MINDA
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MINDA NEWSLETTER

MID-TERM PROGRESS REVIEW REPORT

GLCs are Much More Resilient and Focused on Catalysing Growth and Realising the Programme's 2015 Aspirations

by Transformation Management Office, Putrajaya Committee on GLC High Performance (PCG)

MANAGING IN A DOWNTURN

What Now, Board Members?

by Professor Dr. Ulrich Steger, IMD Switzerland

CORPORATE GOVERNANCE FOR THE HUMAN LEADERS

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by Professor Dato' Dr. Aziuddin Ahmad, PhD &
Associate Professor Dr. Arfah Salleh, PhD, FCPA, Universiti Putra Malaysia

WHAT DRIVES BOARD EFFECTIVENESS?

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by Ashley Summerfield, Egon Zehnder International, London

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EDITORIAL TEAM

Editor In Chief
Wan Ahmad Saifuddin Wan Ahmad Radzi

Contributors
Transformation Management Office, PCG
Professor Dr. Ulrich Steger, IMD Switzerland
Professor Dato' Dr. Aziuddin Ahmad, PhD & Associate Professor Dr. Arfah Salleh, PhD, FCPA, Universiti Putra Malaysia
Ashley Summerfield, Egon Zehnder International, London

Creative Designers
Lee Yew Leong
Saadiah Aziz

Photographer
Muhammad Hafiz Mahmood

Printing
A & S Cetak Sdn. Bhd. (KKDN: PQ1780/3869)

Distributor
Malaysian Directors Academy (MINDA)

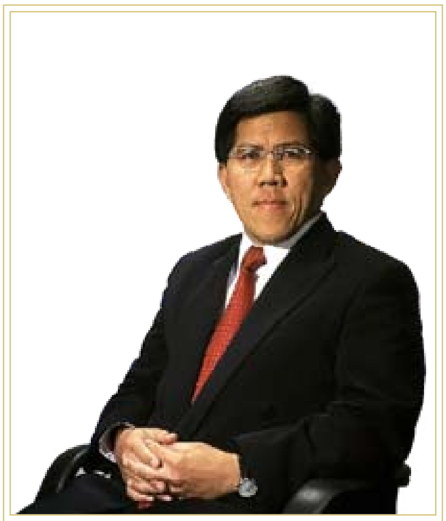
Communcations and Marketing
Saadiah Aziz

FOREWORD BY THE CHAIRMAN

Welcome to MINDA's Second Edition Newsletter. This July 2009 issue marks MINDA's third year of establishment. The Government Linked Companies (GLCs) Network has currently given the means for MINDA to spread its wings and I thank you for all your support towards MINDA and its programmes to date. The MINDA Alumni in particular plays a key part in advocating their experiences during MINDA programmes to Boards and other fellow directors. Our efforts in terms of providing programmes for the Board will continue and we strive to provide the best quality and standard in support of Directors' development. Alongside this, the varied activities of MINDA events will help strengthen and establish MINDA within the Directors community.

MINDA launched its Inaugural Newsletter during the MINDA Graduation Dinner in December 2008. It was distributed to the Government Linked Investment Companies (GLICs) and over 300 GLCs Directors. The main goal is to channel and disseminate news and knowledge on MINDA activities, and other useful information as well as highlights on past and future programmes. In addition, in line with MINDA's aim of addressing Board performance by equipping Directors of GLCs with world class knowledge, skills and mindset, this twice-yearly publication also reflects the diversity and dynamics of issues being discussed in the articles contributed by invited academicians, practitioners and prominent individuals in the area of Board Effectiveness, Leadership, Corporate Governance and relevant topics for the Boards as part of our continuing efforts to provide value-added service to our clients. Apart from being relevant, we also strive to provide articles which discuss current issues. I sincerely hope you are all weathering well the current difficulties in the world economy. In conjunction with this, Professor Dr. Ulrich Steger discusses Corporate Governance and boards in a crisis in his article 'Managing in a Downturn: What now, board members?' MINDA is pleased to have a MINDA alumni, Professor Dato' Dr Azziuddin Ahmad and Associate Professor Dr. Arfah Salleh, on 'Corporate Governance for the Human Leaders' where he invites readers to reflect on the manner in which the corporate world has addressed the issue of Governance thus far. In addition, Ashley Summerfield of Egon Zehnder International, London shares the findings from a global survey of the Boards of 200 companies by identifying seven top issues faced by Boards in his article "What drives Board Effectiveness?". Also in every issue, a special column on GLC Transformation Programme update is provided to keep the Boards in the know of the programme's progress. For this issue, the focus is on the Mid-term Progress Review report of the programme.

I hope you will find this newsletter enlightening you. We welcome and appreciate your feedback. Best wishes for the rest of 2009.



Dato' Ahmad Pardas Senin
The Chairman

MINDA BOARD OF DIRECTORS

Dato' Ahmad Pardas Senin, Chairman

Dato' Ahmad Pardas Senin was the Managing Director and Chief Executive Officer of UEM Group Berhad and UEM World Berhad. He is a Fellow of The Chartered Institute of Management Accountants, a Chartered Member of the Malaysian Institute of Accountants, a Member of the Institute of Internal Auditors, Inc. and a member of the Financial Reporting Foundation.

He had been with the UEM Group since 1992, where he had worked in numerous positions including Managing Director of TIME Engineering Berhad, Executive Director/CEO of TIME dotCom Berhad, Group Managing Director of Renong Berhad and Managing Director of Time Telekom Sdn Bhd. He was also the Chief Operating Officer and Managing Director of EPE Power Corporation Berhad (now renamed Ranhill Power Berhad). He had also served on the boards of Faber Group Berhad, The Malaysian Industry-Government Group for High Technology (MIGHT) and Costain Group plc.

Previously, he had worked for the British American Tobacco Group for more than 17 years.

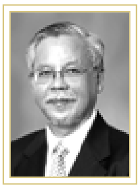
Datuk Azzat bin Kamaludin, Director

Datuk Azzat graduated from Queens' College, University of Cambridge, with a Degree of Bachelor of Arts in 1968 and a Degree of Bachelor of Law in International Law in 1969. He was admitted to Honourable Society of the Middle Temple, London and called to the "Degree of the Utter Bar" in 1970.

Datuk Azzat served as an Administrative Diplomatic Office with the Ministry of Foreign Affairs Malaysia from 1970 till 1979. Since 1979, he has been a partner of the legal firm, Messrs Chua Brothers, Azzat & Izzat Advocates & Solicitors (now known as Azzat & Izzat). He was a member of the Securities Commission from March 1993 to March 1999. He is also presently a director of Boustead Holdings Berhad, Affin Holdings Berhad, KPJ Healthcare Berhad, Celcom (M) Berhad, PSC Industries Berhad and Visdynamics Holdings Berhad and Axiata.

Tan Sri Datuk Dr. Muhamad Rais bin Abdul Karim, Director

Tan Sri Datuk Muhammad Rais bin Abdul Karim has about 38 years of working experience in government service. Before retiring at the age of 55, he has held several high-level positions, among them, Director General of the Malaysian Administrative Modernisation and Management Unit (MAMPU) of the Prime Minister's Department (1996-2003), Deputy Director-General in the Public Services Department (1994-1996) and Director of the National Institute of Public Administration or INTAN (1991-1994), the premier official training Institute of the Government of Malaysia. In the past, he was also appointed as Vice Chancellor of Universiti Pendidikan Sultan Idris, on contract basis, beginning 11 February, 2004 until 31 August, 2007. Currently, he is the Non-Executive Chairman of Malaysia Qualification Agency (MQA).



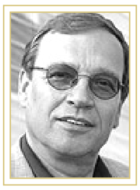
Abdullah Abdul Hamid, Director

Abdullah Abdul Hamid was Khazanah Nasional's Executive Director, Investments. Over the last 27 years, Abdullah has held several senior positions in the financial services and management consultancy sector including as President/Chief Operating Officer of the Malaysian Exchange for Securities Dealing and Automated Quotation Berhad (MESDAQ) and as Chief Executive Officer and Co-founder of turnaround and management consulting firm Turnaround Managers Inc. Abdullah has also previously held various management positions in United Engineers Malaysia, Permodalan Nasional Berhad, Ford Motor Company and IBM. Abdullah holds a Masters in Business Administration from Wharton School of Business, University of Pennsylvania, as well as a Bachelor of Technology from Loughborough University of Technology, United Kingdom. Abdullah's role in the Investment division was to primarily lead the Transformation Management Office that acts as the Secretariat of the GLC Transformation Programme.

Dato' Puteh Rukiah binti Abd Majid, Director

Dato' Puteh Rukiah binti Abd Majid held various positions in the Government such as the Deputy Under Secretary, Minister of Finance (Incorporated), Privatisation and Public Enterprise Division (2000-2004) and later as Under Secretary, Investment, Minister of Finance (Incorporated) and Privatisation Division (2004-August 2006). She is currently the Deputy Secretary General (Systems and Controls), Ministry of Finance.

She sits on the Boards of Perbadanan Usahawan Nasional Berhad, Pengurusan Aset Air Berhad, Pelaburan Hartanah Bumiputra Berhad and Penerbangan Malaysia Berhad.



Professor Dr. Ulrich Steger, Director

Ulrich Steger is professor emeritus at IMD. He previously ran the board programme and corporate governance research. He has been a board member, both on the executive and non-executive side, for 25 years. He was a member of the managing Board of Volkswagen. Before becoming involved in management education, he was active in German politics.

PROGRAMME HIGHLIGHTS FOR 2008/2009

Programme	Description/Participant Comments	Photos
MINDA Graduation Dinner 2008 Type : Tier 3 Date : 3 December 2008 Venue : Emerald Ballroom, Mandarin Oriental, Kuala Lumpur	On 3rd December 2008, the MINDA Graduation Dinner 2008 was held at Mandarin Oriental, Kuala Lumpur. MINDA celebrated 16 graduates of Programme for BHPD (known as BHPD) and 15 graduates of CF of 2008. The certificates were presented by the then Finance Minister II Y.B. Tan Sri Nor Mohamed Yakcop. Professor Paul Strebel from IMD, Switzerland was the guest speaker with a presentation entitled "Board's Role in sustaining Transformation : The Next Big Move. Will it be smart?	
MINDA Awareness Nominee Directors Networking Event Type : Tier 3 Date : 21 April 2009 Venue : Le Meridien, Kuala Lumpur	MINDA held its first networking event in 2009 for Directors, Chairmen and Company Secretaries of GLCs with Ashley Summerfield of Egon Zehnder International, London. Ashley is the Head of Board Practice and his areas of expertise are Board search and Board consulting focusing on board appointments, effectiveness reviews and senior level executive work for PLCs, private equity portfolio businesses and public sector bodies.	
1. Breakfast Talk for GLC Boards: "Enhancing Board Effectiveness in a Turbulent Environment"	The day commenced with a Breakfast Talk for 26 GLC Directors entitled Enhancing Board Effectiveness in a Turbulent Environment. Discussions centered on areas for increased Board focus during the current global financial crisis which included risk, morality & ethics, strategy, Board composition, remuneration and Board review.	
2. Luncheon Talk for GLC Chairmen: "Getting the Right Board Behaviours in Navigating Delicate Issues"	A closed luncheon with GLC Chairman on Getting the Right Board Behaviours in Navigating Delicate Issues was held over an intimate setting and covered key points on how a Chairman can effectively engage a Non-Executive Director, Chairman as leader and driver of Board review to result in better Board performance and the importance of succession planning especially the position of the CEO.	
3. Company Secretaries Lecture Series: "The Crucial Role Company Secretaries Play in Board Effectiveness Enhancement"	The day concluded with a Company Secretaries Lecture on the crucial role company secretaries play in enhancing Board effectiveness and functioning as the key link between Board and Executives to ensure Board decisions are trickled down. As companies continue to grow and possibly become more complex, company secretaries assume a greater responsibility to ensure the quality of the process of decision making is strengthened and not just the quality of the decision.	

MID-TERM PROGRESS REVIEW REPORT: GLCS ARE MUCH MORE RESILIENT AND FOCUSED ON CATALYSING GROWTH AND REALISING THE PROGRAMME'S 2015 ASPIRATIONS

by Transformation Management Office Team, Putrajaya Committee on GLC High Performance (PCG)

As the GLC Transformation ("GLCT") Programme reached the half way point of a ten year journey that began in May 2004, a Mid-Term Progress Review detailing the Programme's progress since its launch was presented at the 19th meeting of the PCG held on 13 March 2009.

1. G-20*[1] show Financial Resilience, with Several Undertaking Successful and Transformational Transactions

Since the launch of the Programme, G-20* have made significant progress on financial and operational improvements, as well as on balance sheet restructuring. In spite of a more challenging economic environment in 2008, much progress has been achieved since 2004. Although below the RM19,307m in FY2007, the G-20* FY2008 aggregate earnings are now 53% higher than FY2004 at RM14,692m in FY2008, as compared to RM9,602m in FY2004. Compared to the 1997 Asian Financial Crisis, the G-20* are now in a much better position to weather the crisis as a result of their more robust balance sheets and stronger operating fundamentals. Operating cashflow for non-financial G-20* firms grew by 42% from RM13,978m in FY2004 to RM19,918m in FY2008.

G-20 total shareholder returns ("TSR") continue to outperform KLCI by a compounded annual growth rate of 4.8% since the launch of the Programme. G-20* return on equity ("ROE") grew from 8.2% in FY2004 to 10.4% in FY2008, peaking at 14.6% in FY2007. The G-20* had also shown a significant improvement in economic profit, turning around from an aggregate economic loss of RM3.5bn in FY2005 to an economic profit of RM1.3bn in FY2008.

Several GLCs have undertaken sizeable operational turnaround programmes (e.g.) MAS achieved a net profit of RM831.4m in 2007 and RM244.3m in 2008 as opposed to an RM136m loss in 2006; Bank Islam reported a loss before zakat and tax of RM1.29bn for 2006 and then proceeded to record a historical PBZT of RM308.3m in 2008.

A number of GLCs have initiated and executed bold transformational moves to enhance their strategic position (e.g.) Sime Darby's merger was the largest Malaysian corporate merger and created one of the largest listed companies on Bursa Malaysia, with operations spanning across 20 countries and more than 100,000 employees worldwide; TM's demerger aimed to accelerate operational improvements and growth through clearer strategic and organisational focus by the formation of two separate entities – a regional mobile champion and a domestic broadband champion.

Some GLCs have started pursuing major regional expansions (e.g.) With an existing presence in Hong Kong, London and New York and key Asian growth countries such as China, Cambodia, Maybank continues with its expansion strategy and over the past few months completed the acquisition of an additional 5% equity interest in MCB Bank of Pakistan, the acquisition of 15% of the total charter capital of An Binh Commercial Joint Stock Bank in Vietnam, and the acquisition of 71.86% equity interest in Bank Internasional Indonesia; BCHB's foothold in 11 counties with key regional offices located in Singapore, Indonesia and Thailand. With a staff strength of over 25,000, BCHB serves close to 7 million customers.

Other GLCs have opted to make strategic divestments (e.g.) Upon completion of TIME dotCom's tailored transformation plan aimed at ensuring its long term operational and financial sustainability as well as injecting key senior management talent, including the CEO, to fill existing gaps in the company; it will serve as a developmental model to nurture sustainable local and Bumiputera entrepreneurs in the country.

To enhance performance and to promote results-orientation, GLCs have been announcing their Headline Key Performance Indicators ("HL KPIs") annually and have been showing overall improvements. Number of HL KPIs met increased from 72% in FY2006 to 76% in FY2007. However, the present harsh economic environment has reduced number of HL KPIs met in FY2008 to 54%. Nevertheless, recognising that it is critical to stay performance focused despite the economic turbulence, the G-20* continue to publicly announce their forward looking HL KPIs, as documented in the "GLC Transformation Programme Mid-Term Progress Review" report.

2. GLCT Programme Delivers with Benefits Expanding to Broader Stakeholder Groups

The GLCT Programme has delivered according to plan, supporting the successes of GLCs to date. All 10 GLCT 2005/6 Initiatives and supporting Circles were effectively launched and have been well-received. In addition, PCG has maintained momentum and broadened engagement, by generating healthy performance pressure and transparency via HL KPIs and GLCT annual reports, whilst providing regular

1. A selection of 20 GLCs controlled by GLIC constituents of the PCG. As of 28 February 2009 there are 19 GLCs following the Sime Darby merger and TM demerger. UEM Group has replaced UEM World following UEM's restructuring exercise. The Group's TSR and market capitalisation are computed by using their listed subsidiaries value as a proxy networking opportunities for GLC leaders and engaging beyond GLCs to the civil service and other stakeholder groups.

As GLC performance improves, they are increasingly delivering benefits to all Malaysians. Customers of GLCs are benefiting from fewer service interruptions and higher quality of services. G-20* have been continuously supporting their suppliers, spending RM3bn on vendor development programmes covering 4,155 vendors since 2004. In human capital development, the G-20* have spent RM884m on employee training and development and have given RM335mil worth of scholarships since 2004. They have also adopted 161 schools with 64,400 students under PINTAR². Under the recently launched Graduate Employability Management Scheme (GEMS), GLCs will train 12,000 unemployed graduates over the next 2 years. Since 2004, G-20* have also contributed an estimated RM312mil to provide support to society and ease the burden on vulnerable communities. Under the proposed 'Program Sejahtera', GLCs will provide home to 5,000 families and assist them in maintaining a sustainable livelihood.

3. Aspirations to create Regional & Global Champions by 2015

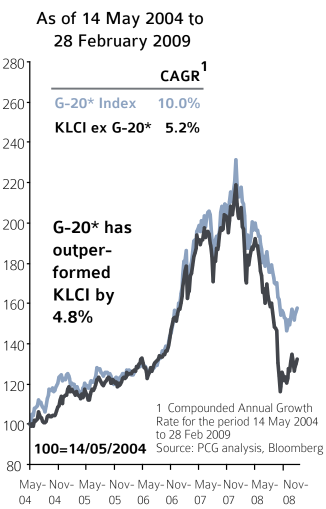
Notwithstanding the encouraging achievements to date, GLCs still underperformed relative to top regional sector peers and in recognition of this gap, much more still needs to be done to achieve the ultimate Programme aspiration to raise the performance of GLCs to at least be on par with domestic peers and even transforming into regional or global champions.

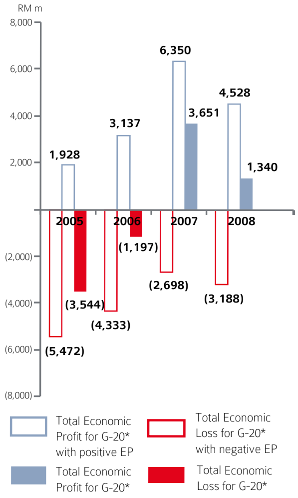
Although ambitious, Malaysia must strive to create regional and world-class companies if it seeks to maintain its economic sovereignty. Developing countries are increasingly driving global growth – Asia is projected to contribute 60% to global growth in the next two decades, with 5 of the 10

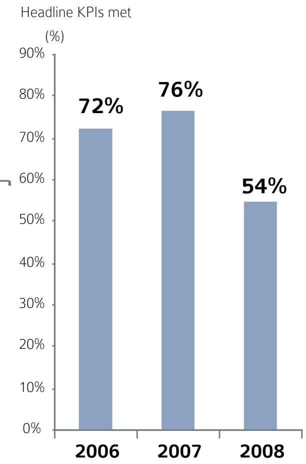
EXHIBIT 1 - Key Highlights of the Mid-Term Progress Review

Financial & Operating Performance

Total Shareholder Returns | **Economic Profits** | **Key Performance Indicators**







Strategic Achievements

Transformational Transactions
- Sime Darby, Golden Hope and Guthrie merger
- TM and TMI demerger
- UEM restructuring

Regional Growth
- Maybank acquisitions in Asia
- BCHB expansions in South East Asia

Strategic Divestment
- TIME dotCom divestment of payphone business

GLCT Programme Delivery

Initiative Delivery
- All 10 Initiatives and execution books successfully launched and progressively implemented

Performance Monitoring
- Headline KPIs launched and tracked annually since 2006
- Annual GLCT Progress Review published in 2006, 2007, 2008

Programme Activities
- 19 PCG Meetings convened
- 8,918 programme man-days worth of participation from CEOs to operational line managers
- 88% of participants rated programmes "Good" or "Excellent"

Tangible Stakeholder Impact

Customers
- GLCs are winning customer service awards
- ...delivering better quality services e.g.
  - Shorter queue times
  - Fewer service interruptions
- ...and offering more services e.g.
  - Extended service hours
  - Wider access to facilities

Vendors & Suppliers
- ~4,155 Bumiputera and local vendors benefited from G-20* Vendor Development Programmes since 2004
- To date, RM3bn aggregate spending by G-20* for vendor development
- GLCs offering training opportunities for entrepreneurs

Community & Society
- RM221m per year invested in human capital development between 2004-2008 by G-20*
- Scholarships worth RM335m awarded since 2004 by G-20*
- 2,368 participants benefited from G-20* graduate employment schemes since 2004
- G-20* employee engagement scores higher than Malaysian average in 2008

Labour force & Employees
- GLCs have won corporate responsibility awards
- Some GLCs are signatories of UN Global Compact
- ~64,400 students reached through the PINTAR school adoption programme
- RM312m spent on providing aid and relief, alleviating poverty and contributing to community welfare since 2004

AFFIN HOLDINGS · axiata · BANK ISLAM · Boustead Holdings Berhad · BUMIPUTRA COMMERCE · ccm · malaysia · MALAYSIA AIRPORTS · Maybank · MBSB · MRCB · POS MALAYSIA · Sime Darby · TM · TENAGA NASIONAL BERHAD · TABUNG HAJI · UMW · UEM

2. PINTAR (Promoting Intelligence, Nuturing Talent and Advocating Responsibility) is a programme initiated by PCG, where GLCs adopt schools to provide support in terms of access to motivational and team building activities, tuition classes, teacher capability building and education on social issues. 9.5% of PINTAR students scored straight 'A's in their UPSR exam in 2008, compared to the national average of 9.2%.

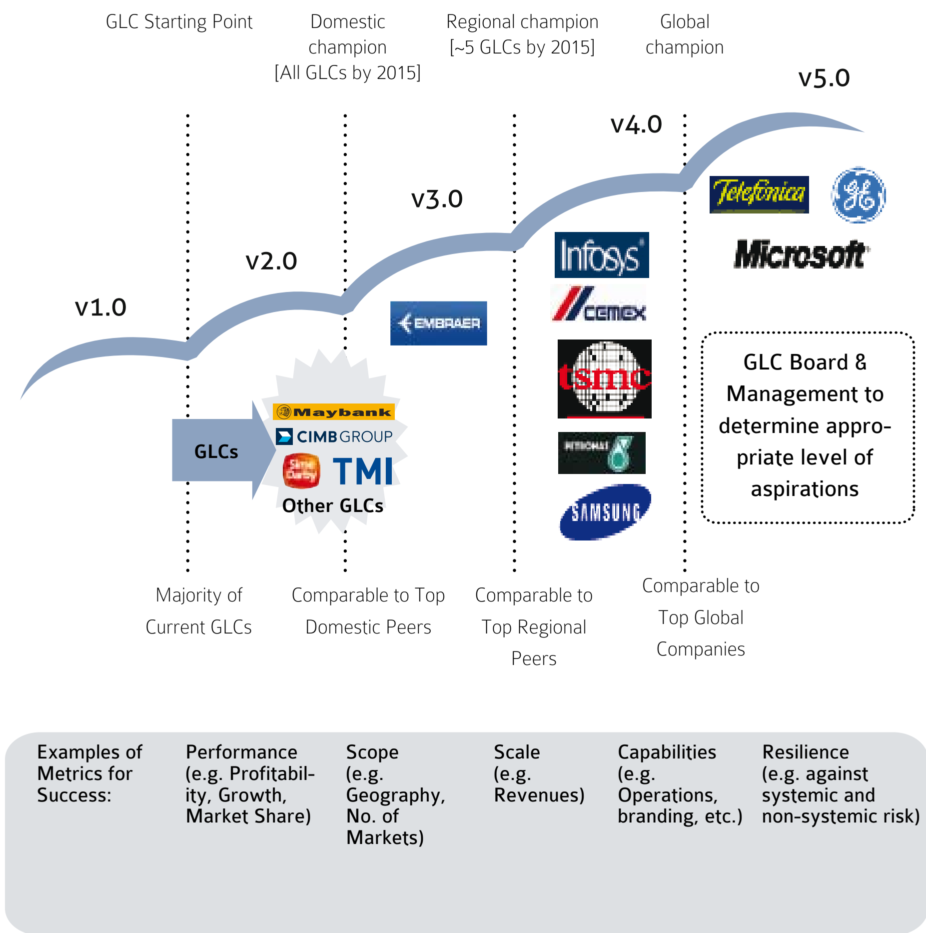
largest economies in close proximity to Malaysia – India, China, Indonesia, Japan and Vietnam. Middle-income countries like Malaysia face increasing challenges in building and sustaining country competitiveness, and creating economies of scale. We risk falling behind by eventually being neither innovators nor lowest cost producers.

Today, while Malaysia occupies a very respectable position in the competitiveness indices published by the World Economic Forum (ranked 20s out of 130 countries) and Institute of Management Development ("IMD") (ranked in the 20s out of 55 countries) we are lagging behind more advanced and highly competitive global economies. Importantly, some of our key regional competitors are in that league – Singapore, South Korea and Hong Kong.

In an increasingly globalised world, the internationalisation of local companies (both GLCs and private sector enterprises), and creation of regional or global champions, are critical for Malaysia to move to developed country status. With a small home market of 28 million people, Malaysia has no option but to continue to build and reinforce stronger linkages with regional economies. GLCs must rise to this challenge.

EXHIBIT 2

The Glct Programme Aspires to Create Regional or Even Global Champions by 2015



4. GLCT now Faces Key Challenges Around Closing the Gap with Ultimate Aspirations

The journey ahead is likely to present greater challenges such as the structural lack of capabilities, and the need to tackle reforms that require broader stakeholder support. There is a danger now of complacency and fatigue, with a risk of enthusiasm and commitment for the GLCT Programme wavering.

The structural and Programme-level challenges have been compounded by the current global economic crisis. Despite the improvements in performance, the global economic crisis is presenting its own challenges for GLCs and much of the early gains achieved by GLCs since the inception of the Programme have been reversed with GLCs now increasingly operating in a much harsher economic environment.

Four structural issues have emerged and are constraining GLCs going forward on this transformation journey. They are as follows:-

- The massive gap in talent, execution skills and capabilities at GLCs,
- The ongoing need to clarify and synchronise Programme-level, GLC-level and sector-level objectives,
- The need for continued and broader support from stakeholders beyond senior government leadership, and
- The need to enhance public sector transformation in parallel with GLCT reforms.

GLC Transformation Programme : Mid Term Progress Review March 2009

Exhibit 3 - Glc Transformation Agents to Play Pivotal Roles to Ensure Achievement of Programme Aspirations

Roles of GLC Transformation Agents

GLC Board and Top Management to strengthen execution momentum while building buy in from all stakeholders

- Develop and update Business Transformation Plans
- Build execution capabilties while delivering results
- Instill conviction for change amongst employees
- Actively engage stakeholders to build buy-in

GLC Board to upgrade capabilities of the Board, CEO and top management

- Accelerate critical improvements to Board
- Facilitate capability building of CEO and Top Management

GLICs to catalyse and accelerate change as active shareholders

- Institutionalise capabilities to intensify active monitoring of GLCs
- Continue to undertake calculated moves as active shareholders
- Role-model GLCT implementation

Government to continue providing visible support and commitment to Programme

- Continue visible support and commitment from Government
- Capitalise on the opportunity to build broader understanding and support across Government agencies
- Capitalise on opportunity to continue adoption of best practices and guidelines on transformation efforts in the public sector

PCG mandate affirmed with evolving roles and responsibilities

Four main priorities
Priority 1:
Support institutionalising of 2005/2006 initiatives

Priority 2:
Orchestrate and selectivel expand PCG forums

Priority 3:
Intensify Programme-level monitoring on progress and impact of GLCT Programme

Priority 4:
Intensify Programme communications and stakeholder engagement

5. All Five Transformation Agents in the Programme have Pivotal Roles to Play to Ensure Achievement of Programme Aspirations

There now needs to be a relentless focus on execution by the five principal change agents for the Programme – each of whom have their own distinct role to play in shaping and driving outcomes. **GLC top management needs** to strengthen execution momentum while building buy-in from all stakeholders. **GLC Boards** should continue to upgrade capabilities of the Board, CEO and management. Similarly, **GLICs** must continue to catalyse and accelerate change as active shareholders. In parallel, **Government** should continue providing visible support and commitment to the Programme. Finally, the mandate of **PCG** remains relevant, and its role needs to shift to focus on rejuvenating and institutionalising GLCT.

As with any long-term transformation programme, it is critical to ensure the necessary evolution in implementation focus, and to constantly revitalise the Programme with substantial and necessary breakthroughs to ensure the overall trajectory is sustained and accelerated. In light of current challenges, it is the responsibility of all principal change agents to continue pushing for, and to collectively define and drive, the next wave of breakthroughs that will ensure ultimate GLCT objectives are achieved in 2015, and eventually realise our national aspirations of Vision 2020.

MANAGING IN A DOWNTURN: WHAT NOW, BOARD MEMBERS?

by Professor Dr. Ulrich Steger, IMD, Switzerland

The saying "recessions reveal what auditors did not" also holds true for corporate governance. After all, good corporate governance is about making sounder decisions and ensuring better management. In a booming economy, it is more difficult to distinguish between well and poorly managed companies as "a rising tide lifts all boats". But when the going gets tough, the difference becomes clearer and the role of the board receives greater attention. If a company fails, it is rarely due to some operational inefficiency, but rather the design of the business model and if the company has followed a poor strategy, which is directly related to the board.

Corporate governance and a well-performing board cannot avoid all "mistakes" – some are only seen in hindsight. A series of poor board decisions and behaviour generally leads a company to disaster.

We can see a pattern of corporate governance in crisis across four archetypes of board: the complacent board, the surprised board, the operational board and the guiding board.

The complacent board

In this situation, the company has been in decline for a long time and the board just looks on. Typically, the company had been successful in the past but new competition now dominates the market. Due to its entrenched culture, it responds to the changes with "more of the same" – mostly cost cutting, tighter budget discipline and more control. The board is a decisive part of this vicious circle. No pertinent questions are asked, no fundamental reviews of the business model are ordered and no cultural change is initiated. Occasionally, a change in top management occurs, but this sacrificial lamb does not lead to fundamental changes.

A case in point is General Motors. Although it was unlikely that GM could keep the dominant market share it enjoyed after the second world war, it has not earned its (risk-weighted) cost of capital since the 1980s. In the early 1990s, this led to the ousting of the company's CEO and chairman but the pattern remained the same. GM proved you cannot shrink your way to prosperity.

GM is looked at as the standard bearer for corporate governance. Probably no big US company has more dutifully implemented the Sarbanes-Oxley Act; the company website offers a wealth of information on governance processes and procedures; and it has won many awards for governance. But economically, GM is a disaster and would have been in the bankruptcy courts had it not been for government intervention.

The board has been unable to break the cycle due to groupthink, risk aversion and helplessness. Since 2001, the whole strategy has depended on two core assumptions: inexpensive oil and cheap credit. The will from the top to work on the core structural deficits of GM is missing – and you do not need GM's sophisticated risk management system to detect this.

As the company's decline has accelerated, desperation has grown, as can be seen from a series of ill-conceived merger considerations. GM is the best-known example, but many companies are acquired after years of underperformance and show the same pattern of board behaviour.

The surprised board

Where the complacent board could observe the decline but did not act accordingly, the surprised board did not know what was going on until the long-simmering volcano suddenly erupted and the company was in real trouble. The good news gave a false sense of security and the board had no incentive to dig into the underlying profitability drivers and risks. Warning signals were ignored instead of prompting pertinent questions.

Often the CEO and his top team did not make the effort to educate the board to give its members a more in-depth understanding of how the company was performing. Either they did not know the risk themselves or they preferred to enjoy the party as long as it lasted. Such a situation occurs when it is very difficult to understand the decisive details in an industry – notably the rapidly moving high-tech sector and the financial services industry. As the executive team is successful, it becomes overconfident and often the CEO is ruling the board (whether he or she is chairman or not). The necessary challenge from the (non-executive) board is missing and it does not help that, after the eruption, finger pointing starts and blame is distributed to everybody except oneself.

To clean up the mess requires new heads, both on the executive and non-executive sides of the board. Some leading banks that have dominated the headlines since the economic downturn began fit the above description to varying degrees.

The operational board

In this scenario, the board is pushed into a more managerial, hands-on role to help the company out of a crisis. The implicit assumption is that either management is not able to stage the turnround and faces specific difficulties that lead to an ad-hoc but in-depth involvement of the board; or that management is new and needs coaching to understand the specifics of the company, but has no time to move along the learning curve. In both circumstances, the previous line that distinguished management from governance gets blurred or is shifted. Non-executives perform operational tasks that require intensive co-ordination and communication with the management team and the whole organisation. A board stepping out operationally should only be a temporary situation.

In recent observations of a company in south-east Asia, I saw first-hand how the company's old management had disguised declining operational performance through financial restructuring. The majority owner of this listed company brought in a new board (five out of eight members) and new chairman to evaluate the existing management, draw and implement the necessary conclusions and ensure immediate action was taken to avoid bankruptcy. Relations between the new board and old management were, predictably, tense, and within six weeks, four out of the top five company executives were gone. It took three more months to bring in the new top team. The whole board was working frantically during this period.

Implementation of the decisions needed to be supervised tightly while individual board members took specific oversight roles and often instructed people further down the line. Although it was a heavy workload, once the new management team was in place, it was difficult for the board to let go. Reporting was still excessive, partly driven by the desire to check in detail the new team's performance, and partly out of habit. The CEO, with the support of the chairman, fought for more than a year to bring the board back to "normal".

The guiding board

In today's corporate governance thinking, with its "check-and-balance" paradigm, the guiding board would be the ideal. The guiding board provides management with ambitious targets, accountability, coaching on new trends and alerts on observed risks. It pushes constantly, including for fast action where necessary. The fine line between board (and governance) on the one hand, and management on the other, is always observed. As the diversity of information, experiences and perspectives is brought together in an open dialogue between the executives and non-executives, crises are avoided because management responds pro-actively to changes. Decisions are sometimes bold (for example, in mergers and acquisitions), but well thought through and implemented, with attention to the details.

Does such an ideal board exist? Probably not, but the one that comes relatively close is the two-tier board at BASF, the chemicals maker. This is surprising, as in the two-tier system the supervisory board is more reactive on the "control" side. Furthermore, the chairman is the previous CEO and the former CFO is chairman of the audit committee – not exactly what many gurus regard as best practice. Even worse: the supervisory board has co-determination with six of the 12 members from the employee side.

But nobody could doubt that BASF is well managed. This has to do with how the supervisory board and the management board interact. The company has a tradition that the CEO becomes chairman, but also that the new CEO has the freedom to run the company and that changes are business-driven and do not just represent a critique of the previous CEO. This requires a "detached involvement" from the chairman, and the readiness for honest and timely discussion with the chairman and the board on the CEO side. This trust and consensus also allows for bold moves, such as BASF announcing the closure of 100 specific plants to anticipate declining demand. This shocked the financial markets (an indication that many analysts did not understand the cost leverages in the chemical industry) and the stock declined in the short term, but the CEO could count on the backing of the board.

Conclusions

Observing corporate governance and boards in a crisis, there are three general points that can be gleaned from the above:

- The original hope of corporate governance activism – that compliance with best practice could prevent bad decisions – was always an illusion. Transparency in decision making, accountability and responsibility due to governance processes and structure is necessary but not sufficient. Board decisions are made in uncertain conditions and are, therefore, inevitably subjective. In other words, it is impossible to make the right decision each time.

- Board leadership (especially by the chairman) is more important than legal differences for the working of a board and the value added it provides for the company.

- As implications of the first two points, better decisions come more from intangibles than from structures. Better decision making comes from managing the board's paradoxes: trust but challenge; coach but evaluate; know the business well but restrict it to governance; open debate but reach a common conclusion.

Professor Ulrich Steger

Ulrich Steger is professor emeritus at IMD. He previously ran the board programme and corporate governance research. He has been a board member, both on the executive and non-executive side, for 25 years. His latest books on corporate governance are "Corporate Governance – How to Add Value" and "The Insider's View on Corporate Governance – The Role of the Company Secretary".

IMD is the leading provider of executive education with over 50 years experience in developing the leadership capabilities of international business executives. IMD ranked 1st outside US and 2nd Worldwide for the overall quality for its Executive Education in the 2009 Financial Times rankings. IMD was also ranked 1st worldwide for its MBA Programme in the 2008 The Economist rankings.

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CORPORATE GOVERNANCE FOR THE HUMAN LEADERS: A TIME TO CONTEMPLATE

by Professor Dato' Dr. Aziuddin Ahmad, PhD & Associate Professor Dr. Arfah Salleh, PhD, FCPA, Universiti Putra Malaysia

Considering the conviction emplaced upon corporate governance as the panacea for corporate misbehaviour, the current global financial mess should have never happened. Likewise the case of Satyam and other accounting transgressions should only be hypothetical in light of the existence of the Sarbanes-Oxley. Yet the crises are real and the severity of the damage is unprecedented. This paper is an invitation to reflect on the manner in which the corporate world has addressed the issue of governance thus far. In particular, we raise the question of whether the current model upon which corporate governance is shaped is indeed still relevant. We contend that refining the process alone is insufficient to achieve a sustainable framework geared towards governing the human within the corporation in their quest for rightness-of-action.

The Mental Model of Corporation and the Worldview of Reality

For far too long business leaders have been using the corporation as a veil initially to protect the interest of shareholders before moving on to cover the interest of other stakeholders. It is only of late that business leaders began to include the interest of the environment in the name of complying with their corporate social responsibility. We see the manifestation of the intent to use corporation even from the onset of the formation of corporations. Although initially corporations or "bodies" (as derived from its root word "corpus") were formed to share risk among traveling traders, eventually the concept of risk moved to that of transfer of risk as can be observed in the case of joint stock companies. And as if the granting of legal personality to corporation is not enough, corporations began over time, to be treated as though it were a human person in every aspect possible. The invincibility of corporations created by human has, as argued by Korten (2001) created many unintended consequences. When corporations are allowed to rule the world, that is, when the power to govern the global corporate world is concentrated among a few mega players, these corporations can become so powerful that they are detached from their accountability to the human interest. History shows that there has always been a continuing pressure by corporate interests to expand corporate rights while limiting their corporate obligations. In the pursuit to serve their own narrow ends, these corporations were non-hesitant to adopt stratagems that even resulted in a destruction of human and environmental wellbeing.

Judging from the chaotic state of affairs of today's corporate economy, it is baffling how business leaders have allowed themselves to be lulled into believing that they could continue with their old ways of leadership. They have been held hostage for so long to a mindset of command-control. The behaviorist approach of reward and punishment without internal sensing and empathy has been second nature to many. The fervour to translate targets into **quantifiable** performance index **only** has been the order of the day. The practice has been to count only what can be measured rather than measure what counts. Manifestation of the mechanistic view of man overwhelms the need to recognise the spiritual aspect of human. The reality of the oneness and interconnectedness of the universe and the role of consciousness and spirituality as revealed by ancient Eastern traditions and religion and strongly supported by quantum science had no place in the mindset of many leaders. With the wrong model of human and the worldview of reality, the current financial meltdown has been an eventuality just awaiting.

Now that the world at large is facing a "massive failure of institutions" as termed by Scharmer (2009), our call for corporate leaders to begin an inner journey within them to reflect on how they have arrived to where they are today and how to make a difference to the world tomorrow is timely. Corporate leaders only have themselves to blame for venerating a make-believe mental model of the efficacy of corporate governance in controlling human behaviour. On the basis of the devastation that has been allowed to happen as a result of the failure of corporate governance, the least a corporate leader could do today is to begin reflecting on how he or she can confront the challenges that is being faced and contemplate future actions.

It is imperative that corporate leaders become aware of the graveness of their continued acceptance of the perception that human problems can be resolved through isolating of variables from the whole that is, fragmentising and reducing the whole into parts at the same time denying the interconnectedness of beings and the role of consciousness and spirituality. Bohm, for instance, asserts that "the inseparable quantum interconnectedness of the whole universe is the fundamental reality and . . . the relatively independently behaving parts are merely particular and contingent forms within this whole" (Bohm and Hiley, 1975, p.102). To Capra, "the universe is thus experienced as a dynamic, inseparable whole" where "the traditional concepts of space and time, of isolated objects, and of cause and effect, lose their meaning' (Capra, 1975, p. 81). On the role of consciousness, Stapp (2005) views the introduction of human consciousness into the dynamical and computational machinery by the founders of quantum physics as the most radical departure from the classical physics. The quantum events in the brain need not occur either at the level of the individual synaptic discharge or at a level on the individual neuron-firing: they can occur instead at the level of the entire brain, in conjunction with the event-like occurrence of a conscious thought (Stapp, 1992). A person's thoughts and consciousness can influence his actions (Stapp, 2004). Hollick (2006) explained that spiritual knowing and intuition arise from the inner world of the subconscious minds, our relationships with what is known and our connection with spiritual reality including cosmic Consciousness.

In view of the findings of science that parallel ancient Eastern traditions on the reality of consciousness, business leaders should make conscious attempt to check that they are not distanced from this worldview. By being a mere bystander, a business leader accentuates the superficial belief of the supremacy of an external rule-based governance structure in controlling human greed which is an internal and non-material attribute. As critiqued by Garratt (2007), "Human beings have a habit of painting themselves into corners and then wondering how they got there. What is worse is that they are the very folk who created the tools that took them there" (Garratt, 2007, p. 11).

Corporate Governance and the Emergent Qualities of Human

Human as defined by Salleh and Ahmad (2008) is at the core, soul but embodied in a physical form for locomotion. With the non-material spirit being central, human has emergent qualities. It is this characteristic that distinguishes human from machines. While the behaviour of machine can be predicted with consequences that may be independent of each other, the same does not apply to human. Benchmarking to a standard norm and designing a standard operating procedure is useful in a model of decision making for machines where the scope can be defined with almost a certainty. The rules of the physical laws of Newtonian science would have created little problem when applied to this set up. But when you govern a human as if it is a machine, you lose out it's spiritual aspect.

Unfortunately, scientism and positivism have coloured the fabric of social science to the extent that the same physical laws are applied to human problems. It is the notion in modern social science that both individual and society conform to laws of development or change that must apply regardless of time, place and human circumstance operating similarly (or even identically) to the laws of physics (Priddy, 1997, Ch. 10). These generalisations are then raised to the status of 'law'. Because these 'laws' are said to operate anywhere, on everyone and at any time, they are perceived as being scientifically rigorous. The belief has been that any other alternative to this ahistorical process of raising generalisations into laws would make the study less or even non-scientific due to the absence of observation and verifiability.

Positivism and scientism were originally intended towards entrenching the essence of the Enlightenment as a human-based religion with the role of spirituality and consciousness removed. But their association with science has allowed positivism and scientism to create a sense of credibility and an aura of intellectual respectability of some sort to social science. This long established belief, in our view, is the origin of the application of a wrong mould of the worldview of reality among social and human scientists, including among today's corporate leaders. Upholding this faith as the underlying dictum to resolve human agendas and conflicts, corporate leaders apply rule-based external governance to ensure that human behave in a manner expected to, and shaped against a backdrop of perceived fragmented and non-connected universe. Theoretical underpinnings of practices are framed upon findings of positivist-based models where antecedents of good behaviour are identified. This is shaped by the obsession to describe human behaviour in terms of 'general laws' about its causes and effects under given conditions. And the rest, proverbially, is history.

Although declared as a mechanism for self-governance, corporate governance which is systems-centric and process-focused has over the course of time emitted an essence about rules and regulations to incarcerate anticipated non-ethical human behavior. With human having emergent qualities, it is extremely difficult if not impossible to predict the extent to which human would go to in pursuit of their interests. From the perspective of bad intent and conduct, the net that corporate governance can scoop is limited. Hence, a resultant laggard between legislation imposed in anticipation of future behaviour and actual future behaviour becomes a norm rather than the exception. In light of the limitations of corporate governance, the onus on corporate leaders' to ensure effective governance now becomes more profound. Corporate leaders need to function as steward-leaders and not just being contented with being in leadership position.

Leadership and Integrity

Given that today, businesses have taken over the role of the government in effecting the well-being of society, it gives more reason for corporate leaders to accept their leadership role as that which transcends the self. But what are the traits of a leader and to whom should a leader be responsible? To answer this question, we revisit Plato's work on leadership. Plato examined the issue of leadership in the context of sailing a ship. He stated that neither physical strength nor popularity with the sailors would keep a ship afloat. The true captain who is in control of the ship must consider the seasons of the year, the time of the day, the sky, the stars and the winds, and all the other subjects appropriate to his profession (Plato, 360 BC). Hence, a leader from Plato's viewpoint is the one who knows, in other words possesses wisdom. In light of today's misdeeds by corporate leaders, the extension of the domain of knowledge transcending the technical is most apt. Corporate leaders must not only be knowledgeable individuals from the technical sense, but more importantly must be knowledgeable of the idea of being a leader. It is such wisdom in leaders that can distinguish a real human leader from those who are not. And fundamental to the idea of leadership is integrity.

The word 'integrity' derived from the Latin integritas means 'integer' or whole or complete as in one. Again, we see the philosophy of interconnectedness or oneness being elemental in the concept of integrity. The interconnectedness, wholeness or oneness concept is also of primacy in non-linear systems thinking where it is the relationship between the parts that is emphasised instead of the objects per se. But as underscored in earlier sections, this oneness phenomenon contradicts the physical laws of the classical Western-based Newtonian science which has assumed a fragmented universe of separate parts and from which the business model has been shaped. Classical science axioms too, form the base from which many management and entrepreneurship frameworks have been developed. And more importantly, leadership thoughts have also been sculpted along the same principles where leaders' role was confined to the self. Therefore, we strongly believe that in order to form an understanding of what true leadership is about, leaders cannot, but subscribe to what the true model of reality is, based on the science and ancient traditions of oneness.

Leadership, Governance and Rightness-of-action

The oneness of the universe is manifested in the presence of paradoxes and dyadic state of affairs. These paradoxes rather than needing an "either-or" decision, presents a continuum state of situation. Balancing of the paradoxes usually results in a series of dilemmas and requires taking the right action that is applicable to the whole (universe) not just a part of the whole. In the corporate leadership context, this will involve being responsible to all three strands at once: the self, as an individual; the corporation, as leaders of organisations; and the universe, the planet and its people. Leaders must seek balance and harmony between the three strands.

Leaders must also create a sense of identity and integrity with those whom they lead. Leaders should value their position and must remain connected to those below them genuinely without aspiring for the trappings of aggrandisement, honor and prestige. "Leadership is authentic self-expression or influence that really creates value... It's about full awareness of self and full awareness of others" (Cashman, 2001, p. 20). "The hallmark of a community of truth is in its claim that reality is a web of communal relationships, and we can know reality only by being in community with it" (Palmer, 1998, p. 97).

In order for leaders to actualise oneness in leadership, they must first internalise the complete interconnectedness and interdependence between them and those being led just like of all things in the universe. "Everything we have to say ... starts with understanding the nature of wholes, and how parts and wholes are interrelated" (Senge et al., 2005, p. 5). It is the unseen connections that are the essence of creativity (Knowles, 2001). Leaders need to create an "edge of chaos" in order to drive innovation. Leaders cannot straightjacket their mind to be bound by the decisions on precedent. Prefabricated responses lack insight and run the risk of being inappropriate for the situation at hand. Leaders need to have the capacity to change, learn and adapt – to create complex adaptive systems through self-organisation; to weave relationships; to transform akin to the morphing of the caterpillar to chrysalis to the butterfly. To us, leaders should not subscribe to a particular path but instead leave a trail where no path has been created. Hence, a holistic but humanistic approach to managing risks and solving problems is needed.

Among the main role of corporate leaders is to inculcate a work culture of rightness-of-action. Towards this end, business leaders need to understand the significance of the non-material aspect upon which rightness-of-action culture is founded. Rightness-of-action work culture is about the internal motivation to perform one's job to the best of one's ability. We strongly believe that central to giving one's best is the desire to actualise accountability rather than as a consequence of some material incentives. To the contrary, material incentive should be viewed only as a corollary of the actualisation of rightness-of-action work culture. Hence, leaders whether as board members or management executives are the first who need to believe and actualise rightness-of-action work culture in order to be role-modeled by subordinates. The cognisance of the internal, non-material fundamental framework is crucial for a sustained rightness-of-action culture. With the industrial-based diagnostic approach having met its shelf-life, leaders need to embrace a new paradigm in viewing rightness-of-action work culture. And for that, leaders of corporations must appreciate their role in promoting the internal, non-material aspect of human within their corporation. They can no longer rely on the tools of compliance-based governance that may have been found effective during the industrial era: tools that were drawn upon the mechanistic model of man absence of spirit. The knowledge-based age epitomised by the need for innovation and creativity entails a mindset beyond conformance.

As the first step, leaders need to accept the centrality of human within the corporation. It is only when human is brought back to the forefront that strategies to promote rightness-of-action among human can be achieved. Next, leaders must accept human as being spiritual rather than only physical and mechanistic. It is the failure of leaders to be human that leads them to fail in their leadership role. With respect to public corporations, it is only those leaders who are able to transform their mindset towards actualising internal inside-out principle- and values-based governance that would be able to perform their role as stewards and custodians of public trust. We call upon corporate leaders to actualise human governance in their journey towards becoming real human leaders.

Towards an Internal Journey of Leadership: The Way Forward

In order for corporate leaders to actualise human governance, they need to practise genuine or authentic leadership which in essence is about being human. To achieve authentic leadership, leaders need to move inwards towards consciousness away from the periphery of corporate governance. In other words, leaders must shift from a compliance paradigm to a paradigm of sincerity: to give one's best. It is about moving from the eye of the mind to the eye of the heart as the driver of action. For the shift to take place, leaders must be truthful to themselves about wanting to practise rightness-of-action. It is not about conducting themselves in a manner to conform to perceived expectation by others. It is about returning to the original way of being. It is about being your leader self not the self that has assumed other leaders' self.

As with all physical journeys, leaders need to will themselves to embark on the journey and stay on course. Nonetheless, unlike a physical route which is common to everyone along the same journey, the path to consciousness is peculiar to each leader typified with personalised terrain. This is because every leader brings along a milieu: legacy of prior experience as leader and subordinate; perceived expectation of others; anxiety about not conforming to people's expectation; belief on the oneness of the universe; level of spirituality and etceteras. Hence, there is no standard operating procedure, recipe or one-size-fits-all formula which is applicable to all leaders in order to reach the destination on this non-material journey. Rather, what is available is only a list of ingredients which are required to begin and sustain in this journey. This is akin to a mountaineer who has a backpack of tools to equip him or her to tackle the mountain slope.

The philosophy of the journey is about letting go of the legacy. However, letting go of legacy becomes difficult because it entails letting go of one's familiarity with everything. On the other hand, if familiarity is not let go off, it will act as a veil to new information. It is familiarity in the form of one's habits that brings along with it standard operating procedures in addressing issues that a leader has had experience with before the journey. In this instance, new signals to the brain are suppressed so that the leader will only draw on the same formula to address the problem. This veil of familiarity also impedes transformation. Hence, the significance of letting go of legacy can never be overstated. Letting go of the legacy however is not about assuming a different identity but about being the same self characterised by new or emergent qualities representing one's highest potential or possibility. The emergent qualities will then equip the leader with knowledge and wisdom bounded by ethical values and compassion to steer the corporation as the authentic leader, the self. As reminded by Scharmer, "We are now called to step up ... to learn to act from our heart in a more intentional, conscious, and collective way, to act from the power of our emerging authentic self" (Scharmer, 2009, p. 462).

By weaving a tapestry of the emergent qualities of knowledge and wisdom, a leader can practise authentic leadership with rightness-of-action. And rightness-of-action is not about being right according to some codified rules or man-made laws but benchmark against primordial and innate nature. Being human is about making choices. But with choices come responsibility.

"Classical physics portrayed man as a puppet controlled by the iron hand of destiny ordained at the beginning of time. Man was thereby automatically relieved of all responsibility for his acts. In quantum theory ...negation of personal responsibility is no longer the unavoidable logical consequence of accepting the scientific world view" (Stapp, 1985, p. 44).

Scharmer (2009) believes that authentic leadership is about making the choice between acting in habitual ways and connecting with one's deepest source of creativity which to him is influenced by one's spirituality. With respect to leadership, we posit that it is only when a leader's level of spirituality that is, the connectedness beyond transcendence is deep, will he or she be conscious of the need to be accountable to the universe and the community transcending the self. Instead of having to be monitored by an external governance mechanism, the leader will actualise transcendental leadership guided by his or her consciousness and conscience out of sincerity and genuineness. In short, when leaders subscribe to an internal governance structure, they no longer need to rely on corporate governance. Corporate governance now takes on a backstop role.

In practising authentic leadership in the context of a business entity, a leader needs to appreciate the consequences of the business transactions to the larger community and other stakeholders. We contend that the traditional motivation for profit drawn upon the maximisation of shareholders' wealth now needs reviewing so that in the final analysis, the wellbeing of human and the environment are of primacy. Kofman (2006) calls for business leaders to practise conscious business that is a business conscious of inner and outer worlds. This is when business takes into account body, mind, and spirit in self, culture, and nature.

The leader must also appreciate the faculties or devices that he or she can use as receptor for information and for making decisions. Human are blessed with the three devices: the physical sense perception (eye of the flesh), intellection (eye of the mind), and contemplation (eye of the heart). Leaders need to use the right device under different circumstances since each has its limitation. The physical eye for instance is only sensitive to a narrow band of light, the "visible light" between 400 to 700 nanometres (NASA, 2009). This is extremely minuscule compared to the entire electromagnetic spectrum which spans from the diameter of a hydrogen atom to beyond several hundred kilometres. While the width of the visible light is 300 nanometres, the width of a human hair is in the range of tens to hundreds micrometres.

In cognisance of the fact that the human eye is not capable of "seeing" radiation with wavelengths outside the visible spectrum, other special apparatus are used to take up and illuminate the "blind" spot. Likewise, in the context of leadership, leaders must learn to move on to a different device to address the shortcoming of another. To sense the non-material attributes of human, a leader should move to the use of the eye of the heart given the limitation of the physical eyes and intellection. Take for example the beauty of the greenness of grass. The visible green light has a wavelength of about 510 nanometres. But this does not register much meaning in relation to the beauty scale from the eyes of the flesh and mind. The observer therefore needs to use the eye of the heart to appreciate beauty and aesthetics or for that matter any other non-material or esoteric elements including values, morality and ethics. With the heart we do not mean the physical pumping instrument but the sentient heart. In regard to decision-making, ideally, a leader should use the physical sense perception and the intellection but temper with contemplation all at once. According to Goethe as cited by Scharmer,

"Man knows himself only to the extent that he knows the world; he becomes aware of himself only within the world; and aware of the world only within himself. Every object, well contemplates, opens up a new organ within us" (Scharmer, 2009, p. 161).

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Professor Dato' Dr. Aziuddin Ahmad

Professor Dato' Dr Aziuddin Ahmad though trained in electrical & electronics engineering, reactor neutron physics and law, has spent more than 20 years in the corporate sphere initially in the financial services as an entrepreneur and corporate strategist before serving as director of various listed companies whose shareholders include GLCs and GLICs. He has also served at the Tun Ismail Atomic Research Centre (Malaysian Institute of Nuclear Technology).

In March 2007, Professor Dato' Dr. Aziuddin entered academia as a full-time Professor of Risk Management at the Graduate School of Management, UPM. He teaches Risk Management, Islamic Finance and Human Governance as the founding instructor. At UPM, Professor Dato' Dr. Aziuddin was the Head of Industry-Academia Linkage Programme, GSM and a member of the Senate.
Professor Dato' Dr. Aziuddin is a regular invitee to seminars and conferences as speaker, chair person and panelist. More recently, he has addressed the Global Responsible Leadership Summit 2009 Lausanne at the invitation of IMD.

Associate Professor Dr. Arfah Salleh

Dr. Arfah Salleh is an Associate Professor of Accounting at the Faculty of Economics and Management, UPM. She has gained training and work experience in investment and fund management at James Capel International Asset Management, London and UPM. She is a Fellow of CPA Australia and a member of MIA. Throughout her academic career, Dr Arfah has maintained a close linkage with the accounting profession through serving on their various committees including as member of the Malaysian Accounting Standards Board (MASB). Her research interest is in the areas of human governance and stewardship; philosophy of research and epistemology in social science; the application of quantum physics in management; and inter-subjectivity in accounting.

WHAT DRIVES BOARD EFFECTIVENESS? – FINDINGS FROM A GLOBAL SURVEY OF THE BOARDS OF 200 COMPANIES

by Ashley Summerfield, Egon Zehnder International, London

A sceptic might say that Boards are the apex of a career in business for the most successful business people – a place where ex-CEOs can relax whilst still maintaining a key-decision making role .There may be some truth in this, however, in majority cases former leaders of global organisations never lose their desire to truly 'make a difference'. It is for that reason that Egon Zehnder has seen its Board Reviews become increasingly attractive to Boards. It is our experience that what starts out as a "governance" project becomes a "business effectiveness" assignment, the value of which increases during subsequent Board Reviews.

Boards do play a number of very important and complex roles: They 'sign-off' strategy and choose the people who are in charge of executing upon this strategy; and they also act as custodians of culture and values; All of this often in an environment of time constraints and limited information.

It is then no wonder that sometimes Boards get their decisions wrong. Egon Zehnder recently conducted interviews with over 40 Chairmen from around the world to understand what they see as the areas promoting or hindering good decision making. Across all regions the answers that came back consistently pointed to three core reasons for poor decision-making:

1) Decisions were made with insufficient challenge (often due to over-optimism of the management, especially where the decision was not consistent with the strategy);

2) There was poor understanding of the proposal;

3) There was insufficient and/or inadequate supporting information.

Egon Zehnder Board Reviews are trying to tackle the causes of these outcomes by scrutinising the processes and behaviours at Board-level to enable high quality dialogue and ultimately better decision making by the Board.

7 top issues faced by Boards

Egon Zehnder has conducted almost 200 Board Reviews over the past seven years applying a thorough and consistent process of analysing areas affecting both individual and team effectiveness on Boards. The following seven areas have consistently been highlighted by Directors as the main reasons why Boards are not getting most value from individual Directors and Boards as a whole.

1. Non-efficient processes

Board processes tend to fail most frequently as a result of poor management of the Board agenda and poor information flows to the Board.

The Board agenda is often set a year in advance and details the topics of discussion. This makes it prone to two major problems:

1) It is harder to introduce new topics mid-way through the year, e.g., current market turmoil may require a revisit of strategy; and

2) It does not put any rules on how the topic needs to be discussed. As a result many Board Directors complain that Board meetings are putting too much focus on presentation and too little on discussion.

Information flows to the Board are subject to similar issues: Either wrong information has been requested or it is untimely, or it comes in an inefficient format making it harder and more time-consuming to digest.

The ultimate outcome of both problems is that the Board may not be looking at the most important issues and does not engage in a sufficient challenge.

What should be done? More effective Boards have established a good system of delegation to committees and routinely review the content, format and presentation of information receive.

2. Poor or non-existing succession and talent management, and a general misunderstanding of remuneration

Whilst we find that Boards are highly professional in the way they undertake new Director and CEO searches, time and again Directors admit that succession management and talent retention does not receive similar attention. The disadvantage is that companies are not getting the most from their people and capability gaps are met too late.

One obvious solution is to just devote more Board time on the topic by discussing and meeting top talent and creating development plans. Creating a Nomination Committee is often the best route to ensure that the topic gets sufficient attention throughout the year.

3. Inappropriate board composition

Board Directors almost never have a deep understanding of the workings of the company where they serve (unless they are executive members). However, the capabilities needed by Board Directors are not only industry specific, they also include transformation skills, understanding of local markets, a capacity for independent thinking, and so on. As company strategies change, Boards need to ensure that they have the right experience on the Board at all times.

Here the Nomination Committee can step in again by leading the Board on assessing existing board competencies and current capability needs through regular board reviews and succession exercises. Boards can also offer initial Director induction and continuous training on the job. Sometimes the answer is even simpler: too large a Board may hinder discussion and decision-making efficiency.

4. Unclear strategic direction from the Board

It is surprising how many Boards fail to iterate their strategy, for example, the top three issues as expressed by different members of the same Board are often not consistent. Strategy acts as the 'shared vocabulary' for any Board – the ultimate mirror against which each Board decision should be made.

Fortunately, Boards are increasingly spending more than half of Board time on strategic issues and even conduct 1-2 day annual off-sites devoted solely on the company's strategy development and formulation. However, when defining strategy, it is also important to set metrics to measure achievement against strategic objectives. These metrics facilitate assessment of any larger budget request against the strategy.

5. Poor feedback loops to learn from experience and improve Board effectiveness

Feedback is a double-edged sword. Negative feedback will always meet resistance; however opinions even when left unexpressed will still impact relationships and actions. However, even more importantly positive feedback can encourage people to work harder.

Regular Board Reviews, ideally conducted by an independent body, are the best way to receive objective feedback. Boards themselves can regularly review case studies of decisions previously made. Finally, it is also a Board's responsibility to provide feedback to the CEO.

6. Poor or non-constructive relationships between the CEO and the Chairman or the Chairman and the Directors

Effective contribution and challenge on the Board, so critical to good decision making as said above, can only happen if the Board members respect each other. Relationships can become strained if some Directors feel that their opinion is not being listened to.

Egon Zehnder recommends using a regular Director feedback process to make the people central to the personal relationship issues aware of the negative consequences of their behaviours. An external partner can act as a confidential partner to discuss what needs to change.

7. Opportunities for improved reporting to the shareholders

The final issue that we encounter through Board Reviews and one that is echoed in the press is that Boards have not always been able to explain to the shareholders their decisions. In addition there is sometimes the feeling that Directors do not have a clear understanding of the stakeholder perceptions of the Company.

Whilst Directors do not have a high exposure to the external environment, the current market shows that understanding stakeholder concerns by engaging them in discussions and meeting the key investors could warm Boards' relationships with shareholders.

In summary, effective Boards are good 'housekeepers': They provide good risk management and ensure that they have done the best they can when they make decisions that affect companies' futures, shareholder fortunes, and the reputation of the personal careers of individuals on the directorial Board.

Ashley Summerfield

Ashley focuses on board appointments, effectiveness reviews and senior level executive work for PLCs, private equity portfolio businesses and public sector bodies.

Key PLC clients include: Lloyds-TSB, Land Securities, Wolseley, Smith and Nephew, Rentokil, Sage National Express and Cobham. Key private equity clients include: Candover, CVC and Macquarie. Ashley's work for the public sector has covered the Bank of England, BBC, Network Rail, various regulators and HM Treasury.

Previous Experience

Prior to joining EZI, Ashley co-founded Central Europe Trust with Nigel Lawson, former Chancellor of the Exchequer, and others. This is a corporate finance advisory business, specialising in Central and Eastern Europe. His early career was with Booz Allen and Hamilton, the strategy consultants.

Education

Ashley has an MA from Cambridge University and an MPPM from Yale University.

Egon Zehnder International is the largest privately held search firm in the world. It was founded in 1964 with a distinctive vision and structure aimed at achieving two basic goals - to place our client's interests first and to lead our profession in creating value for our clients through the assessment and recruitment of top-level management resources.

Its four principal areas are: executive search, management appraisal, talent management and board consulting.

The Firm specializes in assessing and recruiting business leaders with outstanding track records who will create competitive advantage and sustainable value.

The firm has 63 offices in 38 countries which are wholly-owned with over 360 Consultants around half of whom are part of the single profit-centre partnership.

MINDA 2007 & 2008 ALUMNI (SHOWN IN ALPHABETICAL ORDER)

No	Name	Company	Programme
1.	Abdul Farid Alias	Khazanah Nasional Bhd	KNB ND Programme 2007
2.	Abdul Halim Ali	Malaysia Building Society Bhd	CF 2007
3.	Abdul Jabbar bin Abdul Majid	Proton Holdings Bhd	BHPD 2007
4.	Abdul Kadir Md Kassim	UEM Group Bhd	BHPD 2007/ KNB ND Programme 2008
5.	Abdul Rahim bin Abu Bakar	Westport Holdings Sdn Bhd	KNB ND Programme 2007/ CF 2007/ CF 2008 / KNB ND Programme 2008
6.	Abdul Rahman Abdul Ghani	Malaysia Airlines	BHPD 2007
7.	Abdullah Abdul Hamid	Khazanah Nasional Bhd / Malaysian Directors Academy (MINDA)	KNB ND Programme 2007/ BHPD 2007/ KNB ND Programme 2008 / CF 2008
8.	Abdullah Hj Kuntom	Malaysia Building Society Bhd	BHPD 2008
9.	Abdullah Yusof	Cement Industries of Malaysia	BHPD 2008
10.	Abu Bakar Ibrahim	Khazanah Nasional Bhd	BHPD 2008 / KNB ND Programme 2008
11.	Ahmad Fuuad b. Mohd Dahalan	Malaysia Airport Holdings Bhd	KNB ND Programme 2007/ KNB ND Programme 2008
12.	Ahmad Pardas Senin	UEM Group Bhd / Malaysian Directors Academy (MINDA)	KNB ND Programme 2007/ CF 2008
13.	Ahmad Sarji Abdul Hamid	Permodalan Nasional Bhd	CF 2007
14.	Ahmad Shahizam Shariff	Khazanah Nasional Bhd	KNB ND Programme 2008
15.	Ahmad Tajuddin Ali	UEM World Bhd	KNB ND Programme 2007/ CF 2007/ KNB ND Programme 2008
16.	Leo Moggie	Tenaga Nasional Bhd	CF 2007
17.	Amirul Fares Zahir	Khazanah Nasional Bhd	KNB ND Programme 2007
18.	Andrew Lo Kian Nyan	Employee Provident Fund	BHPD 2007
19.	Anuar bin Mohd Hassan	Malaysian Reinsurance Bhd	BHPD 2008
20.	Anwar bin Haji @ Aji	Faber Group Bhd	CF 2008 / KNB ND Programme 2008
21.	Anwarrudin Ahamad Osman	UEM Builders Bhd	BHPD 2007
22.	Aris Othman	Malaysia Airport Holdings Bhd	CF 2007
23.	Aziuddin Ahmad	ValueCap Sdn Bhd	BHPD 2008
24.	Azlan Zainol	Malaysia Resources Corporation Bhd	CF 2007
25.	Badri Hj Masri	ASTRO All Asia Networks plc	KNB ND Programme 2007/ KNB ND Programme 2008
26.	Bashir Ahmad bin Abdul Majid	Malaysia Airport Holdings Bhd	BHPD 2008
27.	Bazlan bin Osman	Telekom Malaysia Asia	BHPD 2007
28.	Elakumari Kantilal	Khazanah Nasional Bhd	KNB ND Programme 2007/ KNB ND Programme 2008
29.	Enita Azlina bin Osman	Khazanah Nasional Bhd	KNB ND Programme 2008
30.	Fuad bin Jaafar	Tenaga Nasional Bhd	BHPD 2007
31.	Haidar bin Mohamed Nor	Bumiputra-Commerce Holdings Bhd / CIMB Bhd	CF 2008 / CF 2007
32.	Hassan Jaafar	PLUS Expressway Bhd	KNB ND Programme 2007/ KNB ND Programme 2008
33.	Idham bin Ismail	Khazanah Nasional Bhd	KNB ND Programme 2008
34.	Ismael Fariz Ali	Khazanah Nasional Bhd	Programme for BHPD 2007
35.	Izlan bin Izhab	Malaysia Airport Holdings Bhd	KNB ND Programme 2007
36.	Jamilah Hashim	Khazanah Nasional Bhd	BHPD 2008
37.	Jamilah Hashim	Khazanah Nasional Bhd	KNB ND Programme 2007/ KNB ND Programme 2008
38.	Kamarulzaman Mohamed Zin	Khazanah Nasional Bhd	Programme for BHPD 2008 / KNB ND Programme 2008
39.	Khairil Anuar Abdullah	Apollo Hospitals Enterprise Limited	KNB ND Programme 2007
40.	Khairuddin Ahmad	RHB Bank	BHPD 2007
41.	Lau Tiang Hua	Malaysia Building Society Bhd	BHPD 2007
42.	Lau Yin Pin	Tenaga Nasional Bhd	CF 2008
43.	Lim Kheng Guan	Telekom Malaysia Bhd	BHPD 2007
44.	Lodin Wok Kamaruddin	Boustead Holdings Bhd	CF 2008
45.	Mat Rabi Abu Samah	Langkawi Tuna Corporation Bhd	KNB ND Programme 2007
46.	May Quah Bee Fong	Khazanah Nasional Bhd	KNB ND Programme 2008
47.	Md Ali Md Dewal	PT CIMB Niaga	KNB ND Programme 2007/ CF 2007
48.	Md Anwar Md Nor	Lembaga Tabung Angkatan Tentera	CF 2007

* Programme for Building High Performance Directors (BHPD)
Chairman's Forum (CF)

MINDA 2007 & 2008 ALUMNI (SHOWN IN ALPHABETICAL ORDER)

No	Name	Company	Programme
49.	Md Nor Md Yusof	Bumiputra-Commerce Holdings Bhd	KNB ND Programme 2007
50.	Michelle Lim	Khazanah Nasional Bhd	KNB ND Programme 2008
51.	Mohamad Hashim bin Ahmad Tajudin	Chemical Company of Malaysia Bhd	BHPD 2007/ CF 2008
52.	Mohamed Arif Nun	Silterra Malaysia Sdn Bhd	KNB ND Programme 2007/ CF 2008 / KNB ND Programme 2008
53.	Mohamed Azman Yahya	Malaysia Airlines	KNB ND Programme 2007/ CF 2008
54.	Mohamed Khatib bin Abdul Hamid	Pantai Holdings Bhd	KNB ND Programme 2007/ CF 2007/ BHPD 2008 / CF 2008 / KNB ND Programme 2008
55.	Mohamed Zain bin Mohamed Yusof	Faber Group Bhd	BHPD 2008
56.	Mohammad Zainal Shaari	Khazanah Nasional Bhd	KNB ND Programme 2007
57.	Mohan Rajasooria	Khazanah Nasional Bhd	KNB ND Programme 2007
58.	Mohd Azlan Hashim	Proton Holdings Bhd	CF 2007
59.	Mohd Nadziruddin Mohd Basri	Khazanah Nasional Bhd	KNB ND Programme 2007/ BHPD 2008
60.	Mohd Rafik Shah Mohamad	Langkawi Tuna Corporation Bhd	KNB ND Programme 2007
61.	Mohd Sheriff bin Mohd Kassim	PLUS Expressway Bhd	KNB ND Programme, KNB ND Programme 2008, CF 2008
62.	Mohd Shukri Hussin	Bumiputra-Commerce Holdings Bhd	CF 2008
63.	Mohd Yusof Hussian	Bumiputera-Commerce Holdings Bhd	BHPD
64.	Mohd Zuki Hj Kamaluddin	Island & Peninsular Bhd	CF 2007
65.	Muhamad Fuad bin Abdullah	Island & Peninsular Bhd	BHPD 2008
66.	Muhammad Rais Abdul Karim	Malaysian Directors Academy (MINDA)	CF 2008
67.	Muhd Radzi Hj Mansor	Telekom Malaysia	CF 2007
68.	Nasution Mohamed	Penerbangan Nasional Bhd	KNB ND Programme 2007
69.	Oh Kim Sun	Pharmaniaga Bhd	CF 2008
70.	Ong King How	Khazanah Nasional Bhd	KNB ND Programme 2008
71.	Raja Arshad Raja Tun Uda	Asia Capital Reinsurence Sdn Bhd/ Khazanah Nasional Bhd	KNB ND Programme 2007/ CF 2007/ KNB ND Programme 2008
72.	Rosenah Mohd Hassan	Selat Tebrau Sdn. Bhd.	KNB ND Programme 2008
73.	Roslan A. Ghaffar	Malaysia Resources Corporation Bhd	BHPD 2007
74.	Rosli Sharif	Faber Group Bhd	BHPD 2008
75.	Rozana Makhzan	Biotrophics Malaysia Bhd	KNB ND Programme 2008
76.	Samsudin Osman	BIMB Holdings	CF 2007
77.	Shahazwan Harris	Khazanah Nasional Bhd	KNB ND Programme 2007
78.	Shahnaz Al-Sadat	Khazanah Nasional Bhd	KNB ND Programme 2007
79.	Shahridan Faiez Mohideen Abdul Kader	Khazanah Nasional Bhd	KNB ND Programme 2007
80.	Shasidharan A/L Prapakaran	Khazanah Nasional Bhd	KNB ND Programme 2008
81.	Sufyan Abdul Jabbar	Khazanah Nasional Bhd	KNB ND Programme 2008
82.	Suriaghandi a/l Suppiah	Khazanah Nasional Bhd	KNB ND Programme 2008
83.	Syed Muhamad bin Syed Abdul Kadir	(BCHB) Bumiputera-Commerce Holdings Bhd	BHPD 2007
84.	Syed Saleh Syed Abdul Rahman	Lembaga Tabung Haji	BHPD 2008
85.	Tan Poh Keat	(TM) Telekom Malaysia	CF 2007
86.	Tunku Mahmood Fawzy Tunku Muhiyiddin	Khazanah Nasional Bhd	KNB ND Programme 2007
87.	Wan Muhamad bin Wan Ibrahim	TIME dotCom Bhd	KNB ND Programme 2007
88.	Yeo Keng Un	Khazanah Nasional Bhd	KNB ND Programme 2007
89.	Yeoh Keat Seng	Malaysian Technology Development Corporation Sdn Bhd, Biotrophics Malaysia Bhd	KNB ND Programme 2007, KNB ND Programme 2008
90.	Zainal Abidin Alias	Faber Group Bhd	BHPD 2008
91.	Zainal Azwar bin Zainal Aminuddin	TH Plantation Bhd	BHPD 2008

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