

## **SUMMARY**

### ***Progress Review of the GLC Transformation Programme***

***December 2006***

#### ***Introduction***

Based on five key Policy Thrusts and ten strategic Initiatives, the objective of the PCG-led GLC Transformation Programme was to design and implement comprehensive national policies and guidelines to catalyse the GLCs into high performing entities. These guidelines were codified in a Transformation Manual (launched in July 2005) and through specific guidelines on individual initiatives.

As it has been nearly two years since its formation, the PCG has undertaken this Progress Review to assess progress, evaluate impact and identify potential challenges. In doing so, the Programme can be improved to ensure that the objectives can be realised earlier.

#### ***Outcomes***

Overall, the financial performance of the Programme is on track.

The 2006 year-to-date TSR of the 20 largest listed GLCs (G-20) have been encouraging and in line with the KLCI and broader market. This is an achievement given the GLCs' history of underperformance relative to its peers. In addition, the G-20 companies have increased their market capitalisation by approximately RM59 billion (equivalent to one third of their value) since the launch of the Programme in 2004.

At this stage of the Programme, benefits to stakeholders are mixed and vary among stakeholder categories as much as within stakeholder categories. While some groups such as customers have seen initial benefits, others such as labour force have witnessed changes and challenges in the short-term, and yet others have not felt any significant change due to the early stage of the Programme.

In line with expectations for this Phase, significant momentum has been generated by the GLC transformation agents:

- **PCG-led programme management approach has led to the launch of all 10 Initiatives as targeted in 2006.**
- **GLCs have made substantial changes in line with principles of the Programme.** These changes include instituting Headline KPIs; enhancing strength of senior management teams; intensifying performance management throughout the organisations; increasing productivity through process and organisational improvements, and the divesting of non-core or unprofitable businesses and assets; improving capital management through better dividend policy and debt restructuring; and initiating strategic moves to better define the scope and aspirations of their business (including expansion through M&A activities or rationalisation to increase focus).

- **GLC Board effectiveness has started to evolve** with some early upgrades to GLC Boards (predominantly in 2004/5) and with the completion of Board Effectiveness Assessments (BEAs) by the end of 2006.
- **GLICs have increasingly become active shareholders in line with an overarching global trend.**
- **Government has provided strong support and commitment.** This has provided both legitimacy and practical resources to the Programme. In addition, where feasible, Government has created a supportive environment for GLICs and GLCs, in particular by being more mindful of the need for the GLCs to make independent commercial decisions.

### *Recommendations*

The five transformation agents in the Programme – GLC CEO/Top Management, GLC Boards, GLICs, Government and PCG/TMO – all have pivotal roles to play to ensure that the Programme shifts focus and delivers results. Their roles can be summarized as follows:

- **GLC CEO/Top management** need to: (i) If not already done, develop GLC-specific Business Transformation Plans that incorporate relevant GLC Transformation Initiatives; (ii) Build execution capabilities while delivering results against the Plan; (iii) Build conviction for change among the employees to win the ‘hearts and minds’; and (iv) Actively engage stakeholders to build buy-in through regular communications.
- **GLC Boards** should: (i) Follow-through on BEAs to accelerate critical improvements to the Board; and (ii) Facilitate capability building of CEO and top management via up-front customized conditioning programmes, and ongoing support through leadership coaches and networking opportunities with other successful CEOs.
- **GLICs** should: (i) Institutionalise capabilities to actively monitor GLCs; and (ii) Be role-models by implementing GLC Transformation Initiatives.
- **Government** has given the GLCT Programme visible support and commitment and this is expected to continue into Phase 3 of the Programme. Going forward, there is opportunity to build broader understanding and support across Government agencies to allow for stronger consensus building on the GLC Transformation Programme among the key Government stakeholders involved.
- **PCG** and its Secretariat will see the Programme through Phase 3. However, the PCG should re-focus on programme-level monitoring and programme-related policy matters. The Secretariat or TMO should undertake four roles: (i) Orchestrate key PCG forums; (ii) Broaden and deepen programme communications across all stakeholders; (iii) Facilitate capability-building support across GLCs at programme level, and (iv) Monitor and report on the progress of the GLC Transformation Programme (not individual GLCs).

## *FAQ*

### *Progress Review of the GLC Transformation Programme*

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#### **What was the rationale for the review of the GLC Transformation Programme?**

It has been two years since the formation of the PCG and the close of second phase of the transformation programme – that was designed to generate momentum for change. Therefore, PCG has undertaken this Progress Review in order to assess progress, evaluate impact and identify potential challenges so that the Programme can be improved where necessary and greater and earlier impact can be realised.

It is hoped that by gauging successes and challenges to date against the spectrum of guidelines and Initiatives that form the basis of the GLC Transformation Programme, this review will provide a balanced perspective on progress that addresses a broad base of stakeholders.

#### **What benefits has the GLC Transformation Programme generated to date?**

The GLC Transformation Programme was designed with dual objectives: to enhance economic performance and to develop benefits for all stakeholders to accelerate the nation's social and economic development toward.

The materialisation of these long-term aspirations were expected to go through distinct phases, with Phase 2 (2005-2006) being primarily dedicated to generating momentum.

**Shareholder value:** Although significant economic improvement was not expected of Phase 2, the overall financial performance of the Programme is on track. The 2006 year-to-date TSR of the 20 largest listed GLCs (G-20) has been encouraging and in line with the KLCI and broader market. This is an achievement given the GLCs' history of underperformance relative to its peers. In addition, the G-20 companies have increased their market capitalisation by approximately RM59 billion (equivalent to one third of their value) since the launch of the Programme in 2004.

**Stakeholder benefits:** At this stage of the Programme, benefits to stakeholders are mixed and vary among stakeholder categories as much as within stakeholder categories. While some groups such as customers have seen initial benefits, others such as labour force have witnessed changes and challenges in the short-term, and yet others have not felt any significant change due to the early stage of the Programme.

- **Customers** - Overall, GLC customers have generally benefited from improved product and service quality. For example, BCHB, along with MBSB, have also embarked on branch transformation programmes, which focus on streamlining processes and shortening queue times. Tenaga has focused on operational improvements that minimise power disruptions and POS has expanded its service range to include collection and payment services.

- **Labour force** - As expected, the GLC labour force has been negatively affected by the short term reduction in employment levels, resulting from much needed operational restructuring efforts at some GLCs. On the positive front, the performance management system improvements that were simultaneously implemented in several GLCs have resulted in more transparent evaluation processes and higher rewards for good performers.
- **Private sector** - The private sector has yet to feel significant direct impact from the Programme, and there are potentially perceptions of being crowded out by GLCs. The renewed competitive vigour of many GLCs may be providing pressure for the private sector to strengthen their own competitive position. If sustained, the combined efforts of GLCs and Private sector should help to push overall corporate competitiveness in Malaysia.
- **Suppliers** – Suppliers are progressively affected by the implementation of Initiative 6.0, or commonly known as the Red Book on “Reviewing and Revamping Procurement Practices”. Most of the G-20 are now moving to formulate and implement Procurement Improvement Plans, which should result in more effective and equitable procurement processes. These processes will favour more efficient suppliers in the short term, with strategic alliances and supplier capabilities being built in the longer term.
- **Bumiputeras** – The GLC Transformation Programme reflects the policies of the Government and as such fully recognises the Bumiputera community as a key stakeholder group. There have been a number of early benefits of the Programme for the Bumiputera community, including a clear approach for GLCs to manage their procurement policies and processes, in particular those pertaining to Bumiputera suppliers. This has resulted in clearer and more transparent opportunities for Bumiputera vendors and suppliers to serve major GLCs such as TM and Tenaga. The Programme has also benefited the Bumiputera stakeholders by virtue of their position as a major employee group of the GLCs. Bumiputera employees have benefited from the introduction of leadership development and talent management initiatives at GLCs (as articulated in the Orange Book) – UEM Group has the YES programme while TM has the Smart Orange programme. Further, there are numerous programmes and focus at GLCs and their related companies that specifically address Bumiputera development initiatives in the various areas of procurement, entrepreneurship, equity holding and human capital development. Considering that Bumiputera Development and the development of the Bumiputera Commercial and Industrial Community (BCIC) is a national agenda, GLCs have collectively played a more leading role in this regards, much more so than other segments of the Malaysian business community.

### **What are the significant achievements of the GLC Transformation Programme?**

In line with expectations for this Phase, significant momentum has been generated by the GLC transformation agents:

- **PCG-led programme management approach has led to the launch of all 10 Initiatives as targeted in 2006.** Initiatives have (i) established clear standards or benchmarks to which GLCs can aspire, (ii) removed some impediments, ambiguity or assumptions on potentially unclear or sensitive issues, (iii) provided common knowledge source of best practices, guidelines and tailored case studies for GLCs, and (iv) in the process of implementation has created a community of practitioners, whose networking and sharing of best practices is now happening consistently
- **GLCs have made substantial changes in line with principles of the Programme.** These changes include instituting Headline KPIs; enhancing strength of senior management teams; intensifying performance management throughout the organisations; increasing productivity through process and organisational improvements, and the divesting of non-core or unprofitable businesses and assets; improving capital management through better dividend policy and debt restructuring; and initiating strategic moves to better define the scope and aspirations of their business (including expansion through M&A activities or rationalisation to increase focus).
- **GLC Board effectiveness has started to evolve** with some early upgrades to GLC Boards (predominantly in 2004/5) and with the completion of Board Effectiveness Assessments (BEAs) by the end of 2006.
- **GLICs have increasingly become active shareholders in line with an overarching global trend.** Within the boundaries of their mandates, and in their own unique styles, all GLICs have taken on more active shareholding roles – for example, PNB via a conglomerate approach; Khazanah as strategic shareholders; and LTAT, LTH, and EPF as proponents of good corporate governance.
- **Government has provided strong support and commitment.** This has provided both legitimacy and practical resources to the Programme. In addition, where feasible, Government has created a supportive environment for GLICs and GLCs, in particular by being more mindful of the need for the GLCs to make independent commercial decisions.

### **What are the challenges that need to be overcome?**

Moving forward, the expectations are that between 2007 and 2010, delivery of tangible and sustainable results will be the basis to evaluate the success of this Programme. Therefore the positive inputs described above must quickly translate into actual outcomes for all stakeholders. However, it is important to acknowledge that the positive signs to date are also accompanied by several shortcomings and challenges, which must be rectified to ensure that the current trajectory and momentum created is not jeopardised. The review identified a number of challenges for each of the key agents of change – PCG, GLCs, GLC Boards, GLICs and Government:

#### ***PCG/TMO***

To date, the focus of PCG has been to design, launch and disseminate the Initiatives. In addition, a large amount of time has been dedicated to monitoring and reporting on the early momentum of GLCs in adopting and implementing these Initiatives. Consequently, the time

available for PCG to actively debate, problem-solve or share best practices on common execution challenges and related policy matters has been, and will need to continue to be, expanded moving forward.

As GLCs are the primary agents of change, communication of this Programme and its Initiatives have been focused on them as well as GLICs. Consequently, there will be groups of other stakeholders who are still unclear about the nature of the GLC Transformation Programme, who do not understand the importance of their role, or who are unconvinced of the merits of the Programme.

### ***GLCs***

While most, if not all GLCs have what constitutes their internal strategic plans, the level of detailing and relevance in these plans have varying levels of effectiveness, and the extent at which they draw on the spirit and form of the GLC Transformation Programme Initiatives. The pace at which transformation plans are being developed across GLCs reflect time and resources required to review the Books and other PCG communications, decide on an execution approach and codify this in a GLC-specific transformation plan. The biggest hurdles are a shortage of execution and functional capabilities and resources.

Critical skills required to support a company-wide transformation, such as programme-management and communications, have historically not been built and developed proactively and so are not readily available. Further, many of the functional areas that the Programme seeks to address – such as procurement, performance management and human capital management – are, by definition, weak in GLCs. Therefore, the capabilities to translate the GLC Transformation Programme Policies and Initiatives into GLC-specific plans, and subsequently execute the plans, are limited. In addition, for most GLCs, this operational transformation or change journey will be a new experience; historically, most change efforts have been financial rather than operational in nature.

Although GLC Boards, CEOs and senior management are increasingly embracing the Programme, and are convinced of the need for reforms to improve performance, this conviction must be built throughout the organisation.

There is also a need for GLC top management to manage external stakeholders. With its focus on performance, the GLC Transformation Programme could prove challenging for some GLC stakeholders.

### ***GLC Boards***

Based on the Board Effectiveness Assessments that have already been conducted at some GLC Boards, there continues to be a need to upgrade Boards, both in terms of composition (so that relevant expertise and experience exists within the Board) and in terms of overall dynamics and operating effectiveness.

Even for Boards that are well composed, the continued enhancement of intra-Board operations and interactions – particularly in terms of focus and alignment with the CEO and overall company's mandate – will lead to increased effectiveness.

## ***GLICs***

As each GLIC has a different mandate, the exact role that it will play with respect to its portfolio companies will be different – and will be different again for each GLC depending on the context of the GLC. There remains an opportunity to make these roles explicit so that GLCs do not continue to have diverging (and sometimes inflated) expectations of GLICs.

In addition, while GLICs have been increasingly active in their monitoring and support of the GLCs, GLICs are still in the process of developing standardised processes and tools to do so effectively – for example, formal value creation plans with independent perspectives on targets and prioritized business levers to drive change. Consequently, as skills currently reside primarily with a handful of individuals, there remains the need for skills to be fully institutionalised.

In that regard, and in line with good corporate governance, selecting the appropriate Nominee Directors is an important way for GLICs to contribute to GLC governance and deliver on the GLICs' responsibilities as an active shareholder. Reflecting the importance of Nominee Directors, GLICs should become more active and systematic in preparing and supporting the Directors in their role.

Finally, as several of the GLICs are being revamped and undergoing transformation themselves, there is an opportunity for them to implement some of the GLC Transformation Programme's Initiatives within the GLIC. Doing so will not only make the GLICs more efficient, but also serve as an example for GLCs and afford the GLICs greater credibility as they monitor the adoption and implementation of the GLC Transformation Programme Initiatives at their GLCs.

## ***Government***

Communications for this Programme and its Initiatives have, to date, focused on the GLCs as the primary agents of change, as well as the broader public. Consequently, the depth of awareness and understanding of the principles and initiatives of the GLC Transformation Programme among Government agencies to other Ministries, regulatory bodies and civil servants can be developed further. This additional communication effort will be important to marshal the support of all Government bodies and allow for stronger and meaningful consensus building on the GLC Transformation Programme among all key stakeholders.

### **What recommendations have been proposed in the Progress Review?**

Building off the strong momentum generated to date, Phase 3 (2007-2010) is about delivering – delivering sustainable and tangible results.

The focus of the Programme also needs to shift, to build off what was in place and address the big execution challenges that stand in the way of results. The focus of the Programme will shift in five main ways:

1. From a broad programme launched to all GLCs to **GLC-specific programmes** tailored by each GLC to address its specific challenges and business outcomes
2. From providing knowledge to **building execution capabilities**
3. From raising awareness to truly **building conviction** amongst stakeholders

4. From a PCG/TMO-led effort to **institutionalise** changes in GLICs, Boards and GLCs so that the ‘scaffolding’ provided by PCG/TMO can be gradually removed
5. From focusing on GLCs to also ensuring a **conducive external environment** for GLCs to transform

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- **GLC CEO/Top management** need to: (i) If not already done, develop GLC-specific Business Transformation Plans that incorporate relevant GLC Transformation Initiatives; (ii) Build execution capabilities while delivering results against the Plan – first by prioritizing execution skills required and then ‘buying’ or ‘borrowing’ in the interim; (iii) Build conviction for change among the employees to win the ‘hearts and minds’ – through transparent communication of a compelling ‘case for change’ and then following through with consistent actions that demonstrate change; and (iv) Actively engage stakeholders to build buy-in through regular communications.
- **GLC Boards** should: (i) Follow-through on BEAs to accelerate critical improvements to the Board; and (ii) Facilitate capability building of CEO and top management via up-front customized conditioning programmes, and ongoing support through leadership coaches and networking opportunities with other successful CEOs.
- **GLICs** should: (i) Institutionalise capabilities to actively monitor GLCs, which includes strengthening quality, preparation and management of Nominee Directors, upgrading the quality of monitoring and management (M&M) teams, and creating informal forums to actively monitor and discuss the performance of GLCs; and (ii) Be role-models by implementing GLC Transformation Initiatives.
- **Government** has given the GLCT Programme visible support and commitment and this is expected to continue into Phase 3 of the Programme. Going forward, there is opportunity to build broader understanding and support across Government agencies to allow for stronger consensus building on the GLC Transformation Programme among the key Government stakeholders involved.
- **PCG** and its Secretariat will see the Programme through Phase 3. However, the PCG should re-focus on programme-level monitoring and programme-related policy matters. The Secretariat or TMO should undertake four roles: (i) Orchestrate key PCG forums; (ii) Broaden and deepen programme communications across all stakeholders; (iii) Facilitate capability-building support across GLCs at programme level, and (iv) Monitor and report on the progress of the GLC Transformation Programme (not individual GLCs).

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