

**SPEECH BY
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI
AT THE INITIATIVE FOR THE G.L.C. TRANSFORMATION PROGRAMME:
LAUNCH OF GREEN AND RED BOOKS AT KUALA LUMPUR
26 APRIL 2006**

ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH DAN SALAM SEJAHTERA

YB TAN SRI NOR MOHAMED YAKCOP
MENTERI KEWANGAN KEDUA

DATO' AZMAN MOKHTAR
PENGARAH URUSAN, KHAZANAH NASIONAL BERHAD

HEADS OF GOVERNMENT-LINKED INVESTMENT COMPANIES
AND GOVERNMENT-LINKED COMPANIES

DISTINGUISHED GUESTS

LADIES AND GENTLEMEN

1. IT IS A PRIVILEGE FOR ME TO BE HERE THIS AFTERNOON AS WE EMBARK ON ANOTHER SIGNIFICANT MILESTONE IN THE G.L.C. TRANSFORMATION PROGRAMME. THE LAUNCH OF THE GREEN AND RED BOOKS, AS THEY ARE KNOWN, IS NECESSARY TO DRIVE THE TRANSFORMATION OF THE G.L.C.'S TO THE NEXT LEVEL. INDEED, THE ACTIVITIES AND ECONOMIC CONTRIBUTION OF G.L.C.'S FORM A MAJOR PART OF THE NATION'S ECONOMY. THUS, THE TRANSFORMATION OF G.L.C.'S IS A CRITICAL PART OF MALAYSIA'S JOURNEY TOWARDS BECOMING A DEVELOPED COUNTRY BY 2020.

2. THE MAIN OBJECTIVE OF THE PROGRAMME IS TO CREATE COMPETITIVE, RESILIENT AND SUSTAINABLE CORPORATIONS, WHICH ARE ROOTED IN BEST PRACTICE MANAGEMENT AND EXEMPLARY CORPORATE GOVERNANCE. THE G.L.C. TRANSFORMATION PROGRAMME ACTS AS A MAJOR CATALYST, AS WELL AS A SHINING BEACON FOR THE PRIVATE SECTOR TO FOLLOW SUIT. THIS IS IMPORTANT AS THE GOVERNMENT EXPECTS THE PRIVATE SECTOR TO BE THE MAIN ENGINE OF GROWTH IN THE NINTH MALAYSIA PLAN AND BEYOND. IN FACT, THE ROLE AND RESPONSIBILITIES OF G.L.C.'S IN THE NINTH PLAN ARE BOTH EXTENSIVE AND VITAL TO ACHIEVING OUR OVERALL TARGETS. THUS, THE G.L.C. TRANSFORMATION PROGRAMME IS A CORE PART OF OUR 15-YEAR "NATIONAL MISSION" TO 2020, AS WE PUSH THE PERFORMANCE ENVELOPE FURTHER AND MOVE THE ECONOMY UP THE VALUE CHAIN.

3. AS ITS MAIN PROPONENT, I MUST SAY THAT I AM PLEASED WITH THE PROGRESS OF THE G.L.C. TRANSFORMATION PROGRAMME THUS FAR. SINCE I LAUNCHED THE PROGRAMME ALMOST TWO YEARS AGO, WE HAVE BROKEN NEW GROUND WITH MANY INITIATIVES LAUNCHED TO ENHANCE G.L.C. PERFORMANCE IN MANY

SPHERES. KHAZANAH NASIONAL HAS BEEN REFORMED TO BECOME A MORE FOCUSED, PROACTIVE AND PROFICIENT ORGANISATION. THE MANAGEMENT AND OPERATIONS OF G.L.C.'S HAVE BEEN REVAMPED AND CONSOLIDATED FOR THE BETTER. THE LAUNCH OF THE BLUE BOOK EARLIER, AS WELL AS THE G.L.C. TRANSFORMATION MANUAL LAST YEAR, HAVE KICKSTARTED THE INITIATIVES TO FORM A SOLID BASE FOR FURTHER IMPROVEMENT. THE IMPROVEMENTS ACHIEVED CAN BE SEEN IN THE G.L.C.'S OUT-PERFORMING THE K.L.C.I. INDEX SINCE THE START OF THE PROGRAMME.

4. IN ADDITION, THE RECENT ANNOUNCEMENT OF K.P.I.'S BY 15 OF THE LARGER G.L.C.'S (THE G-15) IS ALSO IN LINE WITH THE GOVERNMENT'S POLICY OF ACCOUNTABILITY, TRANSPARENCY AND PERFORMANCE. I AM PLEASED TO HEAR THAT THIS INITIATIVE HAS BEEN WELL RECEIVED BY THE INVESTMENT AND FINANCIAL COMMUNITY WITHIN AND OUTSIDE THE COUNTRY.

5. ALTHOUGH THE G.L.C. TRANSFORMATION PROGRAMME IS PROGRESSING WELL, MUCH MORE NEEDS TO BE DONE. WE NEED TO GET BETTER TRACTION OVER THE INITIATIVES LAUNCHED.

6. NONETHELESS, MY GOVERNMENT ALSO REALISES THAT THE TASK AT HAND IS MOMENTOUS, AND THAT THE JOURNEY AHEAD IS LONG AND ARDUOUS. WITH THIS IN MIND, I URGE THE G.L.C.'S, FROM THE BOARD MEMBERS AND C.E.O.'S RIGHT DOWN TO THE GROUND, TO CONSCIENTIOUSLY CONTINUE THIS TRANSFORMATION JOURNEY AND FOCUS ON IMPLEMENTING THE INITIATIVES THAT HAVE BEEN SET OUT. THERE SHOULD BE NO LET-UP IN THE COMMITMENT TO CARRY OUT MEANINGFUL CHANGE FOR THE GREATER GOOD OF THE COMPANY AND THE NATION.

7. THERE HAVE BEEN GRUMBLINGS AND COMPLAINTS OVER THE PERCEIVED SLOW IMPLEMENTATION OF THE G.L.C. PROGRAMME. HOWEVER, I WANT TO REITERATE THAT THE G.L.C. TRANSFORMATION IS A MEDIUM TO LONG TERM PROGRAMME. THE INITIATIVES LAUNCHED THUS FAR SET A SOLID BASE FOR FUTURE GROWTH, AND DO NOT JUST FOCUS ON SHORT TERM OR TRANSITORY RESULTS. WE ARE LOOKING AT EFFECTING SYSTEM-WIDE CHANGE IN THE G.L.C.'S, AND ULTIMATELY, IN THE PRIVATE SECTOR. WHILE MY GOVERNMENT WILL NOT TOLERATE SHODDY OR SLUGGISH IMPLEMENTATION OF THE G.L.C. PROGRAMME, WE APPRECIATE THAT ANY PROGRAMME THAT SEEKS TO ACHIEVE SYSTEMIC AND CULTURAL CHANGE WILL INEVITABLY REQUIRE SOME TIME TO BEAR FRUIT.

8. IN THIS REGARD, THE GOVERNMENT IS FULLY COMMITTED TO SEEING THROUGH THE EFFECTIVE AND EFFICIENT IMPLEMENTATION OF THIS TRANSFORMATION PROGRAMME. AS YOU MAY KNOW, THE TRANSFORMATION OF G.L.C.'S IS ACTUALLY PART OF THE PLEDGE TO ENHANCE PRIVATE SECTOR PERFORMANCE AS CONTAINED IN BARISAN NASIONAL'S MANIFESTO FOR THE 2004 GENERAL ELECTION. FURTHERMORE, G.L.C.'S PROVIDE MISSION CRITICAL SERVICES FOR THE COUNTRY. THEREFORE ANY IMPROVEMENTS IN THE OPERATIONS OF G.L.C.'S WILL UNDOUBTEDLY HAVE A LARGE POSITIVE MULTIPLIER EFFECT ON THE QUALITY OF LIFE AND THE ECONOMY IN GENERAL.

9. THE PUTRAJAYA COMMITTEE ON G.L.C. HIGH PERFORMANCE (P.C.G.) WILL CONTINUE TO MANAGE, TRACK AND MONITOR THE PROGRESS OF THE PROGRAMME AGAINST THE TIMELINE SET IN THE G.L.C. TRANSFORMATION MANUAL, WHICH I LAUNCHED IN JULY OF LAST YEAR. WITH THE COOPERATION OF THE GOVERNMENT LINKED INVESTMENT COMPANIES (G.L.I.C.'S), THE P.C.G. HAS TURNED OUT TO BE AN EFFECTIVE HIGH LEVEL MECHANISM TO CARRY OUT THE TASKS AT HAND.

LADIES AND GENTLEMEN,

10. I AM PLEASED TO NOTE THAT THE TRANSFORMATION PROGRAMME IS GAINING STEAM, WITH THE GREEN BOOK NOW ESTABLISHED TO STEER G.L.C.'S TOWARDS ENHANCING THE EFFECTIVENESS OF THEIR RESPECTIVE BOARDS. AFTER ALL, GOOD CORPORATE GOVERNANCE IS KEY TO THE RUNNING OF A SUCCESSFUL PUBLIC CORPORATION. THIS IS IN LINE WITH ONE OF THE MAIN POLICY THRUSTS SET OUT IN THE G.L.C. TRANSFORMATION MANUAL, WHICH IS THE NEED TO UPGRADE THE EFFICACY OF G.L.C. BOARDS. THE GREEN BOOK IS A FURTHER DEVELOPMENT OF THIS POLICY THRUST, AND SETS OUT THE GUIDELINES AND STANDARDS TO WHICH G.L.C.S SHOULD ASPIRE. PRACTICAL SUGGESTIONS, CASE STUDIES AND AN ACTION-ORIENTED BOARD EFFECTIVENESS ASSESSMENT TOOL ARE ALSO INCLUDED TO PROVIDE A COMPREHENSIVE GUIDE FOR THE G.L.C.'S.

11. I BELIEVE THAT THIS IS CRITICAL, AS THE BOARD MUST PLAY A STRONG STEWARDSHIP AND MONITORING ROLE TO DRIVE THE HIGHEST PERFORMANCE FROM THE G.L.C.'S. IN ADDITION, THE BOARD SERVES TO PROTECT THE INTERESTS OF ITS SHAREHOLDERS. THIS IN TURN WILL INCREASE THE CONFIDENCE OF INVESTORS WITH REGARDS TO G.L.C.'S, AND SERVES AS A STRONG LAUNCHING PAD FOR G.L.C.'S TO BECOME WORLD CLASS CORPORATIONS. IN THIS RESPECT, I EXPECT THE BOARD MEMBERS TO EMBRACE AND ADOPT THESE GUIDELINES AS MUCH AS POSSIBLE TO ENSURE THE SUCCESS OF THE G.L.C. TRANSFORMATION PROGRAMME. BOARD MEMBERSHIP IS NOT A PRIVILEGE BUT A FIDUCIARY TRUST AND RESPONSIBILITY WHICH MUST BE CARRIED OUT WITH THE UTMOST ACCOUNTABILITY AND DILIGENCE, PARTICULARLY WITH RESPECT TO G.L.C.'S, WHEREBY THE WHOLE MALAYSIAN PUBLIC ARE ALSO STAKEHOLDERS. I UNDERSTAND THAT THE GREEN BOOK EMPHASISES THE BOARD EFFECTIVENESS ASPECT, THUS IT SHOULD BE A USEFUL GUIDE TO COMPLEMENT THE EXISTING CORPORATE GOVERNANCE PROCEDURES PRACTICED IN THE VARIOUS G.L.C.'S.

12. MEANWHILE, THE RED BOOK IS A GUIDELINE TO PROMOTE BEST PRACTICE PROCUREMENT PROCESSES AND PROCEDURES. PROCUREMENT IS A KEY CORNERSTONE OF THE G.L.C. TRANSFORMATION PROGRAMME TO CREATE LEANER AND MORE EFFICIENT CORPORATIONS. SUCH GUIDELINES ARE CRUCIAL TO ENCOURAGE COST EFFICIENCY, WHICH WILL LEAD TO A HIGHER LEVEL OF COMPETITIVENESS FOR THE G.L.C.'S. THIS IS ESPECIALLY VITAL GIVEN THE INCREASES IN FUEL AND OTHER COSTS, WHICH HAS A KNOCK-ON EFFECT ON COST ITEMS IN GENERAL. FURTHERMORE, SUCH BEST PRACTICE PROCUREMENT ALSO PROMOTES GREATER TRANSPARENCY AND THUS ALLOWS MORE PARTIES TO PARTICIPATE IN THE SUPPLY CHAIN OF THE G.L.C.'S. THE POTENTIAL COST

SAVINGS ARE SUBSTANTIAL, AS THE TOTAL PROCUREMENT EXPENDITURE OF THE G-15 IS OVER 50 BILLION RINGGIT WORTH OF GOODS AND SERVICES PER YEAR. TO PUT THINGS IN PERSPECTIVE, THIS 50 BILLION RINGGIT FIGURE IS APPROXIMATELY 10 PERCENT OF THE COUNTRY'S CURRENT G.D.P.. INITIAL ESTIMATES INDICATE THAT FOR THE G-15, THE TOTAL POTENTIAL SAVINGS FROM BETTER PROCUREMENT PROCESSES RANGES FROM 4 BILLION TO 9 BILLION RINGGIT.

13. AS EXEMPLIFIED BY OTHER SUCCESSFUL CORPORATIONS, AN ENHANCED PROCUREMENT FUNCTION WILL DELIVER SIGNIFICANT BOTTOM LINE BENEFITS. THIS SHOULD ENABLE THE G.L.C.'S TO FOCUS ON OPERATIONAL IMPROVEMENTS AND INITIATIVES TO ENHANCE THEIR COMPETITIVENESS. IF THE POTENTIAL SAVINGS FROM PROCUREMENT CAN BE REALISED, THE PRESSURE TO SIGNIFICANTLY DOWNSIZE STAFF OR OTHER SIMILAR MEASURES CAN BE ALLEVIATED. INSTEAD, THE SAVINGS COULD BE UTILISED FOR HUMAN CAPITAL DEVELOPMENT PROGRAMMES, IN ORDER TO ESTABLISH A SOLID KNOWLEDGE AND SKILLS BASE FOR FUTURE COMPETITIVENESS.

LADIES AND GENTLEMEN,

14. BEST PRACTICE PROCUREMENT STANDARDS ARE NOT ONLY CONCERNED WITH COSTS CONTAINMENT. SUPERIOR PROCUREMENT PRACTICES SHOULD ALSO LEAD TO AN IMPROVEMENT IN THE QUALITY OF PRODUCTS AND SERVICES OFFERED BY THE G.L.C.'S. FOR EXAMPLE, THE QUALITY OF SERVICES CAN BE IMPROVED THROUGH THE PURCHASING OF BETTER QUALITY PRODUCTS AT REASONABLE PRICES. A MORE EFFICIENT PROCUREMENT SYSTEM WILL ALSO REDUCE LEAD AND THROUGHPUT TIMES, ALLOWING TIMELY FULFILLMENT OF CUSTOMER ORDERS AND EXPECTATIONS. BETTER PROCUREMENT PRACTICES WILL ALSO ENCOURAGE CLOSER COLLABORATION WITH THE VARIOUS SUPPLIERS. THIS SHOULD RESULT IN THE LONG TERM SECURITY OF SUPPLY FOR QUALITY PRODUCTS AT COMPETITIVE PRICES.

15. MUCH WORK HAS BEEN PUT INTO THE FORMULATION OF THE RED BOOK, IN ORDER TO MAKE IT COMPREHENSIVE AS WELL AS RELEVANT IN THE MALAYSIAN CONTEXT. A "COOKIE-CUTTER" APPROACH OF JUST ADOPTING INTERNATIONAL BEST PRACTICES ALONE MAY NOT BE EFFECTIVE FOR G.L.C.'S AND MALAYSIAN CORPORATIONS IN GENERAL. THE GUIDELINES ADVOCATED BY THE RED BOOK ARE ALSO CONSISTENT WITH THE NATIONAL DEVELOPMENT OBJECTIVES AS ENCAPSULATED IN THE NATIONAL MISSION AND THE NINTH MALAYSIA PLAN. FOR EXAMPLE, THE RED BOOK GUIDELINES ASSIST G.L.C.'S TO INSTITUTE STRONGER PROCEDURES TO REDUCE CORRUPTION AND MALPRACTICES WITHIN THE G.L.C. PROCUREMENT SUPPLY CHAIN. TOOLS SUCH AS E-PROCUREMENT AND E-BIDDING WILL HELP AUTOMATE KEY PROCESSES AND LIMIT DIRECT HUMAN INTERACTION. STRENGTHENING SUPPLIER CONTRACTS SHOULD ALSO DISCOURAGE UNETHICAL CONDUCT.

16. FURTHERMORE, G.L.C.'S WILL ALSO BE ENCOURAGED TO SUPPORT THE DEVELOPMENT OF THEIR VENDORS. THIS SHOULD BE SELF-REINFORCING AS A

STRONG AND VIBRANT VENDOR BASE SHOULD BE ABLE TO POSITIVELY CONTRIBUTE TO THE G.L.C.'S, VIA BETTER QUALITY PRODUCTS AND SERVICES. EMPHASIS WILL ALSO BE ON PROMOTING HIGH LOCAL VALUE ADDED, BY MINIMISING THE USE OF MIDDLEMEN OR VENDORS THAT DO NOT ADD MUCH VALUE TO THE PRODUCTION OF GOODS AND SERVICES. G.L.C.'S WILL SUPPORT THEIR VENDORS TO MOVE UP THE VALUE CHAIN, THROUGH UNDERTAKING VALUE ADDED ACTIVITIES IN KEY AREAS AND INDUSTRIES. THE PROPER IMPLEMENTATION OF THE GUIDELINES WILL ALSO REDUCE THE TOTAL COSTS OF OWNERSHIP THROUGH A COMBINATION OF LEVERS. KEY TECHNOLOGY ENABLERS SUCH AS E-PROCUREMENT SYSTEMS WILL ALSO BE UTILISED.

17. IN LINE WITH GOVERNMENT POLICY, THE USE OF LOCAL CONTENT IS ADVOCATED BY THE RED BOOK, AS WELL AS THE SOCIOECONOMIC OBJECTIVE OF PROMOTING BUMIPUTERA PARTICIPATION. THE DEVELOPMENT OF BUMIPUTERA VENDORS IS ADDRESSED IN THE RED BOOK, TO FURTHER PROMOTE THE DEVELOPMENT OF A RESILIENT AND COMPETITIVE BUMIPUTERA COMMERCIAL AND INDUSTRIAL COMMUNITY (B.C.I.C.) – NOT VIA HANDOUTS THAT ENGENDER DEPENDENCY, BUT BY MEASURES TO BUILD SCALE, CAPACITY AND PERFORMANCE. IN ADDITION, GENUINE BUMIPUTERA VENDORS WILL BE PROMOTED BY ESTABLISHING A STRUCTURED VENDOR DEVELOPMENT PROGRAMME THAT SUPPORTS, DEVELOPS AND GRADUATES CAPABLE VENDORS. WHILE THE G.L.C.'S ARE ENCOURAGED TO SUPPORT NATIONAL DEVELOPMENT OBJECTIVES, THEY NEED TO DO SO BY TAKING INTO ACCOUNT THE COSTS AND BENEFITS OF SUPPORTING NATIONAL DEVELOPMENT AND BALANCING THAT AGAINST THEIR COMMERCIAL OBJECTIVES. THE FOCUS WILL BE ON DEVELOPING GENUINE BUMIPUTERA AND LOCAL VENDORS, AND IN ACHIEVING THAT, THERE MAY BE A STRONG NEED TO INSTITUTE DIFFICULT MEASURES AND TO EFFECT STRUCTURAL CHANGES.

18. COMPANIES SUCH AS TELEKOM MALAYSIA, SHELL SARAWAK AND PETRONAS HAVE CARRIED OUT IMPROVEMENTS TO THEIR PROCUREMENT SYSTEMS TO GREAT EFFECT. SUCH EXAMPLES HIGHLIGHT THE EXTENT OF VALUE CREATION FOR THE G.L.C.'S IF THEY ARE COMMITTED TO IMPLEMENTING THE GUIDELINES OF THE RED BOOK. THUS THE RED BOOK SHOULD BECOME THE PRIMARY REFERENCE FOR G.L.C. PROCUREMENT BEST PRACTICES. IN THIS REGARD, THE RED BOOK SHOULD BECOME THE MAIN SUPPLEMENT TO BUSINESS JUDGEMENTS EXERCISED BY THE G.L.C. BOARDS AND C.E.O.'S WHEN CARRYING OUT PROCUREMENT RELATED ACTIVITIES.

19. IN LINE WITH PROPER CORPORATE GOVERNANCE, THE ADOPTION OF THE RED BOOK POLICIES AND PROCESSES SHOULD BE DRIVEN BY THE G.L.C. BOARDS. BOARD APPROVAL ALSO LENDS CREDENCE TO SUCH POLICIES AND PROCESSES, IN ORDER TO ENSURE BUY-IN THROUGHOUT THE ORGANISATION. IN ADDITION, BOARD ENDORSEMENT ENSURES THAT THE APPROACH ADOPTED IS INTEGRATED INTO THE OVERALL BUSINESS IMPROVEMENT STRATEGY AND IS RELEVANT TO THEIR PARTICULAR ORGANISATION. TO SUPPORT THE IMPLEMENTATION OF THE RED BOOK, THE GOVERNMENT WILL CEASE TO ISSUE GUIDELINES ON G.L.C. PROCUREMENT. THIS IS TO AVOID GIVING RISE TO ANY POSSIBLE CONFLICTS.

LADIES AND GENTLEMEN,

20. AS I HAVE STRESSED WITH REGARDS TO THE NINTH MALAYSIA PLAN, PROPER AND EFFICIENT IMPLEMENTATION IS CRITICAL TO THE SUCCESS OF THESE INITIATIVES, AS WELL AS TO THE G.L.C. TRANSFORMATION PROGRAMME IN GENERAL. I CALL UPON ALL THOSE INVOLVED, ESPECIALLY THE BOARDS AND C.E.O.'S TO ALLOCATE THE NECESSARY TIME AND RESOURCES TO ENSURE THAT THESE INITIATIVES ARE TRACKED AND MONITORED CONTINUOUSLY. THE TRANSITION TOWARDS THE SUCCESSFUL IMPLEMENTATION OF THIS PROGRAMME MAY PROVE TO BE PROBLEMATIC AND SOMETIMES SENSITIVE, HOWEVER THE GOVERNMENT IS FULLY SUPPORTIVE AND WILL PROVIDE THE NECESSARY SUPPORT.

21. AS THE RED BOOK REPRESENTS GOOD CORPORATE PRACTICES, IT IS THE GOVERNMENT'S ASPIRATION THAT THE RED BOOK, AND THE TENETS IT ESPOUSES, SHOULD BE ADOPTED BY ALL MALAYSIAN COMPANIES OVER TIME. THUS I ALSO CALL UPON THE PRIVATE SECTOR, ESPECIALLY THE PUBLIC LISTED CORPORATIONS, TO ANALYSE AND ADOPT THE GUIDELINES HIGHLIGHTED IN THE RED BOOK. THIS INITIATIVE WILL SERVE TO BENEFIT ALL STAKEHOLDERS, DELIVERING BENEFITS TO THE NATION IN MULTIPLE WAYS – A TRULY WIN-WIN SOLUTION TO INVESTORS, G.L.C.S, SUPPLIERS AND ALL MALAYSIANS.

22. I HOPE THAT THE PROPER IMPLEMENTATION OF THE RED AND GREEN BOOKS WILL BE A MAJOR CATALYST TO DRIVE THE G.L.C. TRANSFORMATION AGENDA. THIS SHOULD GO A LONG WAY TOWARDS ENHANCING THE SOFT INFRASTRUCTURE OR MINDSET OF OUR HUMAN CAPITAL, IN ORDER TO INCREASE THE COMPETITIVENESS OF THE G.L.C.'S AND MALAYSIAN CORPORATIONS IN GENERAL. LASTLY, I WOULD LIKE TO PLACE ON RECORD MY APPRECIATION FOR ALL THE EFFORTS TAKEN THUS FAR, AND I OFFER MY CONGRATULATIONS TO ALL THOSE WHO HAVE BEEN INVOLVED IN PRODUCING THE RED AND GREEN BOOKS. I AM SURE THAT THESE INITIATIVES WILL PLAY AN IMMENSE ROLE IN MOVING THE PRIVATE SECTOR FURTHER TOWARDS EXCELLENCE AND PERFORMANCE.

THANK YOU.