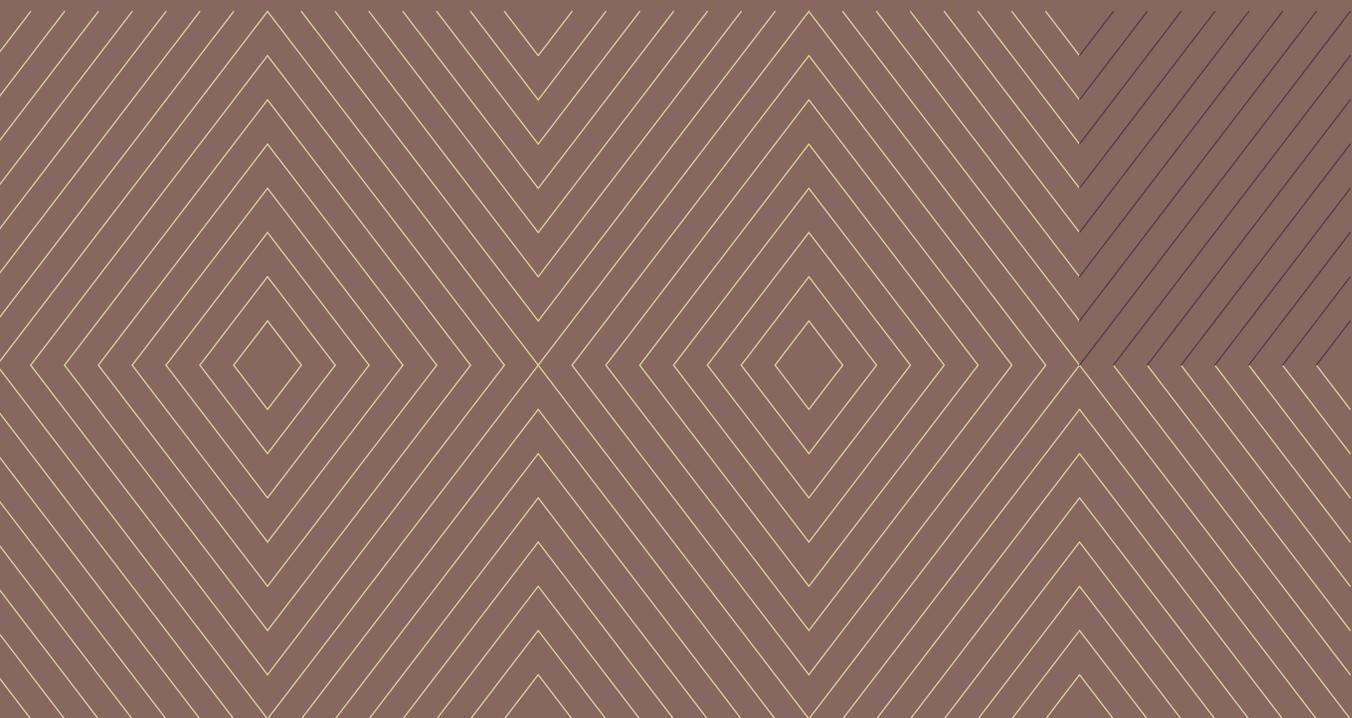


Organisation and Human Resource

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Organisation and Human Resource

ORGANISATIONAL DEVELOPMENT

Overview

During the year 2005, the Bank made further progress in its efforts to enhance organisational capabilities and capacity to achieve higher levels of efficiency and effectiveness in performing its roles. Initiatives to transform the Bank into a knowledge-based organisation, which gained momentum in 2004, were continued in 2005, with more deliberate and focussed programmes and interventions in the areas of human capital management, training and learning, information and communications technology, knowledge management, workplace and space management, information security, and corporate governance.

Throughout 2005, the organisational development initiatives in the Bank gave emphasis on two priority areas:

- Developing a more performance driven and strategy-focussed organisation; and
- Supporting the development of knowledge workers and inculcating a performance-differentiated work culture

The first priority highlights the Bank's intent to focus on performance and results. At the strategic level, the Bank's performance matrix defines four important elements, namely desired outcomes, stakeholder orientation, process efficiency, and capability development, all of which are dimensions of performance critical to achieving the Bank's mandate. Like most other central banks of emerging market economies, the Bank's core mandate is to promote and ensure the nation's monetary and financial stability, in order to support growth. This mandate however is performed in the broader context of the Bank's roles as a regulator, supervisor, environmental shaper, driver of change, and as an operator of systems and establishments specially created to meet the needs of the economy.

The Bank's leadership guided the organisation's strategic orientation by conducting a series of programmes during the year, aimed at establishing greater clarity and shared vision among all internal stakeholders about the desired outcomes of the Bank. Efforts were also directed toward translating strategies into operations, aligning the organisation, making strategy everybody's job, and making strategy formulation and execution a continuous process in the Bank.

The second priority reflects the challenges faced by organisations in a knowledge economy, namely how to attract, develop, retain and motivate knowledge workers, to drive organisational performance. In 2005, the Bank intensified its efforts in winning the 'competition for talent' by modernising and enhancing its policies and practices in talent management, encompassing major reviews and reengineering of processes in talent demand, talent supply, and performance management. The Bank's emphasis on a performance-differentiated culture had led to major changes in the practices to link staff performance more directly to organisational performance objectives, and to reward and recognition. During 2005, the management demonstrated its commitment towards higher performance standards through more stringent evaluation and assessment for decisions relating to rewards management, which include promotion, job upgrading, salary increment and bonus payment.

The Bank also continued the implementation and enforcement of the policy of continuous, self-directed learning to further nurture and encourage "engaged learners" who are good at linking their learning objectives to performance objectives. Initiatives on new learning pedagogies and support systems introduced since 2003 to accommodate different preferences and needs of adult learners, helped develop an enabling environment for continuous, life-long learning culture. The Bank's ICT systems continued to be state-of-the-industry, with more investments made during the year to meet knowledge workers' demand for more bandwidth, internet protocol (IP) enabled solutions, wireless technology and mobile telephony. These ICT enhancements gave staff better level of connectivity and greater flexibility in communicating and making quicker decisions, all of which are expected to promote greater collaboration, easier access to information, knowledge sharing, and networking among stakeholders.

Further enhancement in knowledge management practices also supported the needs of knowledge workers in the Bank. The successful completion of the Bank's corporate taxonomy project during the year was followed by a committed work to develop the Bank's knowledge hub, a system that allows easy and fast access to the Bank's strategic knowledge assets repository. The year saw marked increase in the utilisation of knowledge management center facilities and services. Better knowledge management practices could contribute to performance enhancement

initiatives by facilitating knowledge acquisition, knowledge reuse, knowledge sharing and knowledge creation, by reducing time-to-competence, by enhancing decision cycle and by facilitating a collaborative work environment.

The new office design which was introduced in 2004, proved popular among the knowledge workers, partly because of some features that met their preferred work environment, thus enhancing their performance. The information security policies and procedures, which were implemented during the year, provided further enablers to create an environment where staff shared knowledge and information with confidence. Corporate governance initiatives during the year gave more emphasis on further refinement to existing performance reporting and monitoring practices, which led to significant changes in the operating departments' orientation towards accountability, ownership of results and outcomes, and greater alignment of departmental performance objectives to Bank's strategic objectives.

Strategic Management Process and Capabilities

The Bank had adopted the discipline of the Balanced Scorecard in 2004 as one of the means to enhance its strategic performance management practices. In 2005 more programmes were implemented to further harness the Bank's strategic management capabilities, by targeting senior management staff particularly department directors and deputy directors. The top leadership had conducted sessions with these target groups, and engaged them in high level strategic conversations to help establish greater clarity, alignment and consensus on the departmental strategic objectives, focus and tasks in the context of the Bank's organisational goals. This had also created greater awareness of interdependencies and opportunities for more cross-functional collaboration.

The programmes implemented in relation to strategic management capabilities and processes include the articulation of more specific strategic results and related strategies and initiatives, development of performance indicators and establishing a more systematic process for reviewing organisational strategies and performance. Information about organisation strategy and performance that takes into account different dimensions of performance provided insights into the type of internal capacities and capabilities needed by the Bank to enhance performance. A dedicated unit – the Strategic Management Office - had been set up to enhance the strategic management capability of the Bank, and assist the Bank in its journey to become a more strategy-focussed organisation.

Human Capital Management

The year 2005 saw focussed reassessments and improvements of key human capital management processes, encompassing major areas including talent demand, talent supply, performance management, staff development, and rewards management. During the year, a new Human Capital Management Committee was established to replace the previous Human Resource Administration Policy Group, consistent with the Bank's commitment to alleviate human capital management issues to the highest level possible, and to promote widespread and effective inclusion and participation of senior line staff in the human capital management processes. The Committee oversaw the process to realign talent needs definition of the Bank to its strategic objectives and core processes, which led to the development and adoption of a new competency model and roles profiling of departmental directors in the Bank.

This was followed by a major exercise to conduct a comprehensive assessment of the current group of departmental directors against their newly designed jobs. A parallel exercise was conducted to identify and measure the development needs of 70 senior managers in the Bank under the Bank's succession management plan, using a comprehensive assessment center approach.

The Human Resource Management Department underwent a major transformation programme during the year, focussing on structural redesign, capacity enhancement and enhancement of selected core talent management processes. New talents were brought in to strengthen the department's performance and effectiveness. Other important milestones achieved during the year included: the adoption of a framework for the creation of technical specialist laddering in the Bank to attract and retain the right talents in the operational areas that impact the Bank's differentiating capabilities, and the adoption of a more reliable set of tools and methodologies to assess and identify the critical talent needs of the Bank. During the year, the Bank sourced high caliber talents for development programmes under its scholarship scheme by going direct to premier learning institutions in the country.

Total staff strength at the end of 2005 remained relatively unchanged at 2,345. During the year 48 staff (2%) resigned while another 15 retired. Over a period of five years (2000 - 2005), the Bank's talent grew by 25% from 1,876 to 2,345 staff - to lend support to the Bank's increasing range of responsibilities. During these five years, there was a marked increase in recruitment at

the executive level (graduate degree holders; at 235 or 25.6% increase), and increase in recruitment and promotions at middle management levels (123 or 45% increase). Non-executive staff represented about 32% of total staff population. The staff profile of the Bank had shifted towards higher proportion of middle management staff and reducing percentage of non-executive staff. Staff demographics also changed, with 63% of the staff population now below 40 years old, with a more diverse academic and professional background and experience.

Occupational safety and health continued to be another area of focus during 2005. The Bank gave emphasis in promoting healthy living among staff, by increasing the level of awareness on personal health and well-being, through a series of educational programmes conducted by health and medical professionals. These efforts could encourage more balanced lifestyles for the staff in the long-run, thus contributing to staff performance.

Training and Learning Management

The Bank strengthened its capacity to provide the services of a Corporate University by 2006. Internal learning consultants worked as business partners with line departments to define learning programmes that were more directly linked with the strategic priorities of the Bank as well as learning needs of the individual. Measures had been taken to formalise action learning, project-based learning and coaching, with the Human Resource Development Centre collaborating closely with the Human Resource Management Department.

In response to the Bank's priority of being a more performance driven and knowledge-enabled organisation, internal capabilities in fields such as human performance improvement (HPI), evaluation of learning effectiveness and instructional design were enhanced. The deployment of the Learning Management System (LMS) and online learning solutions for management and financial courses were additional milestones in the transformation towards a Corporate University. Strategic alliances with world-renowned training providers such as Centre for Creative Leadership (CCL) and Toronto Centre for Leadership (TCL) were continuously enhanced to provide high quality learning solutions from thought leaders.

As part of the Bank's effort to develop leaders from within, the first customised Leadership Development Programme (LDP) for senior management, done in collaboration with the Centre for Creative Leadership (CCL), was successfully completed. The programme, which spanned over a period of one and a half years,

involved 70 potential leaders who were involved in highly engaging interactions with senior management for purpose of strategic alignment and values inculcation. The 360-degree assessment feedback tool provided greater self-awareness in leadership style and focussed personal development plans. The programme was designed to give opportunities for the participants to have strategic discourse with senior management of the Bank on strategic leadership issues, dialogues with proven industry leaders in the area of leading and managing change, and renowned academics in the areas of leadership. The Bank also conducted a leadership programme on financial supervision for the Bank's supervisors in collaboration with the Toronto Centre for Leadership.

During the year 2005, the Human Resource Development Centre delivered 65 training programmes comprising of 120 sessions, with six training man-days per-staff. Collectively, a total of 65 training programmes were delivered, comprising 20 sessions, with the average training man-days per-staff registered at 6 training days.

More programmes will also be offered under the Malaysia Technical Co-operation Programme (MTCP) in 2006. In addition to the intermediate Central Banking and Basic Banking Supervision courses, programmes such as the Islamic Banking and Finance for Central Bankers, the Basic Central Banking Course, and the Insurance Regulation and Supervision courses will be introduced to enhance the knowledge and expertise of the respective departments. With the introduction of the new courses, work is already underway to develop more structured curricula in central banking, information technology for management, and leadership. The curricula will be developed based on the competency requirements identified by the Bank, thus emphasising the link between learning and performance.

Information and Communications Technology Management

The Bank continues to emphasise on Information & Communication Technology (ICT) as an integral enabling capability in creating a high performance workforce. Specifically, ICT management stresses achieving business efficiency by ensuring timely access to the right information. Towards this end, the role of ICT is being continuously transformed to improve integration with business processes.

In this regard, in line with the Financial Sector Masterplan (FSMP) to improve efficiency of the

payments infrastructure, the payment settlement gateway has been modernised. The Bank had also enhanced the cheque clearing system to improve unpaid item processing at commercial banks. A cheque image exchange and truncation system is currently planned for the near future.

The major challenge in 2006 will be the implementation of Enterprise Portal, an evolutionary step of the existing Corporate Portal. This will augment the Bank's ICT infrastructure capability and further enhance the delivery of services to stakeholders. The Enterprise Portal is envisioned to take the Bank to the next phase of knowledge-based organisation (KBO) transformation via a unified and collaborative workplace, which integrates people, process and information.

Within the ambit of promoting collaboration, the Bank had upgraded the extranet infrastructure to allow higher flexibility in data exchange between the Bank and the financial institutions. The deployment of mobile devices with access to e-mail has introduced new opportunities in basic remote information accessibility. This is an initial step to become an extended enterprise by embracing remote collaboration to reduce time-to-decision, ultimately enhancing productivity and efficiency.

In line with rising expectations, the Bank is obligated to sustain the provision of secured, resilient and quality services to its stakeholders. The year marked a persistent approach towards enhancing the Bank's ICT Infrastructure & Services Management. Various internal initiatives, in particular the Data Centre upgrade, have been implemented to enable more prudent ICT governance through continuous optimisation of roles, processes and technology environments. Areas improved include service availability, capacity, security and continuity management. The year ahead presents new challenges with the adoption of Information Technology Infrastructure Library (ITIL) best practices and the development of the new offsite Data Centre, which will be maturing from design to implementation.

Knowledge Management

The strategy of embedding Knowledge Management (KM) practices into the work processes continued in 2005, which contributed towards the creation of better enabling environment for the knowledge workers in the Bank. A key milestone was the successful completion of the Bank's corporate taxonomy project. The taxonomy is the Bank's

information classification framework that has been deployed as a foundation to develop a knowledge repository management system referred to as the Bank's Knowledge Hub. Supported by search engines and information security policies, the Knowledge Hub serves to enhance knowledge visibility and accessibility, thus facilitating further the process of knowledge acquisition, reuse, sharing and creation.

Another encouraging trend was the increased utilisation of the knowledge management infrastructure. For instance, the number of walk-in users of the Bank's Knowledge Management Centre (KMC), which was established in 2004, had increased 92% from 8386 to 16,126. The number of subject specific repositories created in 2005 by the KMC increased from 32 to 42 (25%), which is partly a measure of the growth in the Bank's intellectual capital. The other notable trend was the higher utilisation of the KMC's Library portal by 13% from 31,969 to 35,990, as well as increase in user access to online databases of 10%, from 14,010 to 15,440.

The Bank hosted a Knowledge Management Fair during the year to help increase awareness amongst staff about new techniques and practices in knowledge management, as well as about the importance of information security management. Learning games and exhibitions were put in place to showcase the many knowledge management solutions introduced in the Bank. The fair also brought together some of the better-known practices in knowledge management, such as storytelling and social networking through communities of practice.

The re-configuration of space within the Bank has resulted in more open and flexible space, including connectivity to information systems, thus allowing staff from different departments to meet for discussions and work under very efficient and conducive working conditions. This has proven to be valuable for knowledge workers who work in turn as individuals, as departmental teams and in cross-functional projects.

Corporate Governance

During the year, the Board of Directors convened 12 meetings, apart from its quarterly Board Audit Committee Meetings. The Management Committee, being the focal point and highest management decision-making authority in the Bank conducted 38 meetings to discuss high-level cross-functional matters. Additionally, four Reserve Management Committee Meetings, 11 Monetary Policy Committee Meetings,

four Risk Management Committee Meetings, 11 Financial Stability Committee Meetings, and three Payment Policy Committee Meetings were held in 2005.

During the year, a briefing was conducted for the Prime Minister and Minister of Finance to present the Bank's assessment of the economy and financial sector, the important financial and economic issues and challenges confronting Malaysia, and the policy recommendations to address these issues and challenges. In response to the needs of its other stakeholders, including the general public, the business community, domestic and international investors and analysts, the Bank conducted road shows and awareness sessions to present the Bank's policies as well as to provide information on banking and insurance matters.

Awards

Heartiest congratulations from the Bank to the following staff on being conferred awards by their respective state rulers.

As part of its internal recognition programme, the Bank had recognised 19 staff for their excellent performance

and academic achievement under the Excellent Performance and Academic Achievement awards. In addition to individual awards, three teams were awarded with Quality Service, Innovation and Excellent Team Performance Awards. The awards were presented during the Bank's Annual Dinner held on 3 September 2005.

Retirement

The Board wishes to place on record its appreciation and gratitude to the 15 retirees for their dedication and commitment while in service with the Bank. The staff who retired from service in 2005 are listed in Table 12.1.

Condolence

The Board extends its condolences to the family of the late Tan Sri Dato' Seri Dr. Mohd. Noordin bin Md. Sopiee, on his demise on 29 December 2005. The late Tan Sri Dato' Seri Dr. Mohd. Noordin bin Md. Sopiee who was the Chairman and Chief Executive Officer of the Institute of Strategic and International Studies (ISIS) had served as a member of the Bank Negara Malaysia Board of Directors since 1995 and had contributed significantly to the Board deliberations on the policies of the Bank.

No.	Name	Award	State
1	Puan Azalina binti Omar	Pingat Jasa Kebaktian (PJK)	Penang
2	Encik Saari bin Rajap	Pingat Jasa Kebaktian (PJK)	Pahang
3	Puan Annie Tan	Pingat Khidmat Cemerlang Masyarakat (PMC)	Negeri Sembilan

Table 12.1
List of Retirees

No	Name	Department/Branch
1	Rahim bin Idris	Insurance Supervision
2	Indralingam a/l Subramaniam	Banking Supervision 1
3	Chan Tsoon Hean	Currency Management and Operation
4	Rosli bin Sulong	Currency Management and Operation
5	Hasnah binti Omar	Corporate Services
6	Yaakop bin Yahaya	Payment Systems
7	Samsudin bin Na'Am	Property and Services
8	Hasikin bin Jasman	Property and Services
9	Ismail bin Hashim	IT Services
10	Abdul Latif bin Adlin	Governor's Office
11	Khairani bte Rejab	Banking Supervision II
12	Rohana binti Yusuf	Islamic Banking and Takaful
13	Helen Jeniffer Buma	Bank Regulation
14	Kunchi Raman a/l C V Kluva Chary	Development Finance and Enterprise
15	Mohamed Sapien bin Kamaruddin	PPPM Shah Alam

RISK MANAGEMENT IN BANK NEGARA MALAYSIA

In 2005, the focus of the Risk Management Unit was on the implementation of new methodologies and modified approaches which were conceived in 2004. The implementation was successful and well received by the line departments with minor operational adjustments to ensure smooth implementation during the year. The partnership between the Risk Management Unit and the line departments also continued to improve which augers well in ensuring a risk culture which is consistently embedded in all aspects of operational as well as strategic efforts.

Risk Management Structure

No changes were made to the Risk Management structure of the Bank and the Risk Management Committee, at the apex of the Bank's risk management governance structure, continues to be the leading forum for focussed and regular deliberation on risk issues and the main driver of risk management in the Bank. The requirements for upward reporting by line departments and the Risk Management Unit to the Risk Management Committee remained unchanged so as to enable the Committee to continue to provide direction for addressing and managing potential risk in the organisation.

Risk Management Practices

In providing the risk management oversight, the Risk Management Committee determines the standards and requirements to ensure that appropriate strategic and operational risk management measures are embedded into all programmes, projects and policy making. In 2005, the Committee continued assessing the departments' risks, controls and emerging risk issues in their business plans so as to exercise constant vigilance on the bank's overall risk profiles. The Committee also deliberated with the departments on their policy focus, strategic direction and the optimal approaches to address both existing and potential risks. To support this, the requirement continued to be for departments to make a self-assessment of the risk profiles of their operations and assessment of the adequacy of risk management through an annual declaration to Management. However, the contents of the annual declaration carried increased focus on strategic level risks. The Risk Management Unit provided technical support and performed its coordination and oversight role by assisting the departments in their management reporting. Emphasis was also placed on building greater awareness on risk management in the Bank through workshops to engage staff and familiarise them with the risk management methodology and practices.

In 2005, the Risk Management Unit undertook independent assessments on an on going basis to complement the self-assessment exercise done via the annual declaration. These assessments not only bring a fresh perspective in the identification of major risks in the departments but to also provide assurance to the Risk Management Committee that the process had indeed been rigorous. Further, it covers risks which may not be apparent due to familiarity with the functions or operations, which is a weakness of all self-assessment approaches. In addition, the Risk Management Unit also assessed organisational risk, that is, with emphasis on risks which span across functional lines to address issues arising from interdependencies which could affect the achievement of the strategic aims and objectives of the Bank. These results were also reported to the Risk Management Committee in the course of 2005. The three-pronged approach, that is, self-assessment, independent assessment and organisational risk serves to provide a more holistic view of risks in the Bank. This would serve to enhance organisational alignment for the achievement of the Bank's strategic results.

Policy Risk

The policy-making mechanism in the Bank is designed with the objective of achieving the desired policy outcome. There were no significant changes to the framework to manage policy risk at the Bank. As before, this framework covers the processes for discussion and deliberation of all issues related to policy from the conceptualisation stage through to the development and implementation stages. The high level committees that preside over policy making are the Management Committee, the Monetary Policy Committee and the Financial Stability Committee. Chaired by the Governor, the common objective of these committees is to allow for and provide a platform for high-level cross-functional deliberation and consultation to ensure sound policy decision-making and efficacious implementation. Another component featured in the policy framework are the Policy Working Groups, chaired by Assistant Governors, members comprising directors of all the relevant departments, which represent the working level deliberations on the policy issues.

Financial Risk

The Middle Office is responsible for the management of the Bank's financial risks arising from the management of international reserves. In the course of regular operations, the Middle Office works closely with the Internal Audit Department and the Risk Management Unit to ensure strict compliance with investment guidelines, policies and operational procedures.

Financial risk management continues to develop in line with developments and trends in reserve management activities and the domestic financial market as increased sophistication and achievement in technology in financial markets dictate as such. Throughout the year, initiatives were undertaken to improve methodologies and enhance system infrastructure in order to support a more robust and comprehensive review of financial risks. This is reinforced by increased specialisation, more focus on key risk areas and training programmes for key personnel which are aimed at developing superior understanding of the complexities of various instruments, strategies and methodologies.

Operational Risk

In managing operational risk, the essential elements of ownership of risks, self-assessment, continual review, escalation of key risk issues and accountability for control improvement and issue resolution were retained. At the functional level, the Department Heads continue to have direct responsibility for ensuring that risk management practices are integral to daily operations and that all risks are appropriately addressed. Departments are thus required to conduct process analysis and walkthroughs which are essential to review core processes for operational risks arising from changes in the working environment.

Key measures to address operational risks include the Internal Audit function which plays a crucial role in the monitoring of operational risk. Further reductions in human intervention in processing through the use of computer systems largely reduce human related operational risks. However increased vigilance is now required in monitoring system availability and reliability. Additionally, for increased assurance in major projects, staff of the Risk Management Unit participate in the project teams to ensure the appropriate risks are being managed.

Through all this, the ultimate aim for risk management remains the same, that is, to ensure that regular monitoring takes form to enable pre-emptive and, if necessary, prompt corrective actions in all areas of risk.

Business Continuity Management

The year 2005 witnessed various Business Continuity Management enhancement efforts being carried out at the Bank to ensure that the Bank's ability to prepare, respond to and manage any crisis or unexpected incidences effectively continues to remain sound and robust. A yearly review of the impact of any given disruption to departments in the Bank was conducted to validate the continued effectiveness of existing crisis arrangements that are in place. Along with lessons

learnt from other Business Continuity Management exercises, as well as the required maintenance for the Bank's back-up facility, the review contributed to the implementation of an exercise to upgrade this alternate facility. This was done to ensure that the facility is continuously updated with the required technology to guarantee its crisis-time functionality.

Within the Business Continuity framework, there are two high level components, the Crisis Management Committee and the Crisis Management Team. The Crisis Management Committee, which reports to the Governor and is chaired by a designated Deputy Governor, symbolises high level endorsement of the Business Continuity programme in the Bank. The Crisis Management Team has membership comprising directors from all identified critical departments and support teams.

During the year, the Business Continuity Management unit, responsible for overseeing the Business Continuity Management function of the Bank, and which forms part of the Risk Management Unit, drew on the Risk Management Committee as a forum for seeking the ultimate endorsement and direction for Business Continuity Management exercises conducted. This is in view of the parallel membership between the Risk Management Committee and Crisis Management Committee, which sits at the apex of the Bank's Business Continuity Management framework.

During the year, an internal Business Continuity Management website was launched to promote and raise overall staff awareness on the Bank's Business Continuity Management programme as well as to communicate a Business Continuity Management policy endorsed by Management. It is envisaged that added knowledge on the subject matter would help promote and strengthen the involvement of all staff in the Bank's Business Continuity Management programme. This ultimately, would then translate to the ability of all staff to spontaneously deliver prompt and appropriate calculated responses, crucial in any crisis.

Finally, as in previous years, periodic assessments of the Bank's capability to respond to crisis were also done. This was accomplished via the mechanisms of live-run exercises, as well as the twice-yearly Crisis Management Team meeting which met to discuss emerging Business Continuity issues, such as the haze that affected the country in the year. The desired cooperation between the critical departments to produce an integrated and coordinated bank-wide arrangement was tested in a simulation that was part of the same exercise.

BANK NEGARA MALAYSIA
Organisation Structure

