



Catalysing GLC Transformation

Green Book – Enhancing Board Effectiveness

Information Pack – Theme II: Improving the quality of SOE boards: nomination, competence and functioning

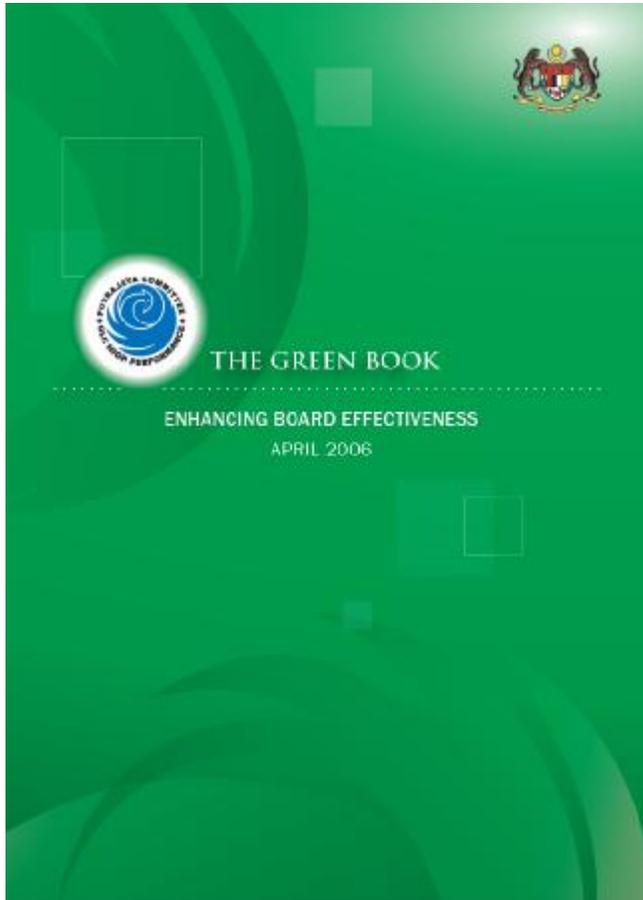
2007 Asian Roundtable on Corporate Governance - Cebu, Philippines, 18-20 April 2007



10 overarching themes of the GLC Transformation initiatives

Initiative	Description
1 Enhance Board effectiveness	Enhance Board effectiveness through revamping Board practices and processes
2 Strengthen Directors capabilities	Develop a strategy to match Directors to the right Boards and also establish a Director's Academy
3 Enhance GLIC Monitoring and Management functions	Reinforce the ability of GLICs to monitor and manage GLCs
4 Improve regulatory environment	Enhance regulatory capabilities at GLCs and create a Regulatory Knowledge Network
5 Clarify social obligations	Understand and make transparent GLCs' social obligations and the implications of meeting them
6 Review and revamp procurement	Enhance the effectiveness and efficiency of the procurement process in GLCs
7 Optimize capital management practices	Guidelines for GLCs to optimize their capital structure
8 Manage and develop leaders and other human capital	Improve GLC capabilities in attracting, developing and retaining talent through adoption of best practices
9 Intensify performance management	Encourage adoption of performance management best practices at GLCs
10 Enhance operational improvement	Enhance value creation of GLCs through managing non-core assets. Establish guidelines for GLCs to enhance their customer service levels

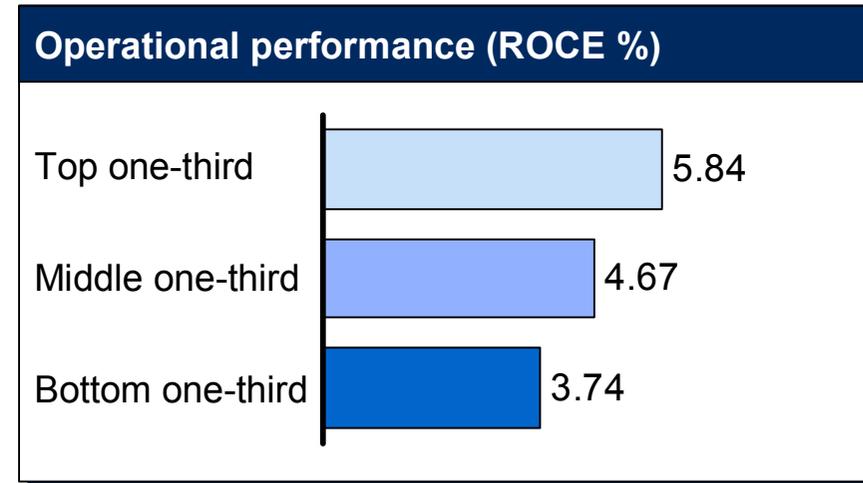
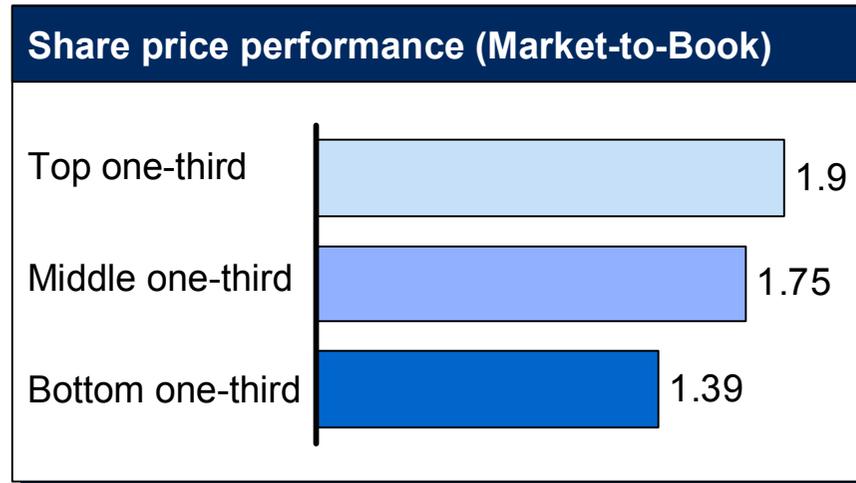
Introduction to Green Book – Enhancing Board Effectiveness



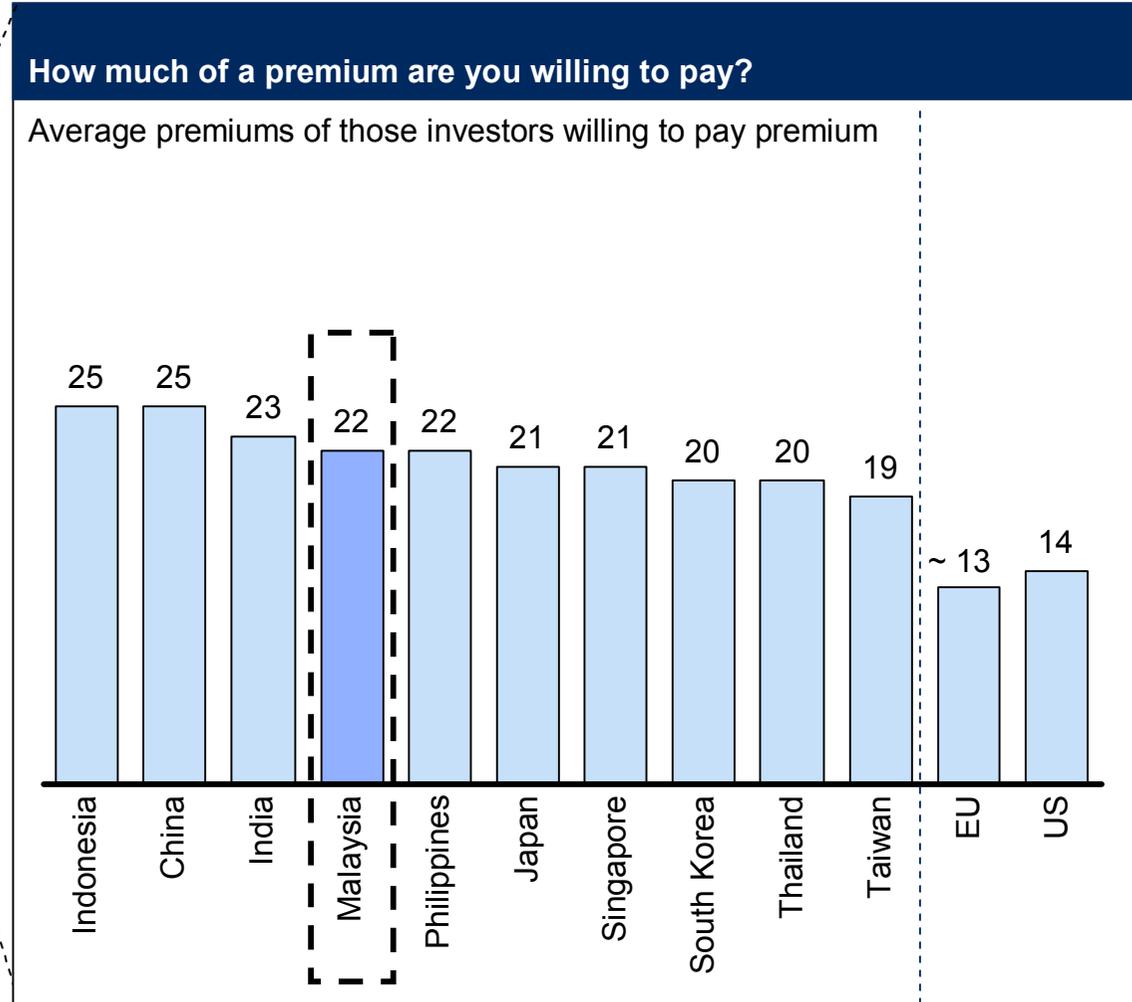
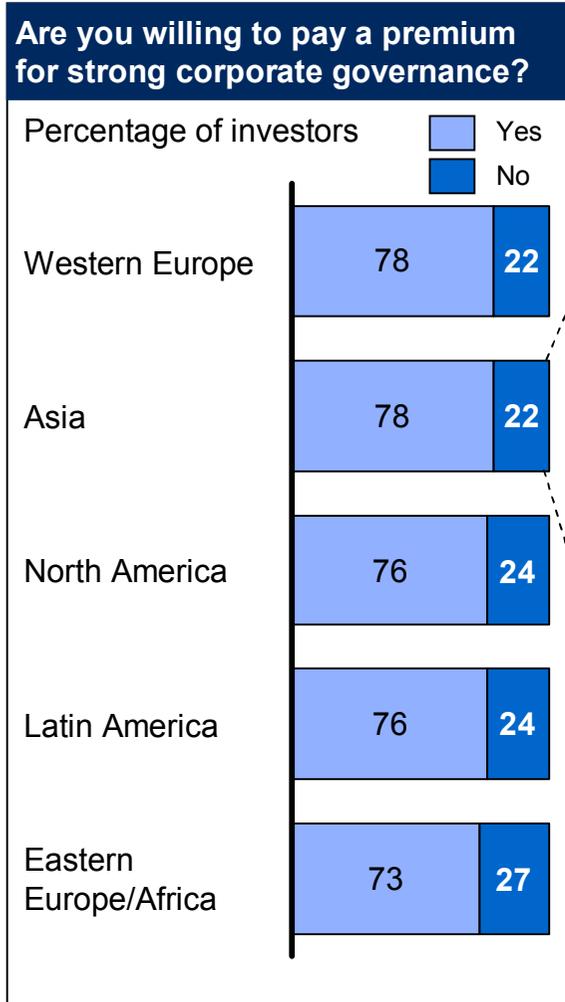
- ① Overarching objective is to raise the overall effectiveness of Boards
- ② Consistent with Malaysian Code of Corporate Governance, Bursa's Listing Requirements, and all other rules, regulations, etc.
- ③ Different from existing materials as the Green Book is:
 - Focused on Boards, which is at the heart of corporate governance
 - Tailored to address biggest challenges that GLC Boards face
 - Practical and action-oriented, instead of just guidelines

Good Corporate Governance is correlated to financial performance

Sample size: 216 Asian companies with S&P CG scores and corporate level data

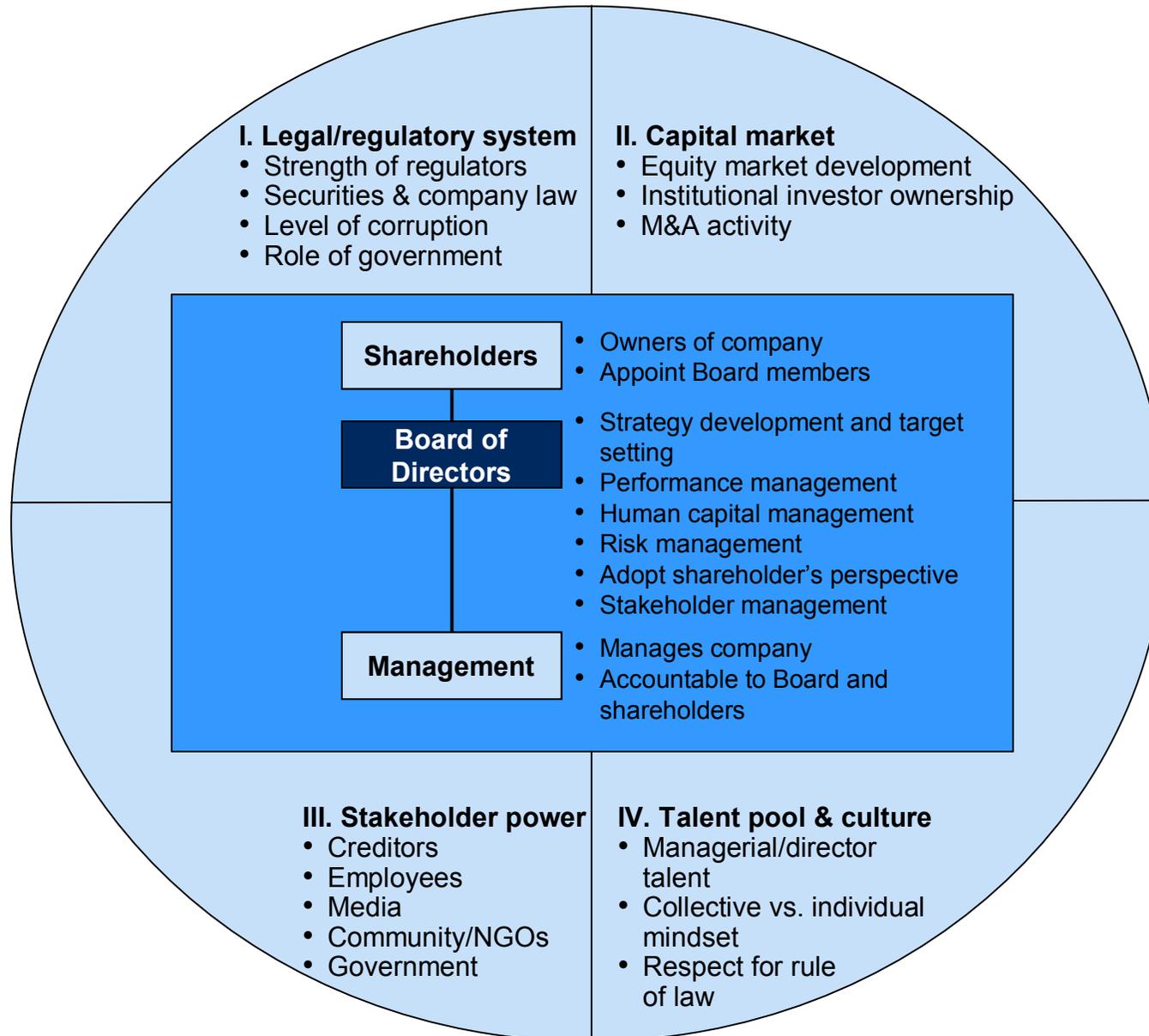


Investors are willing to pay a premium for well-governed companies, particularly in emerging markets

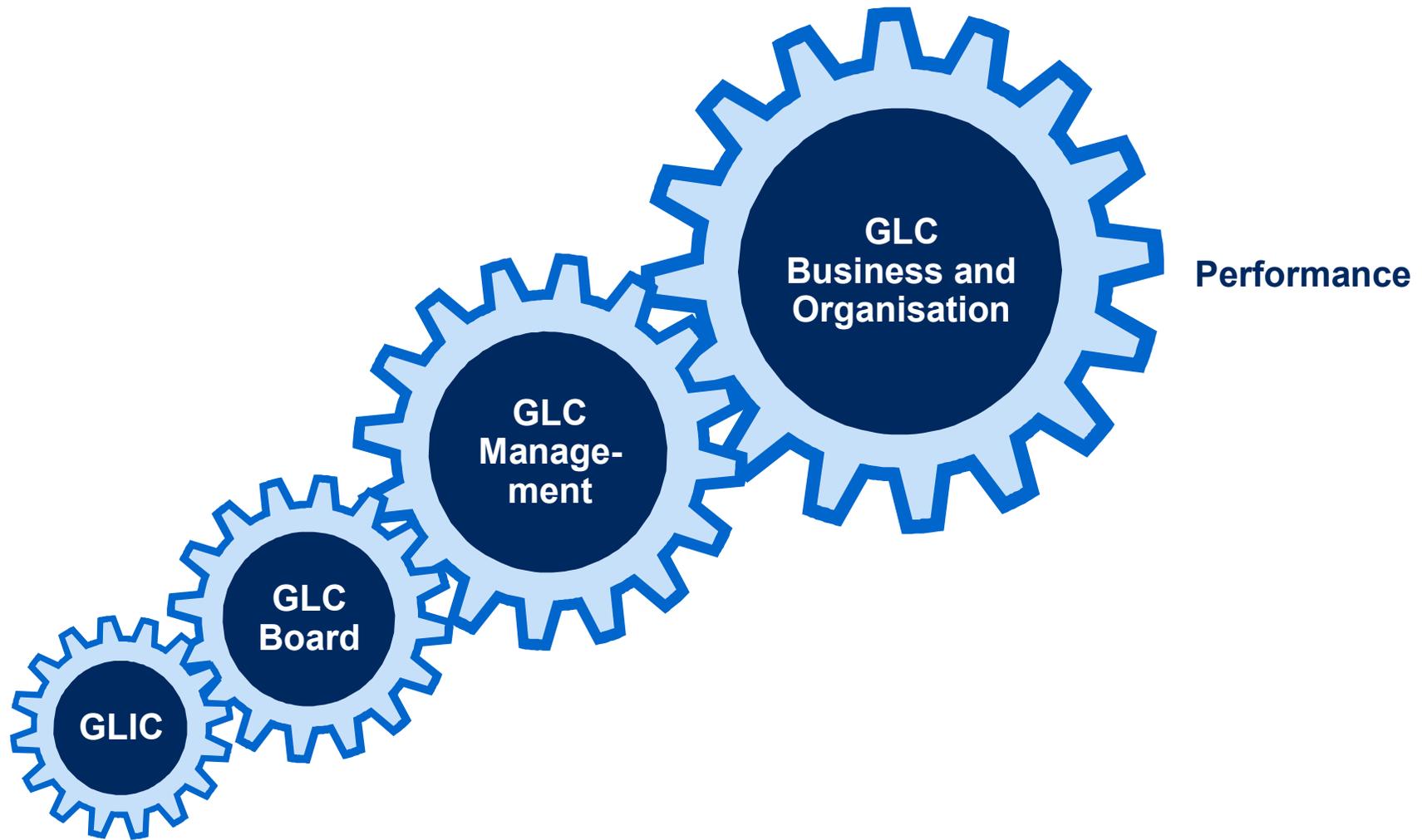


The Board is at the heart of Corporate Governance

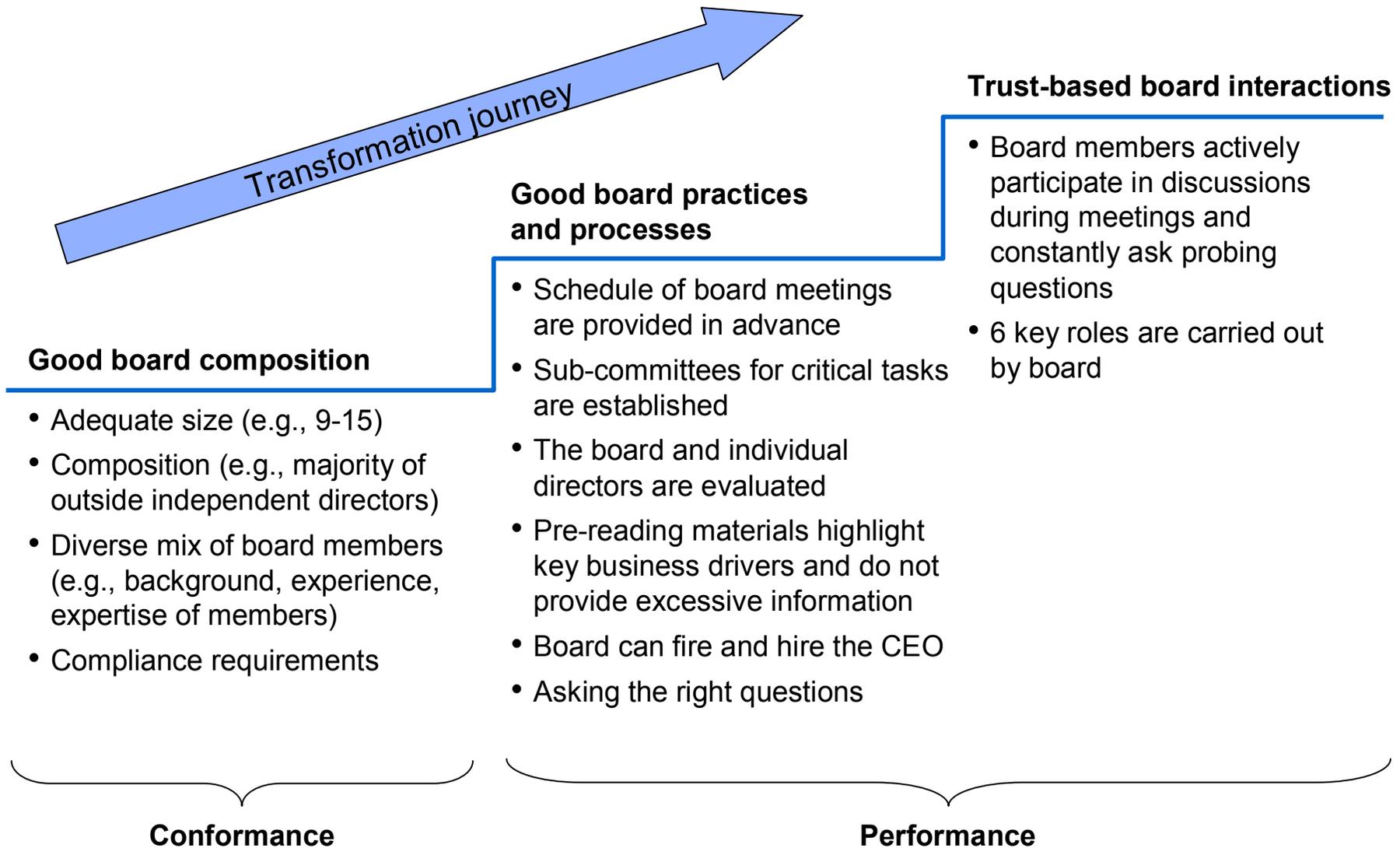
Corporate Governance landscape



Improving Board Effectiveness is at the centre of GLC Transformation



GLC Boards have built the 'conformance' components of governance, and must now focus on the 'performance' components



GLC Boards should resolve several key issues

Key areas of opportunity for GLC Boards

Broaden breadth and mix of Board composition

- Composition to reflect skills and experiences in line with company's requirements; most GLCs need real commercial and operational experience and/or specific industry or functional knowledge
- Tighter selection criteria for Chairman – need 'leadership skill' and have appropriate 'stature'
- Nomination Committee (with GLIC representation) to make recommendations to Board – against an established selection criteria
- Any conflicts of interest to be removed – no regulators on Boards

Increase focus on 'key' roles of Board

- Move away from over-focusing on operational details – refocus attention on key Board roles
 - Co-owning strategy through active and joint development with management
 - Intensifying performance management against pre-agreed KPIs and targets
 - Oversee development of human capital and future leaders
 - Understand and oversee management of key risks
- In fulfilling roles, should adopt a shareholders' perspective and balance valid stakeholder interests

Improve individual Director and collective Board accountability

- For continuous improvement and renewal, Chairman to lead an annual evaluation process of individual Directors and collective Board
- Thereafter to apply consequences for non-performance – including removal or no re-election – and/or develop Board and individual improvement programs

Increase trust among Directors and between Board and management

- Clear boundaries to be drawn between Board and management
- Board priorities to be aligned with overall company's and CEO's mandate
- Board to function as a cohesive team – while constructively challenging and supporting management
- Management, in turn, to furnish Board with necessary material to make informed decisions, and follow-through on decisions made

Streamline Board logistics on priority issues

- Board logistics, including charters, calendars, agendas, and discussion time should be focused on pre-identified priority areas
- Board papers and presentations should be clear, relevant and synthesised – and provided to the Board with sufficient notice

Components of an Effective Board

- Structures the Board to match the company's requirements
- Defines committees' role, structure and composition to complement the Board's requirements
- Selects and nominates Directors using a disciplined process
- Evaluates the Board as a whole and each Director regularly

Structuring a high-performing Board

Ensuring effective Board operations and interactions

- Makes every Board meeting productive
- Ensures the quality and timeliness of all Board information
- Build trust via positive interaction dynamics and open communication within the Board and with management

Effective Board

Fulfilling the Board's fundamental roles and responsibilities

- Contributes to developing corporate strategy and setting of targets
- Upholds a strong corporate performance management approach
- Oversees development of the company's future leaders and human capital
- Understands and manages the company's risks
- Adopts a shareholders' perspective when making decisions
- Balances valid stakeholder interests

Chapter One contains best practice guidelines – Structuring a high-performing Board

Select Key Guidelines

Structures Board to match company's requirements

- Board is preferably no larger than 10 Directors; in special circumstances up to 12 Directors
- Balanced composition; no more than 2 EDs and at least 1/3 independent
- Clear separation of Chairman and CEO
- Skills and experiences in line with company requirements; for most GLCs – commercial, operational, and/or specific functional or industry knowledge
- Align compensation to 50th percentile of appropriate peer group
- Additional 'leadership skills' and 'stature' required of Chairman
- Cap directorships in listed companies to 5 and in non-listed companies to 10

Committee roles, structure and composition to complement Board

- Only necessary committees, e.g. Audit, Nomination, Remuneration, maybe Tender, etc. are established
- Adheres to clear charters as established by Board – and not usurp management functions
- Committees composed of the 'right' Directors, e.g. independent where necessary

Selects and nominates Directors using a disciplined process

- Clear selection criteria exists – and in line with company's needs
- Nomination process is objective; no pressures from external parties with vested interests
- Broaden pool from which Directors are currently selected
- Regularly evaluates Directors and collective Board – with follow through on consequences, e.g. removal or no re-election

Chapter One contains best practice guidelines

– Ensuring Effective Board Operations and Interactions

Select Key Guidelines

Make every Board meeting productive

- On average 6-8 meetings a year (with maybe 1-2 additional off-sites)
 - Follows a pre-set 12 month rolling schedule
 - Chairman determines agenda in consultation with CEO
 - Adheres to a clear charter – which should contain Board priorities that are aligned with overall company's priorities and CEO's mandate
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Ensures the quality and timeliness of all Board information

- Board papers are clear and relevant – preceded by a 1-2 page executive summary
 - Agendas distributed 14 calendar days in advance
 - Board material distributed 7 calendar days in advance
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Builds trust via positive interaction dynamics and open communication (within Board and with management)

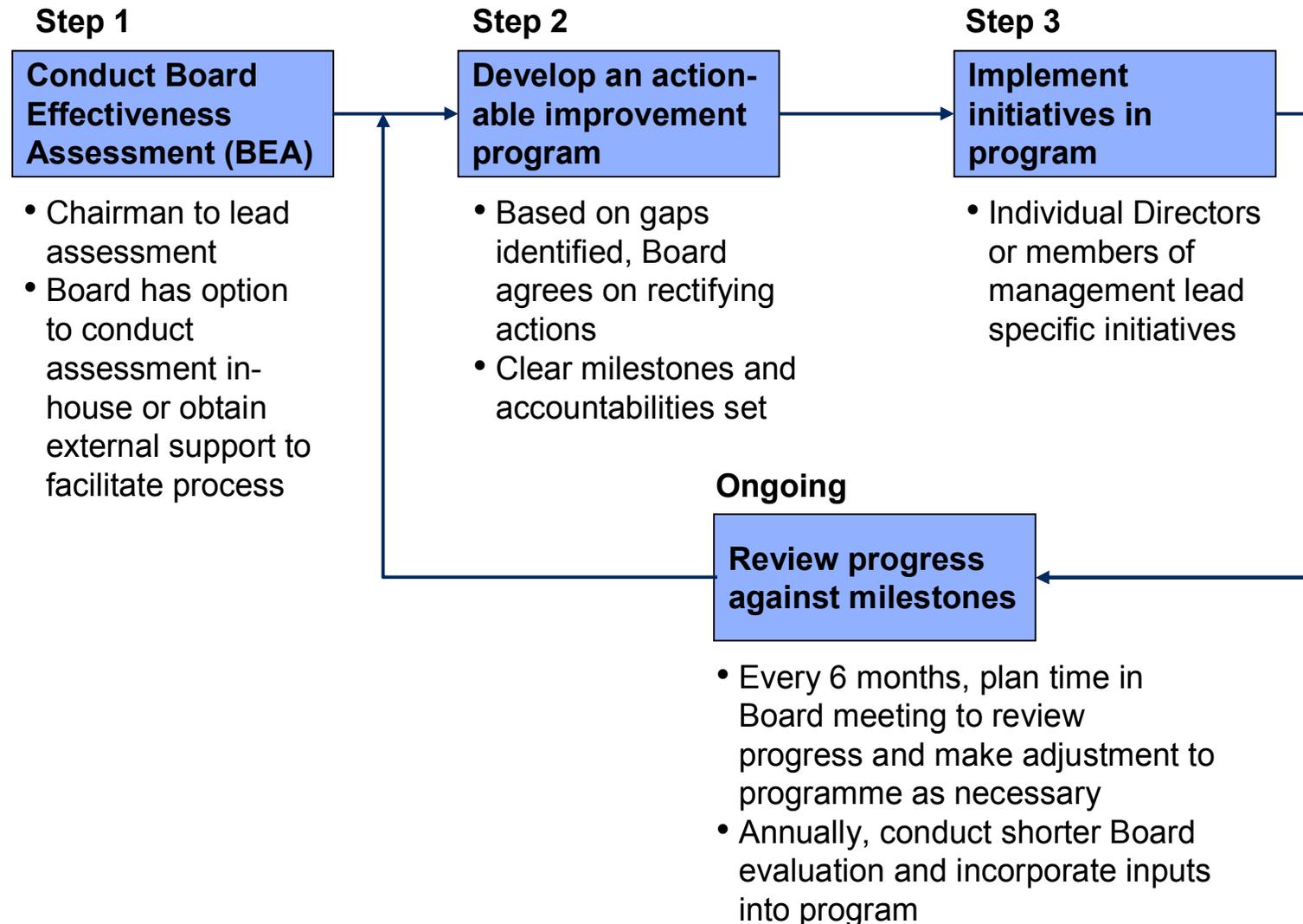
- Positive Boardroom dynamics and environment such that Board functions as a cohesive team – discussions should be constructive, productive and effective
- Constructively challenges; thereafter supports management
- Management, in turn, to furnish Board with necessary material to make informed decisions, and follow-through on decisions made
- Board decisions communicated promptly to management – verbally within 1 working day and key extracts within 3 working days

Chapter One contains best practice guidelines – Fulfilling the Board’s fundamental roles and responsibilities

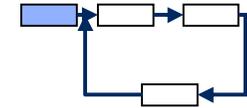
Select Key Guidelines

Contributes to developing corporate strategy and setting targets	<ul style="list-style-type: none">• Guides the strategic direction• Co-owns strategy with management after challenging underlying assumptions• Set targets for management	Understands and manages the company’s risks	<ul style="list-style-type: none">• Sets the company’s risk parameters• Understands major risk exposures• Considers the risk factors in all major decisions
Upholds a strong corporate performance management approach	<ul style="list-style-type: none">• Ensures that KPIs provide a balanced view• Reviews corporate performance and follows-up	Adopts a shareholders’ perspectives	<ul style="list-style-type: none">• Should take into account capital market perspectives, those of the majority shareholders, while protecting minority interests
Oversees development of future leaders and human capital	<ul style="list-style-type: none">• Selects CEO and proactively plans CEO succession• Reviews the performance management philosophy• Evaluates the CEO• Endorses performance and development plan of pivotal positions• Understands pool of future leaders	Balances valid stakeholder interests	<ul style="list-style-type: none">• In making decisions, to carefully balance and manage the sometimes opposing interests of stakeholders• Key stakeholders include employees, customers, suppliers, regulators, and the government

GLCs TO CONDUCT BOARD EFFECTIVENESS ASSESSMENT (BEA)



ASSESSMENT TOOLS AND TEMPLATES FOR THE BEA



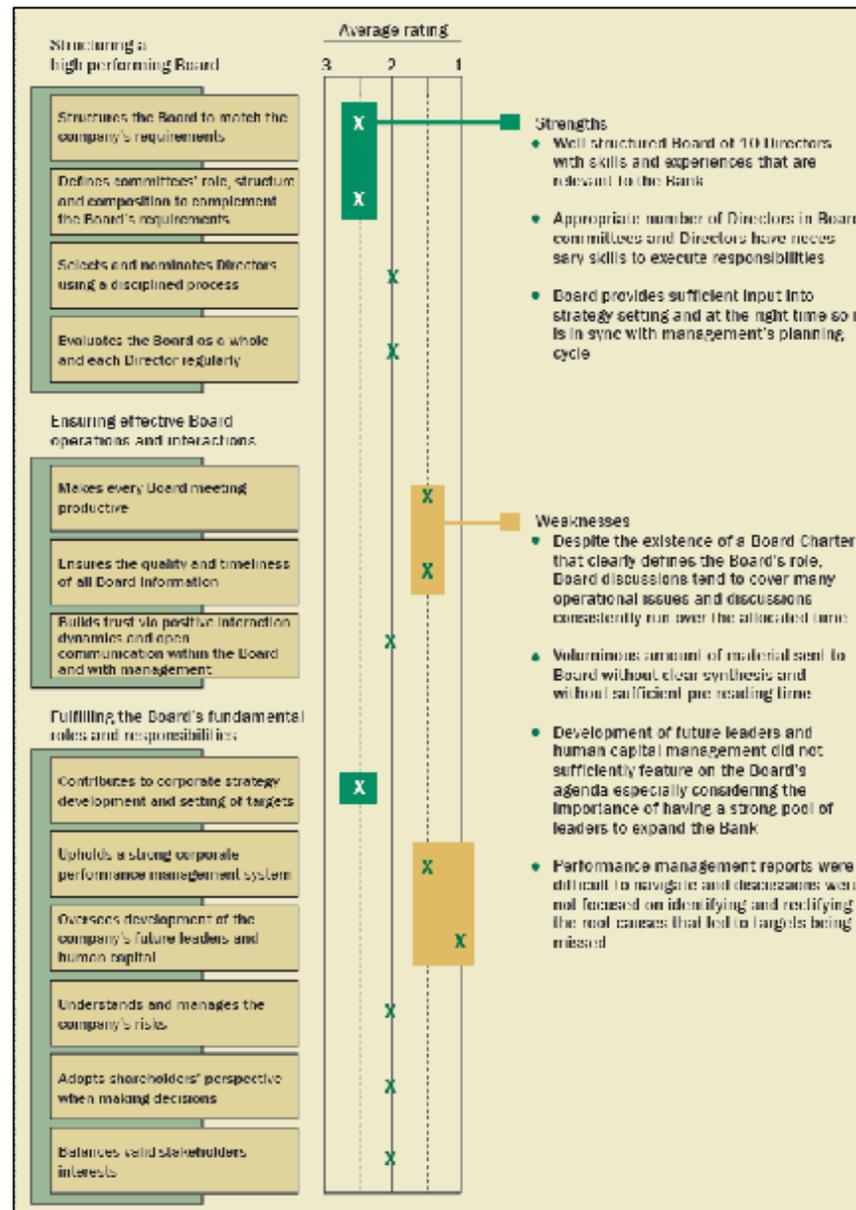
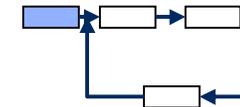
Complete the BEA ...

BOARD EFFECTIVENESS ASSESSMENT AT A GLANCE						
Structuring a high-performing Board	Strengths	Weaknesses	Best Practices to adopt	Average rating		
				3	2	1
Structures the Board to match the company's requirements						
Defines committees, roles, structure and composition to complement the Board's requirements						
Selects and nominates Board members using a disciplined process						
Evaluates the Board as a whole and each of the directors regularly						
Ensuring effective Board operations and interactions						
Makes every Board meeting productive						
Ensures the quality and timeliness of all Board information						
Builds trust via positive interactions, dynamics and open communication within the Board and with management						
Fulfilling the Board's fundamental roles and responsibilities						
Contributes to corporate strategy development and setting of targets						
Upholds a strong corporate performance management system						
Oversees development of the company's future leaders and human capital						
Understands and manages the company's risks						
Adopts shareholders' perspective when making decisions						
Balances valid stakeholders interests						

... guided by the assessment grids criteria

1. STRUCTURING A HIGH PERFORMING BOARD			
	3 - Best practice	2 - Meets requirements	1 - Significant gaps
Structure the Board to match the company's requirements	<ul style="list-style-type: none"> Size is appropriate Board is large enough to fulfil all roles and ensure effective and meaningful discussion and debate Size is neither too small nor too large (optimal size is 7-12) Board composition is balanced - and is being actively monitored Mix of skills and experience Skills are relevant At least 25% of board members are independent Clear roles and responsibilities Agreed criteria 	<ul style="list-style-type: none"> Although size might be right, there may be some concerns about the number of Executive Directors on the Board 	<ul style="list-style-type: none"> Too large (e.g. more than 20), resulting in ineffective discussion and/or decision making Too small (e.g. less than 6) makes Directors feel overwhelmed
2. ENSURING EFFECTIVE BOARD OPERATIONS AND INTERACTIONS			
	3 - Best practice	2 - Meets requirements	1 - Significant gaps
Makes every Board meeting productive	Makes every Board meeting productive	Follows a set schedule	Board calendar not set in advance
Ensures the quality and timeliness of all Board information	Board calendar with draft agendas set 12 months in advance and synchronised with management planning cycle	Board calendar with draft agendas set 12 months in advance and synchronised with some key events in management cycle	
3. FULFILLING THE BOARD'S FUNDAMENTAL ROLES AND RESPONSIBILITIES			
	3 - Best practice	2 - Meets requirements	1 - Significant gaps
Contributes to corporate strategy development and setting of targets	<ul style="list-style-type: none"> Guides the strategic direction Provides guidance and input on overall strategic direction and aspirations early on in the planning cycle Plans and attends dedicated sessions each year to challenge and debate strategic options with management 'Owns' the strategy with management Challenges both management and Board perspectives to ensure success of chosen strategy Challenges and clarifies management's views and assumptions to ensure shared ownership by both Board and management 	<ul style="list-style-type: none"> Provides guidance and input on overall strategic direction and aspirations when required Challenges but does not debate strategic options, but this is done informally rather than through a dedicated session Challenges views and assumptions proposed by management but does not contribute to the resolution of issues or doubts 	<ul style="list-style-type: none"> Strategic direction and aspirations unclear to management Does not ratify the strategy proposed by management with limited discussion or debate
Upholds a strong corporate performance management system	<ul style="list-style-type: none"> Sets targets for management Tests the CEO's and senior management's targets to ensure that targets reflect industry trends and internal capabilities - and provide sufficient stretch and aspiration 	<ul style="list-style-type: none"> Discusses, and agrees, baseline targets recommended by management in its business plan but does not test for stretch 	<ul style="list-style-type: none"> Agrees with targets recommended by management in business plan Occasionally sets targets with limited business rationale

A COMPLETED BEA IDENTIFIES AREAS OF STRENGTHS AND WEAKNESSES...



... TO INFORM DEVELOPMENT OF AN ACTIONABLE IMPROVEMENT PROGRAM

