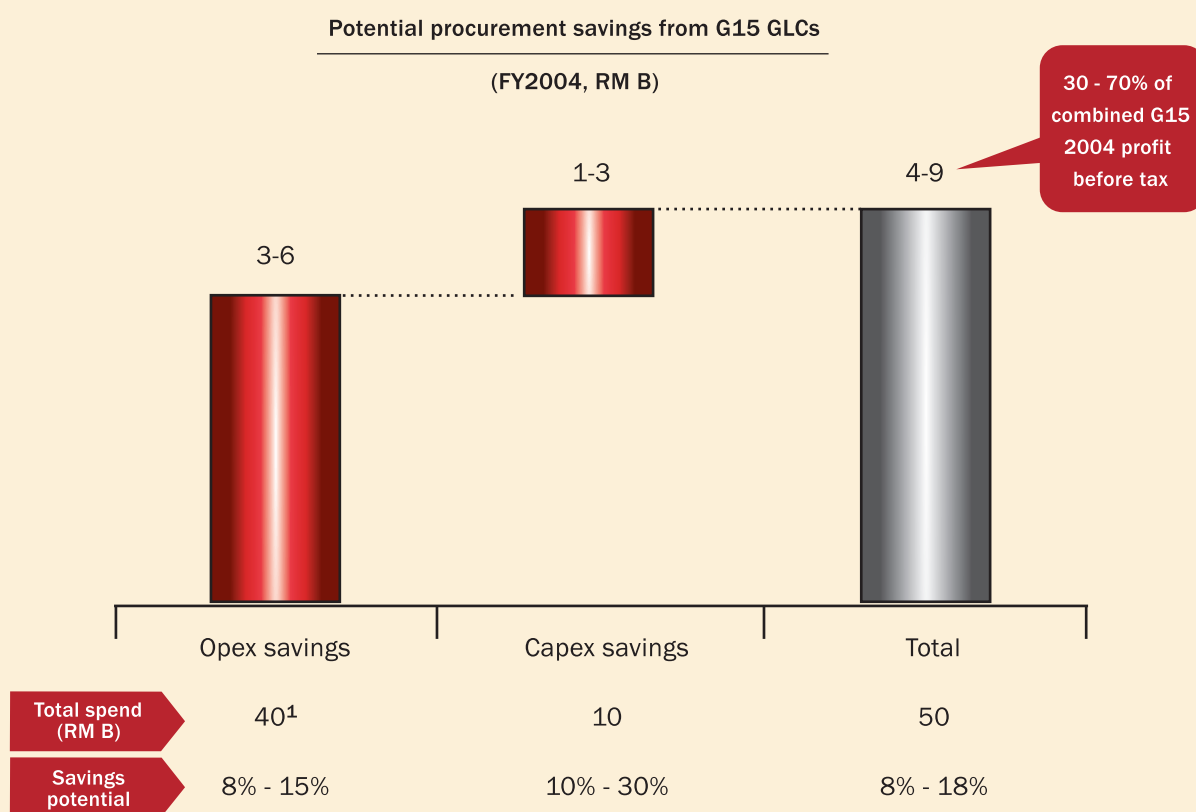
### 3. Achieving procurement best practices will deliver significant bottom-line benefits

Of the RM50 billion procurement spend attributed to by G15 GLCs in 2004, RM40 billion was for operating expenditure (opex) and RM10 billion for capital expenditure (capex). (See Exhibit 1.0 for details.)

Benchmarking of typical cost savings achieved by companies in similar industries suggests that adopting procurement best practices could deliver total opex and capex savings of around RM4-9 billion for the G15 GLCs. This is equivalent to a 30-70% increase in the G15 GLCs' 2004 total profit before tax.

#### EXHIBIT 1.0

#### PROCUREMENT BEST PRACTICES CAN DELIVER SIGNIFICANT BOTTOM-LINE IMPROVEMENT



1. Excludes regulated fuel cost, independent power producer contracts, international telecommunication payments, universal service obligation payments and any other non-sourcing related costs

Source : JWT analysis, Red Book team analysis

#### 4. Improving procurement will increase GLCs' competitiveness

GLCs would be more competitive if they improved their procurement functions, because they would be able to:

- Reduce cost of products they purchase;
- Improve the quality of the products they offer by procuring higher quality materials;
- Be more responsive to customer needs by significantly reducing procurement lead times;  
Reduce potential revenue losses by minimising business downtime (e.g., forced outages for utility companies) through the use of better quality products that cost less overall; and
- Improve product innovation through long term collaboration with key suppliers, which in turn, would enable GLCs to have better access to suppliers' latest products and technologies.



The background features a light gray base with several overlapping squares in various shades of gray. A large, faint, curved shape resembling a stylized flame or a large 'C' is centered in the background. Thin, light gray curved lines sweep across the page, intersecting with the squares and the central shape.

## CHAPTER 2

---

### **GUIDELINES ON SUPPORTING NATIONAL DEVELOPMENT**



## CHAPTER 2: GUIDELINES ON SUPPORTING NATIONAL DEVELOPMENT

As part of their broader corporate and social responsibilities, businesses (and especially large businesses) need to recognise, and where appropriate, support local and national development. These responsibilities are even greater for large GLCs, given their significant impact on the national economy. It is therefore important that GLCs balance their commercial value creation objectives with these responsibilities.

There are three key national development objectives that relate to GLC procurement:

1. Promote the use of competitive local content to:
  - ensure supply security;
  - support local industries; and
  - improve the balance of trade.
2. Ensure Bumiputeras' equity share in the nation's economic growth, with the fair and equitable distribution of national wealth.
3. Develop Bumiputera vendors' capabilities to support the establishment of a BCIC.

Hence, in supporting national development, GLCs should adopt an approach that is:

1. **Robust and fact-based** GLCs should, based on their understanding of their respective businesses and the different national development objectives, determine which areas of national development they can viably support.
2. **Driven by the GLC Boards** Support for any national development objectives should be endorsed by the GLC Boards, in accordance with best practice corporate governance best practices.
3. **Tracked** GLCs should document all national development objectives supported and make this documentation available to relevant stakeholders as required. The level, cost and benefit of supporting national development objectives should be tracked by both the GLC Boards and CEOs.

## 2.1 PROPOSED IMPLEMENTATION APPROACH

Table 2 describes the recommended implementation approach when supporting national development objectives.

**Table 2: National development objectives and proposed implementation approaches**

| National development objectives   | Proposed implementation approaches   |
|---|--|
| <p><b>1. Promote use of competitive local content</b></p>                         | <p>Each GLC should set an annual procurement spend target for local content. The target should be a specific percentage of total procurement spend, based on, for example:</p> <ul style="list-style-type: none"> <li>• The GLC's size and types of purchases;</li> <li>• The availability of the required products from local sources;</li> <li>• The GLC's current and potential procurement spend on local content; and</li> <li>• The cost of increasing target procurement spend on local content.</li> </ul> <p>Each GLC Board should endorse the target, which should be reflected in the GLC's formal procurement policy.</p> <p>In addition, each GLC Board should endorse:</p> <ul style="list-style-type: none"> <li>• An accepted definition of local content e.g., definition used by MITI, which includes cost of local raw materials, labour costs, overheads and profits; and</li> <li>• An approach to determine a product's local content.</li> </ul> <p>In supporting this national development objective, GLCs should ensure that the emphasis is on products with high local value-add (local content).</p> <p>In implementing this guideline, GLCs should follow the Red Book best practices, particularly in relation to a fair, transparent and competitive process to select the best suppliers (e.g., in terms of product prices, product quality and service levels).</p> |
| <p><b>2. Ensure Bumiputeras' equity share in the nation's economic growth</b></p> | <p>Each GLC should set an annual procurement spend target for local content from genuine Bumiputera vendors (a definition is highlighted in Exhibit 2.1.1). The target should be a specific percentage of total procurement spend, based on:</p> <ul style="list-style-type: none"> <li>• The GLC's size and type of procurement spend;</li> <li>• The capacity of genuine Bumiputera vendors to supply the products that the GLC needs;</li> <li>• The GLC's current and potential procurement spend levels on local content from genuine Bumiputera vendors; and</li> <li>• The cost of achieving the target procurement spend on local content from genuine Bumiputera vendors.</li> </ul> <p>Each GLC Board should ratify the company's target procurement spend on local content from genuine Bumiputera vendors and incorporate it into the company's formal procurement policy.</p>   |

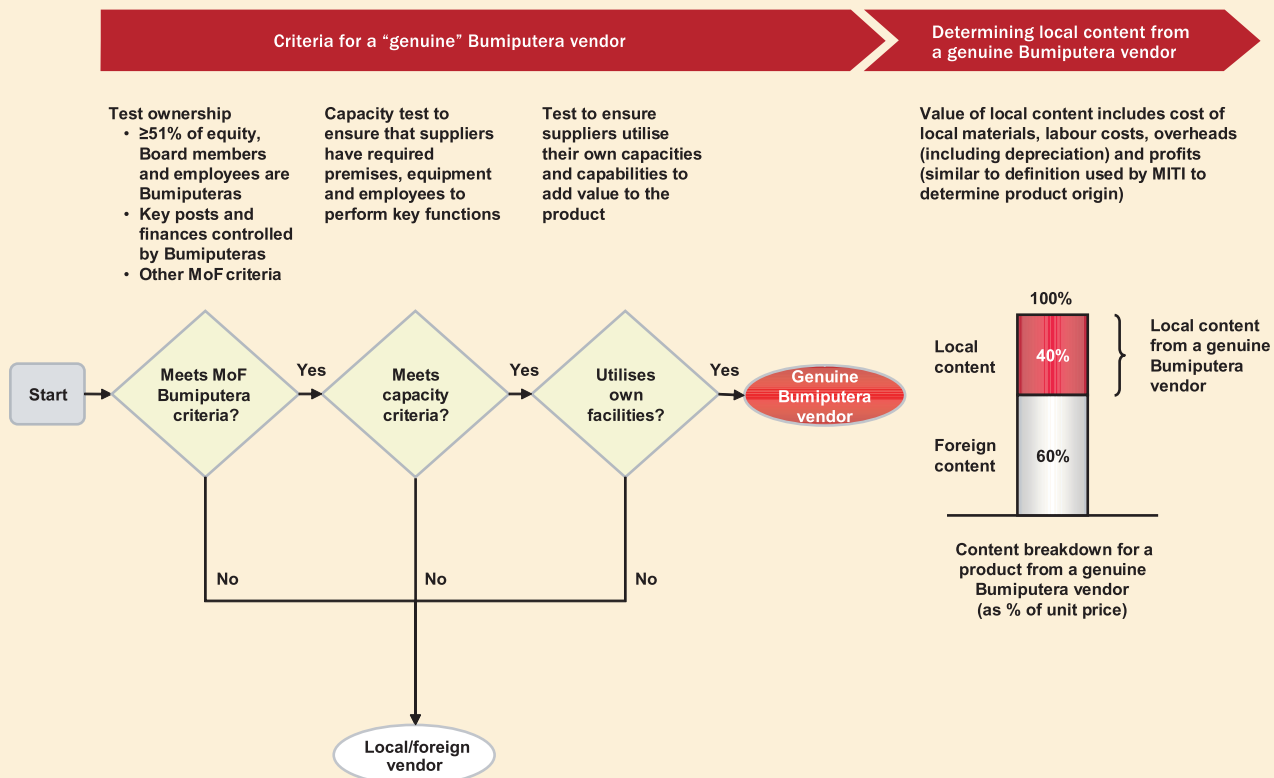
Table 2: National development objectives and proposed implementation approaches (cont.)

| National development objectives   | Proposed implementation approaches   |
|---|--|
| <p><b>2. Ensure Bumiputeras' equity share in the nation's economic growth (cont.)</b></p> | <p>In addition, each GLC Board should endorse:</p> <ul style="list-style-type: none"> <li>• An accepted definition of local content from a genuine Bumiputera vendor; and</li> <li>• An approach to identify genuine Bumiputera vendors (please refer to Chapter 3.5).</li> </ul> <p>Where applicable, GLC procurement spend on local content from genuine Bumiputera vendors should be consistent with the nation's stated focus areas.<sup>7</sup></p> <p>GLCs may use either or both of the following approaches in implementing this national objective :</p> <ul style="list-style-type: none"> <li>• Assess the competitiveness of genuine Bumiputera vendors, using criteria including but not confined to price; and/or</li> <li>• Procure particular product categories from genuine Bumiputera vendors only.</li> </ul> <p>In implementing this guideline, GLCs should adhere to Red Book best practices, particularly in relation to fair, transparent and competitive processes to select the best suppliers (e.g., in terms of product prices, product quality and service levels).</p> |
| <p><b>3. Develop capabilities of Bumiputera vendors</b></p>                               | <p>Where appropriate, each GLC should allocate a target percentage of its annual procurement spend to a Bumiputera vendor development programme (BVDP). For further details on how to establish a BVDP, please refer to Chapter 3.5.</p> <p>Each GLC Board should endorse the company's target spend on Bumiputera development, which should be incorporated into the company's formal procurement policy.</p>   |

<sup>7</sup> Government focus areas include services, agriculture and agro-based and bio-tech industries, manufacturing and ICT, as stated in the 9th Malaysia Plan

## EXHIBIT 2.1.1

## EXAMPLE DEFINITION OF LOCAL CONTENT FROM A GENUINE BUMIPUTERA VENDOR





# CHAPTER 3

---

## PROCUREMENT BEST PRACTICES



# CHAPTER 3: PROCUREMENT BEST PRACTICES

The best practices in this book are based on the procurement objectives laid out in Table 3.

Table 3: Five best practice procurement objectives

| Objectives   | Description  |
|--|--|
| 1. <b>Minimise TCO</b>                                     | <p>Achieve initial and ongoing cost savings by reducing the total cost of products procured. Elements of total cost include:</p> <ul style="list-style-type: none"><li>• Initial product costs, including handling and processing costs;</li><li>• Operating costs, including maintenance, user support, etc.; and</li><li>• Business impact costs, including, for example, costs associated with low productivity or user dissatisfaction and with business downtime.</li></ul> <p>To achieve this objective, GLCs should consider all the costs associated with choosing a particular product or service, not just the initial price paid.</p> |
| 2. <b>Ensure efficient procurement cycle times</b>         | <p>Make the procurement function more effective by ensuring it delivers the products ordered in a timely and efficient manner. This will deliver benefits including reduced downtime and quicker delivery of products/services, and will improve the GLC's ability to respond to competitors.</p>  |
| 3. <b>Enhance transparency and eradicate corruption</b>    | <p>Minimise opaqueness in the procurement process by adopting a clear disclosure policy and using e-procurement where possible. Cultivate an ethical working environment that will reduce corruption, enable products to be purchased at competitive market prices, and ultimately improve profitability.</p>  |
| 4. <b>Enhance organisation capabilities and governance</b> | <p>Develop an in-house procurement function to support the company's long term profitability objectives. In addition, put policies, incentives and penalties in place to ensure that all relevant parties follow the agreed practices and processes.</p>   |
| 5. <b>Develop a stable and competitive supplier base</b>   | <p>Build strong, long-term relationships with strategic suppliers and help to develop local suppliers. Provide suppliers with continuous feedback on their performance relative to competitors to drive down costs, and improve quality and service. Where appropriate, help develop capable local and Bumiputera vendors.</p>   |

These procurement best practices are summarised in Exhibit 3.0.1.

## EXHIBIT 3.0.1

### SUMMARY OF BEST PRACTICES

| Objectives                                       | Key Levers   | Key Initiatives <sup>(1)</sup>   |
|--|--|--|
| Minimise TCO                                     | Manage suppliers proactively                         | <ul style="list-style-type: none"> <li>Intensify supplier competition during the bidding process</li> <li>Improve negotiation leverage with suppliers</li> <li>Establish best practice standard contract terms</li> <li>Use OEMs, distributors or wholesalers (avoid middleman) where possible</li> <li>Enhance operational interface with suppliers, e.g., inventory transfers, e-trading links</li> </ul>            |
|  | Aggregate and manage demand                          | <ul style="list-style-type: none"> <li>Consolidate purchases across business units/geographies</li> <li>Use 1-2 suppliers for each product to realise economies of scale</li> <li>Utilise frame agreements, i.e., long term contracts for supply of products at agreed terms without compromising requirements</li> <li>Optimise demand of products procured, i.e., control order quantity</li> </ul>                  |
|  | Standardise specifications                           | <ul style="list-style-type: none"> <li>Minimise specification variants for each product</li> <li>Manage specifications to reduce cost without compromising requirements</li> </ul>   |
|  | Share and outsource                                  | <ul style="list-style-type: none"> <li>Share or outsource non-critical components/products for improved TCO</li> </ul>   |
|  | Expand sourcing coverage                             | <ul style="list-style-type: none"> <li>Increase sourcing coverage, e.g., source from differing regions and cost competitive countries</li> </ul>   |
| Ensure efficient procurement cycle times         | Differentiate purchase methods                       | <ul style="list-style-type: none"> <li>Redesign purchase method framework to improve cycle times</li> </ul>  |
|  | Simplify purchasing processes                        | <ul style="list-style-type: none"> <li>Redesign processes to improve efficiency</li> <li>Extract non-procurement related processes from the purchasing cycle, e.g., field trials</li> </ul>  |
|  | Empower the organisation                             | <ul style="list-style-type: none"> <li>Rationalise limits of authority according to business needs</li> <li>Clarify role and use of Tender Board vs. Board of Directors</li> </ul>   |
| Enhance transparency and eradicate corruption    | Increase process transparency                        | <ul style="list-style-type: none"> <li>Ensure proper documentation for key processes, e.g., Tender Committee results, and adopt a comprehensive disclosure policy</li> <li>Implement an e-procurement system<sup>(2)</sup> to increase transparency and to minimise human intervention</li> </ul>  |
|  | Establish clear anti-corruption codes                | <ul style="list-style-type: none"> <li>Develop and publicise a clear anti-corruption policy and codes of conduct</li> <li>Incorporate a clause on 'ethical conduct' in supplier contracts</li> </ul>   |
|  | Enforce audit and follow through                     | <ul style="list-style-type: none"> <li>Conduct yearly procurement audits</li> <li>Develop clear processes to address non-compliance and ensure sanctions are consistently applied</li> </ul>   |
|  | Establish secure communication channels              | <ul style="list-style-type: none"> <li>Establish secure communication channels for graft related issues</li> </ul>   |
| Enhance organisation capabilities and governance | Enhance strategic relevance of procurement           | <ul style="list-style-type: none"> <li>Reposition Head of Procurement to no more than 2 levels below the CEO</li> <li>Redesign procurement organisation to reflect business needs</li> <li>Establish market intelligence units to support procurement operations</li> <li>Build world class capabilities via cross functional teams, training and recruiting</li> </ul>  |
|  | Enforce accountability                               | <ul style="list-style-type: none"> <li>Institutionalise and track procurement metrics/KPIs</li> <li>Introduce sanction procedures to enhance accountability and audit trails</li> </ul>  |
|  | Establish appropriate control mechanisms             | <ul style="list-style-type: none"> <li>Segregate functions to eliminate conflict of interests, e.g., policy vs. operations, requisition vs. payment approval mechanisms, etc.</li> <li>Establish appropriate committees to review and approve selected purchases, e.g., new specifications, purchases above a certain amount, etc.</li> <li>Require two signatures for purchases above a relevant threshold</li> </ul> |
| Develop a stable and competitive supplier base   | Establish a strategic supplier programme             | <ul style="list-style-type: none"> <li>Develop a strategic supplier programme that               <ul style="list-style-type: none"> <li>- has a regimented product selection process</li> <li>- develops long-term relationship for mutual efficiency gains</li> </ul> </li> </ul>   |
|  | Develop a (or enhance an existing) BVDP              | <ul style="list-style-type: none"> <li>Develop a BVDP that has a               <ul style="list-style-type: none"> <li>- stringent vendor selection process supported by robust contract terms</li> <li>- multi-year programme subject to vendor meeting predefined performance and development targets</li> <li>- structured and transparent graduation process</li> </ul> </li> </ul>                                 |
|  | Implement a structured supplier management programme | <ul style="list-style-type: none"> <li>Develop a supplier management programme that               <ul style="list-style-type: none"> <li>- has regular evaluations and feedback sessions</li> <li>- defines an engagement plan for supplier performance</li> </ul> </li> </ul>   |

Needs to be executed as a programme

(1) List is not exhaustive

(2) Supports other procurement objectives such as reducing cycle times and minimising TCO

### 3.1 MINIMISE TOTAL COST OF OWNERSHIP

---

When evaluating the commercial merits of a product, GLCs should take into account the TCO of the product and not just the initial purchase price. For example, in estimating the cost of owning a car, the initial price of the car is typically less than 50% of the total ownership cost. The remaining 50% includes, for example, operating, maintenance, financing and insurance costs. It is therefore clear that utilising only initial purchase price as the sole commercial criteria can lead to poor procurement decisions.

There are five key levers that GLCs can leverage to minimise the TCO of products purchased. The levers are illustrated in Table 4.

The relevance and effectiveness of the levers will vary depending on the characteristics of the products purchased. These characteristics will include, for example:

- User requirements (includes both user demand and specifications);
- Consumption patterns across the GLC;
- The size and frequency of purchases across the GLC;
- The number of suppliers for the product; and
- The level to which the product is commoditised.

Exhibit 3.1.1 provides a high level guide for the utilisation of each lever and initiative.

Hence, for GLCs to be effective in reducing TCO, the procurement functions within GLCs need to undertake detailed analyses of the products the GLCs purchase, and gain an in-depth understanding of the users' requirements and the supplier markets. This would enable the procurement functions to determine the most appropriate TCO lever(s) for the products purchased, and initiate development of purchasing strategies for those products.

Where possible, GLCs should leverage on their existing technology to store, manage and analyse data on, for example:

- Historical GLC consumption by products and/or suppliers;
- GLCs' suppliers and the products that they offer to the GLCs; and
- Suppliers' historical performances.

This would help automate some of the required data gathering and enable the GLCs' procurement functions to focus on analyses and developing purchasing strategies.

Table 4: Minimise TCO

| Levers                                    | Description and best practices   |
|---|--|
| 3.1.1 <b>Manage suppliers proactively</b> | <p>Each GLC should gain a thorough understanding of its supplier base in each key product category to identify ways to reduce the TCO.</p> <p><b>Required analysis</b></p> <p>Such an understanding requires analysis of the following, by product category:</p> <ul style="list-style-type: none"> <li>• The number of suppliers in the market, both existing and potential;</li> <li>• The number of suppliers used;</li> <li>• The prices charged by suppliers versus regional/global benchmarks; and</li> <li>• Suppliers' cost structures.</li> </ul> <p><b>Initiatives</b></p> <p>Based on this understanding, the following initiatives could be adopted:</p> <ul style="list-style-type: none"> <li>• Intensify competition between suppliers, especially during the bidding process (e.g., review supplier list, employ reverse auction);</li> <li>• Develop a robust fact base and tactics that will improve the GLC's negotiating position;</li> <li>• Employ best practice standard contract terms (e.g., variation orders based on agreed unit prices, clear payment terms and proper insurance coverage) and ensure fair execution by GLCs and suppliers;</li> <li>• Use OEMs, distributors or wholesalers where possible, to avoid the need to pay margins to non-value adding middlemen; and</li> <li>• Reduce the cost of doing business by making the GLC's dealings with suppliers more efficient (e.g., through inventory transfers and e-trading links).</li> </ul> |
| 3.1.2 <b>Aggregate and manage demand</b>  | <p>Where possible, GLCs should look for economies of scale by aggregating purchases across business units (BUs), geographies and with companies (including other GLCs), while maintaining security of supply.</p> <p>To minimise over-supply, the volume and frequency of products purchased by the GLC should consistently be challenged by the GLC procurement function.</p> <p><b>Required analysis</b></p> <p>To determine whether savings are available, the GLC should analyse:</p> <ul style="list-style-type: none"> <li>• Annual spend by BU, division, etc.;</li> <li>• Frequency of purchases;</li> <li>• Number of suppliers used for each product category; and</li> <li>• Duration of typical contracts.</li> </ul> <p><b>Initiatives</b></p> <p>Based on the above analysis, the initiatives below may be applicable:</p> <ul style="list-style-type: none"> <li>• Consolidate purchases across BUs/geographies to increase volume and reduce unit costs;</li> <li>• Use one or two suppliers for each product to increase volume per supplier and realise economies of scale;</li> </ul>   |

Table 4: Minimise TCO (cont.)

| Levers   | Description and best practices   |
|--|--|
| 3.1.2 <b>Aggregate and manage demand (cont.)</b> | <ul style="list-style-type: none"> <li>• Employ frame agreements to secure longer term supply of products on agreed terms; and</li> <li>• Ensure procurement and demand are aligned by, for example, eliminating maverick buying, documenting actual product demand, and ensuring compliance with contract terms for specific products supplied.</li> </ul>  |
| 3.1.3 <b>Standardise specifications</b>          | <p>Where possible, GLCs should standardise product specifications to avoid unnecessary customisation costs and provide further opportunities to gain scale benefits.</p> <p>To support this, GLCs should actively review the specifications for the products they purchase to make sure they best balance the need to meet user requirements while reducing TCO.</p> <p><b>Required analysis</b></p> <p>Standardisation requires a detailed understanding of the specifications for key product categories:</p> <ul style="list-style-type: none"> <li>• The number of specification variants used for specific product categories; and</li> <li>• The number of variations actually needed, which will require careful mapping of the way products are actually used, against the specifications provided to suppliers.</li> </ul> <p><b>Initiatives</b></p> <p>Completion of the above analysis may enable GLCs to:</p> <ul style="list-style-type: none"> <li>• Minimise the specification variations for specific products; and/or</li> <li>• Manage specifications to reduce costs without compromising quality or critical functions.</li> </ul> |

Table 4: Minimise TCO (cont.)

| Levers                                 | Description and best practices   |
|--|--|
| 3.1.4 Share and outsource <sup>8</sup> | <p>GLCs should seek to internally share or outsource non-critical products to gain scale economies and/or increase their bargaining power with external suppliers.</p> <p><b>Required analysis</b></p> <p>Outsourcing should only be considered for products with the following characteristics:</p> <ul style="list-style-type: none"><li>• Non-core to the business and competitively neutral;</li><li>• Will reduce TCO if their purchase/use is pooled; and/or</li><li>• Available from providers (internal and external) at a lower price but at the same or higher quality.</li></ul> <p><b>Initiatives</b></p> <p>The following initiatives may be pursued:</p> <ul style="list-style-type: none"><li>• Share common services, infrastructure and business functions to reduce duplication and improve productivity (e.g., training, property management, etc.)</li><li>• Outsource non-critical components/products for improved TCO (e.g., support functions such as finance, Information Technology (IT) and Human Resources (HR))</li></ul> |
| 3.1.5 Expand sourcing coverage         | <p>Where possible, GLCs should assess the potential to save costs by purchasing from a wider range of sources. This should be limited to a few categories only, given the resources required to manage a wider sourcing pool.</p> <p><b>Initiatives</b></p> <p>Increase sourcing coverage for selected products where it is possible to achieve lower prices and/or better quality. This can also be achieved indirectly by having suppliers increase their sourcing coverage.</p>   |

<sup>8</sup> This is linked to one of the ten initiatives in the 2005 GLCT Manual and will be discussed in more detail in the upcoming Yellow Book

**EXHIBIT 3.1.1****PRIORITISE AND EXECUTE INITIATIVES BASED ON PRODUCT CHARACTERISTICS**

| Key lever                           | Key Initiatives   | When initiatives should be applied   |
|-------------------------------------|---|--|
| <b>Manage suppliers proactively</b> | <ul style="list-style-type: none"> <li>Intensify supplier competition during the bidding process</li> <li>Improve negotiation leverage with suppliers</li> <li>Establish best practice standard contract terms</li> <li>Use OEMs, distributors or wholesalers (avoid middlemen) where possible</li> <li>Enhance operational interface with suppliers</li> </ul> | <ul style="list-style-type: none"> <li>Most applicable for commodity-type products where many good suppliers exist</li> <li>Should typically have 6-8 suppliers bidding</li> <li>Applicable to all product categories but impact of negotiation likely to vary by size of GLC procurement spend for a particular product</li> <li>Applicable for most types of purchases</li> <li>Applicable for products with large purchase volumes that would entice suppliers to deal directly with the company</li> <li>Most applicable for products with significant interface costs such as inventory and administrative costs</li> </ul> |
| <b>Aggregate and manage demand</b>  | <ul style="list-style-type: none"> <li>Consolidate purchases across BUs /geographies</li> <li>Use 1-2 suppliers for each product to realise economies of scale</li> <li>Utilise frame agreements</li> <li>Optimise demand of products procured, i.e., control order quantity</li> </ul>   | <ul style="list-style-type: none"> <li>Most relevant for companies with multiple buyers for a particular product and with strong central procurement functions</li> <li>Most applicable for commodity-type products currently sourced from multiple suppliers</li> <li>Products characterised by continuous and regular purchases over a period of time</li> <li>Products characterised by recurring volumes and high level of stock-outs or obsolete inventory</li> </ul>   |
| <b>Standardise specifications</b>   | <ul style="list-style-type: none"> <li>Minimise specification variants for each product</li> <li>Manage specifications to reduce cost without compromising requirements</li> </ul>  | <ul style="list-style-type: none"> <li>Most applicable in situations where customised products are used when off-the-shelf products are available or when multiple variants of one product are used by BUs</li> <li>More relevant for products with high volumes and recurring purchases or complex products that have high probability of being 'over-specified'</li> </ul>   |
| <b>Share and outsource</b>          | <ul style="list-style-type: none"> <li>Share or outsource non-critical components/products for improved TCO</li> </ul>  | <ul style="list-style-type: none"> <li>Products with low to medium business criticality and whereby external providers can provide better or similar quality products at lower TCO</li> </ul>  |
| <b>Expand sourcing coverage</b>     | <ul style="list-style-type: none"> <li>Increase sourcing coverage</li> </ul>  | <ul style="list-style-type: none"> <li>Products with clear savings, no transportability issue and good quality suppliers when sourced from cost competitive countries</li> <li>Product also characterised by high predictability of demand, low criticality to lead time and moderate investment required to source globally</li> </ul>  |

As an example demonstrating the application of the TCO levers, consider a GLC's recent experience in relation to the purchase of a commoditised product. Efforts to proactively manage suppliers and aggregate demand resulted in significant savings. However, this GLC did not seek to expand its sourcing coverage or standardise its specifications for the commoditised product, as the impact of doing these things would have been minimal (as illustrated in Exhibit 3.1.2).

## EXHIBIT 3.1.2

### APPLICATION OF TCO LEVERS CAN YIELD SIGNIFICANT SAVINGS

A GLC appoints a new CEO with a clear mandate to improve business performance. The CEO recognises that improving procurement can deliver a significant boost to the bottom line. Procurement therefore becomes a key priority in the drive to improve the GLC's performance.

Within weeks, the procurement team analysed current and projected procurement spend, and identified 15 critical product categories where major cost savings could be delivered. The starting point is one commodity item that costs the company a total of approximately RM60 million per annum.

Analyses of the market for the product and suppliers' cost structures reveal a significant opportunity to aggregate demand and drive down cost by achieving a more favourable bargaining position with suppliers. Global sourcing and specification simplification are also investigated, but the savings potential is minimal. The CEO therefore approves initiatives to review the GLC's current supplier list, employ a reverse auction purchasing process to increase the intensity of competition and aggregate demand across the various suppliers.

Over three months, the GLC conducts similar analyses for several key product categories, ultimately achieving savings of over 20%.

#### Example of TCO levers applied for a specific product

##### Overview of supplier base

- 30+ suppliers exist, representing 10 manufacturers
- Top suppliers have nationwide distribution

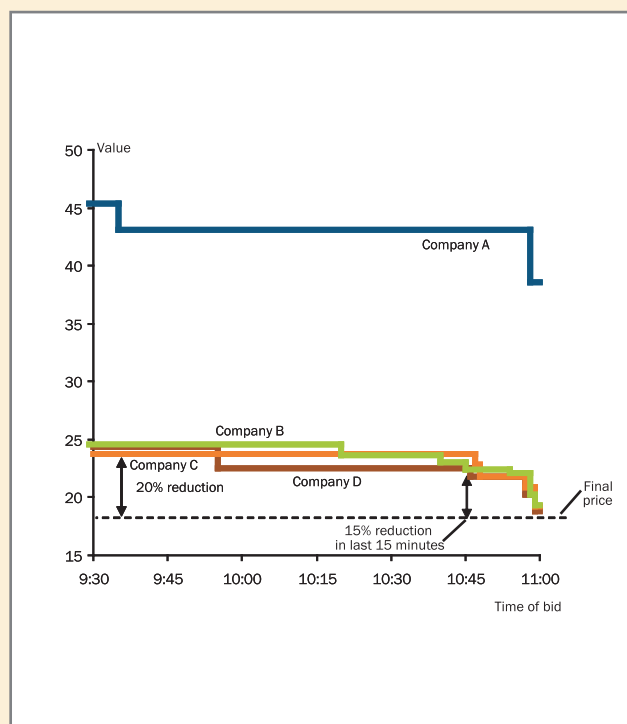
##### Current practice

- 3-4 suppliers typically used at the same time
- Product specification used is fairly standard

##### Initiatives pursued

- Use reverse auction to increase competition during bidding process
- Award contract to 1-2 suppliers to realise economies of scale, whilst ensuring supply reliability

#### Savings generated through the reverse auction (indexed)



Note: Details disguised for confidentiality purposes

Significant analytical effort is required to identify the best way to reduce procurement cost for a product category. Many cost reduction initiatives fail to deliver their potential because the analytical and planning phases are hurried or ignored, and execution is rushed. Exhibit 3.1.3 illustrates how in-depth analyses can be used to identify significant savings opportunities.

### EXHIBIT 3.1.3

#### EXAMPLE OF A SUPPLIER COST STRUCTURE ANALYSIS

The procurement category manager for boiler tubes in a European oil & gas company believes he can capture additional savings. Having determined the prices paid by competitors and other buyers of similar boiler tubes, he realises that he is buying at a 10% premium. However, he has so far been unable to negotiate price reductions with the supplier.

He decides to analyse his supplier's cost structure and realises that the supplier is extracting only minimum operating margins. His previous negotiations have been unsuccessful because any further squeezing of the supplier's margins could drive the supplier out of business.

However, the category manager's analysis reveals new, unexplored ways to reduce his boiler tube purchasing costs without threatening the supplier's business. He therefore returns to the negotiating table with an offer to optimise the supplier interface to reduce indirect costs, reduce unnecessary quality control requirements, and develop frame agreements to increase volumes. The supplier agrees to the new terms, and the manager achieves cost savings of over 10%.

| Supplier cost structure (Boiler tubes) | Cost drivers   |   | Sourcing opportunities  |
|--|--|---|---|
| Operating profit 5%                    | <ul style="list-style-type: none"> <li>Market competition</li> </ul>                                 | <ul style="list-style-type: none"> <li>Strategy</li> </ul>              | <ul style="list-style-type: none"> <li>Re-negotiate with suppliers</li> </ul>   |
| Depreciation 5%                        | <ul style="list-style-type: none"> <li>Capital investment</li> </ul>                                 | <ul style="list-style-type: none"> <li>Capacity utilisation</li> </ul>  |   |
| 10% Indirect labour                    | <ul style="list-style-type: none"> <li>Scale economies</li> </ul>                                    | <ul style="list-style-type: none"> <li>Capacity utilisation</li> </ul>  | <ul style="list-style-type: none"> <li>Aggregate volume (i.e., increase volume per supplier)</li> <li>Optimise interfaces through partnership (i.e., simplify ordering processes)</li> </ul>        |
| 15% Indirect purchases                 |  |   |   |
| 15% Direct labour                      | <ul style="list-style-type: none"> <li>Manufacturing process</li> <li>Direct labour costs</li> </ul> | <ul style="list-style-type: none"> <li>Customer requirements</li> </ul> | <ul style="list-style-type: none"> <li>Optimise quality control requirements/processes</li> <li>Shift some volume to a cheaper supplier</li> </ul>  |
| 15% Other direct purchases             | <ul style="list-style-type: none"> <li>Purchase price/volume</li> </ul>                              |   |   |
| 35% Raw materials                      | <ul style="list-style-type: none"> <li>Raw material prices</li> <li>Purchase volume</li> </ul>       |   | <ul style="list-style-type: none"> <li>Increase volume per supplier</li> <li>Optimise supplier's sourcing of raw materials, e.g., combine purchase of raw materials with other suppliers</li> </ul> |

Note: Details disguised for confidentiality purposes

### 3.2 ENSURE EFFICIENT PROCUREMENT CYCLE TIMES

While most companies look for ways to reduce the costs of the goods and services they purchase, many do not look closely enough at the costs of the processes associated with procurement. However, inefficient procurement processes can generate significant hidden costs. For example, delays in the procurement cycle can result in:

- Increased system/business downtime;
- Inability to provide external customers with the required products or services;
- Forgone revenue opportunities; and
- Increased opportunities for corruption to occur.

A large Asian power company recently incurred significant additional costs when procurement delays led to extended plant downtime and forced the company to use less efficient plants. The result was an ‘avoidable’ cost totalling tens of millions of dollars and a significantly lower profit forecast for the company.

Table 5 shows three key process levers that, if employed effectively, can help to ensure efficient procurement cycle times.

Table 5: Ensure efficient procurement cycle times

| Levers                               | Description and best practices  |
|--------------------------------------|---|
| 3.2.1 Differentiate purchase methods | <p>For each product category, GLCs should select the purchasing method that provides the best trade-off between competing procurement objectives (e.g., shorten cycle times versus enhance transparency versus minimise corruption).</p> <p>For example, for selected commodity items, GLCs may be able to increase their use of ‘direct selection’ with reverse e-auctions. This is because commodity items are typically available from several different suppliers and the choice of supplier is likely to be made on price. Direct selection will reduce procurement cycle times, while a reverse auction will identify the lowest price that each supplier is willing to accept.</p> <p><b>Required analysis</b></p> <p>Review current procurement process cycle times to understand:</p> <ul style="list-style-type: none"><li>• The number and types of procurement methods currently used;</li><li>• When and why each procurement method is used; and</li><li>• The typical cycle time for each procurement method used.</li></ul> <p><b>Initiatives</b></p> <p>Completion of the above analyses may enable redesign of the GLCs’ purchasing guidelines on the basis of:</p> <ul style="list-style-type: none"><li>• Type of product purchased (i.e., proprietary versus one-off versus commodity); and</li><li>• Purchase values (if applicable).</li></ul> <p>Exhibit 3.2.1 highlights the different purchasing methods used by one GLC.</p> |

Table 5: Ensure efficient procurement cycle times (cont.)

| Levers                                     | Description and best practices   |
|--|--|
| <b>3.2.2 Simplify purchasing processes</b> | <p>GLCs should streamline their procurement processes and reduce cycle times by extracting non-purchasing-related workflows from critical paths, aggregating duplicate tasks and introducing parallel processes.</p> <p><b>Required analysis</b><br/>Disaggregate the procurement process into sub-processes to understand:</p> <ul style="list-style-type: none"> <li>• Cycle times for each sub-process; and</li> <li>• The key drivers of long cycle times.</li> </ul> <p><b>Initiatives</b><br/>The results of the above analysis may enable:</p> <ul style="list-style-type: none"> <li>• Procurement processes (where applicable) to be redesigned for efficiency and effectiveness improvements; and</li> <li>• Non-procurement-related processes, such as field trials and specification design, to be extracted from the purchasing cycle and executed in parallel with it.</li> </ul> <p>Exhibit 3.2.2 shows an example of procurement process redesign for a telecommunications company.</p>  |
| <b>3.2.3 Empower the organisation</b>      | <p>GLCs should delegate procurement decision-making authority in accordance with benchmarks from Malaysia and overseas. The objective is to reduce cycle times without adding significant risk.</p> <p>For example, GLCs could, where appropriate, speed up procurement decision-making by increasing the limits of authority for senior management/Board tender committees. At the same time, it could strengthen budget controls to limit abuses.</p> <p><b>Required analysis</b><br/>Understand current decision-making processes:</p> <ul style="list-style-type: none"> <li>• Approval cycle times; and</li> <li>• Percentage of total purchases by the value and number of contracts approved at various levels.</li> </ul> <p><b>Initiatives</b><br/>Based on the results of the above analysis, the following initiatives may be applicable:</p> <ul style="list-style-type: none"> <li>• Rationalise limits of authority according to business needs; and</li> <li>• Clarify the role and accountabilities of the Tender Board versus the Board of Directors in approving purchases.</li> </ul> |

## EXHIBIT 3.2.1


### EMPLOY DIFFERENTIATED PURCHASING METHODS TO REDUCE RELIANCE ON OPEN TENDERS

Many GLCs have such long procurement cycle times - even some scheduled purchases take up to 200 days. This is primarily driven by inappropriate use of purchase methods, e.g., over-reliance on open tenders.

One GLC with long procurement cycle times decided to introduce new purchasing methods to reduce its reliance on open tenders. The GLC designed a decision-making framework to help it select, for each procurement decision, the purchasing method that provides the best balance between the need to get the shortest possible cycle times and the need to ensure transparency and a level playing field for suppliers.

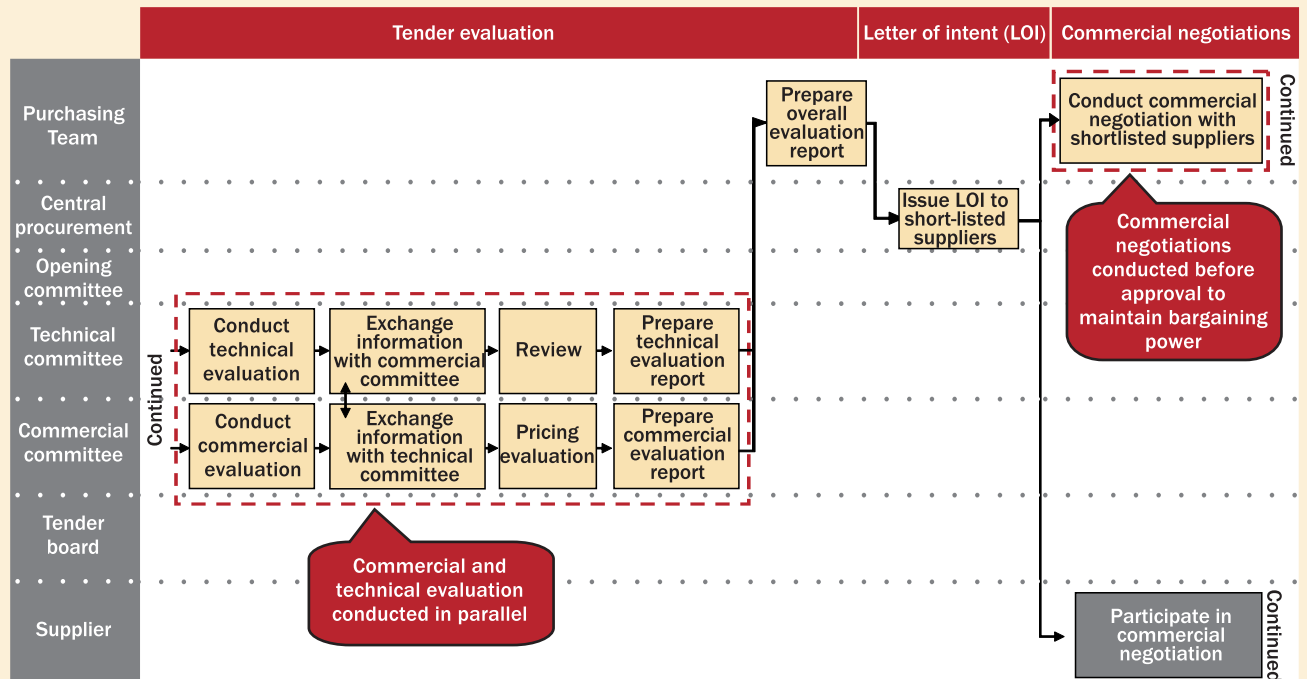
The new decision-making framework was piloted with encouraging results: procurement cycles were reduced from 90-120 days to approximately 50 days.

The table below shows an excerpt from the decision-making framework.



| Purchase method                        | Description  | Criteria   | Item / product categories  |
|--|--|--|--|
| 1 Strategic purchase                   | Purchase from one supplier or a specific group of suppliers, bidding and product evaluation may be conducted                     | <ul style="list-style-type: none"> <li>Strategic relationships as defined by GLC Group Procurement</li> <li>Products identified under strategic supplier programme</li> </ul>  | Product categories identified as strategic <ul style="list-style-type: none"> <li>High value spend</li> <li>Business critical asset</li> <li>Product is source of competitive advantage</li> <li>Knowledge intensive</li> </ul>        |
| 2 Direct purchase                      | Purchase directly from one supplier, product evaluation may be required  | <ul style="list-style-type: none"> <li>Monopoly/Proprietary equipment</li> </ul>   | Pre-determined list of product categories  |
| 3 Quotation                            | Purchase directly based on quotes from at least 3 suppliers  | <ul style="list-style-type: none"> <li>Items &lt;RMx in value</li> </ul>   | Any product  |
| 4 Direct selection and price schedules | Purchase from a specific group of suppliers through a bidding process<br><br>Product evaluation typically not required           | <ul style="list-style-type: none"> <li>Regular/predictable purchases where supplier relationship is not critical, price is the primary criteria and market intelligence is high</li> <li>Purchase value &lt;RMyM</li> </ul>  | <ul style="list-style-type: none"> <li>Stock items (e.g., paper, stationery)</li> <li>Non-stock items with highly standardised specs (e.g., PCs)</li> <li>Commodity services (e.g., maintenance contracts, logistics, etc.)</li> </ul> |
| 5 Closed tender<br>Open tender         | Purchase open to all potential suppliers (open tender)<br><br>Bidding and technical evaluation of product purchased are required | <ul style="list-style-type: none"> <li>Irregular/non-predictable purchases where supplier relationship is not critical, technical evaluation is a consideration or purchase value &gt;RMyM</li> <li>Open tenders to be used for new purchases or in absence of market intelligence</li> <li>Closed tenders to be used for repeat purchases/existence of market intelligence</li> </ul> | <ul style="list-style-type: none"> <li>Non-stock items without standardised specs</li> <li>Specialised purchases (e.g., Customer Relationship Management (CRM) IT System)</li> <li>Purchases &gt;RMyM</li> </ul>                       |

Note: Details disguised for confidentiality purposes

**EXHIBIT 3.2.2****EXAMPLE OF OPTIONS TO STREAMLINE THE PROCUREMENT PROCESS**

Note: Details disguised for confidentiality purposes

### 3.3 ENHANCE TRANSPARENCY AND ERADICATE CORRUPTION

'Transparency' in this context is defined as the full, timely and accurate disclosure of information. Transparency leads to a deeper understanding of procurement operations, which in turn leads to better evaluation and decision-making on the part of analysts, shareholders, Board members, management and suppliers. In addition, transparent procurement practices help strengthen adherence to GLC policies and procedures.

Corruption in this context is defined as an offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something that is dishonest, illegal or a breach of trust, in the conduct of the GLC's business<sup>9</sup>. All GLCs should aspire to eradicate corruption.

The real cost of corruption can be difficult to estimate as it can have a significant impact on the wider business environment. Overall, corruption increases the cost and risk of doing business in Malaysia, ultimately costing the nation many times more than the actual cost of corrupt practices.

Table 6 lays out four key levers to enhance transparency and help eradicate corruption.

<sup>9</sup> Business Principles for Countering Bribery, Transparency International, 2004

Table 6: Enhance transparency and eradicate corruption

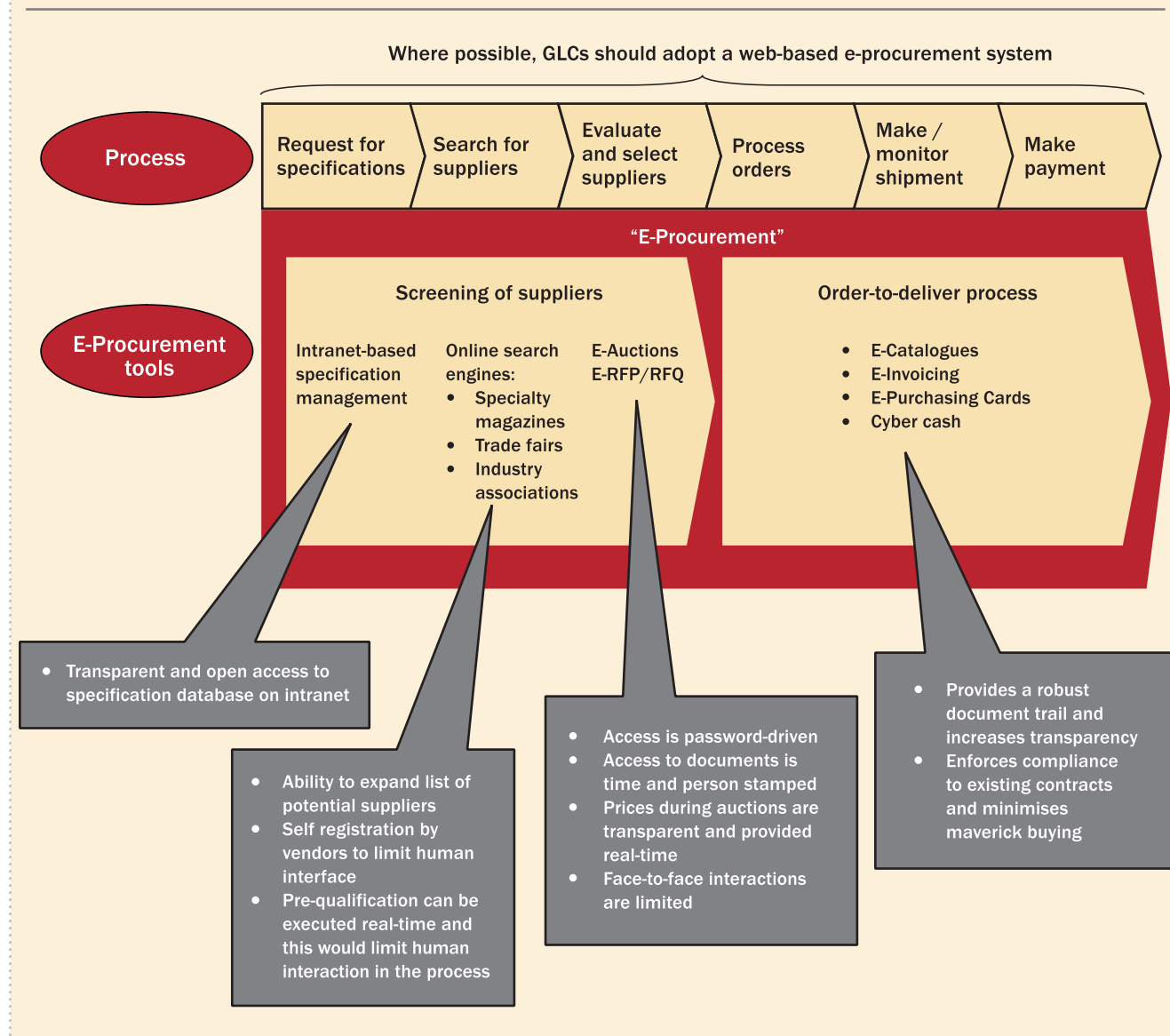
| Levers   | Description and best practices  |
|--|---|
| <b>3.3.1 Increase process transparency</b>         | <p>GLCs should make critical procurement processes as transparent as possible. For example, summary of Tender Committee decisions and criteria for preferred suppliers should be documented and published to minimise speculation and eliminate any perception of unfair practices.</p> <p>In addition, opportunities for corruption can be limited by increasing procurement transparency and minimising the need for human, especially one-on-one, interactions between GLCs and their suppliers' employees in the procurement process.</p> <p><b>Required analysis</b><br/>Understand existing levels of transparency:</p> <ul style="list-style-type: none"> <li>• Existence of a disclosure policy on procurement information;</li> <li>• Level of documentation for critical processes; and</li> <li>• Use of e-procurement, where appropriate.</li> </ul> <p><b>Initiatives</b><br/>After this assessment, two initiatives may be implemented to enhance process transparency:</p> <ul style="list-style-type: none"> <li>• Ensure proper documentation of key processes and adopt a comprehensive disclosure policy (e.g., purchase process flows and estimated timings, criteria for preferred supplier selection, Tender Committee results, etc.); and</li> <li>• Implement an e-procurement system to increase transparency in the procurement process and to minimise human interventions. Refer to Exhibit 3.3.1 for the benefits of e-procurement.</li> </ul> |
| <b>3.3.2 Establish clear anti-corruption codes</b> | <p>GLCs should demand a high standard of ethical behaviour from their procurement staff and suppliers. They should establish codes of conduct that aim to eliminate 'grey' areas with respect to procurement and ensure a shared understanding of acceptable and unacceptable behaviours.</p> <p><b>Required analysis</b><br/>Determine the existence and/or assess the value of the following:</p> <ul style="list-style-type: none"> <li>• A formal anti-corruption policy; and</li> <li>• Use of supplier contract terms to deter suppliers from participating in unethical activities.</li> </ul> <p><b>Initiatives</b><br/>Based on the above assessment, the GLC may:</p> <ul style="list-style-type: none"> <li>• Develop a clear anti-corruption policy and codes of conduct, and publicise them internally and externally (refer to Exhibit 3.3.2 for an example of an anti-corruption policy); and</li> </ul>   |

Table 6: Enhance transparency and eradicate corruption (cont.)

| Levers   | Description and best practices  |
|--|---|
| 3.3.2 <b>Establish clear anti-corruption codes (cont.)</b> | <ul style="list-style-type: none"> <li>• In supplier contracts, incorporate a clause that lists penalties for non-compliance to the GLC's anti-corruption policies (e.g., blacklisting of offending suppliers by all GLCs, termination of contracts, etc.).</li> </ul>  |
| 3.3.3 <b>Enforce audit and follow through</b>              | <p>GLCs should deter corruption by establishing a strong policing function with clear penalties for unethical conduct.</p> <p><b>Required analysis</b><br/>Critically examine existing anti-corruption policies and procedures:</p> <ul style="list-style-type: none"> <li>• Intensity of procurement audits; and</li> <li>• Enforcement of penalties for non-compliance with an anti-corruption policy.</li> </ul> <p><b>Initiatives</b><br/>The initiatives below may then be applicable:</p> <ul style="list-style-type: none"> <li>• Conduct regular (at least once a year) procurement audits, using independent internal or external audit teams; and</li> <li>• Establish: <ul style="list-style-type: none"> <li>- penalties for non-compliance (for both staff and suppliers);</li> <li>- a process for enforcing compliance (e.g., reporting of unethical behaviour, investigation by independent teams, prosecution by disciplinary boards); and</li> <li>- a robust process to ensure that sanctions are consistently applied.</li> </ul> </li> </ul> |
| 3.3.4 <b>Establish secure communication channels</b>       | <p>GLCs should encourage self-policing by providing an anonymous and secure communication channel to:</p> <ul style="list-style-type: none"> <li>• Report violations of, or non-compliance with, the procurement policy; and</li> <li>• Provide advice on matters relating to corruption.</li> </ul> <p><b>Required analysis</b><br/>Determine whether any channels exist to report/advise on actual or potentially corrupt practices and, if so, whether they are adequate.</p> <p><b>Initiatives</b></p> <ul style="list-style-type: none"> <li>• Establish a secure, confidential communication channel (e.g., ombudsman system or a whistle blower policy) to provide clear information on anti-corruption policies and report instances of unethical conduct.</li> <li>• Preserve the integrity of the channel (e.g., penalise any false/malicious reporting).</li> </ul>  |

## EXHIBIT 3.3.1

## EMPLOY E-PROCUREMENT TOOLS TO INCREASE PROCESS TRANSPARENCY



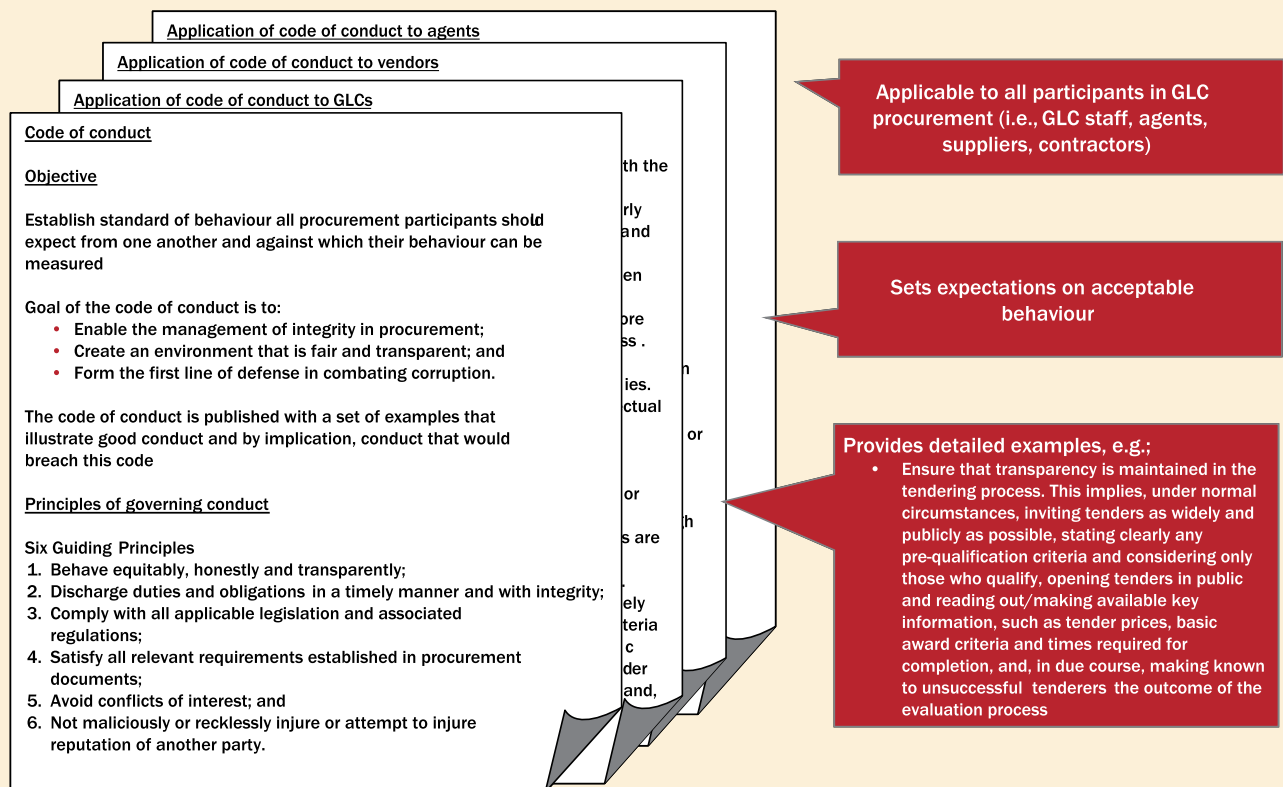
## EXHIBIT 3.3.2

### ESTABLISH CLEAR ANTI-CORRUPTION CODES OF CONDUCT

Companies can achieve ‘quick-wins’ in the fight against corruption by establishing and publishing clear codes of conduct for all participants in the supply chain. GLCs’ codes of conduct should be consistent with their broader policies on business ethics and may include, for example, use of whistle blower channels for suppliers and employees to report unethical conduct.

Codes of conduct can be institutionalised by, for example, including them in employment and procurement contracts, or in integrity pacts signed by suppliers and the GLCs.

Leading corporations train their employees and suppliers on their codes of conduct and the rights and obligations of the various parties in enforcing the codes.



Note: Example extracted from Construction Industry Development Board, South Africa

3.4 ENHANCE ORGANISATION CAPABILITIES AND GOVERNANCE

Companies with world-class procurement capabilities have procurement organisations with clearly defined roles and responsibilities.

To operate effectively, procurement functions must be able to recruit, develop and retain high calibre human resources. However, GLCs’ procurement functions typically face two hurdles in this regard. Despite the fact that procurement functions often manage substantial purchases:

- Procurement is typically seen as a support function of low strategic relevance; and
- Procurement management is typically buried many levels below the CEO.

Because of this, procurement is often seen as a relatively unattractive career option, making it difficult to attract and retain talent in the area. Given the current state of development of many GLCs, and the highly significant potential for value creation by the procurement function, this function needs to be staffed by qualified and capable people.

Table 7 describes three key levers that can enhance organisational capabilities and improve governance in GLC procurement functions.

Table 7: Enhance organisational capabilities and governance

| Levers   | Description and best practices  |
|--|---|
| 3.4.1 Enhance strategic relevance of procurement | <p>GLCs should ensure that the strategic importance of procurement is reflected in an organisation design that promotes the adoption of best practice procurement processes, is hostile to corrupt practices, promotes collaboration with other functions, enhances the role of procurement to include, for example, facilitating demand and budget planning, and supports the development of procurement skills and capabilities.</p> <p><b>Required analysis</b></p> <p>Assess the existing procurement function to determine:</p> <ul style="list-style-type: none"><li>• The existence of Group Procurement;</li><li>• The reporting level of the Head of Procurement; and</li><li>• The degree to which organisation design supports procurement objectives.</li></ul> <p><b>Initiatives</b></p> <p>Based on the assessment above, the following initiatives may enhance the role of the procurement function:</p> <ul style="list-style-type: none"><li>• Reposition the Head of Procurement’s reporting line to no more than two levels below the CEO (depending on the size and type of procurement spend, the role of Head of Procurement may continue to reside within existing functions e.g., Chief Financial Officer);</li><li>• Reorganise the procurement function to reflect business needs;</li><li>• Establish a market intelligence unit to support procurement operations; and</li><li>• Build world-class capabilities through cross-functional teams, training and recruitment. Refer to Exhibit 3.4.1 for an example of a training curriculum.</li></ul> |

Table 7: Enhance organisational capabilities and governance (cont.)

| Levers  | Description and best practices  |
|---|---|
| 3.4.2 <b>Enforce accountability</b>                   | <p>GLCs should align individual staff roles and responsibilities with procurement objectives, ensure that company policies and procedures are followed, and hold staff accountable for their roles in procurement performance.</p> <p><b>Required analysis</b><br/>Understand the current performance measurement and management system for procurement staff:</p> <ul style="list-style-type: none"> <li>• KPIs used;</li> <li>• Frequency of performance tracking; and</li> <li>• Implications of failure to reach performance targets or to comply with policies.</li> </ul> <p><b>Initiatives</b><br/>Develop and implement initiatives:</p> <ul style="list-style-type: none"> <li>• Institutionalise and tracking procurement metrics/KPIs (see Exhibit 3.4.2 for examples); and</li> <li>• Introduce procedures that enforce accountabilities and ensure robust audit trails (e.g., staff opening tender documents must sign-off that they have followed best practices and company policies, before they hand the tender documents to the tender evaluation team).</li> </ul> |
| 3.4.3 <b>Establish appropriate control mechanisms</b> | <p>GLCs should put control mechanisms in place to ensure that the agreed practices and processes are consistently followed.</p> <p><b>Required analysis</b><br/>Identify the control mechanisms currently in place and determine their effectiveness.</p> <p><b>Initiatives</b><br/>Address any control gaps. For example:</p> <ul style="list-style-type: none"> <li>• Segregate roles/functions (i.e., policy versus operations, group versus BU) to eliminate conflicts of interest and improve governance (see Exhibit 3.4.3 for examples of potential structures);</li> <li>• Where appropriate, establish committees to review and approve, for example: <ul style="list-style-type: none"> <li>- specifications for new purchases; and</li> <li>- processes for purchases above a certain value.</li> </ul> </li> <li>• Segregate budget, requisition and payment approval mechanisms; and</li> <li>• Require two signatures for purchases above an appropriate threshold.</li> </ul>  |

## EXHIBIT 3.4.1

## EXAMPLE OF A PROCUREMENT TRAINING PROGRAMME

| Topic   | Target audience   | Duration | Content  | Output   |
|---|---|----------|--|--|
| Fundamentals in sourcing                        | All participants to the programme   | 1 day    | Sourcing/supply chain management fundamentals; introduction to cost reduction initiatives  | Tools and methodology to launch a sourcing cost reduction initiative |
| Overall sourcing cost reduction initiative      | Product managers  | 2 days   | Project management<br>Detailed introduction to sourcing cost reduction levers  | Sourcing cost reduction initiatives, project management methodology  |
| Key component/product purchase strategy (basic) | Key component/product managers and local product/project procurement managers | 2 days   | Scope review <ul style="list-style-type: none"> <li>Segmentation and selection of key components/products</li> </ul> Market survey <ul style="list-style-type: none"> <li>Market analysis</li> <li>Supplier evaluation</li> </ul> Key components/products economics <ul style="list-style-type: none"> <li>Supplier cost structure assessment</li> <li>Component/product cost structure</li> </ul> Basic negotiation techniques<br>Basic legal contracting | Tools to develop a key component/product purchase strategy           |

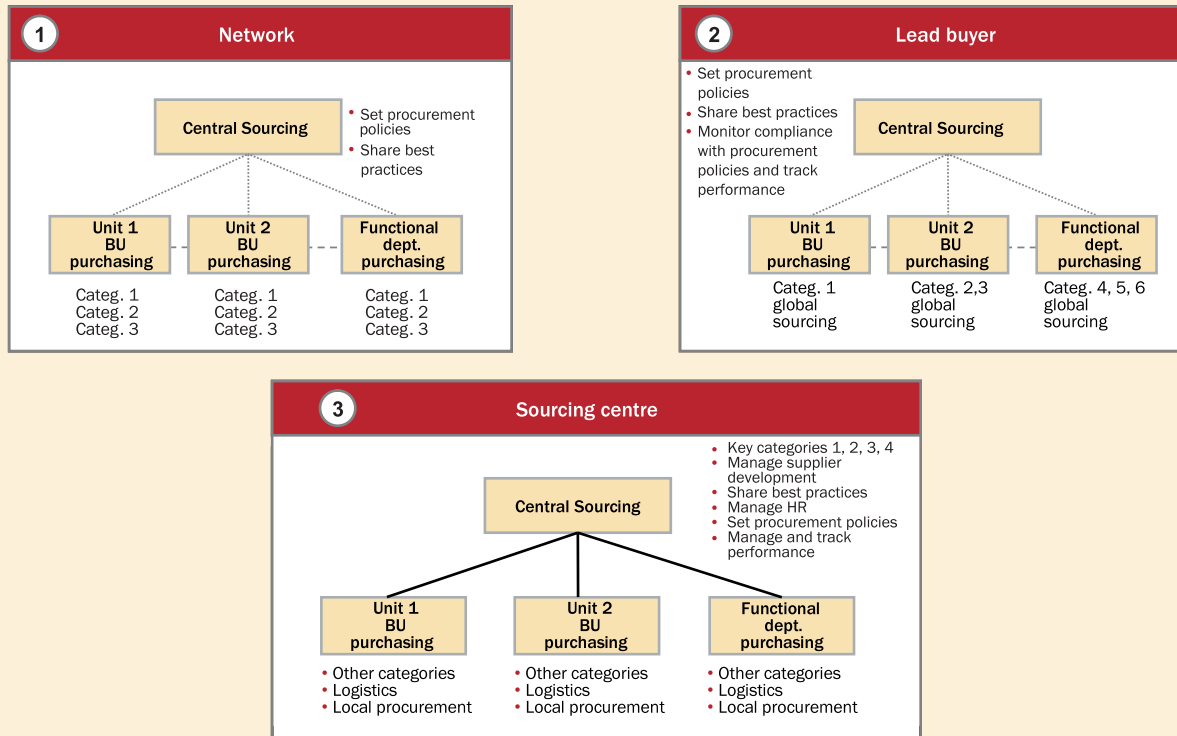
Note: List is not exhaustive

## EXHIBIT 3.4.2

## EXAMPLES OF PROCUREMENT KPIs

| Examples of CEO KPIs  | Example of Head of Procurement KPIs   | Example of Procurement Product Manager KPIs   |
|---|---|---|
| (1 - 2 of the following) <ol style="list-style-type: none"> <li>Total annual cost reductions generated by procurement</li> <li>Reduction in average cycle times of procurement processes</li> <li>Level of user satisfaction</li> <li>Percentage of procurement spend on local content</li> <li>Percentage of procurement spend on Bumiputera content</li> <li>Percentage of procurement spend on BVDP</li> </ol> | (3 - 7 of the following, aligned with the CEO's KPIs) <ol style="list-style-type: none"> <li>Total annual cost reductions achieved (unit costs)</li> <li>Reduction in average cycle times of procurement processes</li> <li>Level of user satisfaction</li> <li>% of total products delivered on time</li> <li>Total annual reduction in operating costs of procurement organisation</li> <li>Value of variation orders as % of overall contract value</li> <li>Skill development of procurement employees</li> <li>Percentage of procurement spend on local content</li> <li>Percentage of procurement spend on Bumiputera content</li> <li>Percentage of procurement spend on BVDP</li> </ol> | (3 - 7 of the following, aligned with the Head of Procurement's KPIs) <ol style="list-style-type: none"> <li>Total annual product cost reduction achieved</li> <li>Reduction in cycle times for process x</li> <li>Level of user satisfaction</li> <li>% of products delivered on time</li> <li>Total annual product unit operating cost reduction</li> <li>Value of variation orders as % of product contract value</li> <li>Skill development of category unit employees</li> <li>Percentage of procurement spend on local content for relevant products</li> <li>Percentage of procurement spend on Bumiputera content for relevant products</li> <li>Percentage of procurement spend on BVDP for relevant products</li> </ol> |

Note: Details disguised for confidentiality purposes

**EXHIBIT 3.4.3****EXAMPLES OF BEST PRACTICE ORGANISATION MODELS THAT SEGREGATE THE POLICY AND OPERATION FUNCTIONS****3.5 DEVELOP A STABLE AND COMPETITIVE SUPPLIER BASE**

Leading global companies such as Walmart, Intel, Shell, Starbucks and American Apparel proactively manage their suppliers, by establishing strategic partnerships with suppliers, and providing support for local vendor development. By managing their suppliers in a structured manner, these companies are able to:

- Ensure the quality and price competitiveness of the products they buy;
- Establish long term security of supply; and
- Help support the development of capable local vendors.

Similarly, stable and competitive supplier bases can be sources of competitive advantages, for GLCs. By helping their suppliers reduce costs and improve quality and service levels, GLCs themselves will be better positioned to face the challenges of globalisation.

Furthermore, GLCs have an important role to play in helping to achieve the national development objective of growth with equity. Where appropriate, GLCs are encouraged to support Bumiputera vendors and work with selected Bumiputera vendors to develop their capabilities.

Three key programmes can help to establish a stable and competitive supplier base:

- Establish a Strategic Supplier Programme (SSP);
- Develop a structured BVDP; and/or
- Institute a structured Supplier Management Programme (SMP).

For some GLCs, a SSP or a BVDP may not be a viable choice. Typically, a GLC’s type and/or amount of procurement spend will help determine applicability of a BVDP. For example, if none of the products a GLC procures meets the SSP or BVDP product selection criteria, a SSP or a BVDP may not be required.

However, any GLC can establish a SMP, independent of its amount and type of procurement spend. SMPs can be used for all product categories that do not meet the SSP or BVDP product criteria. However, a GLC should ensure that the administrative cost of implementing a SMP does not outweigh its potential financial rewards. Hence, as a rule of thumb, only those product categories (excluding those in the SSP and BVDP) that cumulatively comprise the top 80% of total procurement spend should be included in the SMP.

Table 8 shows the three programmes and their design principles.

Table 8: Develop a stable and competitive supplier base

| Levers                | Description and best practices  |
|-----------------------|---|
| 3.5.1 Establish a SSP | <p>GLCs can maintain and improve their competitiveness by establishing long-term supplier relationships for strategically important products.</p> <p>Such relationships provide long-term stability of supply and, potentially, consistently high quality products at superior prices, and improved Research &amp; Development (R&amp;D) at a lower cost.</p> <p><b>Required analysis</b></p> <p>Determine:</p> <ul style="list-style-type: none"><li>• Whether the GLC purchases product that meet the SSP criteria and, if so, what the SSP’s objectives are; and</li><li>• The effectiveness of the SSP in meeting its objectives.</li></ul> <p><b>Design principles for best practice SSP</b></p> <p>Based on the analysis above, initiate steps to establish a SSP or enhance an existing programme, applying the following design principles:</p> <ul style="list-style-type: none"><li>• <b>Product category selection:</b><br/>Select product categories using a structured process: determine whether a product represents high value spend, is a business-critical asset, constitutes a source of competitive advantage and is knowledge intensive. Refer to Table 9 for details.</li><li>• <b>Supplier selection:</b><br/>Select a supplier based on a rigorous process that includes an assessment of the supplier’s financial health, management capabilities, business track record, price performance, product quality, etc.</li></ul> |

Table 8: Develop a stable and competitive supplier base (cont.)

| Levers  | Description and best practices  |
|---|---|
| 3.5.1 Establish a SSP (cont.)                 | <ul style="list-style-type: none"> <li> <b>Relationship development:</b><br/>           Focus on one supplier per strategic product category. Provide a multi-year contract, subject to the supplier meeting mutually developed and agreed performance targets. The targets, which should include dimensions such as price performance, product quality, level of joint development, etc., should provide incentives to maintain close cooperation and generate competitive advantage for both parties. The contracts should also specify penalties for non-performance.         </li> <li> <b>Evaluation and monitoring:</b><br/>           Strategic suppliers should be measured against mutually defined, contractually set performance targets. Performance against targets should be evaluated, for example, quarterly, and the targets revised periodically.         </li> </ul>   |
| 3.5.2 Develop a (or enhance an existing) BVDP | <p>As a first step, all GLCs should determine whether they can and should support a BVDP.</p> <p><b>Required analysis</b></p> <ul style="list-style-type: none"> <li>Using the product category selection criteria below, decide whether any of the product categories currently purchased by the GLC fit the criteria for a BVDP.</li> <li>Determine the cost of implementing a BVDP for the selected products. The cost should include any price premium charged by the Bumiputera vendor for those products, and the GLC's cost of operating a BVDP (e.g., salaries, training costs, incremental system costs, etc.).</li> <li>Submit the estimated cost and details of the BVDP to the Board for approval. If approval is gained, establish a BVDP based on the design principles below.</li> <li>If the Board decides not to establish a BVDP, the rationale for the decision should be documented.</li> </ul> <p>Once it has been determined that the GLC can support a BVDP, the GLC should establish a programme to help genuine Bumiputera vendors build the capabilities they need to compete in local and regional markets.</p> <p>The programme should also continuously monitor the BVDP participants' performance, and graduate them when they reach the required standard.</p> |

Table 8: Develop a stable and competitive supplier base (cont.)

| Levers   | Description and best practices   |
|--|--|
| <b>3.5.2 Develop a (or enhance an existing) BVDP (cont.)</b> | <p><b>Design principles for best practice BVDP</b></p> <p>Establish or enhance an existing BVDP, applying the following design principles, which define the scope of the programme as well as the key processes:</p> <ul style="list-style-type: none"> <li> <b>Product category selection:</b> <p>Select product categories based on whether they support the nation's development focus, have potential for local value add, and need to be purchased regularly over the longer term. Whether the GLC has, or has access to, product expertise will also be important. Table 10 provides the details.</p> <p>GLCs should make the lists of products that meet these criteria public, to ensure that the vendor selection process is transparent, and to encourage participation by suitable vendors.</p> <p>Where possible, GLCs should use both BVDP and non-BVDP vendors for the selected product categories, to maintain security of supply and to provide market intelligence on the selected product categories.</p> </li> <li> <b>Vendor selection:</b> <p>Develop and apply a strict vendor selection process using criteria such as financial health, management capability, business and shareholder track records, quality of business plan, facility assessment, etc. This is to ensure that genuine and capable Bumiputera vendors are selected.</p> <p>These selection criteria should be consistently applied regardless of a vendor's stage of development (i.e., whether it is a start-up or an established vendor).</p> </li> <li> <b>Vendor development:</b> <p>Limit the number of vendors for each product category to ensure that each BVDP participant receives sufficient attention and an appropriate share of the GLC's procurement spend.</p> <p>Provide multi-year contracts, subject to vendors meeting BVDP terms, to encourage vendors' commitment to the programme and their businesses, and to provide vendors with enough time to develop sustainable businesses.</p> <p>While BVDP vendors should be given specific timeframes in which to reach the required standards, this time could vary by product category, volume of product purchased and the initial investments required by the vendors.</p> <p>If a change in market conditions adversely affects the competitiveness of a BVDP participant, the relevant GLC should, on a 'best effort' basis, look for ways to continue supporting the vendor.</p> </li> </ul> |

Table 8: Develop a stable and competitive supplier base (cont.)

| Levers  | Description and best practices  |
|---|---|
| <p>3.5.2 <b>Develop a (or enhance an existing) BVDP (cont.)</b></p> | <p>Developmental elements of the programme could include technical training, process and product improvements, R&amp;D support, etc.</p> <ul style="list-style-type: none"> <li> <p><b>Evaluation:</b></p> <p>Measure BVDP vendors' performance using KPIs, including, for example, price performance, product quality, service levels, level of revenue diversification (i.e., percentage of revenue sources beyond the BVDP programme) and, where appropriate, the number of Bumiputera vendors the BVDP vendor has developed.</p> <p>Set targets annually and conduct evaluations semi-annually. Give non-performing vendors sufficient time to address performance issues and promote high performers to the following year of the programme.</p> <p>Monitor the financial health of vendors by mandating that the vendors submit their annual audited accounts on a regular basis. Vendors who fail to submit their audited accounts would be given show cause letters, which may lead to their termination from the programme (this may also be applied to SMP).</p> <p>Set up enforcement teams to conduct spot or surprise checks at the vendors' premises to verify authenticity of the vendors and ensure that mutually agreed development plans are executed (spot checks may also be conducted for vendors under SMP).</p> </li> <li> <p><b>Graduation:</b></p> <p>Graduated vendors (i.e., those who have met or exceeded the KPI targets over the course of the programme) become the preferred suppliers for the relevant products. Preferred suppliers are given priority to supply, but may need to compete with other preferred suppliers in some instances.</p> <p>BVDP vendors who consistently fail to meet requirements at each stage of the programme should be removed from the programme. Ex-BVDP vendors can continue to try to supply to the GLC, but would not be preferred suppliers.</p> </li> </ul> <p>The above BVDP design principles complement the objectives in the Memoranda of Understanding between MECD and the respective GLCs in 2005. Where possible, GLCs should collaborate with MECD to further enhance their BVDPs and share implementation experiences. For an example of a best practice BVDP, refer to Exhibit 3.5.1.</p> |

Table 8: Develop a stable and competitive supplier base (cont.)

| Levers                                  | Description and best practices  |
|---|---|
| <b>3.5.3 Implement a structured SMP</b> | <p>GLCs should regularly assess their suppliers to build a strong supplier base characterised by competitive prices and high quality and service levels.</p> <p><b>Required analysis</b></p> <ul style="list-style-type: none"> <li>• Determine objectives of current supplier performance management system; and</li> <li>• Understand the extent to which those objectives have been met.</li> </ul> <p><b>Design principles for best practice SMP</b></p> <p>Establish or enhance the existing supplier performance management system by applying the following design principles:</p> <ul style="list-style-type: none"> <li>• <b>Product category selection:</b><br/>Focus on non-SSP and non-BVDP products that cumulatively comprise the top 80% of total procurement spend.</li> <li>• <b>Supplier pre-qualification:</b><br/>Implement a stringent vendor selection process based on technical and commercial criteria including, for example, TCO, product quality, delivery performance and level of technology adoption.</li> <li>• <b>Evaluation and monitoring:</b><br/>Continuously evaluate vendors' performance based on defined performance targets, with penalties for non-performers (including removal of preferred supplier status and blacklisting). Targets could include product price, quality, delivery performance, etc. Ensure the evaluation process is transparent to the vendor.<br/><br/>Conduct spot checks where necessary to validate vendors' status and capabilities.<br/><br/>Set targets annually and conduct evaluations semi-annually.<br/><br/>Confer preferred supplier status (PSS) on those suppliers who consistently meet their targets.</li> <li>• <b>Supplier improvement plan:</b><br/>Provide regular feedback on performance and help develop improvement initiatives where applicable.</li> </ul> |

Tables 9 and 10 describe the product selection criteria for establishing a SSP and a BVDP respectively.

**Table 9: SSP product selection criteria**

| SSP product selection criteria            | Description  |
|---|--|
| 1. <b>High value spend item</b>           | Significant annual spend on the product - i.e., $\geq 5\%$ of total annual procurement spend (although business judgement should determine the final decision). Hence, any cost reduction achieved through the SSP would result in significant savings.  |
| 2. <b>Business critical asset</b>         | A product that is a critical input to the core operations or manufacturing process of a business (e.g., the engine of a car for an automobile company or a core banking system for a bank).  |
| 3. <b>Source of competitive advantage</b> | <p>A product or service that differentiates the GLC from its competitors. This could include products or services that enable the GLC to:</p> <ul style="list-style-type: none"> <li>• Improve the quality of its own manufacturing or raise its customer service levels without raising prices; or</li> <li>• Offer innovative products or services at a lower cost than competitors through a secure supply of technologically superior inputs.</li> </ul> |
| 4. <b>A knowledge intensive product</b>   | The product requires significant knowledge/technical expertise to use and maintain, making knowledge transfer from the supplier to the GLC critical.   |

Table 10: BVDP product selection criteria

| BVDP product selection criteria                 | Description   |
|---|---|
| 1. Government development focus                 | The product category should support the nation’s development aspirations (e.g., medium to high technology and/or knowledge-based).  |
| 2. Long-term consumption with regular purchases | Projected consumption of the product category by the GLC must be long-term and regular.   |
| 3. Potential for local value-add                | The product category should have an element of local value-add to minimise the number of middlemen, promote the development of Bumiputera vendors, and encourage import substitution. |
| 4. GLC has access to knowledge/expertise        | The GLC must be able to provide the relevant Bumiputera vendors with access to knowledge/expertise, and must be willing and able to transfer skills/capabilities.                     |

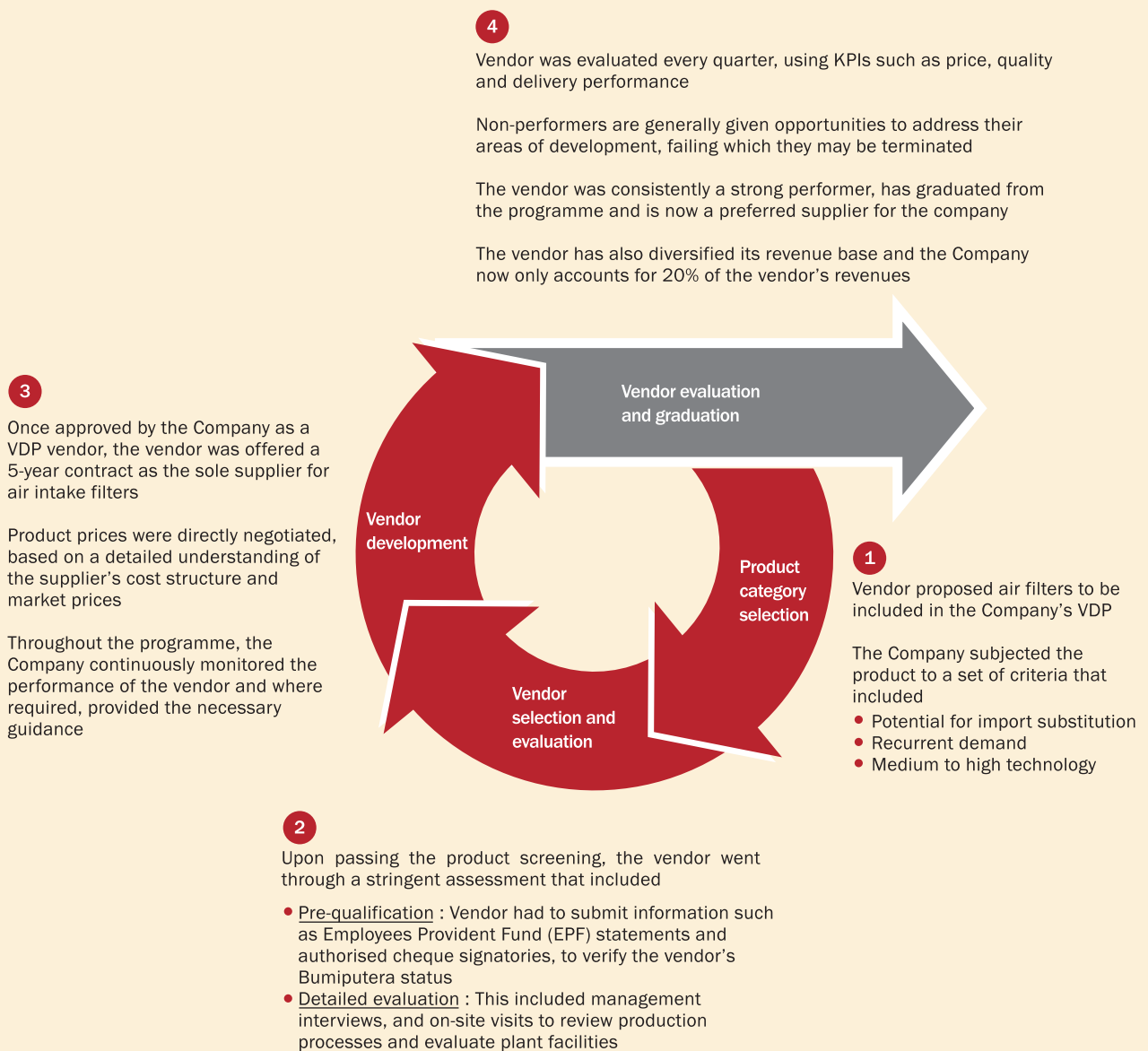
## EXHIBIT 3.5.1

### EXPERIENCE OF A BVDP VENDOR (ILLUSTRATIVE)

Five years ago, the managing director (MD) of a medium-sized Bumiputera company producing air intake filters was looking for opportunities to grow his business. He was told about a VDP run by a major oil and gas company (Company) that was very successful in helping Bumiputera vendors to compete in regional markets.

After a very stringent product and vendor selection process, the company included the Bumiputera company in its VDP and gave it a 5-year contract as its sole supplier of air filters. Prices for the air filters were directly negotiated, based on a detailed understanding of the vendor's cost structure.

The company closely monitored the vendor's performance over the last five years, providing guidance where required. The vendor has now graduated from the programme with significantly enhanced capabilities.



*Note: Details disguised for confidentiality purposes*

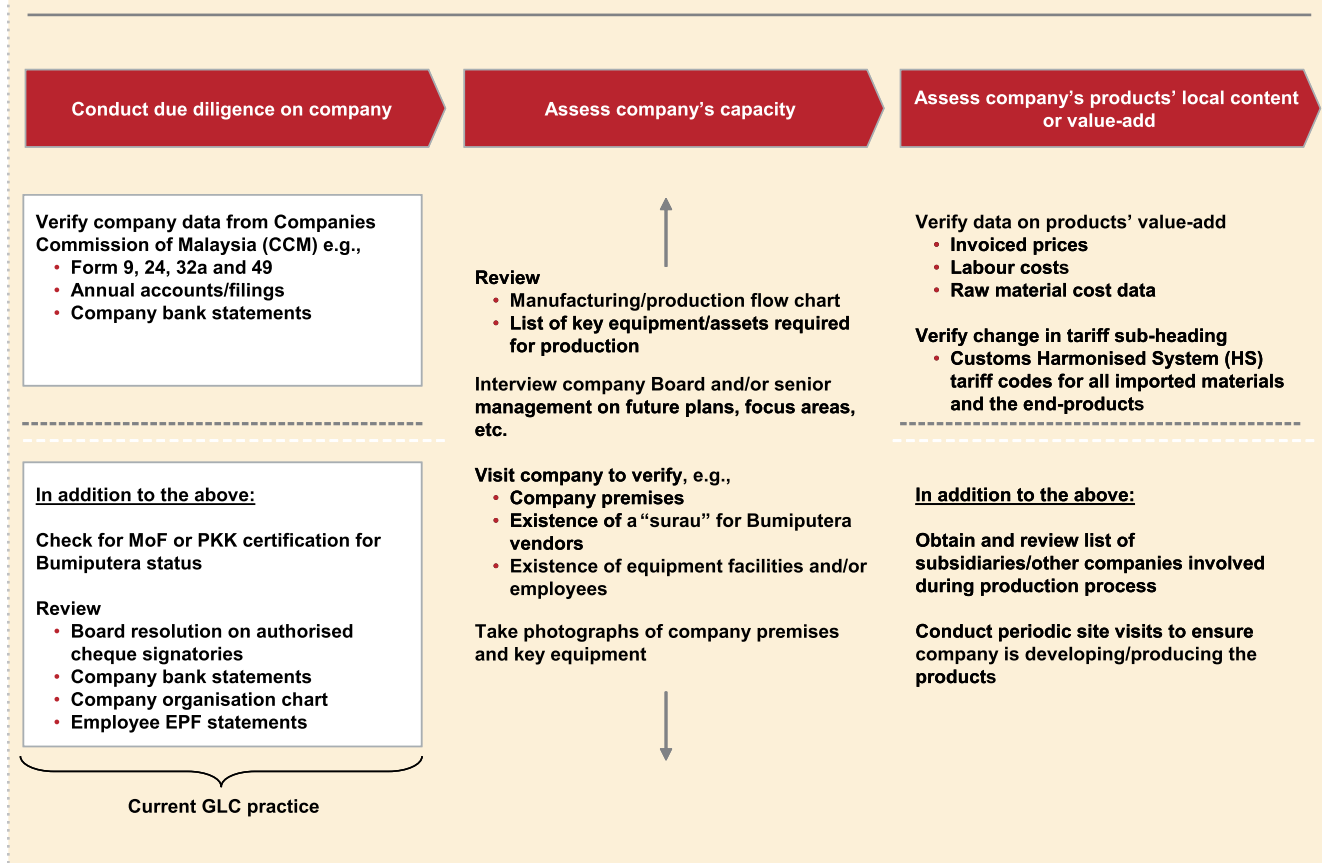
In addition to establishing a process or programme to manage existing and future suppliers, GLCs may wish to consider increasing the participation of local and Bumiputera vendors in specific parts of their businesses. As such, GLCs may wish to consider offering the following types of support to potential suppliers:

- **Provide business demand:** GLCs may earmark a percentage of their spend on specific products with high local content to be supplied by local and/or genuine Bumiputera vendors;
- **Develop capabilities through partnerships:** GLCs may help potential suppliers initiate partnerships with well established or incumbent suppliers (especially if the incumbents are foreign companies) to help in knowledge transfer or to collaborate in areas such as R&D; and
- **Assist in securing business funding:** GLCs may use their relationships with financial institutions to help potential suppliers secure financing for their businesses.

Finally, as GLCs strive to enhance their level of support for local content and Bumiputera vendors, GLCs should adopt a more structured approach to understanding the local content of their suppliers and to identify genuine Bumiputera vendors. An illustrative approach is highlighted in Exhibit 3.5.2 below.

## EXHIBIT 3.5.2

### PROPOSED APPROACH TO DETERMINE LOCAL CONTENT AND GENUINE BUMIPUTERA VENDORS



The background features a light gray field with several overlapping squares in various shades of gray. Large, faint, curved lines sweep across the page, creating a sense of movement and depth. The overall aesthetic is modern and minimalist.

## CHAPTER 4

---

### **APPROACH TO PROCUREMENT BEST PRACTICE IMPLEMENTATION**



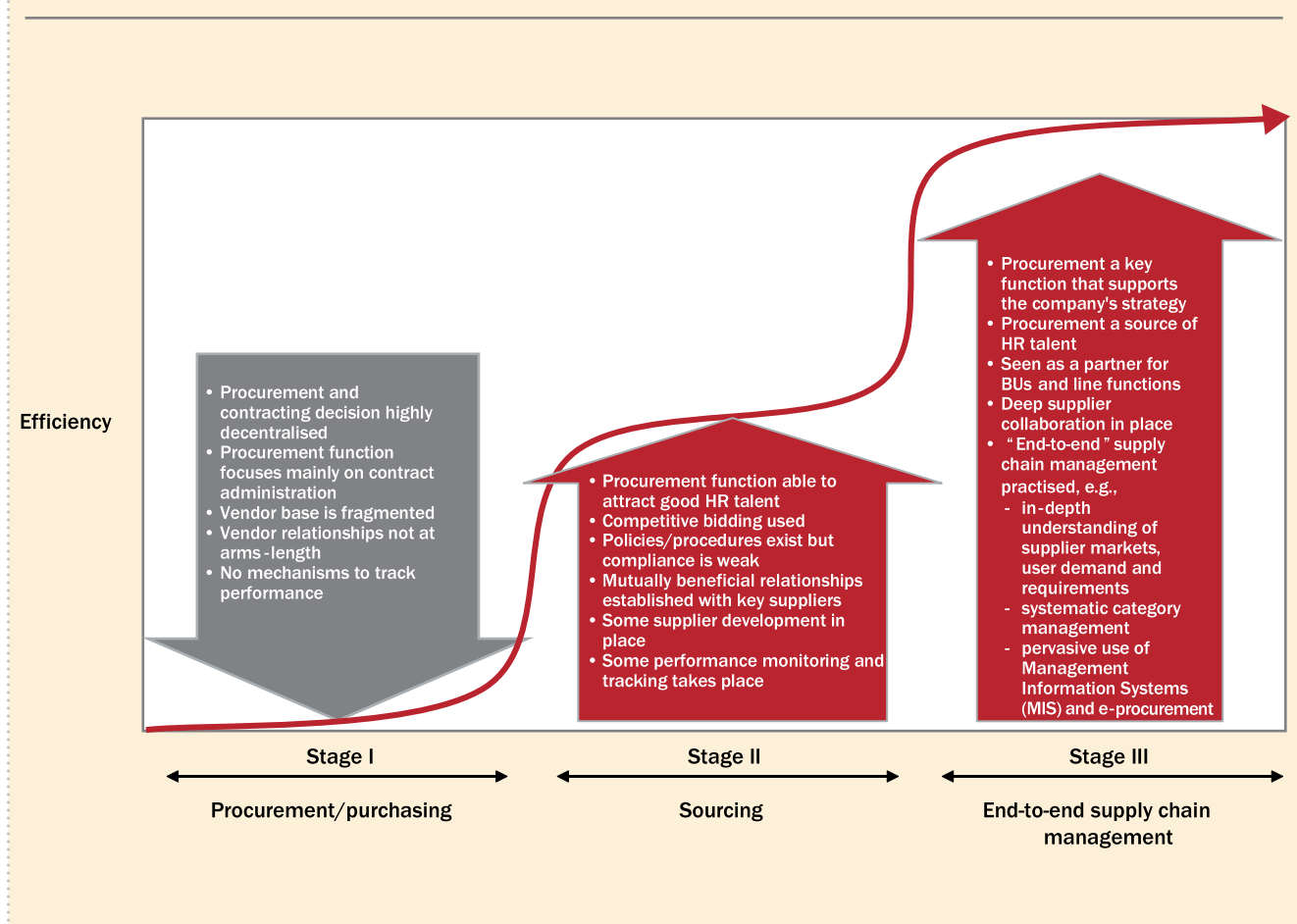
# CHAPTER 4: APPROACH TO PROCUREMENT BEST PRACTICE IMPLEMENTATION

The relevance of the best practices laid out in this document, and the priority they should be given, will vary from one GLC to another according to each company's level of procurement maturity and the degree to which it lags best practices. Individual GLCs should determine their starting positions by conducting the following self-assessments:

- **Stage of development:** Exhibit 4.0.1 describes the different stages in the development of a mature procurement function. A GLC should understand the stage it has reached, and thus the sophistication and effectiveness of its procurement function in generating value for the company.
- **Gap analysis:** Exhibit 4.0.2 shows a systematic approach that GLCs can use to map their current performance against procurement best practices, and to identify areas for development.

## EXHIBIT 4.0.1

### EXAMPLE OF DIFFERENT STAGES OF PROCUREMENT MATURITY



**EXHIBIT 4.0.2****EXAMPLE OF A GAP ANALYSIS**

| Topics                                   | Assessment | Rationale for assessment   | Potential action steps to address gaps  |
|--|------------|--|---|
| Category purchasing strategy             |            | <ul style="list-style-type: none"> <li>Most analysis undertaken on an ad-hoc basis</li> <li>Sourcing centre proposes, operational staff decides</li> </ul> | Perform systematic analysis on each product category  |
| Proactive management of suppliers        |            | <ul style="list-style-type: none"> <li>Significant use of retailers</li> <li>Supplier portfolio being rationalised for some categories</li> </ul>          | Reduce number of suppliers used and buy directly from distributor                                 |
| Sourcing coverage                        |            | <ul style="list-style-type: none"> <li>Difficult as most key products are service-based</li> </ul>   |   |
| Specification standardisation            |            | <ul style="list-style-type: none"> <li>BU's require customised specifications</li> </ul>   | Redefine role of sourcing centre to include validation of specification                           |
| Demand aggregation and management        |            | <ul style="list-style-type: none"> <li>Common commodities not consolidated across BU's</li> </ul>  | Consolidate volumes across BU's and geographies   |
| Supplier development programme(s)        |            | <ul style="list-style-type: none"> <li>No supplier partnerships, or development programmes in place</li> </ul>   | Increase number of frame agreements to lock-in prices and provide suppliers with base/load demand |
| Enablers, e.g., process and organisation |            | <ul style="list-style-type: none"> <li>Sourcing centre too administrative and passive</li> </ul>   | Enhance role of sourcing centre   |

Each GLC should design its own approach to implementing procurement best practices, based on the results of the self-assessment. Table 11 shows two potential approaches.

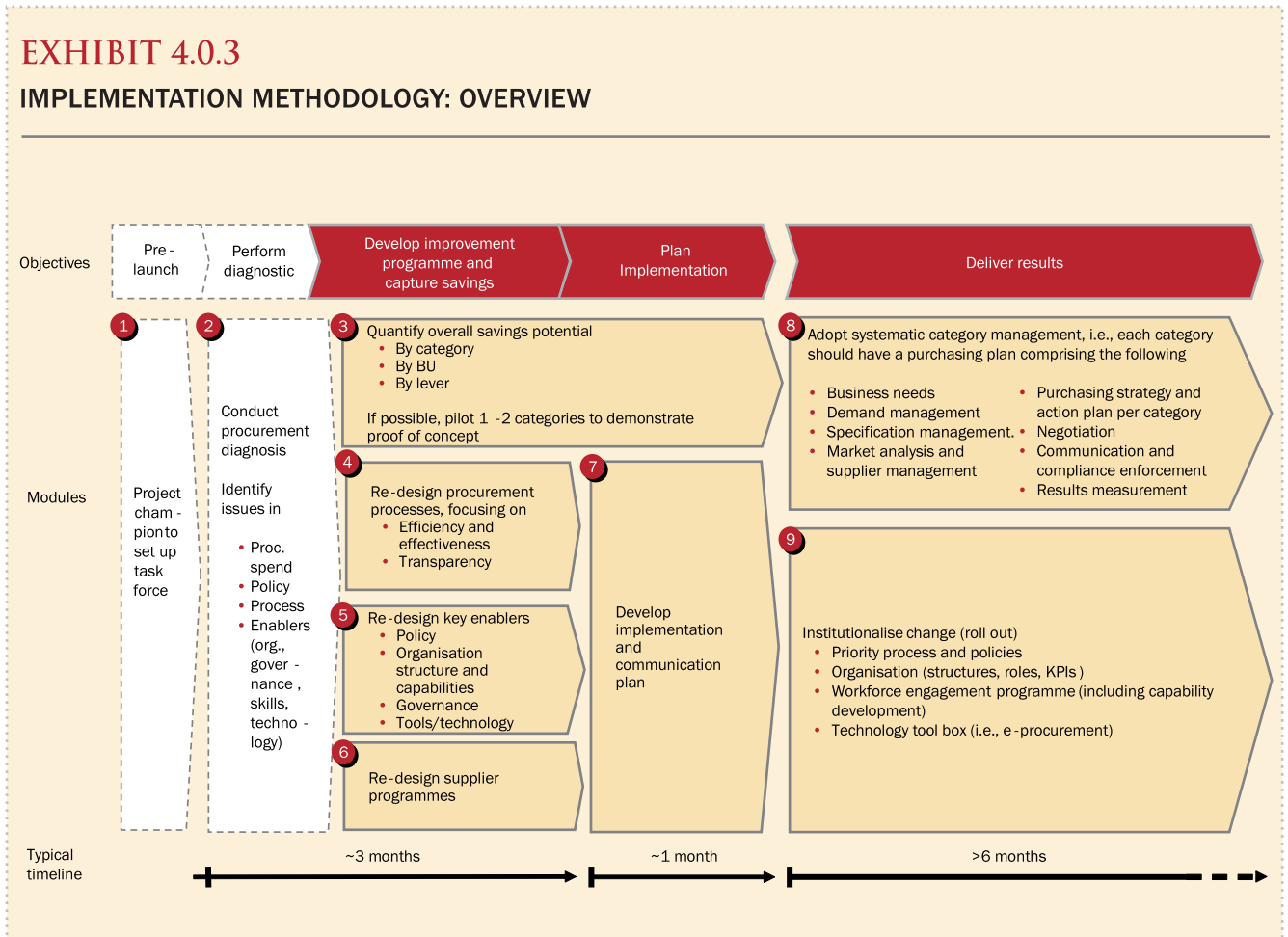
**Table 11: Implementation approaches**

| Type of implementation approach     | Typical scope   |
|-------------------------------------|---|
| <b>Comprehensive transformation</b> | <ul style="list-style-type: none"> <li>All aspects of procurement including cost reduction, process enhancement, procurement function re-organisation, etc.;</li> <li>A gradual transformation process;</li> <li>Timing: 12 - 18 months; and</li> <li>Resources: 5 - 20 staff.</li> </ul> |
| <b>Focused initiatives</b>          | <ul style="list-style-type: none"> <li>More ad-hoc in nature, each initiative focusing on a specific aspect of procurement;</li> <li>Timing: Results can be achieved in 3 - 6 months; and</li> <li>Resources: 3 - 5 staff per initiative.</li> </ul>                                      |

Two factors will help to determine the right approach for a GLC:

- **Gaps relative to best practice:** GLCs with relatively mature procurement functions and robust procurement practices will likely benefit more from a focused approach, while GLCs that significantly lag best practices will benefit from a comprehensive transformation initiative.
- **Available resources:** Regardless of the GLC's level of procurement maturity, a GLC will find it difficult to undertake a comprehensive transformation initiative if it does not have sufficient resources with the required capabilities. In these circumstances, a more focused approach may be more appropriate.

An example of a comprehensive transformation programme workplan is shown in Exhibit 4.0.3.



To ensure that a procurement transformation initiative gains acceptance, is properly implemented, and delivers results, the CEO and Board should adhere to the principles outlined in Table 12.

Table 12: Key principles for success

| Key principles                                   | Description   |
|--|---|
| <b>Set ambitious targets</b>                     | <ul style="list-style-type: none"> <li>● Ensure initiative is consistent with, and supports, the company's overall business strategy.</li> <li>● Develop an initiative that is benchmarked to best practices.</li> </ul>  |
| <b>Systematically use all purchasing levers</b>  | <ul style="list-style-type: none"> <li>● There is no silver bullet – what works for one GLC may not work for another; each GLC requires a systematic and comprehensive understanding of its GLC procurement spend to put the right processes and practices in place.</li> </ul>   |
| <b>Redesign end-to-end purchasing processes</b>  | <ul style="list-style-type: none"> <li>● Review the information flows and interactions between all the parties involved in procurement (e.g., specification design team, purchasers and end-users) need to be strong and consistent.</li> </ul>   |
| <b>Implement transparent performance metrics</b> | <ul style="list-style-type: none"> <li>● Start with simple metrics. Make them more exhaustive as the procurement function matures.</li> <li>● Deploy appropriate IT tools.</li> </ul>   |
| <b>Invest extensively in change management</b>   | <ul style="list-style-type: none"> <li>● Start with pilots led by well-respected 'champions'.</li> <li>● Balance quick wins and fundamental change.</li> <li>● Take into account organisational behaviour levers (i.e., communication, career path, etc.).</li> <li>● Raise the profile and recognition of procurement employees.</li> <li>● Set the right incentives for line management.</li> </ul> |



## CHAPTER 5

---

### **GETTING STARTED - ENSURING TRACTION FOR A PROCUREMENT INITIATIVE**



# CHAPTER 5: GETTING STARTED - ENSURING TRACTION FOR A PROCUREMENT INITIATIVE



This final chapter describes the participation required from GLC CEOs and Board members to ensure that any procurement initiative launched gets off the ground quickly, generates momentum and delivers results.

## 5.1 PARTICIPATION FROM THE GLC BOARD

---

To create a strong platform for implementing best practices in procurement, GLC Boards need to:

1. Adopt the Red Book as their primary reference for procurement best practices.
2. Set initial top-down CEO targets and milestones in relation to Red Book implementation.
3. Where appropriate, elevate the reporting lines of the Heads of Procurement to no more than two levels below the CEOs, and ensure that the incumbents have the required character and capabilities.
4. Where appropriate and relevant for the GLCs, revise current procurement policies and targets based on the Red Book's approach to supporting national development. Specifically:
  - Set spend targets on local content;
  - Set spend targets on local content from genuine Bumiputera vendors; and
  - Determine whether BVDPs are warranted.

Other primary GLC Board roles with respect to implementing and managing a procurement transformation initiative include:

- Review, challenge where necessary, and endorse the CEO's proposed procurement transformation initiative;
- Review quarterly progress reports on the procurement transformation initiative;
- Where required, launch detailed reviews on specific procurement initiatives or activities through the CEO (or the CEO's direct reports) and the audit committee; and
- Where needed, propose solutions to address implementation issues.

## 5.2 PARTICIPATION FROM THE GLC CEO

A GLC CEO should take two key steps to initiate a procurement transformation initiative:

1. Establish the importance of the procurement initiative and its implications for the CEO and the organisation; and
2. Once the rationale for the procurement initiative is clear, determine the immediate action steps required.

In determining the importance of the procurement initiative, the CEO should consider the two simple questions laid out in Exhibit 5.2.1.

### EXHIBIT 5.2.1

#### TWO QUESTIONS TO ESTABLISH THE IMPORTANCE OF A PROCUREMENT INITIATIVE

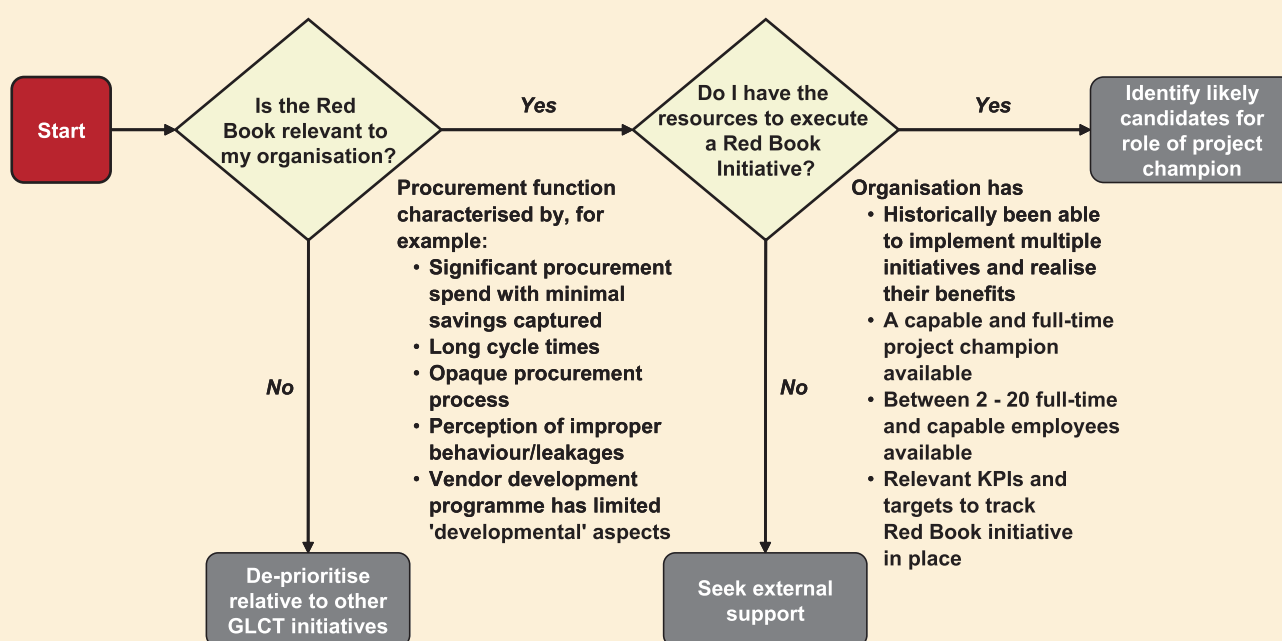


Exhibit 5.2.2 highlights the six steps a GLC CEO should take after concluding that a procurement initiative is important to his/her organisation. These steps will help ensure that the initiative:

- Has the support of, and a clear mandate from, the Board of Directors;
- Is seen as a priority initiative internally and hence, receives the appropriate attention from the organisation; and
- Gains immediate traction within the organisation.

## EXHIBIT 5.2.2

### SIX THINGS FOR THE CEO TO DO IMMEDIATELY

|   |   |
|---|---|
| 1. <b>Appoint internal project champion</b>                             |  <ul style="list-style-type: none"> <li>Select and brief project champion</li> <li>• Assign role and responsibility</li> <li>• Brief the project champion on the Red Book</li> </ul>   |
| 2. <b>Validate initial assessment</b>                                   |  <p>Validate initial assessment on procurement issues and gaps to best practices; include CPO in discussion if project champion is not the CPO</p>   |
| 3. <b>Determine procurement priorities</b>                              |  <p>Determine priority initiatives using the Red Book as a guide and set the scope of transformation</p> <p>Specifically, refine current procurement policies and targets based on the Red Book's approach to support national development (where appropriate)</p>   |
| 4. <b>Approve high level timelines, targets and reporting frequency</b> |  <p>Obtain agreement with project champion on high level timelines, targets and reporting frequency</p>  |
| 5. <b>Communicate</b>   |  <p>Conduct meetings with the central/group/BU procurement team(s) and secure commitment on the procurement transformation objectives and high level milestones</p>  |
| 6. <b>Secure Board approval</b>   |  <p>Brief the Board and seek approval to</p> <ul style="list-style-type: none"> <li>• Set milestones for Red Book implementation programme</li> <li>• Where appropriate, elevate Head of Procurement reporting line to no more than 2 levels below CEO</li> <li>• Where appropriate, set targets to support national development objectives</li> </ul> |

## 5.3 TRACKING THE PROCUREMENT TRANSFORMATION INITIATIVE

---

Tracking a procurement transformation initiative is a two-stage process:

- Firstly, the initiative should be designed in accordance with the Red Book guidelines; and
- Secondly, the results of the initiative should be continuously tracked to ensure implementation follow-through and success.

If a GLC CEO and Board decide to design a procurement transformation initiative that is consistent with the Red Book guidelines, the GLC CEO and Board should endorse an initiative design checklist that ensures that key analyses have been conducted and that policies, procedures, plans and targets have been thoroughly deliberated, are coherent and are relevant for the organisation. An example of such a checklist is provided in Exhibit 5.3.1.

**EXHIBIT 5.3.1****EXAMPLE OF A PROCUREMENT INITIATIVE DESIGN CHECKLIST**

| Key focus areas                | Key tasks to be completed by<br>[Insert GLC name]   | Completed   | Rationale / references                                      |
|--------------------------------|---|---|---|
|                                |   | Yes    No   |   |
| <b>Procurement policies</b>    | 1. Definition of Bumiputera vendor has been agreed upon   | <input type="checkbox"/> <input type="checkbox"/> | [ Please attach relevant exhibits and supporting documents] |
|                                | 2. Policy and procedures to determine genuine Bumiputera vendors have been implemented                  | <input type="checkbox"/> <input type="checkbox"/> |   |
|                                | 3. Spend target of __% for local content agreed on, at a cost of RM__M p.a.                             | <input type="checkbox"/> <input type="checkbox"/> |   |
|                                | 4. Spend target of __% for Bumiputera vendor local content has been determined, at a cost of RM__M p.a. | <input type="checkbox"/> <input type="checkbox"/> |   |
|                                | 5. Spend target of __% for BVDP has been agreed upon, at a cost of RM__M p.a.                           | <input type="checkbox"/> <input type="checkbox"/> |   |
| <b>Procurement initiatives</b> | 1. Procurement maturity survey has been completed   | <input type="checkbox"/> <input type="checkbox"/> |   |
|                                | 2. Procurement gap analysis has been performed  | <input type="checkbox"/> <input type="checkbox"/> |   |
|                                | 3. Based on results of diagnostics, a procurement initiative has been developed                         | <input type="checkbox"/> <input type="checkbox"/> |   |
|                                | 4. Procurement function re-organisation (if required) is underway                                       | <input type="checkbox"/> <input type="checkbox"/> |   |
| <b>Procurement targets</b>     | 1. Target for KPIs have been set and endorsed by the Board  | <input type="checkbox"/> <input type="checkbox"/> |   |

We hereby acknowledge that the above is true and that proper analyses have been performed to ensure that targets above are relevant for organisation. We also acknowledge that the above has been fully endorsed by the Board of Directors.

Signed : \_\_\_\_\_  
Group CEO

Signed : \_\_\_\_\_  
Chairman, Board of Directors

Date :

Date :

GLCs that set up procurement transformation initiatives should also put systematic tracking mechanisms in place to ensure that their initiatives are successfully implemented and deliver the promised benefits. Such mechanisms should include, at the bare minimum:

- A set of relevant and actionable KPIs with stretch targets;
- Clearly defined target audience(s) and communication channel(s); and
- A structured tracking process, including roles, responsibilities and reporting frequency.

Table 13 illustrates some examples of metrics and KPIs the Board/CEO can use to track implementation progress of the procurement transformation initiatives.

**Table 13: Examples of metrics and KPIs**

| Example metrics                                       | Example KPIs   |
|---|--|
| <b>Value creation</b>                                 | <ul style="list-style-type: none"> <li>● Cost reduction achieved.</li> <li>● Reduction in process cycle times.</li> </ul>  |
| <b>Achievement on national development objectives</b> | <ul style="list-style-type: none"> <li>● Percentage of procurement spend on local content.</li> <li>● Percentage of procurement spend on local content from genuine Bumiputera vendors.</li> <li>● Percentage of procurement spend on BVDP.</li> </ul> |
| <b>Organisation capability development</b>            | <ul style="list-style-type: none"> <li>● User satisfaction (through a Customer Satisfaction Index survey).</li> <li>● Extent to which capability gaps have been closed.</li> </ul>   |

The GLC CEO should prepare a quarterly progress report on the procurement transformation initiative. This report should be presented to the GLC Board and any GLC performance queries should be directed to the GLC Board or CEO.

Finally, in implementing the relevant Red Book best practices, GLCs are encouraged to seek support from the TMO whenever needed. TMO can be reached via at [pcg@treasury.gov.my](mailto:pcg@treasury.gov.my) or at +(603) 2034 0000.

## ACRONYMS AND ABBREVIATIONS

---

|                  |  |
|------------------|--|
| <b>BCIC</b>      | Bumiputera Commercial and Industrial Community   |
| <b>BU</b>        | Business Unit  |
| <b>BVDP</b>      | Bumiputera Vendor Development Programme  |
| <b>CCM</b>       | Companies Commission of Malaysia   |
| <b>CEO</b>       | Chief Executive Officer  |
| <b>Commodity</b> | A product or service that is commonly used and available, and with standard (off the shelf) specifications   |
| <b>CPO</b>       | Chief Procurement Officer  |
| <b>G15</b>       | A selection of 15 GLCs held by the GLIC constituents of the PCG; the selected companies are Telekom Malaysia, Maybank, Sime Darby, Tenaga Nasional, BCHB, Proton Holdings, MAS, Golden Hope, Affin Holdings, Guthrie, Boustead, BIMB, UEM World, MRCB and MBSB |
| <b>GLC</b>       | Government-Linked Company  |
| <b>GLCT</b>      | GLC Transformation   |
| <b>GLIC</b>      | Government-Linked Investment Company. These include Khazanah Nasional Berhad (KNB), Permodalan Nasional Berhad (PNB), Employees' Provident Fund (EPF), Lembaga Tabung Haji (LTH) and Lembaga Tabung Angkatan Tentera (LTAT)                                    |
| <b>HS</b>        | Harmonised System  |
| <b>JWT</b>       | Joint-Working Team – consisting of representatives from GLICs  |
| <b>KPI</b>       | Key Performance Indicator  |
| <b>MECD</b>      | Ministry of Entrepreneur and Cooperative Development   |
| <b>MITI</b>      | Ministry of International Trade and Industry   |
| <b>MoF</b>       | Ministry of Finance  |
| <b>NGO</b>       | Non-Government Organisation  |
| <b>OEM</b>       | Original Equipment Manufacturer  |
| <b>PCG</b>       | Putrajaya Committee on GLC High Performance, comprising YB Minister of Finance II and CEOs/Managing Directors of KNB, PNB, EPF, LTH and LTAT   |
| <b>PKK</b>       | Pusat Khidmat Kontraktor   |
| <b>PSS</b>       | Preferred Supplier Status  |
| <b>Product</b>   | Includes goods, services, works, materials, etc.   |
| <b>SMP</b>       | Supplier Management Programme  |
| <b>SSP</b>       | Strategic Supplier Programme   |
| <b>TCO</b>       | Total Cost of Ownership  |
| <b>TMO</b>       | Transformation Management Office – the current programme management office managed by Khazanah Nasional Berhad with participation from the JWT   |

## LIST OF EXHIBITS

---

|                       |   |
|-----------------------|---|
| <b>Exhibit 1.0:</b>   | Procurement best practices can deliver significant bottom-line improvement                      |
| <b>Exhibit 2.1.1:</b> | Example definition of local content from a genuine Bumiputera vendor                            |
| <b>Exhibit 3.0.1:</b> | Summary of best practices   |
| <b>Exhibit 3.1.1:</b> | Prioritise and execute initiatives based on product characteristics                             |
| <b>Exhibit 3.1.2:</b> | Application of TCO levers can yield significant savings   |
| <b>Exhibit 3.1.3:</b> | Example of a supplier cost structure analysis   |
| <b>Exhibit 3.2.1:</b> | Employ differentiated purchasing methods to reduce reliance on open tenders                     |
| <b>Exhibit 3.2.2:</b> | Example of options to streamline the procurement process  |
| <b>Exhibit 3.3.1:</b> | Employ e-procurement tools to increase process transparency                                     |
| <b>Exhibit 3.3.2:</b> | Establish clear anti-corruption codes of conduct  |
| <b>Exhibit 3.4.1:</b> | Example of a procurement training programme   |
| <b>Exhibit 3.4.2:</b> | Examples of procurement KPIs  |
| <b>Exhibit 3.4.3:</b> | Examples of best practice organisation models that segregate the policy and operation functions |
| <b>Exhibit 3.5.1:</b> | Experience of a BVDP vendor (Illustrative)  |
| <b>Exhibit 3.5.2:</b> | Proposed approach to determine local content and genuine Bumiputera vendors                     |
| <b>Exhibit 4.0.1:</b> | Example of different stages of procurement maturity   |
| <b>Exhibit 4.0.2:</b> | Example of a gap analysis   |
| <b>Exhibit 4.0.3:</b> | Implementation methodology: Overview  |
| <b>Exhibit 5.2.1:</b> | Two questions to establish the importance of a procurement initiative                           |
| <b>Exhibit 5.2.2:</b> | Six things for the CEO to do immediately  |
| <b>Exhibit 5.3.1:</b> | Example of a procurement initiative design checklist  |

# LIST OF TABLES

---

|                   |  |
|-------------------|--|
| <b>Table 1 :</b>  | Example of Malaysian experiences in transforming procurement           |
| <b>Table 2 :</b>  | National development objectives and proposed implementation approaches |
| <b>Table 3 :</b>  | Five best practice procurement objectives                              |
| <b>Table 4 :</b>  | Minimise TCO   |
| <b>Table 5 :</b>  | Ensure efficient procurement cycle times                               |
| <b>Table 6 :</b>  | Enhance transparency and eradicate corruption                          |
| <b>Table 7 :</b>  | Enhance organisational capabilities and governance                     |
| <b>Table 8 :</b>  | Develop a stable and competitive supplier base                         |
| <b>Table 9 :</b>  | SSP product selection criteria   |
| <b>Table 10 :</b> | BVDP product selection criteria  |
| <b>Table 11 :</b> | Implementation approaches  |
| <b>Table 12 :</b> | Key principles for success   |
| <b>Table 13 :</b> | Examples of metrics and KPIs   |



Notes



