



## Organisation and Personnel

### Staff and Organisation

The Board of Directors extends its deep appreciation to all Bank staff for their continuous hard work, dedication and commitment in the year 2000. The Board hopes that as we progress into the 21st century, that all Bank staff would continuously strive to develop new skills and capacities to be better positioned to manage and face the new challenges so as to enable Bank Negara Malaysia to be an effective central bank in this new millennium.

After nearly two years in the Bank, Tan Sri Dato' Seri Ali Abul Hassan bin Sulaiman completed his term as the sixth Governor on 1 May 2000. The Board acknowledges the dedication and important contributions of Tan Sri Dato' Seri Ali Abul Hassan during this challenging period. Dr. Zeti Akhtar Aziz succeeded Tan Sri Dato' Seri Ali Abul Hassan as the Governor of the Bank and Chairman of the Board of Directors with effect from 1 May 2000. Dato' Huang Sin Cheng and Dato' Mohd Salleh Haji Harun were appointed as the Deputy Governors with effect from 16 May 2000. The Board also wishes to express appreciation to Tan Sri Dato' Nor Mohamed bin Yakop who relinquished his position as the Adviser with effect from 23 June 2000.

### Developments in Human Resource Management

The Bank has identified four main areas that are considered vital in determining the ability of the Bank to achieve its objective of strengthening the Bank's performance and effectiveness. To enhance capabilities and efficiency, focus has been directed on Human Resource Policies and Practices, Organisational Development, Organisational Structure/Corporate Governance and Communications. In line with the Bank's aim to recruit, motivate and retain highly qualified and skilled staff in a knowledge-based organisational environment, the Bank is reviewing and developing various human resource policies, practices and processes to address and manage the human and intellectual capital requirements of the Bank. As part of its continuous improvement of staff benefits, the Bank has implemented its revised Terms and Conditions of

Service with effect from 1 July 2000. The Bank also plans to introduce a flexi-benefit scheme.

In moving forward into the era of globalisation and liberalisation, the Bank recognises that the ability to manage in an environment of greater volatility and uncertainty will be enhanced by appropriate knowledge management and propagation of a knowledge sharing culture. Hence, the Bank has embarked on a strategic initiative to instil the characteristics of a "Knowledge-Based Organisation (KBO)" in various aspects of the organisation. To achieve this, the Bank has committed significant resources and time to facilitate the transformation process.

The second year of implementation of the Bank's Recognition Programme saw the presentation of prizes to winners of the various bank wide awards during the Bank's annual dinner held on 2 September 2000. Similar to last year, there were winners for 6 of the 8 awards, namely Excellent Performance, Teamwork, Quality Service, Innovation, Sports/Social and Academic Achievement. The Bank will continue to enhance the culture of recognition by encouraging and facilitating recognition at the departmental and individual level.

As part of its efforts to ensure continuity and availability of experienced and competent staff for key positions, the Bank has extended the Succession Planning Programme bank wide. This follows the successful implementation of the pilot project for selected departments.

In human resource development, the Bank has continued with its efforts to improve the skills and competencies of its people. To a large extent, the training provided was through classroom training, with focus on job-specific technical skills, people and management skills, and IT literacy skills. In addition, several induction programmes for newly recruited staff were conducted to help them settle in their new work environment.

The Bank recognises the need to focus on learning rather than training to ensure that

greater attention and emphasis are given to the learner. In this regard, efforts were undertaken during the year to help our people to learn. One of the initiatives involves putting in place a system that offers e-learning on desktops. This project is still in progress. Once completed, selected programmes will be made available through electronic means, in addition to the usual repertoire of classroom training programmes. This will certainly help to make the concept of Just-In-Time training a reality in the Bank by making it more convenient for staff to learn at their own pace, time and venue. Another initiative currently in progress is the development of a learning system which would help to reinforce the learning process while at work, thus reducing downtime arising from offsite training.

With substantial investment in the training and development of its people, the Bank recognises the need to assess the effectiveness of its training programmes to maximise return on investment. Towards this end, efforts were directed during the year to look into possible measures that could be undertaken to assess the effectiveness of the Bank's training programmes and to link them to the strategic objectives of the Bank. The aim is to come up with an evaluation system which would further enhance the effectiveness of staff training programmes in the Bank.

### General

As a tribute to honour Tun Ismail Mohamed Ali, the first Malaysian Central Bank Governor, and recognition of his significant contribution to the country, the Bank announced the establishment of the Tun Ismail Ali Chair in Monetary and Financial Economics at the University of Malaya, the oldest university in Malaysia. The establishment of the Tun Ismail Ali Chair is aimed at enhancing the academic standing of the local academic community in the area of monetary and financial economics.

### Awards

The Board congratulates the Governor, Dr. Zeti Akhtar Aziz on being conferred the Darjah Kerabat Yang Amat Dihormati Pangkat Kedua (D.K. II) by His Royal Highness, the Sultan of Johor Darul Takzim on 16 September 2000 and Tun Fatimah Gold Medal Award on 24 August 2000 in conjunction with the Wanita 2000 celebrations. The latter award was presented by Raja Permaisuri Agong Tuanku Siti Aishah.

The Board extends its congratulations to Encik Indralingam a/l Subramaniam, Cik Khairon Bee Hashim and Cik Chong Lily Teh on being conferred the Pingat Jasa Kebaktian (P.J.K.) on the occasion of the birthday of His Excellency, the Yang di-Pertua Negeri Pulau Pinang on 8 July 2000, Encik Mohd Nor bin Mashor and Puan Lillian Leong Bee Lian on being conferred the Kesatria Mangku Negara (K.M.N.) on the occasion of the birthday of His Majesty, the Yang di-Pertuan Agong on 3 June 2000 and Puan Gan Choon @ Gan Soo Mei on being conferred the Pingat Jasa Kebaktian (P.J.K.) on the occasion of the birthday of His Excellency, the Yang di-Pertua Negeri Melaka on 14 October 2000.

The Board would also like to congratulate all 98 staff who received the long service awards upon the completion of 20 and 25 years of dedicated service in the Bank.

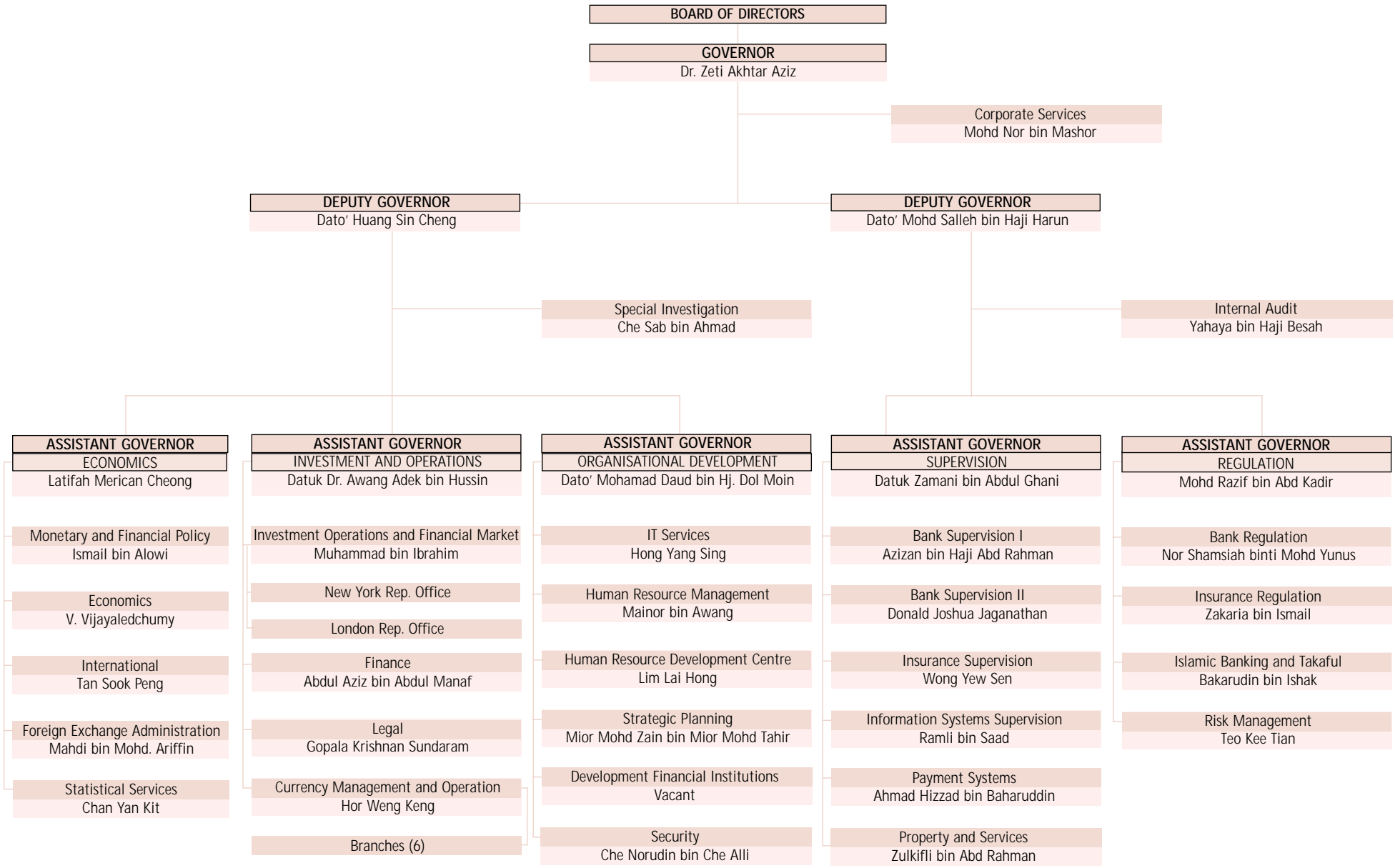
### Retirement

The Board wishes to place on record its appreciation and gratitude to the 20 retirees who have rendered loyal and dedicated service to the Bank. The staff who retired from the services of the Bank in 2000 were Puan Loh Wai Kuen (seconded to Cagamas Berhad), Puan Ng Fong Lin, Puan Nooriah binti Ahmad (IT Services Department), Puan Soraini binti Buyong (Human Resource Management Department), Encik Yahaya bin Shadid, Encik Sapri bin Mukasan, Encik Mohd Mokhtar bin Yunus, Encik Ahmad bin Harun (Security Department), Encik Sembulan bin Timpas, Encik Abdul Talib bin Hj. Hussin (Kota Kinabalu Branch), Puan Lim Chuan Ee (Currency Management and Operation Department), Encik Syed Ahmad bin Syed Mohamed (Johor Bahru Branch), Encik Vaithianathan s/o A M Krishnan, Encik Syed Abdullah bin Toj Mohamed (Pusat Pemesrosan dan Pengedaran Matawang Shah Alam), Puan Jamilah binti Mohd Salleh (Strategic Planning Unit), Encik Siow Kim Lye, Encik Ahmad bin Sulong (Property and Services Department), Encik Rahmad bin Tamin, Encik Wan Abdul Rahim bin Wan Harun (Payment Systems Department) and Encik Wong Tuck Yeow (Bank Supervision I Department).

### Manpower

As at the end of 2000, the Bank had a total staff strength of 1,877, representing staff in the Head Office, six branches, the representative offices in London and New York and the Human Resource Development Centre in Petaling Jaya.

# BANK NEGARA MALAYSIA Organisation Structure



**Box VI***Towards a Knowledge-Based Organisation*

As we move towards an environment in which knowledge becomes a key driver of performance, increased attention has been given to the management of knowledge. It is recognised that the demands of the new environment require the ability to deal with greater complexity, to respond with speed and to make effective judgements, while having the perspective of context and history. Thus, creating and harnessing knowledge flows is key to acquiring these capabilities. It enhances the ability of the organisation to leverage on lessons from previous experience and thereby avoid mistakes and unnecessary delays. Managing the organisational knowledge has therefore assumed greater strategic importance.

The global trend is for greater focus on developing and implementing knowledge management programmes so that knowledge can be transmitted, received, understood and utilised. In other words, there needs to be a more deliberate, focussed, methodical and well-informed manner in which information and knowledge is managed. A key impetus for knowledge management is also the pace at which knowledge itself is being rendered obsolete. An organisation can no longer rely solely on traditional repositories of knowledge and practices for knowledge retention. Knowledge management has become an important part of the overall strategy of an organisation to ensure efficiency, effectiveness and performance. Technical and organisational infrastructure will need to be systematically put in place to facilitate the effective transmission and absorption of knowledge within the organisation.

Several key areas have been identified as critical in the management of knowledge in an organisation. Firstly, the development and formulation of the vision and focus of the knowledge management programme are important to ensure that the initiatives are relevant to the overall objectives of the organisation. The key is to identify the knowledge requirement of the organisation and to develop a framework for it to be accumulated, shared and utilised. Secondly, a

programme needs to be instituted to improve the organisation's practices with respect to the creation, acquisition, transfer, sharing and retention of knowledge. This includes the formulation of organisational strategies to develop the appropriate organisational structure. This is crucial since a major challenge in implementing a knowledge management programme is to recognise the size of the undertaking and its potential impact on every area of the organisation. Strategies need to be in place to allocate responsibility, to monitor the progress and, if necessary, to make changes that are important to ensure that the formulation and implementation of knowledge management initiatives are ultimately successful. Thirdly, the implementation of information technology initiatives is essential. These include projects and activities that are aimed at developing an adequate technology infrastructure to ensure and enhance real time connectivity both within the organisation and with the outside world. Such initiatives not only address issues relating to information retrieval, access and sharing, but are also aimed at managing information overload. Technology is required to capture, store, analyse and disseminate information. This is to achieve greater operational integration through appropriate IT, organisational and other infrastructure to strengthen information sharing channels and capabilities. In the past, the emphasis was on management information systems and data processing. In the current environment, this needs to evolve into knowledge systems that can be exploited by the organisation.

In early 2000, Bank Negara Malaysia embarked on structured initiatives to transform the Bank into a knowledge-based organisation. The Bank's knowledge management strategy is driven by the need to meet standards of excellence and produce high quality results that leverage on the collective knowledge assets of the institution. The vision for the programme was aptly paraphrased by the Governor during the official launch of the Towards a Knowledge-Based Organisation programme in October 2000: "If we are to be a central bank, with farsightedness and an ability to face new challenges, we need to be equipped with the expertise and the means to implement appropriate policies, and have confidence in our actions. An important component of this future is that the Bank must

fully embrace and employ the principles of knowledge management. Whilst the principal objectives of the central bank remain unchanged, the new knowledge management strategies refocus the Bank's policies and practices in managing knowledge as a key corporate asset, and in leveraging and exploiting knowledge to better achieve these objectives".

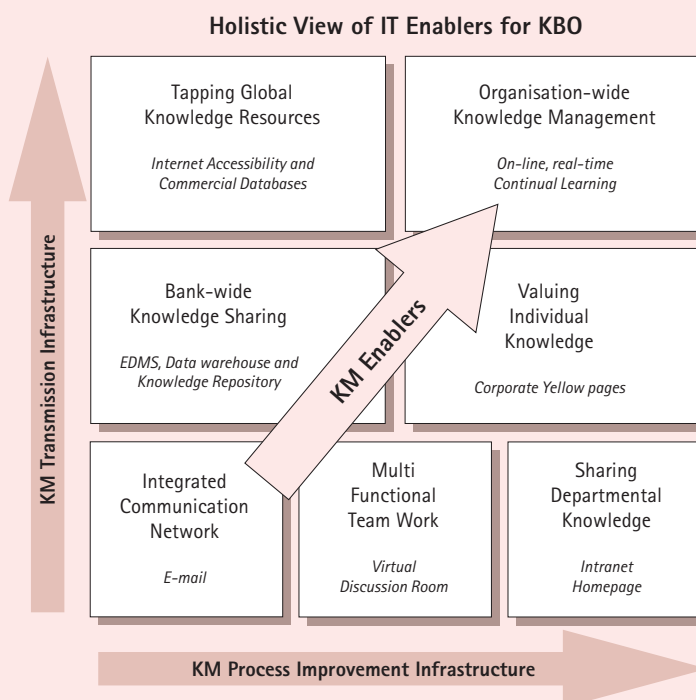
The knowledge management initiatives of the Bank include measures to improve organisation-wide practices relating to the creation, acquisition, transfer, sharing and retention of knowledge. A key enabler of the Bank's knowledge management programme includes the IT initiatives to provide a transmission conduit for knowledge to flow throughout the organisation, in particular, to enhance real time connectivity and achieve greater operational integration within the Bank through appropriate IT infrastructure. The approach adopted seeks to blend various information and communication technology platforms to link individuals within and across departments to the global arena of knowledge resources. The end-game is to harness the power of technology to facilitate continuous learning, and thus gain the efficiencies and foresight necessary in performing the responsibilities of the Bank.

The initiatives also include the establishment of a knowledge culture to promote knowledge sharing and collaborative work

within the organisation. In addition, the Bank is putting in place mechanisms to develop knowledge bases throughout the organisation and the communication devices to allow for such knowledge to be drawn on. The promotion of maximum participation among staff and the establishment of accountability and performance measures at all levels of staff across the Bank is essential for the successful implementation of the KBO programmes. Finally, the focus will be on benchmarking performance against global best practices in the area of knowledge management.

Of importance is to recognise the critical success factors for effective knowledge management within an organisation. Firstly, the knowledge management initiatives must be relevant to the larger objectives of the organisation. Secondly, the human resource initiatives must complement the transition towards being a knowledge-based organisation. The knowledge worker is a critical resource and human resource practices need to cater to the needs of the knowledge worker. Thirdly, there is a need to have in place the organisational structure for implementing the knowledge programme and establishing the IT infrastructure.

In conclusion, knowledge management needs to be an integral part of the overall management in an organisation. Very often, organisations are absorbed with the prevailing developments and short-term pressures and, hence, do not accord due attention to knowledge management. Unless a conscious effort is made and the motivation for knowledge becomes a part of the organisation's culture, the desired results will not be achieved. Knowledge management must ultimately provide the organisation with the confidence to act decisively because the information and knowledge transmitted for the decision is relevant, effective and timely to produce the desired outcome.



**Box VII*****Risk Management in Bank Negara Malaysia***

The very nature of central banking functions involves risks. In this current environment, these risks have increased in complexity. Potential risk events, should they occur, could result in financial loss or prevent the achievement of policy objectives. While risks in the Bank have always been recognised and managed, the new environment has prompted a more comprehensive and centrally coordinated approach to risk management. The Bank accorded a greater focus to risk management with the establishment of the Risk Management Unit (RMU) in 1996 to implement a more structured framework for managing the Bank's overall risks. This is to ensure that all risks are adequately managed at the various levels in the Bank's operations and policy implementation. A Middle Office was also established to monitor and report financial risk exposure in respect of the Bank's reserve management function.

For the Bank, the objective of risk management is to ensure formulation of sound policies, effective implementation of these policies, safe operations in the Bank, and the protection of assets and efficient use of resources. In this way, the Bank's effectiveness and efficiency is enhanced, and its structure, system and processes are continually improved.

The risks facing the Bank can be categorised into operational, financial and policy risks. Operational risk occurs if, there are inadequacies in systems, internal controls and procedures. In the investment and treasury operations, the Bank is exposed to financial risks such as market risk, credit risk and liquidity risk. Policy risk refers to the unintended impact resulting from the implementation of policies. To address such risk exposure, a comprehensive risk management process to measure, monitor, evaluate and manage these risks has been implemented.

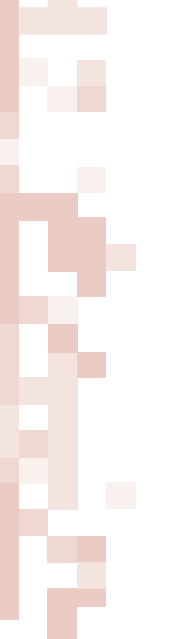
As part of this exercise, the Bank has devoted effort and resources in enhancing the infrastructure for a formal and integrated risk

management, relevant to the current internal and external situation. An important aspect of this process is the formulation of a risk management policy. The risk management policy specifies the risk management objectives and provides the framework for achieving these objectives. Due attention, is accorded to addressing the risks inherent in the activities performed by the Bank to ensure that the operations of the Bank are safe and sound. It commits the Bank to a structured and consistent approach to managing risks.

**Operational Risk**

In the area of operational risk management, the Bank adopts a strategy that places the direct responsibility for risk management on the departments, with coordination and oversight by the RMU. Self-assessment and control by departments, being more proactive than periodic audit, enables earlier detection and action thereby preventing or limiting damage. The strategy is also consistent with the organisation structure of the Bank and the nature of its operations and risks. The Bank employs a common language to facilitate communication, as well as customised standard tools and a framework for effective procedures for the assessment of risks and controls. Specifically, the tools and framework are used for risk profiling by all departments to identify, measure and assess risks and controls. Department heads are required to make an annual declaration to management that the risks and controls of the processes in their departments have been reviewed for their continued relevance and effectiveness. In this way, risk management is driven from the top through department heads to ensure that risks are appropriately addressed. Internal Audit confirms the effectiveness of the controls and ensures compliance with the Bank's risk management policy. Internal Audit also provides the assurance to the management that the controls over the Bank's operations are sound and effective. Ongoing work, is also directed to enhance departments' monitoring and upward reporting of risk and control issues and management's downward communication of decisions and instructions.

In the event an unexpected development occurs, contingency plans are in place to enable the resumption of critical operations and to provide an adequate level of services to the financial



system. The Bank also maintains a remote disaster recovery site to support its operations in case of system failure to avoid any disruption.

### **Financial Risk**

The Bank's Middle Office resides in the Investment Operations and Financial Market Department that manages the Bank's foreign reserves. The Middle Office performs a dual function of an information and system support role and a risk management role in the Bank's reserve management function. In its risk management role, the Middle Office formulates and implements risk policies, controls and procedures to address the various financial risks in the Bank's reserve management operation.

The Bank's management of the foreign currency assets held as reserves is guided by a Benchmark policy approved by the Board. The formulation of the Benchmark portfolio incorporates the Bank's objectives of holding reserves and its tolerance for risk in its investment activities. The primary concern for safety and liquidity is clearly reflected in the investment strategies. Portfolio managers optimise returns measured against the Benchmark portfolio within a prescribed range in terms of currency and asset allocation and the duration of the investments. The Middle Office monitors compliance with these limits and measures the performance of the portfolio managers in relation to the Benchmark. In addition to the Benchmark deviation limits, a relative value-at-risk measure is used to quantify the excess market risk incurred, when deviating from the Benchmark portfolio. In terms of credit risk, the policy limits investments mainly to government securities of high credit standings, and counterparty relationships are established only with highly rated financial institutions. To address the operational risks arising from dealing activities, the Middle Office monitors settlement problems encountered with counterparties and reviews the operational controls and procedures on a continuous basis to ensure that they remain relevant and effective. The Middle Office therefore provides an independent assessment of the risks associated with investment decisions, reports on breaches of limits and guidelines approved by the Bank, highlights any risky trends in the reserve management activities, and formulates new risk management policies and controls.

### **Other Risks**

In the development of policies, procedures, projects and products, the departments practise cross-functional consultation to tap all available information and knowledge in the Bank. This requirement also ensures that proposals go through a robust process of deliberation and consideration before they are submitted for management decision. Assessments are made by a committee. Efforts are also being directed to improve on the informal risk management process in the formulation and implementation of policies. The aim is to develop a standard methodology and a more structured approach for the identification, measurement and assessment of risks when designing policies and, subsequently, when implementing the policy measures, to ensure that the objectives are met.

### **Conclusion**

Risk management is a governance function. Under the Malaysian Code on Corporate Governance, boards of directors are required to identify principal risks and ensure that appropriate systems are in place to manage these risks. To strengthen risk management efforts within the Bank, a Risk Management Committee is being established. The Committee, which includes senior management, would provide a high level forum for the oversight of the management of the critical risks of the Bank. The Committee would ensure the establishment of appropriate risk policies and guidelines, and the implementation of appropriate strategies and programmes in line with the Board's risk tolerance level. It would also ensure that appropriate risk management is embedded in all strategic initiatives as well as in the daily operations of the Bank. The Committee would periodically review the risk management framework to ensure continued relevance and effectiveness and monitor the risk profile of the Bank to ensure alignment with the Bank's risk tolerance. In this environment of greater uncertainty, new risks are likely to emerge. Having a comprehensive and effective risk management framework has become an important element in facilitating, and achieving the ultimate objectives of monetary and financial stability.