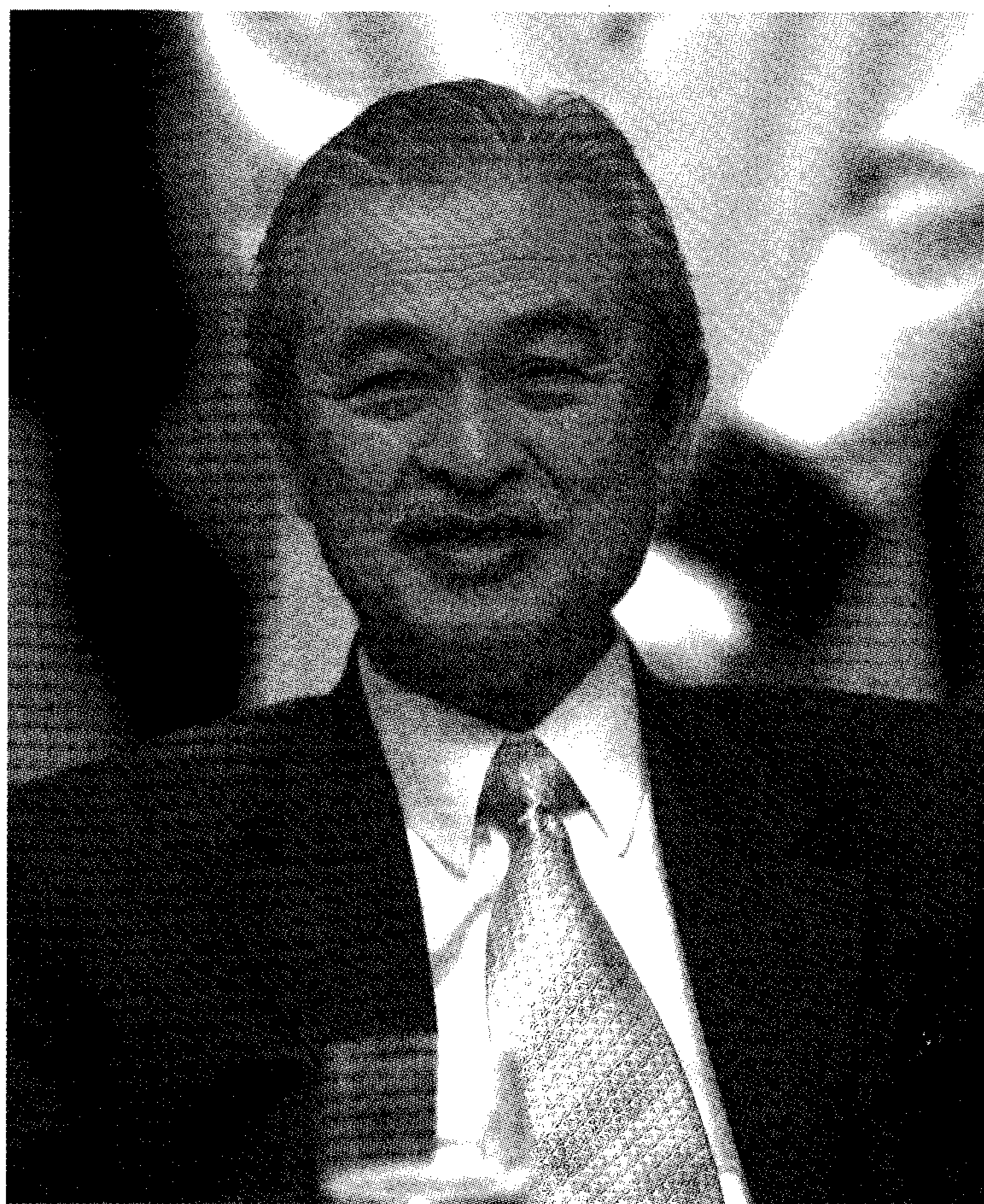


The GLC Transformation Programme

By Dato' Seri Abdullah Ahmad Badawi

Thank you for taking time out of your busy schedules to attend this GLC Transformation event. You are the cream of corporate Malaysia, managing and administering some of the country's most strategically important companies. Government-linked companies or GLCs make up about 36% of the market capitalisation of Bursa Malaysia, account for around 5% of our national input, and employ some 400,000 people. Your positions are therefore a grave honour for you, and come with even graver responsibility. But more than that, the performance of your companies greatly impact the productivity and well being of almost all companies, and almost all Malaysians, across the country.

I have recently spoken about the "growing pains" the country is facing, in a speech to the Harvard Club of Malaysia. While I do not intend to repeat the entire speech, let me reiterate some of the points I made then. Malaysia is a relatively small country with a population of about 25 million. Being a small market, we have quite modest resources. We have done well to transform a country that seemed destined to be a failed state when it gained independence, into a thriving, modern economy, currently at the forefront of the developing world. Through hard work, tolerance and compromise, we have turned our diverse population into a united nation, equipped with all the advantages of diversity, cultural skills and understanding.



** Dato' Seri Abdullah Ahmad Badawi, Prime Minister of Malaysia's speech delivered at the Launch of the GLC Transformation Programme on 29 July 2005, at the Kuala Lumpur Convention Centre.*



We owe much of our progress to the wisdom of our past leaders. We now see before us the considerable challenges of the future, in particular the accomplishment of Vision 2020, as laid out by Yang Amat Berbahagia Tun Dr Mahathir Mohamad about 15 years ago. We have a mere 15 years to go, as we embark upon the second phase of the journey to 2020. We must now lay the foundations to make the shift to become a developed nation, a process that involves a comprehensive and almost system-wide change to the way we do things in the country. Most importantly, it involves nurturing a positive set of values, mentality and cultures in Malaysia, as well as discarding old habits and "addictions" that may stand in the way of progress.

I have said this before, but perhaps it bears repeating today. Achieving Vision 2020 will be the greatest challenge ahead. It will be the number one challenge of the current generation, of the next generation and perhaps even beyond. I have spoken about the journey of becoming a developed nation not as a mere walk or run on a flat and smooth field, not just as a destination far away in the distance, but rather as a treacherous climb up steep and dangerous mountains, with grave obstacles and precarious hurdles along the way.

Realising Vision 2020 will require us to push ourselves in ways we never imagined. We will need to dig deep into our reserves. We will need strength of the mind, body and spirit. We

... “We must now lay the foundations to make the shift to become a developed nation, a process that involves ... nurturing a positive set of values, mentality and cultures in Malaysia, as well as discarding old habits and "addictions" that may stand in the way of progress. ... ”

will need wisdom, courage and tenacity. We will need to have the clearest of vision and be focused on achieving the goals and on climbing the summit to success. We will need to extract maximum value, and achieve maximum performance, in all that we do. That is why I have always spoken about the need to achieve excellence, glory and distinction. That is why I have spoken on the need to build first-class mentality in the country, to optimise the use of first-class infrastructure present in many parts of Malaysia. That is why I have spoken about forging a national performance culture in the country. That is why I have always discussed human capital development, because people are the basic building blocks of all that we do.

Many people underestimate the challenge ahead. I don't see a great sense of urgency in the many things that we do. Nor do I see much awareness about the complexity and magnitude of the difficulties that we face. Globalisation and liberalisation draw us closer to even more intense competition from other nations across the globe. The international flow of funds, goods and services means that we must face off against regional economies much larger than ours. The imperative for us - indeed, for Malaysia - is to change and to transform; to raise our productivity and to value add; to move to a higher plane of performance and merit; and to do it now, not tomorrow, certainly not next week or next month.

As the engine of growth, the private sector must lead the way. Malaysia will increasingly depend on domestic-led growth and investment, particularly from the corporate sector in the country. Therefore, the corporate service delivery system must be upgraded. The government is seeking to transform as well - to enhance the public service delivery system - to meaningfully play its part as facilitator, regulator and developer. The position of the GLCs then is quite unique and exceptional. As providers of mission-critical services - such as utilities and infrastructure - and as strategic developers in many of the new growth areas, the GLCs must reform and transform into high-performing organisations. This will boost overall performance of the GLCs, produce a powerful demonstration effect for the country's larger private sector, and develop new growth prospects in the country; all in all, measures to take Malaysia to the next level of

development. This is why we are gathered here today - "To Catalyse GLC Transformation To Advance Malaysia's Development".

GLC Transformation

GLC Transformation is part of the ongoing effort by the government to drive development and grow the economy. Many GLCs are unrecognisable from their humble beginnings decades ago. Petronas began with 300 people in one business, and has become a giant integrated oil and gas company present in 33 countries. Telekom Malaysia was formerly a government department laying telephone lines for people, and has become an international telecommunications company with businesses in mobile, Internet, data communications and the like. Proton started as a mere idea, and is today a respected automotive company manufacturing more than 170,000 cars per year and with full design and engineering capabilities.

This transformation journey continues apace, now with a greater focus on quality and performance. About two years back, when I was Deputy Prime Minister, I asked for the key performance indicator (KPI) project to be piloted at two GLCs. Then in May last year, I launched the Transformation Programme at the seminar on "Culture of High Performance of GLCs", which saw the take-off of the KPI and board composition initiatives, the revamp of Khazanah Nasional, as well as changes in the management personnel at certain GLCs. A stock-take conducted recently shows that we have made sound progress on last year's initiatives - total shareholder return of the benchmark 15 GLCs recorded an 18% return since May last year, compared to a 15% rise for the Kuala Lumpur Composite Index (KLCI). Nonetheless, there remains much room for improvement in many areas and in many of the GLCs.

GLC Putrajaya Committee

As such, I established the Putrajaya Committee in GLC high performance early this year to follow through and catalyse the GLC Transformation Programme. I asked the second Finance Minister, along with the Heads of the Government-Linked Investment Companies (GLICs) - namely Khazanah Nasional Berhad, Permodalan Nasional Berhad, Employees Provident Fund, Lembaga Tabung Amanah Tentera and Lembaga Urusan Tabung Haji - to work together to monitor development and to recommend further measures. Although I know that the transformation journey involves the long haul, with many tough decisions along the way, I am pleased that the Putrajaya Committee has shown significant progress from where we were a year ago.

In particular, I am pleased that the work of the Putrajaya Committee has culminated in a "Transformation Manual" that will be launched today. This manual has two parts to it. Firstly, it contains the overall policy guidelines of the Putrajaya Committee to address some of the core challenges and guide GLC Transformation. Secondly, it details the GLC Transformation initiatives for 2005/2006.

The Transformation Manual is the result of robust and well-researched work, with more than 100 in-depth interviews conducted with GLIC CEOs, GLC Chairmen, CEOs and Board members, institutional investors and opinion leaders, as well as extensive analyses based on Malaysia's own programmes and similar "Best Practice" experience from other countries.

Three key principles of the GLC Transformation Programme are:

First, that the programme is part of the larger national development strategies;

Second, that the programme is focused on enhancing performance at the GLCs; and

Third, that the programme takes full cognisance of matters relating to governance, shareholder value and stakeholder management.

The Objectives

I have been made to understand that the policy guidelines in the manual have been sent to achieve five objectives:

One, to clarify the GLC mandate in the context of national development;

Two, to upgrade the effectiveness of boards and reinforce corporate governance of GLCs;

Three, to enhance GLICs capabilities as professional shareholders;

Four, to adopt corporate best practices within GLCs; and

Five, to implement and enforce the GLC Transformation Programme.

In addition to the policy guidelines, I am pleased to announce that 10 initiatives have been identified to be developed, launched and implemented across all GLCs over the remainder of 2005 and into 2006. These initiatives have been set out based on their importance as levers for change, their large potential impact on value, and the unique ability of the Putrajaya Committee to drive change in these areas.

The 10 initiatives are:

First, enhance Board effectiveness;

Second, strengthen Directors' capabilities;

Third, enhance GLIC monitoring and management functions;

Fourth, improve regulatory environment;

Fifth, clarify social obligations;

Sixth, review and revamp procurement;

Seventh, optimise capital management practices;

Eight, manage and develop leaders and other human capital;

Ninth, intensify performance management practices; and

Tenth, enhance operational improvement.

These 10 initiatives are aimed at enhancing the fundamentals of GLC performance. Improving the effectiveness of Boards and Directors are pre-requisites that GLCs must fulfill to maintain and enhance their competitiveness, as is the need for GLICs to watch closely over their investee companies so as to be able to raise the performance bar. The environment in which GLCs operate must be clarified and improved, in the case of regulations and social obligations that GLCs have to meet. Procurement policies and practices must be enhanced to ensure that GLCs get value for money in their purchases, including by plugging the leakages and overcoming possible shortcomings in the system.

Optimal capital management and operational improvement must always be sought by the GLCs in all that they do. Performance management of staff will need to be strengthened even further, as leaders and other human capital are developed to their fullest potential. I hasten to add that ethics and values will need to be emphasised in this respect, to develop leaders of integrity at all the GLCs. Meanwhile human capital development - whether through entry-level courses, professional development

courses or on-the-job training - will need to be stepped up to ensure that employees are able to learn, un-learn and re-learn, in their ultimate quest for life-long learning. All GLCs must therefore become learning organisations, while personnel development must come directly under purview of the GLC CEOs.

I understand that the Transformation Manual will be augmented with further guidelines and supporting materials, such as "How-To Books", templates, tools and best practice case studies, to make implementation that much easier. In certain instances, pilot projects for the 2005/2006 initiatives have been implemented at selected GLICs and GLCs to create the momentum for change and to test execution challenges. All the measures taken therefore lend themselves to almost trouble-free implementation for all the GLCs involved, such that we should be able to see execution of the plans soon and derive some positive results in the near future.

Transforming GLCs will contribute to the development of all stakeholders, and enhance the national economy over time. Investors, customers, employees, suppliers, the corporate sector, the government and ordinary Malaysians - literally everyone will benefit from GLC Transformation. This programme will also promote many national development priorities, including the development of more competitive and resilient Bumiputera Enterprise Community, through the creation of better-skilled Bumiputera managers and employees, more capable Bumiputera vendors and suppliers, and the like.

As such, my government is fully committed to implementing the GLC Transformation Programme. We will focus our work on the execution of the plans, while emphasising tangible results and outcomes. I fully understand that there are manifold differences between the various GLICs and the many GLCs, so that there will be different action plans and timelines for these different entities. Corporate philosophies and vision/mission statements may well be

different at these different companies. Nonetheless, I fully expect the Transformation Programme to bear fruit at each and every GLIC and GLC. The quality, performance and profitability of these entities should all be enhanced through purposeful planning and determined implementation.

The key to all our plans will be follow-through. We are now at the stage of generating momentum for GLC Transformation. A Transformation Management Office (TMO) has been set up to ensure the success of the programme, with quarterly reporting to the Putrajaya Committee, and there on directly to me. The CEO of the GLICs will be tasked to monitor and ensure that the implementation at their GLCs is on track, while the Chairman and CEO of the respective GLCs will be accountable for programme results at their own companies. Following on from the spirit of GLC Transformation, I can assure you that strong performance with adherence to good governance will be recognised and rewarded, while shortfalls and lack of results will also be treated in a firm but fair way.

I have no illusions that the journey ahead for GLC Transformation will be a long and arduous. Making and sustaining change at the GLCs will not be easy; indeed, it will take political will, corporate determination and hard choices. Malaise and inertia will constrain us, as will outdated thinking and old mentalities. But we must move forward. By ensuring the success of the Transformation Programme, we will be able to take GLCs to a new level of performance, moving them from average to excellence, to glory, and then to distinction; thereby creating more and more global champions and "Best In Class" companies in Malaysia. By doing that, we should be able to better realise our dreams and aspirations, and join the league of developed nations in 2020, for the benefit of current and future generations of Malaysians. I believe that all of us here are equal to the task, and I ask you to join me on this exciting and momentous journey. □