SOE Governance Reforms in Malaysia: Experiences, Insights & Prospects

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Structure

Presentation

- Experiences
  - Reflection & Analysis of TM Governance Reforms

- Insights
  - Implementation of Effective Governance Process

- Prospects
  - Towards better Governance & Sustainability

- Lessons Learnt & Final Thoughts
What Governance means to TM

- TM as Govt Linked Companies (GLC), abides to best practices of the Code of Corporate Governance, & to the Putrajaya Committee on GLC High Performance Guidelines.

- Board is committed to values & ethical conduct, & stakeholders expectations must be assessed, managed & not assumed.

- Board viewed that a successful GLC is comparable to a non GLC in terms of profit & efficiency, & exhibits sense of social responsibility.

- TM adopts sound corporate governance practices aimed at increasing efficiency, transparency & accountability.

- TM as a Company
  - Double expectations
    - Ability to achieve financial performance comparable with private sector, at the same time, compete with private sector offering similar services

- TM Directors
  - Comfortable operating in environment having to consider Govt philosophies & priorities
  - Ability to reconcile wishes of majority shareholder & maintain integrity & allegiance to all shareholders as a whole
The 4 Pillars of Effective Governance in TM

1. Oversight Group – Board and Committees of the Board

2. Stewardship Group – Executive Management
   - Dual role of stewardship of resources allocated by Board and accountability of operations results

3. Performance Group – Operating, Support Management and Staff

4. Assurance Group – Internal Auditors and External Auditors
The Board has dual roles & both must be effective

- Leadership/strategic role
- Control role

Balance between experienced EDs, Non ED & Independent Directors

Need to recognise that different Boards have different active roles to meet the changing landscape of the business & company, hence the Board compositions will depend on a realistic balanced mix of skills and other qualities required for the Board to be effective e.g.

- Working partnerships between the Board & senior management – Board provides strategic oversight, whilst management is responsible for operations
  - Nose in, fingers out
- Current needs for directors professionalism with industry expertise.
- Board-Management synergy will be enhanced when both parties acquired certain degree of professionalism within their respective field.
Now the Board roles are at the cross roads, between active roles in reviewing strategy, financial performance of the business, integrity of internal controls, to that of more active roles in reviewing the “health” of the company:
- improving line of communication between Board & senior mgmt.
- support to top management during major transformation & change initiatives
- risk management oversight function

Succession planning, appointment, training & motivating (and incentivising) of senior management

The Board has been active in reviewing both the short term & long term financials & broad range of performance, which includes market performance & competition, network expansion, operational performance, major project managements, new product launches
Independence avoids conflict of interest & objective perspective, necessary to provide unbiased oversight of management.

Having independent directors & majority independent Board has become synonymous for effective corporate governance:
- The downside to independent director could be lack of industry & business knowledge
- A new director needs at least 1-2 years to fully understand the business, & time spent is slightly over 3-4 weeks per year
- Having several non executive non independent directors with deeper knowledge of the business & industry

Board Audit Committee is often at the centre of this tension in view of its Oversight role & also dual role of advisor to mgmt being Board members.

Boards adopt shareholders’ perspective when making decisions, but at the same time must balance all valid stakeholders’ interests (employees, customers, suppliers, regulators, government).
All Board Audit Committees (BAC) have direct line reporting to their respective Boards

TM Board Audit Committee discharges its oversight duties in the following manner for all key subsidiaries:

- Centralised Internal Audit Function
- Long term and annual internal audit plan to cover the whole TM Group
- Where subsidiaries have established BAC:
  - TM GIA head or representative to sit in as permanent invitee of TM Subsidiary BAC meetings
  - On an urgent basis TM GIA can highlight key issues as they arise to TM BAC
- Minutes of all subsidiary BAC meetings to be circulated to the TM BAC

Underlying principle is to stimulate & ensure smooth “flow of critical information” to Board Audit Committee/Board. This will heighten existing reporting requirements to Bursa Securities.
Transformation in TM Group Internal Audit-Road to Professionalism (Part 1)

- Create Internal Auditors professionalism – **Right Culture and People** for breakthrough performance. Building a culture of Disciplined People, Disciplined Thoughts and Disciplined Actions
- IA TM won the **Best Internal Audit Practice Award (BIAPA)** for year 2005 - Malaysia’s most prestigious award in recognition of outstanding internal audit practice by Malaysian Institute of Accountant and IIA Malaysia
Position itself as **credible activist** to the organisation on Governance, Risk & Controls

Move towards an **adaptive and future focused** internal audit practices contributing towards the creation of shareholders value whilst recognising importance of key stakeholders interest
As GLCs expand abroad, ability to act responsibly in global markets will be key determinant of success or failures.

Global companies are embracing CR as core part of their business, benefits from:
- Increased interests from socially responsible investors
- Facilitate access to global capital
- Justify a price premiums on products & services
- Strengthen market presence and goodwill
- Identify new & innovative commercial opportunities
- Improving risk management practices
- Attracting & retaining a talented & diverse workforce

SOEs need to align expectations of the Govt., private investors, employees & consumers around the extent of their contributions:
- Need to clarify and manage these expectations to demonstrate that values are created to society.
Guided by comprehensive CR strategy and inline with long term TM’s vision.

Aligned to Bursa CR Framework and Triple Bottom line Reporting.

In line with Guiding Principles embodied in Silver Book – to guide the Govt, GLICs & GLCs on how CR contributions should be managed

CR initiatives were integrated to TM’ Key Strategic Thrusts ie. Performance Improvements Programs.

TM CR encompasses broad aspect of sustainability namely:

- Societal Influence: Marketplace / Community (External Focus)
- Environmental Impact (External Focus)
- Organizational Culture: Workplace (Internal Focus)
Key to successful alignment is to have "Credible Activists" (internal/external) to the organization:

- No direct power to dictate change but have capability to influence - i.e IGOs (Intergovernmental Organization), NGOs, professionals, customers etc.
Testaments of TM Good Governance & Corporate Responsibility

- TM’s commitment to realize investors and stakeholders value and good corporate governance evidenced by numerous awards received…
  - NACRA Award 2009
    - Most Outstanding Annual Report for the year – Gold
    - Best Corporate Responsibility – Gold
  - TM inaugural Sustainability Report has been accorded Global Reporting Initiative GRI Application Level A+, the highest application level in the GRI framework.
  - Malaysian Business - CIMA Enterprise Governance Awards 2009: 1st Runner Up Overall and CSR
  - Minority Shareholders Watchdog Group (MSWG) - Malaysian Corporate Governance Index Award
    - Distinction
    - Best AGM conducted in 2009
  - 2009 Prime Minister’s CSR award - Workplace category
  - Starbiz-ICRM CR Award 2009 – Community category
Lessons Learnt & Final Thoughts

- There is a need for professional directors with industry expertise i.e. directors with affiliation with professional body such as The Institute of Directors etc. **Board-Management synergy** will be enhanced when both **parties** acquired certain degree of professionalism within their respective fields.

- Responsibilities of the Board and Audit Committee will be more demanding due to regulations and stakeholders rising expectations. Audit Committee governance oversight framework is enhanced based on **stimulating the flow of critical information** to the Boardrooms.

- Create Internal Audit professionalism – **Right Culture and People** for breakthrough performance. Position itself as “**credible activist**” to the organisation on Governance, Risks and Controls.

- Evolution of Corporate Governance at SOE—to **create a balance between the economics, environment and social goals** of organisation. Accountability in the use of its power within its social context.

- Successful alignment between CG and CR is to have “**Credible Activists**” within the organization with **strong ethical stance** and **capability to influence**.
“The key to becoming a contemporary corporate leader is to take on responsibility for externalities – what economists call the impact you have on the world (like pollution) for which you are not called to account”

- Harvard Business Review April 2010 -

Thank you