



Catalysing GLC Transformation

Silver Book – Achieving Value Through Social Responsibility

Information Pack – Theme V: Effective co-operation and communication with stakeholders

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



10 OVERARCHING THEMES OF THE INITIATIVES

| Initiative | Description |
|--|--|
| 1 Enhance Board effectiveness | 'Green Book' on enhancing Board effectiveness through revamping Board practices and processes (based on pilot). |
| 2 Strengthen Directors capabilities | Director Academy to be established. Strategies for sourcing effective Directors currently being developed. |
| 3 Enhance GLIC Monitoring and Management functions | Learnings from pilot GLIC to enhance the processes and capabilities of its M&M function and establish 'Nominee Director Term Sheets.' |
| 4 Improve regulatory environment | Guidelines to assist GLCs build regulatory capabilities and the development of a Regulatory Knowledge Network involving relevant GLICs and GLCs. |
| 5 Clarify social obligations | 'Silver Book' with Guidelines to assist GLCs in clarifying and quantifying their social obligations based on 2 pilots. |
| 6 Review and revamp procurement | 'Red Book' to provide best practices, clarification on government policies and the role of GLCs in developing local suppliers. |
| 7 Optimise capital management practices | 'Purple Book' with Guidelines for GLCs to optimise capital management. |
| 8 Manage and develop leaders and other human capital | 'Orange Book' to provide guidance to GLCs to develop programs to identify, cultivate and develop leaders and other human capital. |
| 9 Intensify performance management practices | 'Blue Book' Version 2.0 launched. Other initiatives to driver performance, such as Headline KPIs, implementation of EVA/VBM to be developed. |
| 10 Enhance operational improvement | 'Yellow Book' with guidelines on managing non-core assets, and 'Brown Book' on customer charters, as examples of Initiatives to drive operational improvement and value creation at GLCs |

Source: GLC Transformation Manual

QUOTES ON "BUSINESS AND SOCIETY"

"Today, most people believe, managers are greedy and lying"
– CEO of major European airport

"Today, global society has become very sensitive towards even small violations of societal interests, and we have to react to this"
– BP Board Member

"We will face increasing regulation if we don't deal with rising mistrust in pharma"
– Biotech CEO

SOCIETAL CONCERNS, IF NOT PROACTIVELY ADDRESSED, CAN LEAD TO POTENTIAL DISRUPTION TO THE SUSTAINABILITY OF A COMPANY OR INDUSTRY



Pharma

- **Affordability**
- **Excessive profits**
- **Lifestyle products**
- **Developing world disease**



Financial Services

- **Consumer debt**
- **Retirement vacuum**
- **Sub-prime lending**
- **Conflicts of interest**



Food Industry

- **Obesity**
- **Marketing to children**
- **Food safety**
- **Fair trade**



Oil and Gas Industry

- **Environmental damage**
- **Pollution**
- **Impeding alternative energy development**
- **Reserve transparency**

Societal Concerns refer to the concerns of various stakeholder groups (e.g. investors, customers, etc) caused by the services or products of a specific industry or company. These concerns might be widely expressed or still in its infancy.

EXAMPLES OF COMPETITIVE ADVANTAGES GAINED FROM SOCIALLY RESPONSIBLE PRACTICES

| | Examples |
|---|--|
| Increase investor interest | <ul style="list-style-type: none"> In the United States, funds that invest in socially responsible companies have grown from US\$639 billion to US\$2,290 billion in the last decade, representing 10% of all professionally managed US funds For example, companies with exemplary environmental and social practices can access funds from HSBC Sustainability Leaders Fund In Malaysia, institutional investors such as the EPF and KWAP will consider favourably companies with good CSR practices. Similarly, the Securities Commission encourages socially responsible practices among public-listed companies through initiating the CSR index and a CSR |
| Grant access to global markets | <ul style="list-style-type: none"> Deutsche Telekom encourages contributions to the workplace and environment all along their ICT supply chain, such as in the usage of recyclable materials and in complying with the obligations to accept returned products |
| Create a price premium | <ul style="list-style-type: none"> Home Depot captures an ethical premium on the sale of its “Certified Wood” products that are obtained from “responsibly managed” forests |
| Strengthen market presence | <ul style="list-style-type: none"> BT, previously known as British Telecoms believes its social contributions account for over 25% of customer satisfaction |
| Spot new opportunities and stimulate innovation | <ul style="list-style-type: none"> IBM’s work with US public schools helped them develop a new drag-and-drop technology for the Internet and turned their data-warehousing capabilities into commercial applications |
| Manage risk | <ul style="list-style-type: none"> ABN AMRO’s head office rejected 20 major financing proposals in 2005 because of social and/or environmental concerns, recognising the importance of managing the potential risk to reputation of being a high-profile consumer bank |
| Attract talent | <ul style="list-style-type: none"> A survey of over 800 MBA graduates from 11 leading business schools found that 97% said they were willing to forgo 14% percent on average of their expected income to work for an organisation with a better reputation for CSR |

Source: Companies’ websites; Press reports; 2007 Budget Speech by the Prime Minister of Malaysia

THE SILVER BOOK: A GUIDE TO CONTRIBUTIONS IN A STRATEGIC, VOLUNTARY AND SOCIALLY RESPONSIBLE WAY

Taking a strategic perspective

All GLCs should take a strategic perspective on contributions to society

- **Adopt socially responsible practices throughout their business operations**
- **Understand that contributions should not only benefit society but the GLCs themselves**
- **Be pro-active and move beyond basic philanthropy**

Moving from social obligations to voluntary contributions

It is PCG's aspiration that GLCs move away from social obligations that create economic inefficiencies or competitive disadvantage

Going forward, all GLCs should voluntarily contribute in a socially responsible way

- **Proactively contribute to society**
- **Also, to create benefit for themselves**

WHY IS THE SILVER BOOK IMPORTANT TO ALL GLCs?



Strong interdependence between businesses and society they operate in

- **GLCs especially make significant contributions to Malaysia's economic growth**



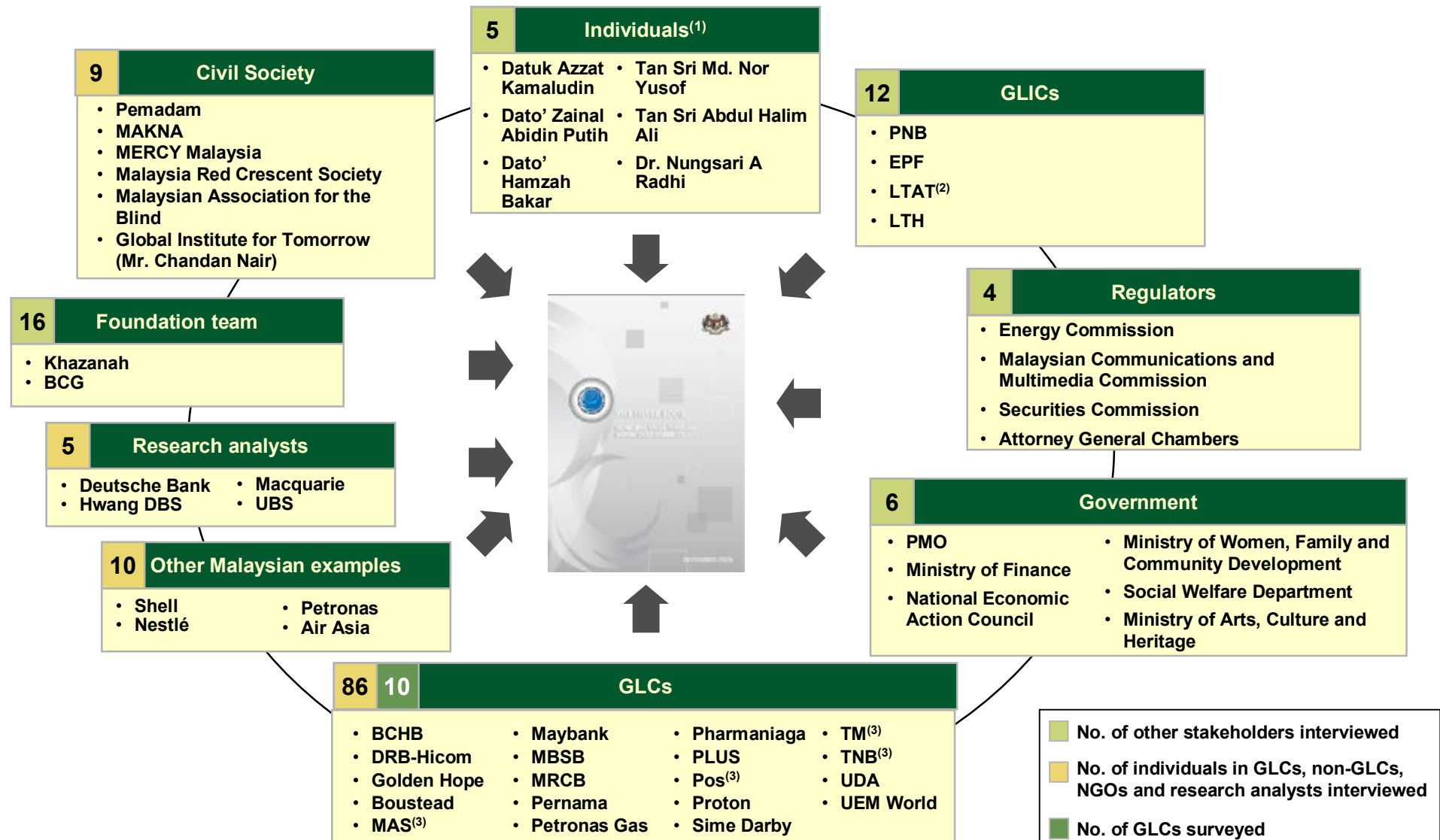
Number of GLCs selectively expand abroad hence, the need to contribute and act in a socially responsible manner will be an important factor for success



Many leading global companies embrace contributions to society as core to their business and benefit from the following

- **Increasing interest from socially responsible investors**
- **Facilitating access to global markets**
- **Justifying a price premium on products/services**
- **Strengthening market presence and goodwill**
- **Identifying new and innovative commercial opportunities**
- **Improving risk management practices**
- **Attracting and retaining a talented and diverse workforce**

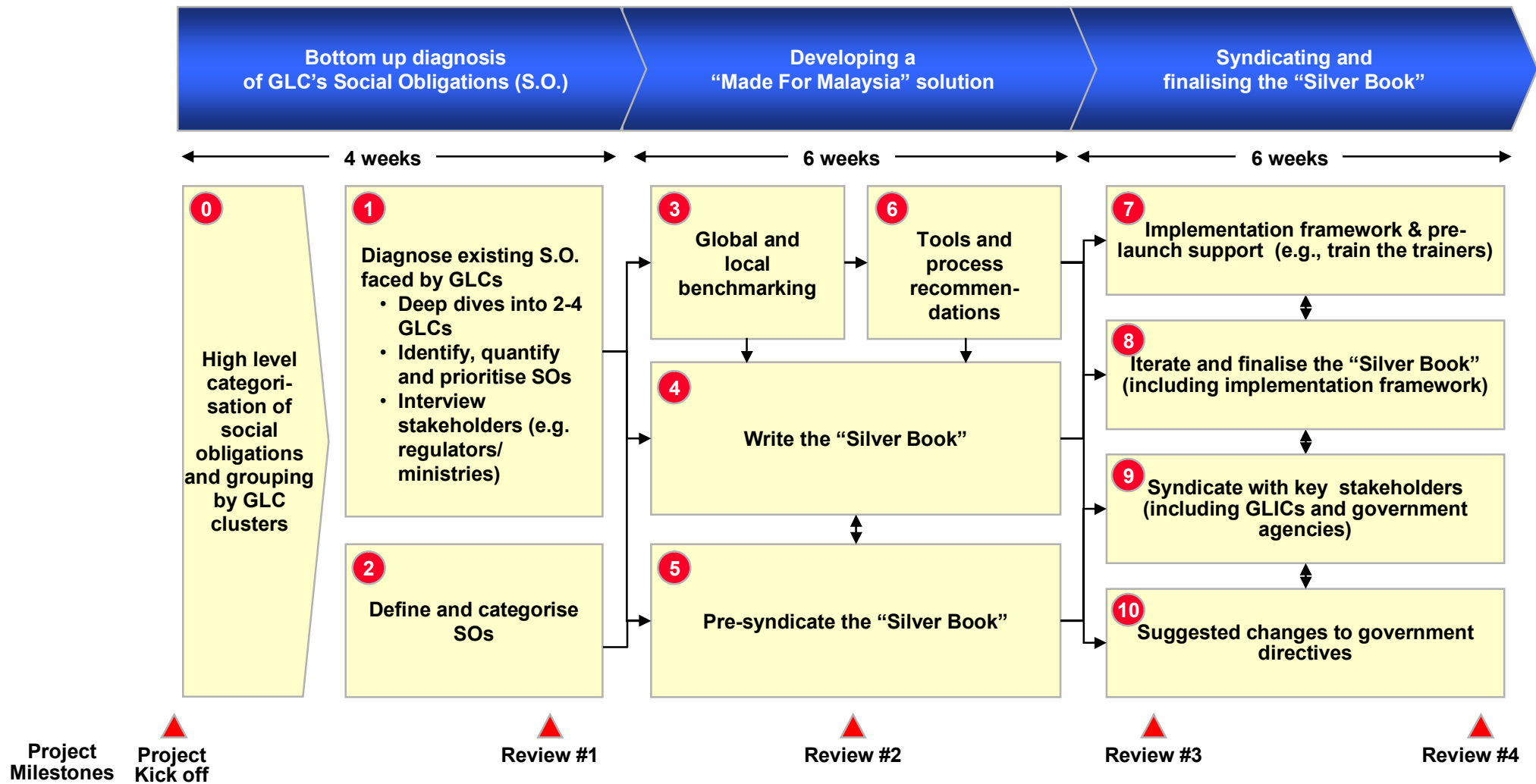
163 INDIVIDUALS HAVE PROVIDED INPUTS IN ITS DEVELOPMENT



(1) Represent various interests in society and business (2) Tan Sri Lodin represents interests of GLIC (LTAT) and GLC (Boustead)


(3) Also conducted a study on the relevance of the Silver Book through "deep-dives" with these four GLCs


SILVER BOOK DRAFTING PROCESS




IMPLEMENTING THE SILVER BOOK GUIDELINES


Expectation with launch of Silver Book


-  **GLCs to proactively contribute to society in ways that benefits society and themselves**
 - **Work closely with key stakeholders, including relevant regulators/Ministries**
 - **Minimise negative impact of social obligations**


-  **Use Silver Book as the primary guide in managing contributions to society**
 - **Complement existing contributions initiatives/best practices already in place**
 - **Align contributions with business strategy**


The Silver Book does not ...

-  **Provide a set of “one-size-fits all” guidelines**

-  **Allocate specific core themes to support – but it highlights critical or important areas for contributions**

-  **Prescribe specific financial spend target**

-  **Replace the judgement of senior management and the Board**

-  **Seek to remove all existing contributions – but guides GLCs to manage them more efficiently and for value**

OUTLINE OF THE SILVER BOOK

Section 1: Guiding Principles and the Starting Point

Chapter 1
Understanding the Guiding Principles

Chapter 2
Evaluating Your Starting Position

Answers the following questions

- What are the expectations on GLCs to contribute?
- Are your contributions achieving the best results?

Section 2: Building Blocks of a Contributions Programme

Chapter 3
Defining the Policy

Chapter 4
Ensuring Superior Execution and Management

Chapter 5
Developing Effective Governance and Organisation

Answers the following questions

- Why is a policy essential?
- What are the tools & processes for contributions?
- What are the governance mechanisms?

Section 3: Implementing the Silver Book

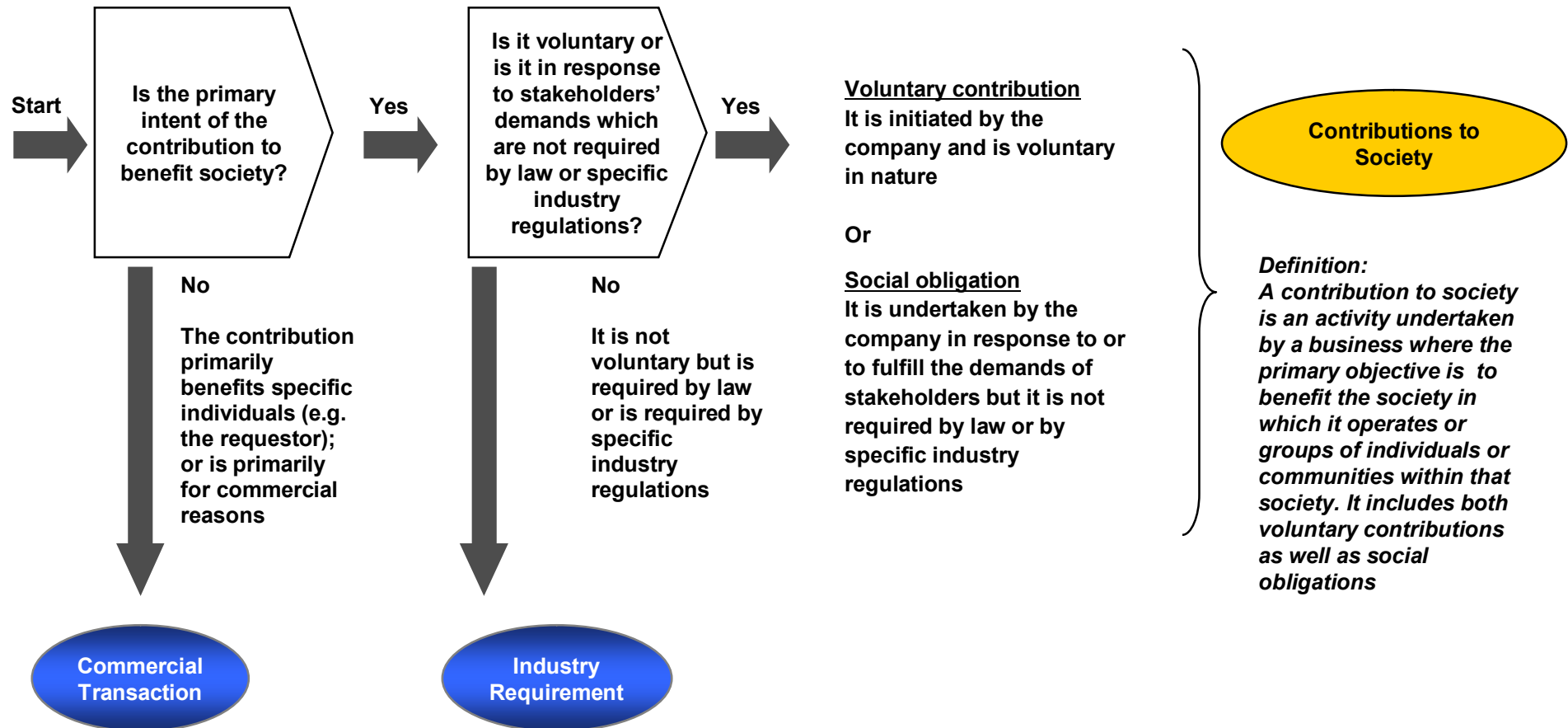
Chapter 6
Getting Started

Answers the following question

- What are the immediate steps to take to achieve the best results?

Q & A

DEFINITION OF CONTRIBUTIONS TO SOCIETY In The Context Of The Silver Book



● Key focus of the Silver Book is on Contributions to Society and it is applicable to both voluntary contributions as well as social obligations

THE SILVER BOOK GUIDING PRINCIPLES

Principle 1

The GLCs' primary objective should be to enhance shareholder returns and meet the needs of other key stakeholders (e.g., consumers and employees)

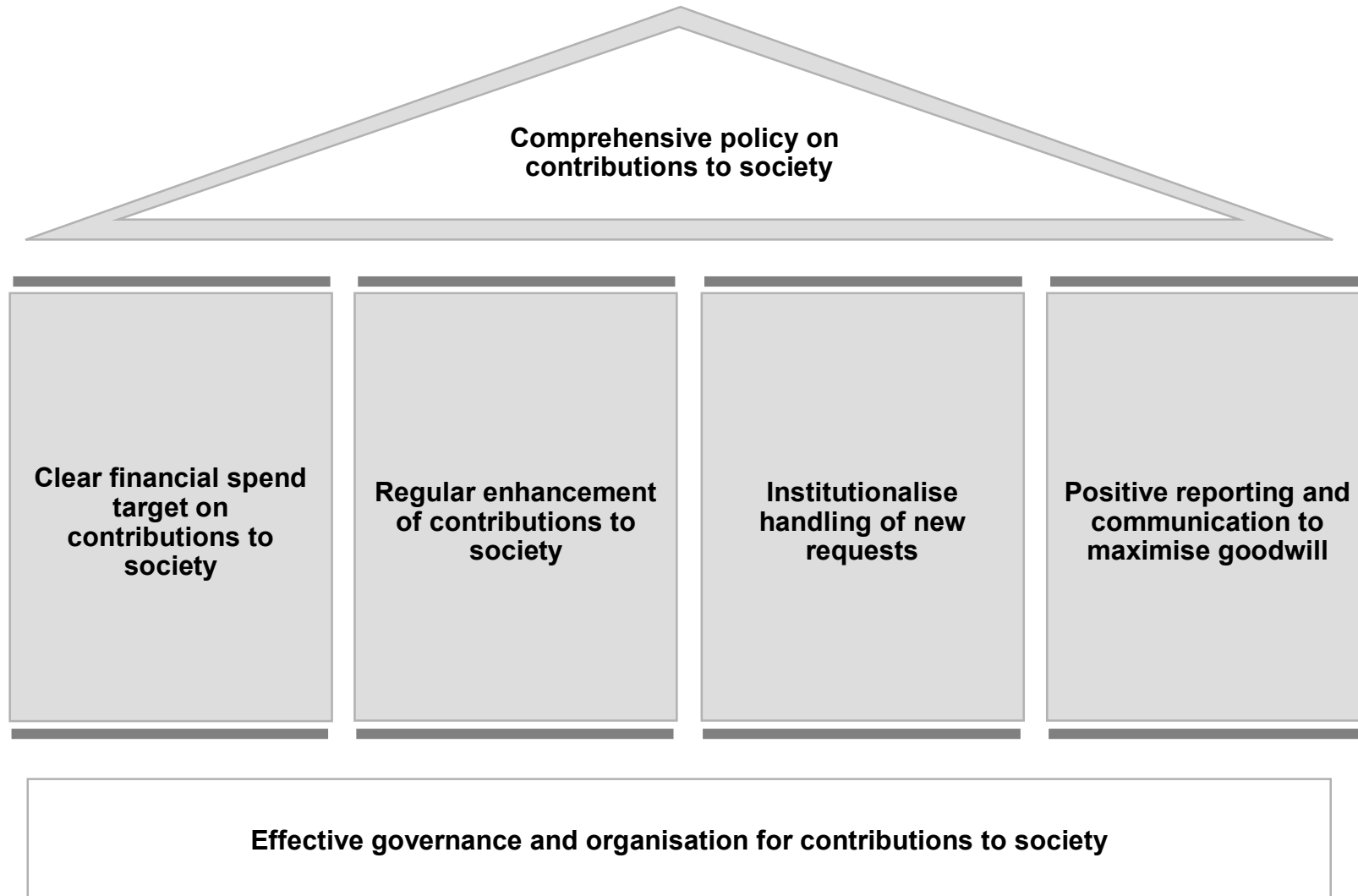
Principle 2

GLCs should proactively contribute to society in ways that create value for their shareholders and other key stakeholders

Principle 3

GLCs should actively manage their contributions to society in the most efficient and effective manner in line with industry norms and best practices as well as the relevant regulatory framework

BUILDING BLOCKS OF A CONTRIBUTIONS TO SOCIETY PROGRAM



EXAMPLE OF CORE THEMES/COMMITMENT ON CONTRIBUTIONS AND THEIR IMPACT (I)

Contributions to society core themes

Impact



“We have identified the following business operations as top priorities in our Corporate Responsibility programme

- Mobile phone recycling
- Responsible Marketing
- Energy efficiency
- Waste minimisation
- Transparency on health concerns about our technology
- Development of new products & services with high social value
- Ethical purchasing in our supply chain”

66% of customers believe Vodafone is serious about social and environmental responsibilities



“Hewlett-Packard has chosen to focus our global citizenship agenda on the environment, privacy, e-inclusion and education. We selected these areas based on their strategic importance to our business, the information technology sector and society. Each strategic initiative has specific priorities, objectives and programmes that teams across Hewlett-Packard execute every day”

Selected by The Dow Jones Sustainability Index⁽¹⁾ as among the top 10% in sustainability performance from the largest 2,500 global companies



“At the corporate level, we support organisations that have national impact and that are directionally aligned with our corporate values and culture.

Our focus is on science and technology, education and innovation, sustainable development, safety and occupational health and environmental protection.”

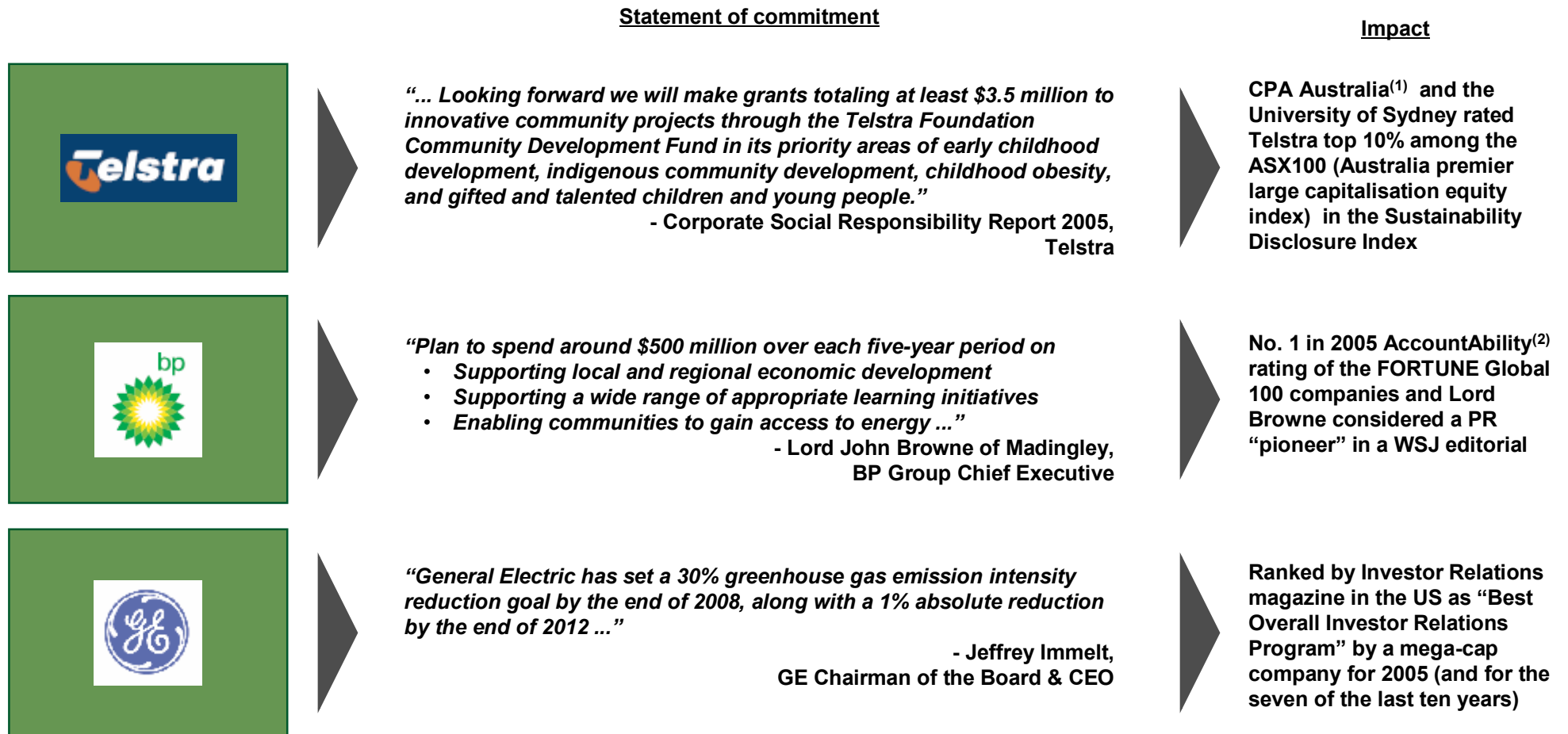
Recognised in 2004 as the world’s most respected energy and chemicals company for the 4th consecutive year⁽²⁾

(1) This index is widely followed by Socially Responsible Investing (SRI) funds

(2) According to the 2004 PricewaterhouseCoopers "World's Most Respected Companies" survey published in the Financial Times

Source: Company websites; annual report

EXAMPLE OF CORE THEMES/COMMITMENT ON CONTRIBUTIONS AND THEIR IMPACT (II)



(1) CPA Australia is one of the largest professional body for accountants in Australia

(2) AccountAbility is an international organisation committed to enhancing and developing social and ethical accountability

Source: Relevant company websites and corporate responsibility reports

EXAMPLES OF SEVEN CORE AREAS OF CONTRIBUTIONS TO SOCIETY

| | |
|---------------------------------|--|
| 1 Human rights | Levi Strauss' "Guidelines for Country Selection" declares the company's intention not to initiate or renew operations in countries where pervasive human-rights violations occur in order to protect Levi Strauss' brand name |
| 2 Employee welfare | Ben and Jerry has a policy of limiting the compensation paid to the CEO to seven times that of the lowest-paid employee as a fundamental commitment to pay equity |
| 3 Customers service | Procter & Gamble markets water-purifying sachets to people in the developing world, to provide safe drinking water, despite an initial lack of demand |
| 4 Suppliers partnership | J.C. Penney's initiative to purchase from disadvantaged suppliers (i.e., minority and women-owned businesses) has evolved from a socially-driven activity to a more strategic initiative, by helping them understand the ethnic consumer better |
| 5 Environmental protection | BT as one of UK's largest users of electricity, is committed to take action on climate change where nearly all of BT's UK electricity is supplied by environmentally friendly energy |
| 6 Community involvement | Centrica, the British energy utility firm, participates in partnership aimed at achieving energy savings in low-income households and giving people access to a range of charitable services to help tackle fuel poverty |
| 7 Ethical business behaviour | GE banned bribery in all commercial settings outside the U.S., not just to foreign government officials as required by the Foreign Corrupt Practices Act. GE also has strong internal policy against "facilitating payments" allowed under the FCPA but questionable under local law |

SAMPLE IMMEDIATE ACTION STEPS

Based On The Silver Book Guidelines

