State Financial Secretary's Office

BOARD THAT DELIVERS

Board Effectiveness Handbook for Sarawak State-Owned Enterprises

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Foreword by

The Premier of Sarawak

It is with a deep sense of responsibility and purpose that I present the ***Board Effectiveness Handbook: Enhancing Board Effectiveness for Sarawak State-Owned Enterprises.***

State-Owned Enterprises (SOEs) sit at a critical position in Sarawak's development architecture. They are entrusted with public assets, strategic infrastructure, and mandates that extend beyond commercial performance to include economic resilience, social wellbeing, and long-term sustainability. As such, the quality of governance exercised at Board level is not a technical matter, but rather, a matter of public trust.

This Handbook represents a strategic step by the State Government to strengthen that trust. It articulates clear expectations of Boards leadership, integrity, accountability, and effectiveness, while recognising the unique role of SOEs in advancing Sarawak's development aspirations. This Handbook is not intended to add bureaucracy, but to provide clarity, discipline, and coherence in how Boards govern, decide, and lead. Recent reforms in Sarawak's SOEs governance, supported by World Bank initiatives, have already shown positive impacts, such as doubled dividend payments, through policies emphasizing financial discipline.

Aligned with the Post COVID-19 Development Strategy 2030 (PCDS 2030), the Handbook anchors governance firmly to Sarawak's long-term vision: a resilient economy, sustainable growth, inclusive development, and strong institutions. It draws from global best practices while remaining firmly grounded in Sarawak's legal, institutional, and cultural context.

I expect this Handbook to be embraced not merely as a reference document, but as a living governance doctrine, guiding Board conduct, informing decision-making, and shaping organisational culture across the Sarawak SOEs ecosystem. Ultimately, effective governance is not about compliance alone; it is about stewardship for current and future generations.

I commend all those who have contributed to the development of this Handbook and call upon Boards and management alike to uphold its principles with seriousness, professionalism, and integrity.

YAB Datuk Patinggi Tan Sri (Dr.) Abang Haji Abdul Rahman Zohari
bin Tun Datuk Abang Haji Openg
Premier of Sarawak

Foreword by

The Deputy Premier of Sarawak

The governance of State-Owned Enterprises has a direct and lasting impact on Sarawak's economic strength, fiscal sustainability, and public confidence in our institutions. For this reason, Board effectiveness must be treated as a strategic priority, and not as an administrative afterthought.

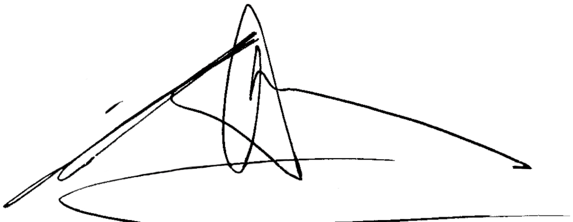
This Handbook is a comprehensive and timely response to this imperative. It provides a clear, systematic, and practical framework for strengthening Board governance across Sarawak's SOEs, recognising that good governance is a key enabler of reform, transformation, and performance improvement.

What distinguishes this Handbook is its balanced approach. It combines global governance principles with practical operational guidance, while respecting the diverse mandates and contexts of Sarawak SOEs. It recognises that governance must be robust yet proportionate, disciplined yet adaptive, and principled yet pragmatic.

As Sarawak continues to pursue structural reforms and strategic investments under PCDS 2030, SOEs Boards are required to exercise higher levels of judgement, independence, and foresight. This Handbook equips Boards with the frameworks, tools, and clarity necessary to meet those expectations.

I encourage all Board of Directors and senior leaders to internalise the spirit of this Handbook. Governance effectiveness ultimately depends not on documents alone, but on the mindset, values, and conduct of those entrusted with leadership.

With strong Boards, Sarawak's SOEs will be better positioned to deliver value, manage risks, and serve the people of Sarawak with professionalism and integrity.



YB Datuk Amar Douglas Uggah Embas
Deputy Premier, Second Minister for Finance and New Economy, and Minister for Infrastructure and Port Development.

Foreword by

The State Financial Secretary

The stewardship of public resources demands the highest standards of governance, accountability, and financial discipline. For Sarawak State-Owned Enterprises, these responsibilities are exercised most critically at the Board level.

This Handbook has been developed to provide Boards with a clear, authoritative, and practical governance framework that supports sound decision-making and responsible oversight. It reflects the State Government's commitment to strengthening SOEs governance as a cornerstone of fiscal sustainability, risk management, and institutional credibility.

This Handbook consolidates governance expectations into a single, coherent reference, covering Board roles, Board committees and their functions, risk and audit oversight, integrity frameworks, performance evaluation, and accountability mechanisms. More importantly, it translates policy intent into operational guidance that can be implemented consistently across the SOEs portfolio.

From a financial governance perspective, effective Boards are essential to ensuring prudent use of public funds, transparency in reporting, and timely identification and management of fiscal risks. This Handbook reinforces these responsibilities while supporting Boards in navigating increasingly complex operating environments. Studies on the performance of SOEs in Malaysia show that robust board oversight correlates with improved financial outcomes and reduced fiscal dependency.

I expect this Handbook to serve as a common governance language across Sarawak SOEs, enabling comparability, strengthening oversight, and supporting continuous improvement. The Sarawak State Financial Secretary's Office will continue to work with the Board of Directors and the management to ensure that the principles and standards set out herein are applied with rigour and integrity.

Ultimately, strong governance is not an end in itself; it is the foundation upon which public value and long-term sustainability are built.

YBhg. Dato Sri Dr. Wan Lizozman bin Wan Omar
State Financial Secretary
Sarawak

BOARD THAT DELIVERS: BOARD EFFECTIVENESS HANDBOOK FOR SARAWAK STATE OWNED ENTERPRISES

Guidance on Board Effectiveness for Sarawak State-Owned Enterprises

PART I

PREFACE, CONTEXT, AND PURPOSE

PREFACE

Sarawak stands at an important juncture in its developmental journey. Over the past decade, the State has steadily transformed its economy from being predominantly resource-based, to one driven increasingly by innovation, sustainability, digitalisation, and high-value services. The Post COVID-19 Development Strategy 2030 (PCDS 2030) articulates a bold and ambitious future for Sarawak, one that envisions a high-income, inclusive, and environmentally sustainable society. This strategy emphasizes six (6) key economic sectors, such as manufacturing, mining, agriculture, forestry, tourism, and social services, while prioritizing digital transformation and green energy initiatives, including hydrogen production, to achieve a GDP target of RM282 billion by 2030. To accomplish this, Sarawak must strengthen the institutions that carry significant responsibility for delivering economic opportunities, public value and strategic assets. Among these institutions, State-Owned Enterprises (SOEs) play a pivotal and an indispensable role.

SOEs in Sarawak are diverse in mandate, size, complexity and maturity. Some operate as statutory bodies that provide essential public services, while others function as commercial corporations competing in the open market. Some hold strategic assets in energy, digital infrastructure, natural resources, and transport, while others support rural development, housing, land management, financial facilitation, and industrial growth. Despite this diversity, all SOEs share a common stewardship responsibility, which is, to safeguard public resources and deliver outcomes that benefit the people and State of Sarawak.

Strong governance is essential in ensuring that SOEs function with professionalism, transparency and accountability. Over the years, numerous governance frameworks, guidelines, and manuals, have been produced to guide public-sector institutions and government-linked entities at the state, federal and international levels. For example, the OECD Guidelines on Corporate Governance of State-Owned Enterprises provide a global benchmark, emphasizing board autonomy, transparency, and accountability, to enhance SOEs performance in developing economies.

Beyond serving as a reference document, this Handbook is a practical tool for Board Chairs, Directors, Chief Executive Officers, Company Secretaries and governance practitioners to guide daily decision-making, long-term strategic planning, and strengthening governance culture within their organisations.

In preparing this Handbook, attention has been given to the technical dimensions of governance, such as roles, responsibilities, legal compliance, performance systems and risk oversight, as well as to the behavioural and cultural dimensions that underpin good leadership. Effective governance is not achieved through structure alone; it requires values, discipline, and a shared understanding of stewardship. Success relies on capable, ethical, independent, and forward-looking Boards, driven by integrity and the public interest. It requires leadership that is grounded in integrity and driven by the public interest. Scholarly research in developing countries suggests that board effectiveness relies on these behavioural elements to mitigate risks such as corruption and inefficiency.

This Handbook serves as a governance manual and a leadership guide for Sarawak's public-sector enterprise system. It is a representation of the State's commitment to building institutions that can support its economic transition, protect its assets, and deliver excellence in performance. In doing so, it sets the foundation for a stronger, more resilient, and a more capable Sarawak.

1.0 INTRODUCTION AND BACKGROUND

SOEs in Sarawak have historically played a central role in driving development across various sectors. They have contributed to infrastructure expansion, rural electrification, telecommunications penetration, industrial diversification, and the management of natural resources. Over time, their responsibilities have grown in complexity, influenced by technological advancements, market dynamics and increased expectations for transparency and performance.

The contemporary operating environment for SOEs is defined by rapid digitalisation, intensifying global competition, sustainability demands, heightened exposure to climate risk, and the need to deliver public value in an ever-changing socio-economic landscape. These forces place considerable pressure on Boards to be more strategic, informed, resilient, and accountable than ever before.

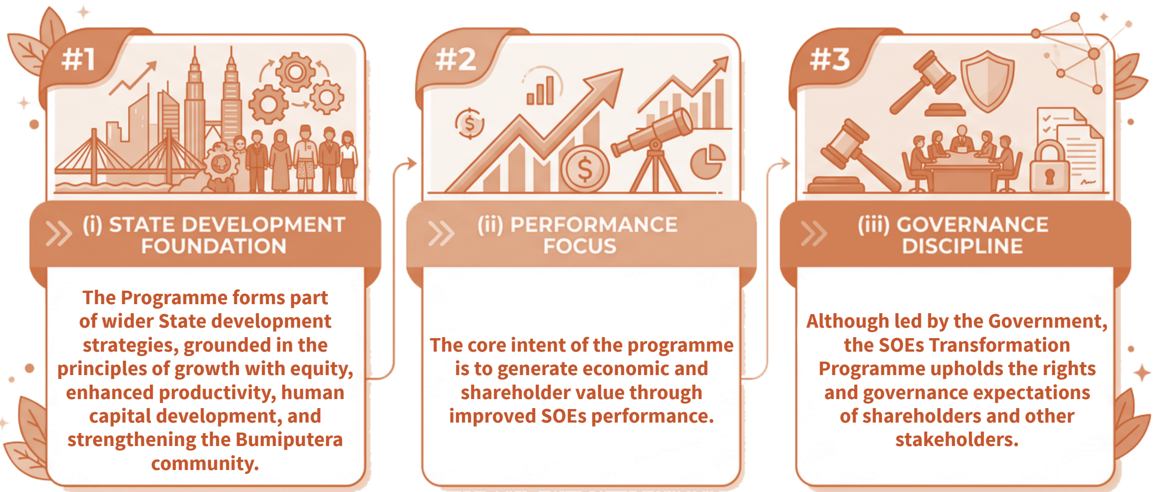
Recognising this, Sarawak has embarked on a comprehensive transformation of its governance ecosystem. As the central oversight authority for SOEs, the State Financial Secretary's Office (SFSO) upholds the State's intention to create a consistent, disciplined, and transparent governance framework. SFSO plays a key role in ensuring that SOEs operate in a manner aligned with State priorities while maintaining operational independence and commercial agility.

In the SOEs Transformation Program launched in 2025, the Sarawak Government established a Sarawak State Ownership Policy and Sarawak Code of

Corporate Governance for SOEs to guide the transformation of Government-Linked Companies (GLCs) and State Statutory Bodies. A central thrust of this framework is the need to enhance the effectiveness of SOEs Boards. This aligns with global evidence showing that board composition improvements, such as increasing independence, positively impact SOEs performance in quasi-experimental settings.

Three (3) underlying principles of the SOEs Transformation Programme

SOEs TRANSFORMATION PROGRAMME: THREE CORE PRINCIPLES



The importance of SOEs performance to Sarawak's future

The SOEs Programme is vital because SOEs play a substantial role in the economy as producers, service providers, employers, and key participants in the capital market. The programme aims to deliver major performance improvements that benefit multiple stakeholders:

- Significant value creation for investors
- Improved service quality, value, and efficiency for customers
- Better employment prospects and stronger human capital development
- Positive demonstration effects that strengthen the private sector's competitiveness and capabilities
- Greater merit-based transparency and reduction of leakages
- Advancement of the Bumiputera community through enhanced skills, career and business opportunities

This reform emphasises that SOEs Boards must genuinely elevate their performance by building high-performing Boards, ensuring effective daily operations and interactions, and fulfilling their core roles and responsibilities at levels aligned with best practices.

While not sufficient on their own, substantial improvements in the effectiveness and governance of SOEs Boards are essential to accelerate SOEs transformation. International experience indicates a strong link between robust corporate governance and sustained financial outperformance. Institutional investors value sound Board governance just as highly as financial performance indicators. For example, in developing countries, effective boards with diverse compositions reduce inefficiencies and enhance public value delivery.

A review of governance practices across SOEs, including among stronger-performing Boards, revealed several gaps:

- ❖ inadequate accountability for individual and collective Board performance
- ❖ insufficient attention given to strategically important matters such as strategy, talent assessment and risk management
- ❖ excessive focus on the “letter” rather than the “spirit” of governance requirements, leading to variations in Board processes, including meeting logistics and prioritisation of Board discussions

This Handbook aims to support SOEs Boards in delivering their mandates and performing their duties effectively.

More importantly, this Handbook is consistent with, and complements, the Malaysian Code of Corporate Governance (MCCG) by emphasising Board performance. It is not designed to restate all best practices. Instead, it is designed to serve as a focused, stand-alone reference, that addresses selected key conformance elements for Boards and Directors. The document is intended to be a living reference that will be updated as necessary.

Every SOEs Board operates within a unique context. Its role, operating style, and composition, must be tailored to the organisation’s history, current realities, and priorities. Each Board will also have different starting points, strengths, weaknesses, and aspirations. Consequently, Board improvement is a continuous process rather than a one-off milestone. This journey must reflect the Board’s specific context and point of departure.

While some benefits will materialise quickly and continue over the next few years, long-term gains are expected to unfold over a three-to-ten-year horizon. Hence, it is crucial that SOEs Boards adopt new practices to ensure that the overall SOEs Transformation Programme remains on track to deliver benefits from, and to support the realisation of PCDS 2030, Sarawak State Ownership Policy, and Sarawak Code of Corporate Governance.

The Handbook has been crafted to support this transformation. It consolidates global governance insights, Malaysian statutory frameworks, Sarawak-specific policy requirements, and international best practices. The Guidelines, together with supporting tools, best practice references, and templates, are intended to assist Boards in diagnosing specific gaps and in identifying practical steps to elevate overall Board effectiveness.

2.0 PURPOSE OF THE HANDBOOK

The primary purpose of this Handbook is to provide a unified, authoritative, and user-friendly governance handbook, that outlines the standards, expectations, and practices necessary for effective Board leadership in Sarawak SOEs. It aims to fulfil the following objectives:

- **Elevate Board professionalism**

  by clearly defining roles, responsibilities, behavioural expectations, and strategic oversight duties. It ensures that the Board of Directors, especially newly appointed members, understand the weight of their responsibilities and the legal and ethical obligations that accompany their positions.

- **Provide guidance deeply rooted in the Sarawak and Malaysia regulatory context.**

  This is because, this Handbook aligns with the rules and practice directions under Companies Act 2016, Sarawak State Ordinances, the Malaysian Anti-Corruption Commission (MACC) Act 2009 (including Section 17A), and all relevant governance directives issued by SFSO. This ensures that Boards operate in full compliance with legal and policy requirements.

- **Emphasise alignment with PCDS 2030 and the Sarawak SOE Transformation Programme.**

  Governance is not an end in itself; it is a means of enabling Sarawak's long-term ambitions. Boards must understand how their decisions contribute to the State's strategic objectives, including economic diversification, sustainability, talent development, digital transformation, and regional equity. This alignment is critical, as PCDS 2030 aims to transform Sarawak into a high-income state through growth and innovation.

- **Provide a foundation for continuous capacity building and institutional strengthening.**

  It encourages Boards to evaluate themselves regularly, develop directors' competencies, strengthen organisational culture, and adopt global best practices in governance.

3.0 SCOPE AND APPLICATION

This Handbook applies to all entities owned or controlled by the Sarawak Government that perform either commercial, developmental, or hybrid roles. These include:

01 statutory bodies established through State ordinances

02 companies incorporated under the Companies Act 2016 where Sarawak holds majority or strategic ownership

03 government-linked corporations and investment arms

04 holding companies and their subsidiaries

05 joint ventures with significant State involvement

06 corporatised agencies transitioning to commercial models

While the principles herein are meant to be universally applicable, the Handbook acknowledges the diversity of organisational models, mandates and operational environments across SOEs. Thus, SOE Boards are expected to apply the guidance proportionately, with due consideration to their industry, organisational maturity, risk profile, and statutory obligations.

4.0 STRUCTURE OF THE DOCUMENT

This Handbook is organised into thematic Parts, each addressing a major dimension of governance.

Parts of this Handbook include Board composition, roles and duties, operational protocols, committee governance, Chief Executive Officer (CEO) oversight, financial stewardship, risk and integrity management, stakeholder relationships, performance frameworks, and special provisions for statutory bodies and corporatised agencies.

While the Handbook contains extensive guidance, it is complemented by a comprehensive suite of annexes and templates, which are intended for operational use separately.

5.0 ALIGNMENT WITH LAWS, REGULATIONS AND POLICY FRAMEWORKS

The governance expectations set out in this Handbook are grounded firmly in Malaysia's and Sarawak's legal and regulatory systems. All Sarawak SOEs must operate in accordance with the following where applicable:

- the Companies Act 2016
- Sarawak State Ordinances and enabling legislation for statutory bodies
- Statutory Bodies (Financial and Accounting Procedure) Ordinance, 1995
- the Malaysian Anti-Corruption Commission Act 2009
- provisions on corporate liability under Section 17A MACC Act
- SFSO and State Secretary governance directives
- Sarawak Government policies and ministerial mandates
- applicable sectoral regulations and licensing requirements

SOE Boards should also be aware of broader governance frameworks, such as the Malaysian Code on Corporate Governance (MCCG), and Federal-Owned SOE guidelines.

The Handbook may be tailored specifically to local needs, but it also incorporates global thinking, ensuring that Sarawak SOEs are competitive, transparent and future-ready.

6.0 THE NEED FOR GOVERNANCE REFORM

The creation of this Handbook arises from the recognition that many challenges faced by SOEs are rooted in governance gaps rather than technical limitations. These include unclear roles between Board and management, inconsistent appointment processes, weak risk management structures, uneven performance accountability, inadequate strategic alignment, and the presence of conflicts of interests.

Strengthening governance across Sarawak SOEs is not a procedural exercise. It is a strategic necessity which ensures that Sarawak can build world-class public-sector corporations capable of supporting long-term development, sustaining financial independence, and contributing to the State's economic transformation.

This Handbook provides the clarity, discipline, and direction needed for that transformation.

To be fully effective, SOE Boards must evolve from merely "conforming" to also actively "performing." Part II highlights guidelines structured around the three (3) core components of an effective Board:

Structuring a high-performing Board

One led by a chairman with strong leadership abilities, respected by all Directors, and capable of managing differing personalities and discussion styles. The ideal Board should have no more than ten (10) Directors, with at least one-third of them being independent. Every Director should possess genuine commercial experience or specific industry/functional expertise suited to the company's needs. Director nomination should follow a disciplined and objective process, with clear selection criteria. Boards should regularly implement improvement programmes arising from the annual Board and Directors evaluation process.

Ensuring effective Board operations and interactions

Guided by a clear mandate aligned with the company's priorities. Board of Directors must function as a cohesive team to leverage collective strengths. Strong trust-based relationships between the Board and management are essential, enabling constructive challenge and meaningful support. Management must reciprocate by reporting transparently and in good faith. Efficient logistics are equally important—such as pre-planned calendars, agendas focusing on priority issues, and concise Board materials provided early enough to allow meaningful preparation.

Fulfilling fundamental Board roles and responsibilities

Boards should shift away from operational involvement and focus on their core duties instead, which are, shaping strategy, managing corporate performance, developing future leaders and talent, and overseeing risk. Boards should co-own strategy development with management, and jointly set performance targets. Once goals and KPIs are agreed upon, Boards must actively monitor performance. Boards should also be more involved in developing leadership pipelines and in succession, appointment, and removal decisions for CEOs. As organisations expand, Boards play an even more critical role in understanding and managing risks. Throughout, Boards must adopt a shareholder perspective and balance valid stakeholder interests.

The SOEs Transformation Programme relies on three (3) primary agents of change:

01	**Owner or Centralised Entity**	— as active and professional shareholders.
02	**SOEs Boards**	— responsible for governance, strategic oversight, and monitoring overall company performance.
03	**SOEs management teams**	— tasked with delivering execution and operational improvements.

Among these, the Board plays the pivotal role. It is through the Board that the Centralised Entity exercise stewardship over SOEs, and it is the Board that ultimately governs management.

Improving Board effectiveness is imperative for any organisation seeking high performance. There is a well-established correlation worldwide between strong corporate governance and sustained financial outperformance. In Malaysia, enhanced SOE governance has been linked to better administration and reduced financial dependencies.

7.0 PROGRESSING FROM "CONFORMING" TO "PERFORMING"

Principles of Corporate Governance findings show that while many SOEs Boards comply with legal and regulatory requirements, they do so at times without fully realising the underlying intent of corporate governance standards. Some Boards focus heavily on compliance and oversight, sometimes at the expense of performance-driven responsibilities.

Beyond fulfilling statutory and regulatory duties, Boards must ensure that the three (3) core elements of an effective Board are in place :

(i) **Structuring a high-performing Board**

- ❖ Align Board structure with the company's needs.
- ❖ Define the roles, composition and structure of Board committees so they complement Board requirements.
- ❖ Apply a disciplined process for selecting and nominating Directors.
- ❖ Conduct regular evaluations of the Board and each Director.

(ii) **Ensuring effective Board operations and interactions**

- ❖ Ensure every Board meeting is productive.
- ❖ Provide Board information that is timely and of high quality.
- ❖ Build trust through open communication and positive interaction dynamics within the Board and with management.

(iii) **Fulfilling the Board's fundamental roles and responsibilities**

- ❖ Contribute to strategy development and target setting.
- ❖ Uphold robust corporate performance management.
- ❖ Oversee leadership development and human capital.
- ❖ Understand and manage corporate risks.
- ❖ Adopt a shareholders' perspective while balancing all legitimate stakeholder interests.

CONCLUSION

Part I establishes the rationale, purpose, and context for the Handbook. It explains why strong governance is crucial for Sarawak's development, and how it connects statutory obligations with strategic ambitions. It sets the tone for subsequent Parts, which will guide Boards through the detailed practices and behavioural standards expected of high-performing Directors.

PART II

GOVERNANCE FOUNDATIONS, PRINCIPLES, AND PUBLIC-VALUE ORIENTATION

1.0 INTRODUCTION

Governance is the structural and behavioural framework through which decisions are made, authority is exercised, and responsibilities are discharged within an organisation. In the context of SOEs in Sarawak, governance carries a deeper significance, because SOEs operate at the intersection of public accountability, commercial performance and socio-economic development. Effective governance ensures that these enterprises uphold the public trust, safeguard State resources, and contribute meaningfully to the broader aspirations of the Sarawak Government.

The modern governance environment requires SOEs to be both accountable and agile, transparent yet commercially sound, ethical while operating in competitive markets, and capable of balancing multiple stakeholder expectations. These expectations cannot be met through structural reforms alone; they require a coherent governance philosophy rooted in principles that guide the behaviour of Boards and management. This Part lays the normative foundation for the Handbook, clarifying the principles that underpin good governance, the rationale behind them, and the implications for Boards and management.

2.0 UNDERSTANDING GOVERNANCE IN THE PUBLIC-SECTOR ENTERPRISE CONTEXT

Governance in an SOE context must be understood through the lenses of public stewardship, corporate discipline and socio-economic contribution. In contrast to purely private corporations focused on maximising shareholder value, SOEs in Sarawak are entrusted with a dual mandate; to operate as commercially responsible entities, and to deliver public goods that advance the State's developmental agenda. This dual mandate demands a governance framework that supports both financial sustainability and public value creation.

Public-sector governance differs from corporate governance in several aspects. SOEs are subject to greater scrutiny and face higher integrity expectations. They must comply with a broader range of legal and regulatory requirements. They must maintain transparency not only to shareholders, but also to the public at large. Their decisions often carry political, social, or developmental implications that transcend commercial considerations. While SOEs must remain insulated from political interference, they must also remain responsive to the broader policy direction of the State.

Good governance in this context ensures that SOEs operate with clarity, discipline, and purpose. It ensures that leadership decisions are rational, evidence-based, and grounded in the organisation's statutory and strategic mandate. It ensures that risk is understood and managed, that performance is monitored and evaluated, and that public resources are utilised responsibly. Therefore, governance is not a procedural compliance exercise, but a strategic function essential to the credibility and effectiveness of SOEs in Sarawak.

3.0 THE GOVERNANCE PHILOSOPHY BEHIND THE HANDBOOK

The governance philosophy embedded in the Handbook draws on common themes that reflect a governance ethos centred on professionalism, accountability, stewardship of public resources, risk consciousness, ethical conduct, and alignment with policy goals. This philosophy is also consistent with internationally recognised governance models adopted in Singapore, New Zealand, Australia, Norway, the United Kingdom, and OECD member countries.

At its core, the Handbook promotes a **governance philosophy grounded in integrity and accountability**. SOEs Boards must approach their responsibilities with moral discipline, resisting undue influence and prioritising the interests of the organisation over personal, political, or sectoral agendas. Integrity must be the bedrock of decision-making, because SOEs hold assets that belong collectively to the people of Sarawak.

A second pillar of the Handbook's philosophy is the belief that **Boards must be competent, independent-minded, and diverse**. A Board that lacks the necessary expertise or independence is unable to scrutinise management effectively. Conversely, a well-composed Board provides strategic clarity, enhances decision quality, and mitigates risks, by challenging assumptions and ensuring that the organisation remains future-oriented. Quasi-experimental evidence from board reforms shows that diverse compositions improve SOEs performance by reducing agency costs.

A third pillar is the principle that **governance must be proportionate to the SOE's mandate, scale, and risk exposure**. Not all SOEs face the same level of operational or financial complexity, yet all SOEs must adopt governance practices that reflect their risk profile. This principle ensures that governance is neither excessive nor insufficient, but is tailored to the needs of each entity while maintaining a minimum standard across the State.

A fourth pillar is the **commitment to public value creation**. The ultimate purpose of governance in SOEs is to enhance their ability to contribute to the welfare, development, and resilience of Sarawak. Whether through generating revenue, delivering essential services, supporting rural development, managing natural resources or enabling strategic sectors, SOEs are instruments of public value. Governance provides the framework that transforms this purpose into measurable outcomes.

4.0 PRINCIPLES OF GOOD GOVERNANCE FOR SARAWAK SOES

Good governance principles serve as the reference points for all Board decisions and practices. These principles are : **integrity, transparency, accountability, stewardship, independence, competence, and sustainability**.

The principle of integrity requires SOEs Boards to demonstrate honesty, ethical conduct, and adherence to moral standards. SOEs operate with public resources, which is why they must maintain higher ethical expectations than private entities. Integrity also requires Boards to ensure that adequate anti-corruption measures are in place, and that the organisation complies fully with the MACC Act 2009, particularly the corporate liability provisions under Section 17A.

The principle of transparency emphasises the need for openness in reporting, decision-making, and communication. Transparency builds trust between the SOEs, the Government, and the public. In practice, transparency requires Boards to ensure the accuracy of disclosures, maintain proper documentation, and abide by statutory reporting requirements.

The principle of accountability means that Boards must answer for their actions, decisions, and stewardship of the organisation. This includes financial accountability, performance accountability, ethical accountability and legal accountability. It is reflected in how Boards evaluate management, how they use internal audits, and how they engage with SFSO and stakeholder ministries.

The principle of stewardship recognises that Boards are custodians of State assets and must exercise prudent judgment. Stewardship demands long-term thinking and a commitment to safeguarding the organisation's reputation, financial health, and operational sustainability.

The principle of independence ensures that directors bring objective judgement to Board deliberations. Independence is essential for challenging management proposals, mitigating conflicts of interest, and making decisions free from undue influence.

The principle of competence underscores the importance of having SOE Boards members who possess the necessary skills, experience, and understanding of governance, sectoral issues, finance, risk, and strategic management. Continuing professional development is part of this principle.

The principle of sustainability requires Boards to consider the long-term impacts of their decisions on the economy, society, and environment. This includes integrating Environmental, Social, and Governance (ESG) considerations where applicable, supporting Sarawak's agenda for clean energy and conservation, and ensuring compliance with environmental regulations. In Sarawak's context, this principle aligns with PCDS 2030's emphasis on sustainable development, such as transitioning to a green economy.

These principles collectively define the behavioural and structural expectations placed upon Boards in Sarawak.

5.0 GOVERNANCE AS A CATALYST FOR PUBLIC VALUE CREATION

Good governance is not an administrative function; it is an **enabler of public value creation**. Sarawak's public value agenda, as reflected in PCDS 2030, recognises that economic growth must be inclusive, equitable, and sustainable. SOEs are instruments of the State's public value strategy. They build infrastructure, manage natural resources, support SMEs, develop rural communities, strengthen supply chains, expand digital connectivity, and deliver services that improve the quality of life.

Governance ensures that these contributions are realised. Without governance discipline, strategy becomes fragmented, resources are misallocated, corruption risks escalate, and performance declines. Through effective governance, Boards guide SOEs in making decisions that reflect both financial discipline and public-interest considerations. Governance directs how capital is allocated, how risks are managed, how talent is developed, how partnerships are formed, and how innovation is embraced.

Public value governance also encourages SOEs to be outward-looking and responsive to stakeholders. Boards must ensure that their organisations remain attuned to community needs, environmental concerns, customer feedback, and regulatory expectations. They must guide management in navigating these expectations strategically and responsibly.

6.0 THE GOVERNANCE RELATIONSHIP BETWEEN STAKEHOLDERS, BOARDS AND MANAGEMENT

A central tenet of good governance is **clarity in role separation**. SOEs function effectively only when the roles of shareholders, Board, and management, are properly distinguished and respected. Sarawak's governance model aligns with OECD best practices' principles in defining these roles clearly.

Shareholders, represented through the Sarawak Government and relevant ministries, provide the strategic mandate, policy direction, and expectations. They do not interfere with operational matters. Their engagement is formalised through instruments such as Letters of Expectation, performance agreements, and periodic engagements coordinated by SFSO.

Board provides strategic oversight, ensure compliance with laws and policies, evaluate performance, approve major decisions, and manage risks. They do not manage day-to-day operations, nor do they bypass the CEO in dealing with staff or operational issues. Their authority is collective, not individual.

Management, led by the CEO, is responsible for executing the strategies approved by the Board. They make operational decisions, manage resources, supervise staff, and ensure service delivery. Management reports to the Board, and is fully accountable for performance outcomes.

A breakdown of these roles leads to governance confusion. When Boards interfere in operations, they weaken management's accountability. When shareholders bypass Boards and issue direct instructions to management, they compromise the governance chain and undermine professional independence. When management fails to provide transparent reporting, Boards cannot fulfil their duties.

Hence, this Handbook emphasises the importance of maintaining role separation while fostering constructive collaboration.

7.0 LEGAL FOUNDATIONS FOR SOES GOVERNANCE IN SARAWAK

Governance in Sarawak is anchored in a range of legal, regulatory, and policy instruments that Boards must fully understand. These include the Companies Act 2016, Sarawak State Ordinances, subsidiary regulations, MACC Act 2009, and State Secretary and SFSO directives. Each provides obligations that Boards must observe.

The Companies Act 2016 outlines directors' duties, liabilities, disclosures, conflicts of interest, reporting requirements, and governance procedures. For incorporated SOEs, compliance with the Act is mandatory, and cannot be superseded by internal policy.

State Ordinances define the powers, functions, and responsibilities of statutory bodies. They typically specify financial authorities, appointment procedures, reporting obligations, and operational limitations. Boards must ensure compliance with their specific enabling law.

The MACC Act 2009 imposes strict anti-corruption obligations. The introduction of Section 17A establishes corporate liability. This means that Boards can be held accountable for corruption committed by employees unless adequate procedures are implemented.

The Government and SFSO governance directives such as the Sarawak State Ownership Policy (Sarawak SOP) and Sarawak Code of Corporate Governance (Sarawak CODE) for SOEs provide State-level expectations for governance, risk management, investment control, and reporting. These directives reflect Sarawak's intention to strengthen oversight and professionalise SOEs operations.

Understanding these legal anchors is essential for every Board member, as failure to comply with them, can lead to exposure of the organisation to legal, financial, and reputational risks.

8.0 BENCHMARKING WITH GLOBAL SOES GOVERNANCE MODELS

This Handbook draws upon **lessons from countries with sophisticated SOEs management frameworks**. Singapore emphasises professional discipline, competency-based board appointments, and strict integrity expectations. New Zealand's Crown Entities model places strong emphasis on clarity of mandate, performance contracting, and transparent ministerial oversight. Nordic countries demonstrate high levels of transparency, ethical governance, sustainability integration, and board professionalism. OECD guidelines emphasise board autonomy, accountability mechanisms, and separation of ownership and management functions.

Sarawak's governance model incorporates these elements by adapting them to the State's socio-economic context, legal environment, and organisational diversity. This Handbook avoids imposing rigid structures that may not suit smaller or specialised entities, but provides principles that can be applied proportionately across the SOEs ecosystem.

9.0 GOVERNANCE MATURITY AND THE REFORM JOURNEY

Governance maturity develops gradually. Many SOEs in Sarawak are undergoing improvements in risk management, board processes, performance reporting, and strategic planning. Others have more advanced governance structures but require further refinement in integrity frameworks, digital governance, or ESG integration.

This Handbook supports this maturity journey by offering clear guidance that helps SOEs move toward more advanced governance practices. Governance maturity is not a competitive measure. Instead, it serves as a developmental tool. The aim is to build institutions capable of sustaining long-term value creation and fulfilling public expectations. Ongoing SOEs reforms emphasize this journey, with a focus on reducing financial dependencies through better board practices.

CONCLUSION

Part II establishes the philosophical and structural underpinnings of the governance approach adopted in the Handbook. It clarifies the principles, legal foundations, global benchmarks, and public-value orientation that inform the rest of the document. Governance is both a structural system and a behavioural commitment. It guides the spirit in which Board operates, the standards they uphold, and the expectations to which they must adhere. The next Part builds on these foundations to articulate how a high-performing Board is formed and managed.

PART III

ESTABLISHING HIGH-PERFORMING BOARDS

1.0 INTRODUCTION

A high-performing Board is the central pillar of effective SOEs. It is the source of strategic direction, ethical leadership, accountability oversight, and long-term institutional resilience. Although laws and regulations define the legal contours of governance, it is the quality of the Board that determines how effectively these rules are translated into practice. A well-composed, competent, and engaged Board provides the intellectual leadership and disciplined decision-making that enable SOEs to fulfil their public mandate while performing competitively and sustainably.

Board effectiveness arises from careful appointment processes, clear expectations, disciplined structures, and a continuous commitment to strengthening governance culture. Sarawak's transformation agenda requires a Board that is capable of handling complex operational environments, making informed strategic choices, managing risks, ensuring compliance, nurturing talent, and safeguarding public resources. This Handbook places strong emphasis on how Boards are established, composed, and renewed.

2.0 THE PURPOSE OF THE BOARD IN SARAWAK'S SOES GOVERNANCE FRAMEWORK

The Board is the **central governing body of the organisation**. It exists to ensure that the SOEs operate with integrity, achieve their mandate, and remain sustainable in the long term. In Sarawak's governance model, the Board functions as a guardian of public trust. It oversees the stewardship of assets that belong to the State, provides direction and oversight to management, and protects the organisation from undue political, personal, or external influence.

The Board's purpose is multifaceted. It must ensure that the organisation has a clear strategic direction aligned with state priorities such as PCDS 2030. It must protect the organisation's financial and operational integrity. It must hold management accountable for performance. It must oversee risk, ensure compliance with laws, and promote ethical standards. Beyond these functional responsibilities, the Board must cultivate an organisational culture grounded in transparency, professionalism, and public service values. This purpose is reinforced by empirical evidence from studies on SOEs in Cameroon, which show that board characteristics, including independence and effective oversight, are associated with stronger firm performance and governance outcomes.

For the Board to discharge its purpose effectively, it must remain independent in thought, disciplined in judgement, and united in its commitment to the organisation's long-term success. A Board that understands its purpose is more likely to focus on strategic issues, avoid micromanagement, and maintain role clarity.

3.0 PRINCIPLES GUIDING THE ESTABLISHMENT OF HIGH-PERFORMING BOARDS

The establishment of high-performing Boards in Sarawak is guided by principles that shape both the composition and functioning of Boards. These principles are derived from international best practices, local statutory frameworks, and Sarawak's governance reforms.

The first principle is that the Board **must be comprised of individuals with the right competencies**. The skills and experience of Directors must collectively reflect the operational and strategic needs of the SOEs. These include expertise in finance, risk management, industry knowledge, legal and regulatory understanding, technology, sustainability, and public-sector governance.

The second principle is **independence**. Independent-minded Directors improve decision quality by bringing objectivity, and by challenging management when necessary. Independence reduces the possibility of conflicts of interest, reinforces integrity, and improves transparency.

The third principle is **diversity of perspectives**. Diversity enhances the Board's ability to understand risks, identify opportunities, and govern effectively. Diversity includes gender, professional background, age, ethnicity, sector exposure, and experience in public or private organisations. Sarawak encourages meaningful gender representation and broad professional diversity. In SOEs, board diversity has been shown to mitigate risks and promote innovation, particularly in emerging economies.

The fourth principle is **professionalism**. Directors must demonstrate commitment to governance responsibilities, invest time in preparing for meetings, and maintain high ethical standards. Professionalism also requires Directors to pursue continuous development.

The fifth principle is **accountability**. Boards must hold themselves accountable for performance and conduct annual evaluations. They must demonstrate that their decisions are evidence-based, aligned with the mandate, and taken in the best interest of the organisation.

4.0 BOARD COMPOSITION AND STRUCTURE

The effectiveness of a Board depends significantly on its composition. A well-structured Board balances experience with fresh perspectives, combines sectoral expertise with governance literacy, and includes Directors who are able to critically examine issues while collaborating constructively.

Although Board size varies by organisation, most SOEs in Sarawak operate effectively with between five (5) and ten (10) Directors. This range provides sufficient diversity and capacity while maintaining efficiency in discussions. A board that is too large a Board risks becoming unwieldy and slow in decision-making, while too small a Board may lack the breadth of expertise necessary to govern a complex organisation.

To further reinforce sound governance, a clear majority of the Board should ideally comprise of Directors who are independent of management, or at minimum, one-third of them should be independent. Independent Directors help safeguard the integrity of decision-making, particularly in areas involving procurement, investment approvals, remuneration matters, and risk oversight. They are also essential for the effective functioning of certain Board committees.

Thus, the structure of the Board must reflect a deliberate design aimed at strengthening governance integrity and organisational performance.

5.0 CRITERIA FOR DIRECTOR APPOINTMENTS

Director appointments are among the most consequential decisions in the life cycle of an SOE. The quality of the Board is determined by who sits on it. For this reason, **appointments must be based on clear criteria grounded in merit, competence, and integrity**. Sarawak has adopted a structured appointment philosophy that draws from good governance standards.

Prospective Directors must meet the requirements of fit-and-proper criteria. They must demonstrate integrity, ethical conduct, professional competence, financial literacy, industry knowledge, and the capacity to contribute meaningfully to the Board's deliberations. They must not have been convicted of corruption, fraud, or other offences that call into question their honesty or suitability.

Directors must also have the time and commitment necessary to fulfil their duties. This includes attending meetings, reading Board papers in advance, staying informed about sector developments, participating in committees, and engaging in continuous learning. A Director who accepts a Board appointment but lacks the time or interest to fulfil the role, can lead to governance being undermined.

While political neutrality is important, active politicians, elected representatives, or individuals holding high political office, may serve on SOEs Boards with the approval of the shareholder and the Premier, based on merit and taking into consideration of their skills, competency, and experience.

Director appointments must be conducted professionally and fairly, and in accordance with State policy and regulatory frameworks.

6.0 BOARD RENEWAL AND SUCCESSION PLANNING

Long-term effectiveness requires Boards to plan for renewal. While continuity provides stability and preserves institutional memory, regular infusion of new expertise strengthens governance quality and keeps the Board adaptable. Therefore, succession planning is essential in ensuring that the Board remains dynamic, relevant, and capable of meeting evolving challenges.

Succession planning should cover both planned transitions (e.g : retirements) and unforeseen events, (e.g : resignations or incapacity). The Board should identify the skills and experience that will be required in the next three to five years and assess whether current members provide adequate coverage. The Board should advise the shareholder or appointing authority accordingly where gaps are present.

Term limits play an important role in renewal. For independent Directors, a maximum term of nine (9) consecutive years is considered good practice. After this period, independence may be compromised, and the Board may be better served by new perspectives. Term limits also help diversify leadership opportunities and encourage transitions that reflect organisational needs.

7.0 THE ROLE OF THE CHAIR

The Chair holds a pivotal role in **shaping the culture, tone, and effectiveness of the Board**. More than any other individual, the Chair influences how the Board conducts its deliberations, interacts with management, and fulfils its responsibilities. The Chair's leadership style directly affects the quality of decision-making, the level of engagement among Directors, and the Board's overall integrity.

A good Chair is impartial, diplomatic, and firm. They ensure that all Directors are given space to express their views, that discussions remain focused, and that decisions are made in a rational and transparent manner. The Chair must possess the ability to synthesise complex information, articulate strategic priorities, and guide the Board toward consensus without suppressing dissent. It acts as the primary link between the Board and the CEO. This relationship must be professional, respectful, and grounded in role clarity.

The Chair must support the CEO when appropriate, but must also be willing to challenge management and hold the CEO accountable. It must maintain independence from management and ensure that the Board does not intrude in operational matters.

The Chair also sets the ethical tone for the organisation. Their conduct, transparency, and discipline, influence how Directors behave, and how employees perceive the Board's authority.

8.0 DIRECTOR INDUCTION AND CONTINUOUS DEVELOPMENT

New Directors must be **equipped with the knowledge required to perform their duties effectively**. A structured induction programme, ideally coordinated by the Company Secretary in collaboration with management, is essential. Induction should cover the organisation's mandate, strategy, operations, finances, risks, statutory obligations, governance structures, and sectoral environment. It should also familiarise Directors with SFSO reporting obligations and the organisation's responsibilities under applicable laws.

Beyond induction, Directors must pursue continuous development. The governance environment evolves constantly, especially in areas such as ESG, digital technology, cybersecurity, procurement integrity, strategic finance, and risk management. Directors must remain updated in these areas to maintain their effectiveness.

Continuous development is not optional. It is an ethical and professional responsibility that demonstrates commitment to governance excellence.

9.0 ETHICAL CONDUCT AND CONFLICTS OF INTEREST

A high-performing Board must **uphold the highest ethical standards**. Directors serve as guardians of public trust, and their behaviour must reflect this responsibility. Ethical conduct requires honesty, fairness, independence, confidentiality, and adherence to the organisation's governance code.

Conflicts of interest are inevitable, particularly in small markets or close-knit communities. What matters is how these conflicts are managed. Directors must declare any actual, perceived, or potential conflicts at the earliest opportunity. They must abstain from discussions where they have an interest, and ensure that their actions cannot be interpreted as self-serving.

The Board must maintain a conflict-of-interest register, regularly review it, and ensure that Directors comply fully with ethical obligations. Failure to do so may expose the organisation to legal, reputational, and operational risks.

10.0 BOARD CULTURE AND DYNAMICS

The effectiveness of a Board is shaped not only by structure and composition, but by the quality of its internal culture. Board culture refers to the behaviours, norms, and interactions, that influence how Directors work together. A toxic or dysfunctional culture undermines governance even when formal structures appear sound.

Healthy Board culture is characterized by open communication, constructive challenge, mutual respect, and shared commitment to organisational success. Directors must feel comfortable enough to raise concerns, question assumptions, and discuss difficult issues. The Chair must ensure that disagreements remain professional, and that discussions do not become personal or divisive.

Strong Board culture enhances governance resilience. It allows Boards to adapt to crises, navigate uncertainty, and make decisions that reflect collective wisdom, rather than individual dominance.

CONCLUSION

Part III establishes the foundation for building high-performing Boards. It explains the principles, practices and expectations that shape Board composition, appointments, culture, and renewal. By grounding these elements in the Sarawak context, this Handbook ensures that Boards are equipped not only with technical governance tools, but with the leadership qualities necessary to guide SOEs toward excellence. The next Part will elaborate on the roles, responsibilities and duties of the Board, building on the foundations established here.

PART 1V

ROLES, RESPONSIBILITIES, AND DUTIES OF THE BOARD

1.0 INTRODUCTION

The Board of Directors holds the highest authority within an SOE , entrusted with safeguarding public resources and ensuring that the organisation fulfils its mandate with integrity, effectiveness, and accountability. While management runs the day-to-day operations, it is the Board that sets direction, defines expectations, and provides the strategic and ethical oversight necessary for the organisation to thrive. In Sarawak's public-sector context, the Board's responsibilities carry additional weight. This is because SOEs exist not solely for-profit generation, but to advance the socio-economic development of the State. These responsibilities are central to realizing PCDS 2030's vision of a high-income, inclusive, and sustainable Sarawak, where SOEs drive green energy transitions, digital infrastructure, and rural inclusion. In addition, these responsibilities also mean that Board members must understand what their duties are, and appreciate their implications for public trust, financial sustainability, and long-term strategic alignment with government policy.

The Boards must exercise their responsibilities with clarity, discipline and professionalism. These roles are not symbolic, ceremonial or perfunctory; they require deep engagement, informed judgement and continuous commitment. This Part therefore provides a comprehensive explanation—of what Boards in Sarawak SOEs must do, how they must do it, and the standards they must uphold to ensure that governance is effective and that the public interest is protected. International evidence shows that clear delineation of board roles is strongly associated with improved SOEs performance and reduced agency costs in emerging markets.

2.0 THE BOARD AS THE GOVERNING AUTHORITY

The Board is the apex decision-making body of the SOEs. It holds ultimate responsibility for the governance of the organisation, and is accountable for ensuring that all operations, strategies, investments, and activities, align with the laws of Malaysia, Sarawak State policies, and the enterprise's statutory or corporate mandate. The Board's authority is collective; no individual Director may act unilaterally unless explicitly delegated by the Board.

The Board's governance authority is derived from several sources. For incorporated entities, this authority is grounded in the Companies Act 2016, which sets out the legal duties of directors, their liabilities and the powers of the Board. For statutory bodies, the authority is found within the enabling State Ordinance, which specifies the powers granted to the Board, and the conditions under which these powers must be exercised. In all cases, the Board must also observe regulatory conditions, sectoral laws, and directives issued by the Government through the State Financial Secretary.

These legal foundations make the Board responsible for ensuring that the organisation remains compliant, solvent, ethical, transparent, and aligned with public policy. The Board cannot delegate away its core responsibilities, even if committees or management assist in execution. This means that Directors must consistently act with diligence, prudence, and a clear understanding of the legal consequences of their decisions.

3.0 FIDUCIARY DUTIES OF DIRECTORS

Fiduciary duties are the cornerstone of good governance. Directors in Sarawak SOEs are subject to fiduciary obligations that bind them morally, ethically, and legally. These duties require Directors to act in the best interest of the organisation at all times, and to avoid conduct that undermines integrity, fairness, or public trust.

The **duty of loyalty** requires Directors to prioritise the interests of the organisation ahead of their personal interests. This duty prohibits Directors from using their position to secure personal benefits, to advance external business interests, or to favour individuals or entities with whom they have personal or financial ties. Loyalty requires Directors to maintain impartiality even when faced with political, societal or familial pressures.

The **duty of care** requires Directors to exercise reasonable skills, diligence, and informed judgement. This duty obligates Directors to attend meetings regularly, to read and understand Board papers, to ask questions, to seek clarification, and to avoid rubber-stamping proposals. The duty of care is breached when Directors ignore warning signs, fail to challenge assumptions, or make decisions without adequate information.

The **duty to act for proper purpose** means that Directors must use their powers only for legitimate organisational purposes. Improper purposes include decisions driven by political pressure, attempts to benefit individuals, or efforts to manipulate organisational processes for personal advantage. Boards must always act in a manner consistent with the organisation's mandate and legal obligations.

The **duty to avoid conflicts of interest** requires Directors to declare any actual, potential or perceived conflicts at the earliest opportunity. In Sarawak's governance environment, where community ties can be strong and professional networks close, transparency in managing conflicts is essential. Directors must recuse themselves when necessary, to ensure decisions are impartial and credible.

The **duty of confidentiality** prohibits Directors from disclosing sensitive information obtained through their position. This obligation continues after a Director leaves the Board. Confidentiality protects the organisation from reputational harm, commercial disadvantage, and integrity risks.

Together, these fiduciary duties form the ethical framework that guides Directors' behaviour and decision-making. A breach of these duties is not merely a governance failure; it may constitute a legal offence under the Companies Act 2016, MACC Act 2009, or relevant State laws. International evidence, including OECD research, shows that strong enforcement of fiduciary duties is a key differentiator between high and low performing SOEs globally.

4.0 THE BOARD'S STRATEGIC LEADERSHIP ROLE

One of the Board's most important responsibilities is providing strategic leadership. The Board does not micromanage operations, but it must define long-term direction of the organisation. Strategic leadership requires Boards to articulate a clear mission, approve a strategic plan, monitor its implementation, and ensure alignment with Sarawak's development priorities.

Strategic leadership begins with defining the organisation's purpose. For statutory bodies, this purpose is shaped by enabling legislation; for companies, it is shaped by constitutional documents and shareholder expectations. The Board must ensure that the mission remains relevant, achievable, and consistent with the public interest. The Board is responsible for interpreting the organisation's purpose in the context of evolving industry dynamics, regulatory changes, technological disruption, and socio-economic shifts.

Once the mission is clear, the Board must approve the organisation's strategy. It must assess whether the strategy positions the organisation for long-term success, whether it considers risks appropriately, and whether it aligns with PCDS 2030, Sarawak's sustainability agenda, and sectoral policy directions. The Board must not simply endorse management's proposals; it must interrogate assumptions, challenge strategies that are insufficiently rigorous, and request revisions when needed.

Monitoring strategy execution is equally essential. Boards must receive periodic updates, evaluate key performance indicators, review major projects, and address areas of underperformance. Strategic oversight also requires the Board to adjust priorities when circumstances change, ensuring that the organisation remains resilient and agile.

In providing strategic leadership, the Board must always take a long-term perspective. Short-term gains that undermine long-term sustainability or compromise ethical standards must be rejected. Empirical evidence from SOEs reform experiences suggests that active board involvement in strategic decision-making, contributes to improved firm performance in emerging economies. Strategic leadership requires wisdom, foresight, and disciplined judgement.

5.0 FINANCIAL OVERSIGHT AND STEWARDSHIP

Financial stewardship is a central responsibility of the Board, because SOEs manage public funds and assets that must be protected with utmost care. The Board must ensure that the organisation remains financially sustainable, compliant with all relevant regulations, and capable of meeting its obligations now and in the future.

Financial oversight begins with approving the annual budget. The Board must ensure that the budget supports the organisation's strategy and reflects realistic assumptions. It must evaluate whether expenditure is aligned with priorities, whether revenue projections are credible, and whether cash flow is sufficient to sustain operations. Boards must also consider the organisation's long-term capital needs, investment plans, and financing options.

Once the budget is approved, the Board must monitor financial performance regularly. This requires careful review of financial reports, variance analyses, and forecasts. Boards must question unusual patterns, escalating costs, declining revenues, or deviations from expected trends. A passive or uninformed Board exposes the organisation to financial mismanagement.

Boards must also safeguard assets. This includes ensuring that procurement processes are transparent and compliant with regulations, that inventory and asset registers are maintained accurately, and that internal controls prevent waste, fraud, or abuse.

In addition, Boards must exercise authority over major investments and divestments. They must ensure that large capital projects undergo proper evaluation, risk assessment, and due diligence. Investments must be approved only when they offer long-term value, and align with the organisation's mandate. Reckless or poorly assessed investments can have severe consequences for the SOEs and the State.

Financial stewardship is a demanding responsibility that requires financial literacy, discipline, and vigilance. World Bank analysis of Sarawak SOEs reform, highlights a crucial detail : strengthened board financial oversight has doubled dividend contributions to the State while reducing fiscal risk.

6.0 RISK GOVERNANCE AND INTERNAL CONTROL OVERSIGHT

In today's environment, SOEs face a wide range of risks, including financial, operational, legal, technological, environmental, and reputational risks. Effective risk governance requires the Board to **construct a systematic and proactive approach to identifying, assessing, mitigating, and monitoring risks**.

The Board must first approve a risk management framework that is comprehensive, aligned with international standards, and proportionate to the organisation's complexity. This framework must define risk appetite, establish risk categories, and outline procedures for risk monitoring. The Board must ensure that management maintains an up-to-date risk register, and that significant risks are escalated promptly.

Boards must oversee internal controls, by ensuring that policies, processes, and systems, are in place, to prevent fraud, corruption, mismanagement, and operational failures. Internal control oversight includes reviewing internal audit reports, ensuring follow-up action, and monitoring the quality of the internal audit function.

A key component of risk oversight in Malaysia, is compliance with the MACC Act 2009, particularly Section 17A, which imposes corporate liability for corruption. The Board must ensure that the organisation has implemented adequate procedures, including risk assessments, policies, employee training, whistleblowing channels, and monitoring controls.

Boards must also be attentive to emerging risks, especially cyber risks, climate-related risks, supply chain vulnerabilities, regulatory changes, and digital transformation challenges. This requires Board members to be informed, adaptive, and willing to seek expert advice when needed.

Effective risk governance protects the organisation's reputation, enhances resilience, and supports long-term sustainability. OECD guidelines stress that board-level risk oversight is a primary driver of SOEs resilience in volatile environments.

7.0 OVERSIGHT OF CEO AND SENIOR MANAGEMENT

The Board has the **responsibility to appoint, evaluate and, when necessary, remove the Chief Executive Officer**. This oversight function is central to organisational performance, because the CEO leads the execution of strategy, and manages the organisation's resources, workforce, and operations.

CEO appointment must be based on merit, competence, integrity, and leadership capacity. The selection process must be rigorous, transparent and aligned with the organisation's requirements.

Once appointed, the CEO must operate under a formal performance contract that outlines strategic expectations, key performance indicators, behavioural expectations, and compliance requirements. The Board must conduct formal annual evaluations supported by evidence and objective metrics.

The Board must also oversee senior management appointments, succession planning, talent development and leadership culture. Weak senior leadership undermines performance, and puts the organisation at risk. The Board must ensure that talent management systems are effective, fair, and consistent with organisational values.

CEO-Board relationships must remain professional, and based on clear role separation. The Board must support the CEO but also hold them accountable.

8.0 STAKEHOLDER AND GOVERNMENT RELATIONSHIP MANAGEMENT

Because SOEs operate in a public-service environment, they have multiple stakeholders whose interests must be managed responsibly. These include shareholders, employees, customers, regulators, communities, and the public.

The Board must ensure that the organisation meets its reporting obligations to SFSO and relevant ministries. It must engage stakeholders transparently and respond appropriately to their concerns. It must ensure compliance with regulatory requirements, maintain constructive relationships with regulators, and engage communities in a manner that supports public trust.

Stakeholder management is integral to public value creation, and strengthens the SOE's legitimacy. In Sarawak's context, this includes alignment with Bumiputera empowerment and rural development priorities under PCDS 2030.

9.0 ETHICAL RESPONSIBILITY AND INTEGRITY OVERSIGHT

Boards play a key role in maintaining an ethical organisational culture. Ethical responsibility includes ensuring that the organisation implements integrity programmes, enforces codes of conduct, manages conflicts of interest, and supports whistleblowing mechanisms.

Integrity oversight also requires Boards to protect the organisation from corrupt practices. This includes monitoring procurement processes, ensuring compliance with MACC guidelines, and maintaining transparency in high-risk areas.

Boards must lead by example. Their behaviour influences the entire organisation.

CONCLUSION

Part IV outlines the responsibilities, duties, and expectations of the Board. These responsibilities define the heart of governance and reflect a standard of professionalism consistent with Sarawak's reform agenda. The next Part will expand on the operational processes necessary to translate these responsibilities into effective governance practice.

PART V

BOARD OPERATIONS, MEETING PRACTICES, AND INFORMATION PROTOCOLS

1.0 INTRODUCTION

Board operations form the practical foundation of governance. Regardless of how well a Board is composed or how strong its strategic intent may be, it is the day-to-day quality of its processes that ultimately determines its effectiveness. Governance is expressed through predictable systems, disciplined behaviour, coherent procedures, and reliable information flows. Poor processes undermine even the most capable Boards, while well-designed operations elevate the performance of Boards whose members may be relatively inexperienced. For Sarawak SOEs, which carry the dual responsibility of delivering commercial value and public outcomes across a geographically diverse state, professional Board operations are indispensable.

This Part provides a comprehensive explanation of how Boards should operate in practice. Drawing from global models, it sets out the expectations for meetings, decision-making, information flows, Board papers, minutes, the role of the Company Secretary, the management–Board interface, and the use of digital tools. It emphasises that Board operations are not administrative details, but essential components of governance, integrity, strategic coherence, and accountability.

2.0 THE ANNUAL BOARD CALENDAR AND PLANNING OF BOARD WORK

Effective governance begins with **proactive planning**. Boards must adopt an annual calendar of activities to ensure that all critical responsibilities are addressed systematically throughout the year. The annual calendar is more than a schedule; it is a governance tool that creates structure, allocates time for strategic matters, and provides transparency to Directors and management.

The annual calendar should include **predetermined meeting dates for the entire year**. These dates must be approved before the start of the financial year to allow Directors to plan their commitments and ensure full attendance. The calendar must incorporate regular Board meetings, committee meetings, and special thematic sessions, including those dedicated to strategy, budget approval, risk reviews, audit reports, performance evaluations, and engagement with shareholder ministries or SFSO.

Strategic planning sessions should be scheduled at least once a year, ideally early in the planning cycle. **Budget deliberations should be integrated into the calendar** in alignment with the organisation's financial year and the State's budgeting timeline. Risk reviews must take place at intervals that reflect the organisation's risk profile, with more frequent meetings for high-risk sectors.

The annual calendar demonstrates that governance is intentional rather than reactive. It supports the Board's ability to remain focused on strategic priorities, and ensures that oversight functions are not neglected due to operational distractions. This practice aligns with OECD recommendations for SOEs boards to institutionalize forward planning for sustained performance.

3.0 FREQUENCY, FORMAT AND NATURE OF BOARD MEETINGS

Board meetings must occur regularly, and with sufficient frequency, to enable Directors to exercise effective oversight. While the minimum requirement is often set at four (4) meetings per year, Sarawak SOEs should aspire to hold between six (6) and eight (8) meetings annually, depending on organisational complexity, sectoral dynamics, and strategic demands.

Meetings may take different formats, including fully physical meetings, hybrid meetings, fully virtual sessions or emergency gatherings convened, when urgent decisions are required. Regardless of format, the principles of good governance must remain constant: Directors must be able to engage thoroughly, access documents securely, participate fully, and ensure decisions are informed and robust.

In complex SOEs with extensive capital investment or regulatory exposure, more frequent meetings may be necessary. The Board Chair must assess the organisation's needs, and determine whether extraordinary meetings are required to address emerging issues such as sudden financial shocks, regulatory changes, operational disruptions, or integrity concerns.

Board meetings must **remain focused on strategic and high-level matters**. They should not be used to micromanage operations or circumvent management's authority. The Chair has a responsibility to ensure that discussions stay within the Board's mandate, and that the meeting environment fosters constructive engagement, rather than adversarial or politicised behaviour.

4.0 THE AGENDA AS A GOVERNANCE INSTRUMENT

The agenda is one of the most powerful tools available to the Board. It defines the flow of discussion, directs attention to priorities, and ensures that meetings remain structured, disciplined, and aligned with governance responsibilities. A poorly designed agenda results in unfocused debates, insufficient attention to strategy, and inadequate oversight of risk.

The crafting of the agenda is the shared responsibility of the Chair and the Company Secretary, with input from the CEO. The agenda must be prepared with sufficient lead time, and circulated well before the meeting, ideally one (1) week in advance, to allow Directors to prepare. Each item should be accompanied by clear papers, recommendations, and expected actions.

The agenda must be balanced between strategic, operational, financial, risk, and compliance matters. Strategic matters should generally be placed earlier in the meeting, to ensure they receive adequate attention. Routine administrative items should be positioned later unless they carry significant implications.

More importantly, agenda items should distinguish between matters that require decisions, matters presented for deliberation, and matters intended purely for information. This distinction helps guide discussion, prioritise time allocation, and clarify expectations for Directors.

An effective agenda is not an administrative checklist, but a structured roadmap for governance.

5.0 BOARD PAPERS: QUALITY, CLARITY AND ANALYTICAL RIGOR

Board papers are the **foundation of informed decision-making**. The quality of Board decisions is directly determined by the quality of information they receive. Hence, board papers must be **clear, accurate, concise, complete, and analytically grounded**. Poorly prepared papers waste the Board's time, impair sound decision-making, and increase risk.

Management must ensure that Board papers contain sufficient context, relevant analysis, accurate data, and clear recommendations. The papers must explain what is proposed, why it is necessary, what alternatives were considered, what risks are involved, and how the proposal aligns with strategy. They should include financial implications, legal considerations, stakeholder impacts, risk assessments, and implementation plans.

The Company Secretary plays a critical role in maintaining the quality of Board papers. They must ensure that papers adhere to required formats, that they are distributed on time, and that they include all necessary supporting documents.

Directors must receive papers early enough to read, reflect, and prepare questions.

The Board must reject papers that are incomplete or insufficiently rigorous. Doing so reinforces high standards, and ensures that management understands the expectations for governance and transparency.

6.0 CONDUCT OF BOARD MEETINGS

Effective meetings require discipline, preparation, respect, and professionalism. Directors must attend meetings punctually and come prepared, having reviewed all papers in advance. The Chair must guide discussions in a balanced, respectful and structured manner, ensuring that Directors have space to express their views, and that discussions remain focused on relevant issues.

Directors have a duty to participate actively. Silence is not neutral; it may indicate a lack of preparation or engagement. At the same time, Directors must not dominate discussions or undermine the contributions of others. Constructive challenge is essential, but it must be grounded in facts and data, and expressed respectfully.

The CEO and management team must present information transparently, and respond to questions clearly. They must not withhold information, minimise risks, or provide overly optimistic interpretations. The Board must require evidence and request clarification when needed.

Meetings must be conducted in a manner that protects confidentiality. Sensitive matters, including personnel issues, strategic negotiations, or integrity concerns, must be discussed in closed sessions when appropriate.

7.0 DECISIONS, RESOLUTIONS AND DOCUMENTATION

Decisions must be **clear, lawful, well-documented, and consistent with the organisation's mandate**. The Board's authority to make decisions is collective; no individual Director or committee may act on behalf of the Board unless explicitly authorised.

Every decision must be supported by documented analysis and reflected accurately in the minutes. The minutes must provide a faithful record of key points raised, questions asked, issues debated, decisions made, and actions to be taken. They must be approved at the next meeting and stored securely as official records.

Clear documentation strengthens accountability, facilitates audits, supports transparency, and protects the Board, in cases of dispute or external investigation.

Incomplete or inaccurate documentation exposes the organisation to significant governance risks.

8.0 ROLE OF THE COMPANY SECRETARY

The Company Secretary is foundational to good governance. While not a decision-making authority, the Secretary **ensures that governance processes are executed professionally and in compliance with regulations**. They serve as the custodian of Board processes, documentation, statutory filings, and meeting records.

The Company Secretary must ensure that meetings are convened properly, that agendas are prepared, that papers are distributed on time, and that minutes are recorded accurately. They must advise the Board on governance requirements, regulatory obligations, and adherence to internal policies. They serve as the conduit for communication between the Board, management and external regulators.

The Company Secretary's independence is essential. They must report directly to the Board or the Chair, to ensure that governance integrity is maintained.

9.0 BOARD—MANAGEMENT INTERFACE: PRINCIPLES OF CONSTRUCTIVE ENGAGEMENT

The boundary between Board and management must be clearly respected. Boards govern; management manages. This separation does not prevent healthy engagement, but ensures that roles remain distinct, and that accountability is maintained.

Management must provide timely, accurate, and transparent information to the Board. They must seek Board approval for decisions that exceed financial thresholds, strategic significance, or risk exposure defined by policy. They must implement Board directives and report on progress.

Directors must avoid interfering in operational matters. They must not issue instructions to staff, bypass the CEO, or attempt to influence promotions, procurement or project decisions. Such interference undermines management's authority and contradicts governance principles.

Interactions between Board and management must be constructive, respectful, and based on clearly defined roles.

10.0 EXECUTIVE SESSIONS WITHOUT MANAGEMENT

Boards should **periodically conduct executive sessions without the presence of management**. These sessions allow Directors to deliberate sensitive matters such as CEO performance, internal conflicts, Board dynamics, or integrity concerns.

Executive sessions strengthen independence, enhance oversight, and allow the Board to reflect on its own effectiveness. Such sessions should be scheduled at least once or twice a year, or as required.

11.0 CONFIDENTIALITY AND INFORMATION SECURITY

Directors must maintain strict confidentiality regarding all Board documents, discussions, and decisions. Confidentiality protects the organisation from reputational damage, commercial losses, and governance breaches. Directors must store papers securely, refrain from sharing documents with unauthorised individuals, and avoid discussing Board matters in inappropriate venues.

With increasing digitalisation, information security has become even more important. Boards must ensure that sensitive documents are shared only through secure platforms, and that personal devices used for governance purposes, comply with cybersecurity standards.

12.0 USE OF TECHNOLOGY IN BOARD GOVERNANCE

Digital tools can significantly enhance Board effectiveness. Many SOEs are adopting digital Board portals for paperless meetings, secure document sharing, and real-time collaboration. Virtual and hybrid meetings provide flexibility and reduce logistical constraints. Digital dashboards support performance monitoring, risk updates, and financial reporting.

The use of technology must be accompanied by cybersecurity controls, training for Directors and clear protocols to ensure confidentiality. Boards must remain alert to the risks associated with digital governance while leveraging its benefits. This is particularly relevant for Sarawak SOEs operating across remote regions, where hybrid tools promote inclusive governance.

CONCLUSION

Part V provides a detailed description of how Boards must operate in practice. Professional, disciplined, and well-structured Board operations, form the foundation of governance integrity. They ensure that the Board receives accurate information, deliberates effectively, makes informed decisions, and documents its actions properly. Effective operations strengthen accountability, protect public resources, and support the organisation's strategic direction.

With this foundation, the next Part will examine Board Committees, which extend the Board's ability to conduct detailed oversight in specialised areas.

PART VI

BOARD COMMITTEES AND THEIR GOVERNANCE

1.0 INTRODUCTION

Board committees are extensions of the Board. They exist to strengthen the Board's capacity to perform its responsibilities by enabling more detailed scrutiny, deeper deliberation, and specialised oversight, in areas where additional expertise or attention is necessary. While the Board remains ultimately responsible for all decisions and outcomes, committees allow for more effective distribution of workload, and more thorough examination of key issues, such as risk, audit, finance, remuneration, nominations, procurement integrity, and investment approvals.

Committees do not replace the Board; they support it. Their function is to investigate, analyse, evaluate, and recommend. Committees operate under terms of reference approved by the Board, and must remain accountable to it. They have no independent authority unless explicitly delegated. The work of committees enhances transparency, strengthens governance, and promotes disciplined oversight.

This Part provides the purpose, structure, composition, and responsibilities of Board committees within Sarawak SOEs.

2.0 PURPOSE AND VALUE OF BOARD COMMITTEES

Committees **add value by allowing for deeper engagement** with complex matters that cannot be addressed fully in general Board meetings. They provide the Board with the analytical insights required to make informed decisions. They ensure that matters such as financial reporting, internal controls, procurement integrity, human capital decisions, and investment proposals, receive the detailed scrutiny they deserve.

Committees also help Boards manage their time more effectively. When committees function well, Board meetings become more strategic, because detailed technical issues are first reviewed by the appropriate committee. This prevents the Board from becoming consumed by operational detail, and helps maintain its strategic focus.

Committees also raise the quality of governance, by bringing Directors with relevant expertise, into closer conversation with management and advisors. This ensures that important matters are evaluated by individuals who understand the disciplines involved, finance experts reviewing audit reports, risk professionals scrutinising risk registers, or governance specialists evaluating nominations and remuneration frameworks.

Committees therefore contribute to stronger decision-making, better risk oversight, enhanced compliance, and more strategic governance.

3.0 ESTABLISHING COMMITTEES: PRINCIPLES AND FRAMEWORK

The establishment of committees must **follow clear principles to ensure proper governance**. Committees should exist only where they add value. They must be structured carefully, with well-defined responsibilities, clear reporting lines, and appropriately skilled members.

The Board must ensure that committee charters or terms of reference are comprehensive and updated regularly. The charters define the committee's authority, responsibilities, processes, and expectations. They must align with the organisation's governance policies, legal requirements, and oversight needs.

Committees must also maintain proper records, including minutes, agendas, papers, and resolutions. These records serve as essential documentation for audits, compliance reviews, internal investigations, and regulatory inspections.

Each committee must be chaired by an individual with the competence and independence necessary to lead deliberations. The Chair of any committee must be a non-executive Director, and ideally, an independent Director. Committee membership should reflect expertise rather than seniority.

Finally, committees must remain accountable to the Board. They report regularly, seek guidance when necessary, and operate within boundaries defined by the Board. They must avoid overstepping their mandates, or making executive decisions without Board approval.

4.0 THE BOARD AUDIT AND RISK COMMITTEE

The Board Audit and Risk Committee (BARC) is **one of the most critical committees** in any SOEs. It is responsible for **overseeing financial reporting, internal controls, risk management, internal and external audits, and integrity frameworks**. BARC strengthens the Board's oversight capacity in areas that require technical competence and stringent discipline, especially given the public-sector accountability expectations placed on SOEs.

The BARC's responsibilities begin with overseeing the integrity of financial statements. This includes reviewing draft annual accounts, financial disclosures, audit opinions, and management representations. The BARC must ensure that financial statements are accurate, transparent, and compliant with applicable accounting standards.

The BARC must also oversee the internal audit function. The internal audit must operate independently of management, and report directly to BARC. The committee must ensure that the internal audit has adequate resources, appropriate skills, and a risk-based audit plan. Findings from internal audits must be reviewed rigorously, and management must be held accountable for implementing corrective actions.

Risk oversight is fundamental to BARC's mandate. The committee must review the enterprise risk management framework, assess the adequacy of risk mitigation strategies, and monitor emerging risks. BARC must ensure that the organisation's risk appetite is defined clearly and reflected appropriately, in strategic and operational decisions.

The committee must also oversee compliance with internal policies, regulatory requirements, State instructions, and sectoral guidelines. It must review compliance breaches, assess their causes, and ensure that corrective action is taken.

Integrity and anti-corruption oversight are also under BARC's purview. BARC must ensure compliance with the MACC Act 2009, especially Section 17A, and establish a framework of adequate procedures to prevent corruption. This includes monitoring whistleblowing channels, conflict-of-interest declarations, procurement compliance, fraud risk assessments, and integrity training.

BARC plays an essential role in building trust in the organisation's financial stewardship and integrity systems.

5.0 THE BOARD NOMINATION AND REMUNERATION COMMITTEE

The Board Nomination and Remuneration Committee (BNRC) is responsible for shaping the leadership and governance culture of the organisation. Its core responsibilities include **Board selection, nominations and appointments, Board evaluations, CEO and senior management appointments, succession planning, remuneration frameworks, and governance compliance**.

The BNRC ensures that Board appointments are conducted professionally and transparently, based on merit and on the guidelines issued by SFSO, and mechanism outlined in the Sarawak SOP and Sarawak CODE. It evaluates candidates based on qualifications, experience, independence, integrity, and suitability. The BNRC must ensure that the Board's composition matches the organisation's needs, and reflects appropriate diversity.

The BNRC oversees Board evaluations, assessing both individual and collective performance. It identifies areas of improvement, and proposes actions to strengthen governance capacity. It must also evaluate Directors who are standing for reappointment, to ensure that they continue to meet fit-and-proper requirements.

CEO and senior management appointments fall under BNRC's oversight. The committee must ensure that recruitment is fair, competency-based, and aligned with the organisation's talent requirements. It must also oversee succession planning, ensuring that the organisation has a pipeline of capable leaders to sustain long-term performance.

Remuneration oversight includes reviewing salary structures, performance incentives, allowances, and benefits for Directors, the CEO, and senior executives. Remuneration must be fair, competitive, linked to performance, and aligned with the organisation's financial position. The BNRC must guard against excessive pay, conflicts of interest, and non-transparent compensation arrangements.

The BNRC plays a central role in shaping leadership integrity, organisational culture, and governance professionalism.

6.0 THE BOARD FINANCE AND INVESTMENT COMMITTEE

The Board Finance and Investment Committee (BFIC) **strengthens the Board's oversight of financial strategy, capital projects, investment decisions, financing arrangements, treasury policies, and major resource commitments**.

The BFIC is responsible for reviewing major investment proposals, ensuring that proposals are supported by rigorous financial analysis, sensitivity testing, risk assessment, and alignment with strategic priorities. It must assess whether an investment proposal offers long-term value, whether potential risks are manageable, and whether the organisation has the financial capacity to absorb failures.

The BFIC oversees capital expenditure planning, ensuring that capital investments are prioritised according to strategic needs and financial constraints. It must also monitor the performance of ongoing projects, including cost overruns, delays, contract variations, and value erosion.

Treasury oversight includes monitoring cash flow management, financing arrangements, borrowing strategies, and compliance with regulatory limits. The BFIC must ensure that the organisation maintains sufficient liquidity, and that debt obligations are managed prudently.

The BFIC also oversees asset management, ensuring that assets are used efficiently, safeguarded properly, and maintained according to operational needs.

By providing detailed scrutiny of financial and investment matters, the BFIC helps protect the organisation from financial mismanagement, and ensures responsible stewardship of public resources.

7.0 THE BOARD PROCUREMENT, INTEGRITY, AND COMPLIANCE COMMITTEE

Procurement is one of the highest-risk areas within public-sector organisations. This makes the Procurement, Integrity, and Compliance Committee (BPIC) essential for protecting the organisation from corruption, waste, fraud, and inefficiency.

BPIC **oversees the integrity of procurement processes, ensuring that policies are followed, tenders are evaluated fairly, and conflicts of interest are managed properly**. It must ensure that procurement decisions are documented transparently, supported by evidence, and consistent with financial authority limits and regulatory requirements.

BPIC plays a crucial role in protecting the organisation's reputation, and in building public confidence.

8.0 OPTIONAL COMMITTEES BASED ON ORGANISATIONAL NEEDS

Depending on sectoral characteristics, organisational complexity, and business core, Boards may establish additional committees, such as:

- An ESG or Sustainability Committee to oversee environmental performance, social impacts, carbon disclosures, and sustainability initiatives
- A Technology and Digital Transformation Committee to oversee cybersecurity, IT governance, digital projects, and technology procurement
- A Safety and Health Committee to oversee occupational safety, regulatory compliance, and workplace health risks
- A Communications and Public Engagement Committee to oversee stakeholder relations and public communications

These committees are optional, but they add significant governance value in sectors with pronounced risks or specialised needs.

9.0 COMPOSITION, INDEPENDENCE AND EXPERTISE

Committee **effectiveness depends heavily on membership**. Committees must be composed of Directors with the skills, knowledge, and independence, necessary to perform their roles. Independence enhances objectivity, reduces conflicts of interest, and ensures that recommendations are unbiased.

Committee Chairs must be non-executive and preferably independent. To preserve effective checks and balances, the Chair of the Board should not concurrently serve as the Chair of any Board committee. Committee members must possess expertise relevant to the committee's mandate. For example, financial literacy for BARC and BFIC, governance and HR expertise for BNRC, and procurement or integrity knowledge for BPIC.

Management representatives may attend committee meetings by invitation, but must not participate in decision-making, or influence committee recommendations.

10.0 COMMITTEE PROCESSES AND REPORTING

Committees must meet regularly, in accordance to their terms of reference. Meetings must be documented properly, with clear agendas, papers, minutes, and recommendations.

Committees must report to the Board after every meeting, highlighting key issues, concerns, decisions requiring Board approval, and follow-up actions. These reports ensure transparency, strengthen accountability and keep the Board well-informed.

Committee chairs must also provide annual reports summarising activities, effectiveness, findings, and recommendations.

11.0 ACCOUNTABILITY AND LIMITATIONS OF COMMITTEES

Despite their importance, committees do not possess independent authority. They cannot make decisions that bind the organisation, unless the Board grants explicit delegation. Committees cannot override Board authority, make unilateral decisions, or act outside their defined scope.

The Board retains full responsibility for all matters considered by committees. This preserves accountability and prevents fragmentation of authority.

CONCLUSION

Part VI establishes the structure, purpose, and function of Board committees in Sarawak SOEs. Committees strengthen governance by enabling deeper scrutiny, better technical assessment, and more disciplined oversight. They are essential in building organisations that are financially sound, ethically resilient, and strategically aligned with Sarawak's development goals, including PCDS 2030 sustainability targets. With committees supporting the Board, governance becomes both comprehensive and responsive. The next chapter builds on these structural foundations, by outlining Sarawak's governance expectations for strategic CEO oversight, succession planning, and senior management.

PART VII

CEO AND SENIOR MANAGEMENT OVERSIGHT

1.0 INTRODUCTION

The oversight of the CEO and senior management is one of the Board's most critical responsibilities. The CEO is the primary link between the Board's strategic vision and the organisation's operational reality. Senior management, in turn, is responsible for translating the CEO's direction into tangible results. This relationship between Board, CEO and management, forms the backbone of organisational performance. A Board that oversees the CEO effectively strengthens governance integrity, enhances accountability, and ensures that the organisation remains aligned with its mandate. Conversely, weak oversight of the CEO exposes the organisation to operational failures, ethical risks, and strategic drift.

Sarawak's governance framework requires Boards to exercise disciplined, objective, and transparent oversight over the CEO. This Part outlines the expectations for CEO appointments, evaluation, succession, relationship management, disciplinary procedures, and senior leadership oversight. It integrates global best practices and the principles outlined in the uploaded documents, contextualised for the Sarawak SOEs environment.

2.0 THE IMPORTANCE OF CEO GOVERNANCE IN SOES

SOEs in Sarawak operate in complex environments that demand strong leadership. Many SOEs manage large budgets, operate essential services, implement large infrastructure projects, engage in regulated sectors, or handle sensitive public mandates. Thus, the CEO must possess **technical and managerial competence, as well as a deep understanding of governance, integrity obligations, policy environments, and public-sector accountability**.

The CEO's role is particularly significant, because SOEs often have hybrid objectives; commercial profitability on one hand, and social, developmental, or policy mandates on the other. The CEO must balance these objectives without compromising financial discipline or operational efficiency. They must navigate stakeholder expectations, regulatory constraints, market competition, and public scrutiny.

Boards must ensure that the CEO is capable, ethically grounded, operationally disciplined, and strategically aligned with the State's priorities. Effective CEO oversight helps prevent corruption, mismanagement, mission drift, and organisational stagnation.

3.0 APPOINTMENT OF THE CEO

The CEO appointment process must be **governed by professionalism, transparency, and merit**. No other decision has as much impact on an SOE's success as the selection of the CEO. Boards must follow an appointment process that is fair, robust, and aligned with governance expectations.

The Board must develop a competency profile outlining the leadership, technical, and strategic requirements, following guidance, issued by SFSO, and in line with the Sarawak SOP and Sarawak CODE, and behavioural qualities required for the CEO role. This profile should consider the sector in which the SOEs operates, the strategic challenges it faces, and the capabilities necessary to fulfil its mandate. Integrity must be non-negotiable. The CEO candidate must be free from corruption records, conflicts of interest, political affiliations that may impair independence, and any history that may compromise public trust.

Recruitment should be conducted through a formal process. Depending on the organisation's size and strategic importance, this may involve open recruitment, targeted headhunting, or internal candidate evaluation. The Board Nomination and Remuneration Committee (BNRC) plays a central role in shortlisting candidates, conducting interviews, undertaking background checks, assessing leadership fit, and recommending a candidate to the Board upon endorsement by the shareholder and Government.

Once appointed, the CEO must receive a formal letter of appointment outlining the terms of employment, performance expectations, reporting obligations, behavioural requirements, and disciplinary provisions. This letter must be consistent with SFSO governance directives and any applicable statutory requirements.

4.0 CEO PERFORMANCE CONTRACT

The CEO **shall operate under a performance contract**. This contract is essential for ensuring accountability, transparency, and alignment with organisational objectives. A performance contract is not merely a formality; it is a governance tool that outlines what the Board expects of the CEO, and how performance will be measured.

The performance contract should include strategic objectives, financial targets, operational indicators, risk management expectations, human capital development requirements, ESG commitments, and integrity responsibilities. It must reflect the organisation's mandate and support the broader aims of PCDS 2030 and beyond.

Performance targets should be specific, measurable, achievable, relevant, and time-bound, covering both quantitative and qualitative aspects. Quantitative indicators may include revenue, profitability, operational efficiency, cost management, and completion of key projects. Qualitative indicators may include leadership effectiveness, stakeholder relationships, culture building, integrity compliance, and risk management discipline.

The performance contract must also specify how performance will influence remuneration, bonuses, contract renewal, and consequences for underperformance. The Board must review the contract annually, to ensure it remains relevant.

5.0 CEO EVALUATION AND PERFORMANCE ASSESSMENT

The Board is **responsible for evaluating the CEO's performance objectively and thoroughly**. Evaluations must occur annually at a minimum, with periodic reviews throughout the year. The Nomination and Remuneration Committee should manage the evaluation process, ensuring that assessments are evidence-based, fair, and aligned with the performance contract.

The evaluation must consider the organisation's achievements, financial results, operational performance, strategic progress, risk management, compliance record, and leadership behaviour. It must also evaluate the CEO's relationship with the Board, management, regulators, stakeholders, and employees.

The Board must ensure that performance evaluations are documented properly. Constructive feedback must be provided to the CEO, outlining strengths, areas for improvement, and expectations for the following year. Where performance is unsatisfactory, the Board must outline corrective actions, set timelines, and specify consequences for non-compliance.

CEO evaluation must be free from bias, political influence, and interpersonal pressure. The process must uphold governance integrity, and reflect the principle of accountability.

6.0 OVERSIGHT OF SENIOR MANAGEMENT

Boards must also **exercise oversight over senior management**. While the CEO leads and manages the executive team, the Board has a responsibility to ensure that senior management appointments, promotions, and disciplinary actions, align with organisational needs and governance expectations.

The Board must ensure that management positions are filled by competent individuals who possess both technical knowledge and leadership capability. It must ensure that recruitment and promotion processes follow established procedures that are transparent and merit-based.

Senior management must also be held accountable for performance. The Board must ensure that performance appraisal systems are fair, transparent, and aligned with organisational goals. Senior executives must be evaluated on their leadership behaviour, financial stewardship, risk management, strategic contributions, and adherence to ethical standards.

Boards must ensure that senior management operates under clearly defined authority limits. Excessively centralised power in senior positions raises integrity and governance risks. Conversely, unclear authority limits lead to operational ambiguity and undermined accountability.

7.0 SUCCESSION PLANNING FOR CEO AND SENIOR EXECUTIVES

An organisation that lacks succession planning is vulnerable to operational disruption, leadership vacuum, and strategic discontinuity. The Board must **ensure that a systematic succession plan is in place for the CEO and all critical management positions**.

Succession planning must identify potential successors, both internal and external. It must consider the competencies required for future leadership, and assess whether internal candidates possess the necessary development potential. Where internal talent gaps exist, the Board must insist on targeted leadership development programmes, coaching, performance feedback, and deliberate exposure to strategic responsibilities.

Succession planning must cover planned transitions as well as emergency scenarios. The Board must ensure that, if the CEO is unexpectedly unable to perform their duties, a designated interim leader can assume responsibilities immediately.

Effective succession planning demonstrates governance maturity and organisational resilience. It ensures that leadership transitions occur smoothly, and that the organisation maintains continuity in times of change.

8.0 CEO—BOARD RELATIONSHIP AND GOVERNANCE BOUNDARIES

A high-quality relationship between the Board and the CEO is essential for governance effectiveness. This relationship must be built on mutual respect, professional transparency, and strictly defined boundaries. The CEO must trust the Board to provide strategic oversight without micromanagement. The Board must trust the CEO to manage operations while remaining accountable for performance.

Board members must refrain from interfering in operational matters. They must not give instructions directly to employees, intervene in procurement decisions, or attempt to influence promotions or disciplinary actions. Such behaviour undermines governance integrity, and creates confusion in reporting lines.

The CEO, in turn, must respect the Board's authority. They must provide the Board with accurate information, respond to inquiries in a timely manner, and seek approval for matters that exceed delegated authority. They must not withhold information, manipulate reports, or present overly optimistic assessments.

A well-functioning CEO–Board relationship reinforces role clarity and strengthens the organisation.

9.0 INTEGRITY OVERSIGHT AND BEHAVIOURAL EXPECTATIONS

The CEO and senior management must embody the highest ethical standards. Because senior leadership sets the tone for the entire organisation, their behaviour has profound influence on culture, morale, and performance. The Board must ensure that the CEO demonstrates integrity, transparency, professionalism and ethical judgement.

The Board must also ensure that senior management implements MACC Section 17A compliance measures, enforces codes of conduct, manages conflicts of interest, protects whistleblowers, and monitors integrity risks.

If the CEO or any senior executive is involved in misconduct, the Board must act decisively. Delayed or weak action exposes the organisation to significant legal and reputational risks.

10.0 DISCIPLINARY ACTION, REMOVAL, AND CONTRACT NON-RENEWAL

The Board must have **clear procedures for addressing underperformance, misconduct, or loss of confidence in the CEO or senior management**. Disciplinary action must be taken in accordance with governance procedures, contractual obligations, and relevant laws.

If the CEO fails to meet performance expectations, breaches ethical standards, violates laws, or loses the confidence of the Board, the Board must consider non-renewal, suspension, or termination. Such decisions must be documented thoroughly, and communicated with sensitivity and professionalism.

Boards must not allow political considerations, personal loyalties, or external pressures, to influence such decisions. Removing or disciplining a CEO is difficult, but failing to do so may cause far greater harm to the organisation.

CONCLUSION

Part VII establishes a detailed and comprehensive narrative on CEO and senior management oversight. It clarifies the expectations for appointment, performance management, leadership accountability, integrity, succession planning, and governance boundaries. Effective oversight of the CEO and senior management is indispensable to organisational performance and public trust in Sarawak's SOEs ecosystem.

The next Part will address risk, audit, internal control, and integrity systems, which are areas that constitute the operational backbone of governance.

PART VIII
RISK MANAGEMENT, AUDIT, INTEGRITY, AND INTERNAL CONTROL SYSTEMS

1.0 INTRODUCTION

Risk management, internal control, and audit systems, are the pillars that safeguard an organisation's integrity, financial health, and operational resilience. In the context of Sarawak's SOEs, these systems carry heightened importance, because SOEs are entrusted with public resources, operate essential services, and must navigate complex economic, regulatory, and political environments. Effective risk governance protects the organisation's sustainability, and public confidence in government institutions.

This Part provides a comprehensive narrative account of the systems, principles, and expectations that underpin risk management, audit, and internal control frameworks in Sarawak SOEs. Drawing from global standards, Malaysian regulatory requirements, and MACC provisions, it sets out a governance model that is robust, future-oriented, and aligned with Sarawak's transformation goals. It explains what organisations must do, as well as why these systems are essential, and how Boards must engage to ensure discipline and accountability.

2.0 THE NATURE OF RISK IN STATE-OWNED ENTERPRISES

SOEs face a **unique combination of risks, because they operate in commercial markets while fulfilling public mandates**. This dual role exposes SOEs to financial uncertainty, political expectations, regulatory scrutiny, and public accountability pressures. Many SOEs in Sarawak operate in critical sectors such as energy, infrastructure, transport, agriculture, digital services, and financial facilitation, where operational interruptions or governance failures can produce widespread consequences.

Risks faced by SOEs include financial risk, liquidity risk, operational failure, project delays, supply chain disruptions, technological vulnerabilities, cyber threats, environmental and climate risks, legal and regulatory breaches, ethical lapses, corruption, reputational damage, and strategic misalignment. These risks evolve constantly, influenced by global economic trends, sector-specific challenges, changes in government policy, and technological advancements.

Because of this, **risk management must be proactive, structured, and**

embedded into organisational culture. It cannot be treated as a compliance exercise or annual formality. Boards must ensure that risk assessments are realistic, dynamic, and grounded in evidence. Senior leadership must treat risk as a strategic priority, not an administrative obligation. Employees must understand their role in mitigating risks and reporting concerns.

Effective risk management is a shared responsibility that begins with the Board and cascades through the entire organisation.

3.0 THE BOARD'S ROLE IN RISK OVERSIGHT

The Board is ultimately **responsible for overseeing risk and ensuring that the organisation maintains a disciplined approach to risk management**. While management designs and implements risk frameworks, the Board must evaluate their effectiveness, challenge assumptions, and ensure that risks are understood and mitigated.

The Board must **approve the organisation's risk management policy, risk appetite statement, governance structure, and reporting procedures**. Risk appetite defines the level of risk the organisation is prepared to accept in pursuit of its objectives. A clearly defined risk appetite provides boundaries for management decisions, investment choices, procurement activities, and operational strategies.

Boards must also ensure that **risk management is fully integrated into strategic planning**. No major project, investment, or operational initiative, should proceed without a thorough assessment of potential risks, mitigation measures, cost implications, and alignment with organisational capabilities.

The Board must **review periodic risk reports, assess emerging threats, examine high-risk areas, and ensure that corrective actions are taken promptly**. The Board must also evaluate whether the organisation possesses the required expertise, systems, and resources to manage risks effectively.

In fulfilling this oversight role, the Board strengthens organisational stability and ensures long-term sustainability.

4.0 RISK MANAGEMENT FRAMEWORK AND SYSTEMS

Every SOE must **establish a comprehensive risk management framework that sets out policies, governance structures, processes, and responsibilities**. The framework must be proportionate to organisational size, complexity, and sectoral exposure, but must meet minimum governance standards outlined in State and national guidelines.

A robust framework includes clear policy statements, risk appetite definitions, risk categories relevant to the organisation, risk registers, assessment methodologies, and reporting protocols. It must assign responsibilities across different levels of the organisation, from frontline employees, to senior management, committees, and the Board.

The framework must also **define escalation procedures**. Significant risks must be reported immediately to the CEO, and ultimately to the Board. Risks that exceed management's authority must not be addressed solely at the operational level.

Risk systems must also **incorporate regular reviews and updates**. Risk profiles change, making static frameworks ineffective. Periodic reviews ensure that emerging risks such as cybersecurity threats, climate impacts, supply chain shocks, or regulatory changes, are captured accurately.

Technology can enhance risk systems through automated reporting dashboards, data analytics, scenario modelling, and predictive tools. Boards must encourage the adoption of technology while ensuring that data accuracy and cybersecurity controls remain strong.

5.0 INTERNAL CONTROLS AS THE BACKBONE OF GOVERNANCE

Internal controls are the processes, rules and mechanisms that ensure the reliability of operations, financial reporting, and compliance. They are **foundational to preventing fraud, mismanagement, corruption, and operational failures**.

Internal controls cover a wide range of functions, including procurement, financial approvals, asset management, inventory control, cash handling, payroll, IT systems, data security, and project monitoring. Controls must be designed to prevent risks, detect irregularities, and respond to identified weaknesses.

SOEs must ensure that internal controls are implemented in accordance with the Statutory Bodies (Financial and Accounting Procedure) Ordinance, 1995, relevant State circulars, sectoral regulations, and the Companies Act 2016, as well as applicable auditing standards.

Boards must ensure that internal controls are reviewed regularly, updated in response to changing risks, and tested for effectiveness. Weak or outdated controls create vulnerabilities that can be exploited through corruption, negligence, or fraud.

Internal control systems must be documented clearly. Policies, processes, authority limits, and standard operating procedures, must be accessible to employees. Controls must be practical, enforceable, and integrated into daily work routines.

A culture of internal control strengthens operational integrity and enhances accountability.

6.0 THE ROLE OF INTERNAL AUDIT

Internal audit is **an independent assurance function that evaluates the adequacy of internal controls, risk management, and governance processes**. The internal audit function **must report directly to the Board Audit and Risk Committee (BARC) and have unrestricted access to information, personnel, and systems**.

Internal auditors must develop a risk-based audit plan that reflects the organisation's priorities. They must review high-risk areas, assess compliance with policies, test internal controls, identify weaknesses, and provide recommendations for improvement.

Internal audit reports must be detailed, fact-based, and actionable. Management must be required to respond to audit findings and implement corrective measures within a defined timeframe. The BARC must monitor progress closely and escalate persistent non-compliance to the Board.

The independence of an internal audit is essential. Internal auditors must operate free from influence by management. They must not be involved in operational decision-making or design of controls. Their role is to evaluate, not execute.

Boards must ensure that the internal audit function is adequately staffed, properly trained, and supported through modern audit tools. Weak internal audit capacity is a governance risk.

7.0 EXTERNAL AUDIT AND FINANCIAL ASSURANCE

External audit provides independent verification of financial statements, ensuring compliance with accounting standards and legal requirements. The external auditor also evaluates the soundness of financial controls and highlights areas of concern.

The Board, through the BARC, must oversee the selection, appointment, and performance of external auditors. The auditing firm must be competent, independent, and free from conflicts of interest. Rotation of appointments of external auditor partners or firms at reasonable intervals, aligns with the State Financial Secretary's circular in force, strengthens objectivity, and enhances audit quality.

The Board must review the external auditor's reports, management letter, audit findings, and recommendations. Management must be required to address audit issues promptly. Persistent audit findings, unexplained discrepancies, or material weaknesses in financial reporting, must be taken seriously and acted upon.

External audits support transparency, accountability, and public confidence in the SOE's financial integrity.

8.0 COMPLIANCE WITH LAWS, REGULATIONS AND STANDARDS

SOEs must comply with a wide range of laws and regulations, including governance, financial, operational, environmental, safety, and sector-specific requirements. Compliance is not optional; it is a fundamental governance expectation.

Boards must **ensure that compliance obligations are identified clearly, monitored systematically, and updated regularly, as laws evolve**. Compliance must be part of the organisation's risk management system, and not treated as an isolated administrative task.

The MACC Act 2009, particularly Section 17A, requires organisations to maintain adequate procedures to prevent corruption. Boards must oversee compliance with these requirements, including establishing integrity policies, training programmes, whistleblowing systems, disciplinary mechanisms, and corruption risk assessments.

Compliance failures expose the organisation and Board members to legal liability, reputational harm and operational disruption. Therefore, boards must treat compliance as a strategic priority.

9.0 INTEGRITY SYSTEMS AND ANTI-CORRUPTION CONTROLS

Integrity is central to public-sector governance. SOEs must implement comprehensive integrity frameworks that promote ethical behaviour, deter misconduct, and ensure compliance with anti-corruption laws.

An integrity framework must include a code of conduct, conflict-of-interest policies, whistleblowing channels, integrity training, corruption risk assessments, investigations procedures, and sanctions for misconduct. The Board must ensure that these systems are effectively implemented, supported by leadership, and rigorously monitored.

Integrity risk is most pronounced in procurement, contract management, asset disposal, financial approvals, and interactions with external parties. Boards must ensure that controls in these areas are strong, transparent, and consistent with national anti-corruption guidelines.

Whistleblowing systems must allow employees and stakeholders to report concerns anonymously, without fear of retaliation. Reports must be investigated promptly and impartially. Boards must ensure that whistleblowers are protected, and that findings are addressed appropriately.

Integrity oversight is one of the Board's highest responsibilities, because corruption in SOEs undermines public trust and State legitimacy.

10.0 INFORMATION SECURITY AND CYBER RISK MANAGEMENT

Digital transformation has increased the vulnerability of SOEs to cyberattacks, data breaches, and technological disruptions. Cyber risks can cause severe operational failures, financial losses, and reputational harm. Hence, boards must treat information security as a strategic risk.

Boards must ensure that the organisation maintains strong cybersecurity controls, including firewalls, intrusion detection systems, data encryption, access controls, backup mechanisms, and cybersecurity protocols. They must also ensure that employees receive training on cybersecurity awareness, safe digital practices, and incident reporting.

Cyber risk management must be integrated into enterprise risk management systems. The Board must receive periodic reports on cybersecurity incidents, vulnerabilities, mitigation plans and regulatory compliance. If the SOEs operates critical infrastructure, the Board must ensure compliance with State and national cybersecurity frameworks, and sectoral standards.

11.0 BUSINESS CONTINUITY AND CRISIS PREPAREDNESS

SOEs must be prepared for crises such as system failures, natural disasters, public health emergencies, supply chain disruptions, or the sudden loss of key personnel. Business continuity planning ensures that essential operations continue even under adverse conditions.

Boards must **ensure that the organisation maintains a business continuity plan (BCP)** that outlines contingency procedures, backup systems, communication protocols and recovery timelines. The BCP must be tested regularly through simulations and drills.

Crisis preparedness also requires clear communication strategies, stakeholder engagement plans, and coordinated response systems. Boards must be prepared to engage directly during major crises, providing leadership and oversight without interfering in operational roles.

12.0 OVERSIGHT OF HIGH-RISK AREAS

Certain areas require heightened Board oversight due to their risk profile. These include:

- ❖ large capital investments
- ❖ procurement of high-value goods or services
- ❖ partnerships or joint ventures
- ❖ land acquisition, development or disposal
- ❖ major financial transactions
- ❖ complex Information and Communication Technology (ICT)systems
- ❖ regulatory compliance in sensitive sectors

The Board must insist on rigorous due diligence, independent verification, risk assessments, and documented justification before approving these initiatives. High-risk decisions must never be rushed or influenced by external pressure.

13.0 REPORTING, DOCUMENTATION AND TRANSPARENCY

Risk management, audit, and internal control processes, must be supported by robust documentation. Reports must be detailed, accurate, timely, and accessible. Documentation facilitates audits, supports investigations, strengthens transparency, and protects the organisation.

The Board must ensure that risk registers, audit reports, compliance checklists, and integrity assessments, are maintained properly. They must also ensure transparent reporting to shareholder ministries, SFSO, and regulatory agencies, as required by law.

Transparency builds trust and demonstrates accountability to the public.

14.0 CULTURE OF RISK AWARENESS AND ETHICAL BEHAVIOUR

Beyond systems and processes, a strong organisational culture is essential. Employees at all levels must understand the importance of risk management, integrity, and internal controls. Board and management must communicate expectations clearly, enforce policies consistently, and reward ethical behaviour.

A culture of silence, fear, or complacency, undermines governance systems. The Board must encourage open communication, critical thinking, and willingness to report concerns. Ethical leadership from the top is the most powerful driver of a strong integrity culture.

CONCLUSION

Part VIII establishes the principles and systems that underpin risk management, audit, internal control, and integrity in Sarawak SOEs. These systems protect the organisation, the Board, the government, and the public from harm. They ensure that SOEs remain resilient, compliant, transparent, and aligned with best practices, including PCDS 2030 emphasis on sustainable and low-carbon development.

Building on these systems, the next Part details how **strategy, planning, performance management drive, organisational outcomes**, linking governance to results.

PART IX

STRATEGY, PLANNING, AND PERFORMANCE MANAGEMENT

1.0 INTRODUCTION

Strategic planning and performance management lie at the heart of how SOEs fulfil their mandates and contribute to Sarawak's development. An SOE's ability to deliver public value, achieve commercial sustainability, and support PCDS 2030, depends on the clarity of its strategy, and the discipline of its execution. Governance is not complete unless the Board ensures that the organisation has a coherent strategy, measurable performance indicators, and systems for monitoring progress and holding management accountable.

This Part provides a detailed, narrative explanation of the strategic planning process, the Board's role in shaping and approving strategy, the development of corporate scorecards, the importance of performance contracts, and the systems required for monitoring organisational outcomes. It integrates principles of best practices from OECD countries, and governance requirements relevant to Malaysia and Sarawak.

2.0 THE ROLE OF THE BOARD IN STRATEGY

The Board's primary strategic role is to set direction, approve the organisation's long-term plans, and ensure alignment with State priorities. The Board must understand the organisation's mandate deeply, whether it is commercial, developmental, hybrid or regulatory, and ensure that strategy is grounded in that mandate.

Strategy is not a static document; it is a dynamic plan that must evolve in response to external shifts, sectoral demands, technological advancements, and government policy. Boards must therefore treat strategy as an ongoing governance responsibility, engaging regularly with management to refine, update, and review organisational priorities.

The Board must challenge assumptions, ask probing questions, and ensure that proposed strategies reflect realistic assessments of capability, risk, resources, and opportunities. It must ensure that strategic plans account for the organisation's financial position, talent capacity, regulatory obligations, competitive environment, and technological readiness.

Critically, the Board must ensure that the organisation's strategy supports PCDS 2030 objectives. Whether the SOEs is engaged in infrastructure, energy, digital services, industrial development, or community support, its strategy must contribute to the State's goals of sustainability, wealth creation, digital transformation, and social inclusiveness.

3.0 STRATEGIC PLANNING PROCESS

Strategic planning is a **disciplined, structured, and evidence-based process**. It begins with a thorough assessment of the organisation's internal capabilities, financial position, sectoral environment, regulatory landscape, and stakeholder needs. Boards must ensure that management conducts this assessment using reliable data, rigorous analysis, and input from key stakeholders.

The planning process typically culminates in a multi-year strategic plan, covering a period of three (3) to five (5) years. This plan articulates long-term goals, strategic thrusts, major projects, resource allocation priorities, and performance expectations. Boards must approve this plan after careful evaluation.

The process must also include periodic reviews, particularly when major changes occur in the organisation's operating environment. For example, shifts in government policy, economic disruptions, technological advancements, or regulatory changes, may require strategic adjustments. Boards must ensure that these reviews occur regularly and that strategies remain relevant.

Strategic planning must involve robust consultation with key ministries, SFSO, regulators, and relevant agencies. For certain SOEs, particularly statutory bodies, stakeholder engagement is essential, to ensure alignment with legal mandates and government priorities.

Ultimately, strategy must reflect clarity of purpose, coherence of actions, and disciplined execution.

4.0 INTEGRATION OF STRATEGY WITH PCDS 2030

PCDS 2030 sets the long-term direction for Sarawak, including economic restructuring, renewable energy development, digital transformation, talent development, rural inclusion, and sustainable development. SOEs play a central role in delivering these goals. Therefore, Boards must ensure that their organisation's strategy integrates explicitly with PCDS 2030.

For commercial SOEs, this may involve investments in renewable energy, digital infrastructure, circular economy initiatives, industrial upgrading, green technology, or supply chain transformation.

For statutory bodies, this may include capacity building, public services enhancement, regulatory strengthening, or development facilitation.

Boards must ensure that the strategic plan reflects how the SOEs will contribute to PCDS 2030 outcomes, such as increased GDP, job creation, innovation, sustainability, and equitable regional development.

This alignment strengthens policy coherence, improves accountability, and ensures that SOEs operate as instruments of State development.

5.0 CORPORATE SCORECARDS AND PERFORMANCE MEASUREMENT

Performance measurement is essential for translating strategy into actionable outcomes. Corporate scorecards define the key performance indicators (KPIs) that measure the organisation's progress in achieving strategic goals.

Scorecards must be balanced, covering financial, operational, customer, stakeholder, human capital, environmental, and governance dimensions.

KPIs must be relevant, realistic, evidence-based, and aligned with the organisation's mandate. Boards must ensure that KPIs do not incentivise short-term gains at the expense of long-term sustainability.

Each SOE's scorecard must reflect unique operational needs. For example:

- Energy and utility SOEs may focus on network reliability, renewable energy transitions, system losses, and safety.
- Infrastructure SOEs may emphasise project delivery timeliness, cost variation control, and asset maintenance.
- Digital SOEs may emphasise connectivity expansion, service reliability, and cybersecurity.
- Development statutory bodies may focus on community impact, service coverage, and policy outcomes.

Boards must approve the scorecard and monitor it regularly. KPIs must be reviewed periodically to ensure alignment with changing strategic priorities.

6.0 LINKING PERFORMANCE MEASUREMENT TO ACCOUNTABILITY

Performance measurement is ineffective unless it is linked to accountability. For SOEs, accountability exists at multiple levels: to the public, to shareholder ministries, to SFSO, and ultimately, to the Board. Therefore, Boards must ensure that KPI performance influences CEO evaluation, senior management appraisal, remuneration decisions, resource allocation, and strategic shifts.

Boards must ensure that performance review systems are objective, data-driven, and free from bias. Regular performance meetings must be conducted, and deviations from targets must trigger corrective actions.

Boards must also guard against manipulation of KPIs or misrepresentation of performance data. Transparency, evidence, and independent verification, strengthen the credibility of performance management systems.

7.0 BOARD MONITORING OF ORGANISATIONAL PERFORMANCE

Boards must monitor performance continuously through periodic reporting. Management must provide timely, accurate, and analytical reports, that show performance trends, root causes, risks, corrective actions, and forward-looking projections. The Board must not rely solely on annual reports or quarterly statements; it must track performance monthly, or at intervals appropriate to operations.

Performance monitoring must not be passive. Boards must interrogate data, identify patterns, challenge assumptions, and demand explanations for variances. They must examine whether performance issues stem from external factors, internal weaknesses, leadership gaps, or system failures.

Boards must also ensure that financial and operational performance is linked to risk profiles. Declining performance in high-risk areas signals deeper governance issues that require immediate attention.

8.0 STRATEGY EXECUTION AND ORGANISATIONAL CAPACITY

A strategy is only as effective as the organisation’s capacity to execute it. Boards must ensure that the organisation possesses the financial resources, human capital, systems, technology, and processes necessary to deliver strategic objectives.

Boards must evaluate whether investments in systems, digital tools, talent development, training, and innovation, are sufficient and aligned with strategic priorities. They must ensure that organisational structures support efficient decision-making and operational execution.

Weak organisational capacity prevents effective strategy delivery, regardless of how well the strategy is designed. Thus, boards must treat capacity building as a strategic responsibility.

9.0 ADAPTIVE STRATEGY AND RESPONSIVENESS TO CHANGE

Modern SOEs operate in volatile and fast-changing environments. Global economic shocks, technological advancements, political developments, regulatory shifts and natural disasters, can significantly affect operations. Boards must ensure that their organisation practices adaptive strategies that must be reviewed regularly, adjusted when necessary, and responsive to unforeseen challenges.

Scenario planning, sensitivity analyses, and environmental scanning, help Boards anticipate risks and opportunities. Adaptive strategy supports resilience, innovation, and competitive advantage.

10.0 ORGANISATIONAL OUTCOME REPORTING AND PUBLIC VALUE

For SOEs with developmental mandates, performance must be measured by financial indicators and by public value outcomes. These may include community impact, service accessibility, environmental sustainability, rural development, job creation, and social inclusion.

Boards must ensure that outcome reporting is transparent and meaningful. Reports must reflect genuine impacts rather than superficial metrics. Public value reporting strengthens legitimacy, and reinforces the organisation’s alignment with State priorities.

11.0 REVIEWING AND REFRESHING STRATEGY

Strategic plans must be reviewed annually, with major refresh exercises conducted every three (3) to five (5) years. These reviews must evaluate achievements, shortfalls, and underlying causes. They must assess evolving risks, sectoral trends, regulatory changes, new opportunities, and stakeholder needs.

Boards must lead strategic refresh processes. They must ensure that strategic decisions remain grounded in evidence and aligned with organisational capabilities.

CONCLUSION

Part IX establishes the essential governance link between strategic planning, performance measurement, and accountability. It clarifies the Board's role in setting direction, approving strategy, evaluating performance, and ensuring alignment with Sarawak's long-term vision. Effective strategy governance transforms SOEs into high performing instruments of State development.

The next Part will address **financial management, budgeting, and resource stewardship**, providing narrative guidance on financial governance in SOEs.

PART X

FINANCIAL MANAGEMENT, BUDGETING, AND RESOURCE STEWARDSHIP

1.0 INTRODUCTION

Financial management is one of the most critical governance responsibilities of SOEs. They are responsible in management of substantial public resources, handling of essential infrastructure, support towards economic development, and contribution to State finances, through dividends, taxes, or service delivery outcomes. Because these organisations operate with public trust and public money, their financial systems must be disciplined, transparent, compliant, and strategically aligned with the State's priorities, including PCDS 2030.

SOEs Boards must ensure that the organisation's financial governance is robust, sustainable, and capable, of supporting both operational stability and long-term growth. Financial mismanagement in SOEs, has consequences beyond the organisations themselves, which can affect taxpayers, communities, government budgets, investor confidence, and the credibility of public institutions. This Part sets out the frameworks, principles, and practices necessary for sound financial management, drawing from Malaysian laws, Sarawak financial procedures, and international best practices.

2.0 THE BOARD'S ROLE IN FINANCIAL STEWARDSHIP

The Board holds ultimate responsibility for the financial integrity of the organisation. Directors must ensure that budgets are realistic, financial controls are strong, investments are prudent, resources are allocated in a manner that supports strategic priorities, and reporting is accurate. Financial stewardship is both a fiduciary obligation and a governance duty.

The Board must understand the organisation's financial structure, including revenue streams, cost drivers, asset composition, debt obligations, liquidity position, and capital needs. They must evaluate whether the financial model supports organisational sustainability, and whether risks are properly mitigated or otherwise.

Boards must not approve budgets or financial decisions without adequate analysis and documentation. They must challenge assumptions, compare projections with historical trends, and examine whether financial plans are too optimistic or insufficiently cautious. Boards must ensure that management does not mask financial challenges, delay critical decisions, or understate risks.

Financial stewardship also requires Boards to ensure compliance with Statutory Bodies (Financial and Accounting Procedure) Ordinance, 1995, Companies Act 2016, Sarawak enabling ordinances, sectoral regulations, and SFSO governance directives. Compliance failures expose the organisation to legal liabilities, and can compromise public trust.

3.0 PRINCIPLES OF PRUDENT FINANCIAL GOVERNANCE

Sound financial governance is guided by core principles that ensure discipline, transparency, and sustainability. These principles include prudence, accountability, accuracy, consistency, timeliness, and proper documentation.

Prudence requires Boards to make financial decisions based on realistic forecasts, thorough analysis, and careful assessment of risks. This principle discourages speculative investments, excessive leverage, or overly optimistic revenue projections.

Accountability ensures that management is answerable for financial performance, and that Boards exercise oversight effectively. It requires clear reporting, evidence-based justification, and transparent documentation.

Accuracy and consistency ensure that financial reports reflect actual performance, follow proper accounting standards, and maintain comparability across periods. Boards must ensure that financial statements are reliable, audited, and free from material misstatement.

Timeliness ensures that financial information is available when needed for decision-making. Delayed reporting undermines oversight and increases risk.

Proper documentation is indispensable. Every financial decision must be supported by written analysis, approvals, minutes, and records. Documentation protects Boards during audits, investigations, or reviews.

These principles reflect global best practices and form the ethical foundation of financial governance.

4.0 BUDGETING FRAMEWORK AND PROCESS

The annual budget is the financial expression of the organisation's strategy. It outlines expected revenues, planned expenditures, investment needs, resource allocations, and performance targets. Boards must ensure that the budgeting process is rigorous, inclusive, transparent, and aligned with strategic priorities.

Management must prepare the budget based on realistic forecasts, verified data, and comprehensive cost assessments. The process must involve relevant departments to ensure accuracy and ownership. The Board must review draft budgets in detail, question assumptions, evaluate cost pressures, and examine the linkage between budget lines and strategic objectives.

Boards must ensure that budgets are not merely incremental. Incremental budgeting, when a small percentage is added to the previous year's numbers, frequently leads to inefficiencies, inflated costs, or misaligned spending. Instead, the Board must encourage zero-based or priority-based budgeting approaches where appropriate, focusing on outcomes as the ultimate objective, in line with Results-Based Budgeting.

Capital budgets must undergo even deeper scrutiny. They must consider lifecycle costs, risk assessments, technical evaluations, procurement strategies, and projected returns or social benefits. Boards must avoid approving capital projects without comprehensive due diligence.

Once approved, the budget becomes the baseline for performance monitoring, financial reporting, and resource control. Boards must ensure adherence to budget and require explanations for significant variances.

5.0 REVENUE MANAGEMENT AND FINANCIAL SUSTAINABILITY

SOEs must maintain financial sustainability, even when they carry developmental or social mandates. Boards must ensure that revenue streams are stable, predictable, and diversified where possible. For commercial SOEs, revenue growth is essential for supporting capital investments and long-term competitiveness. For statutory bodies, financial sustainability may be linked to grants, service fees, regulatory charges, or government transfers.

Boards must evaluate revenue strategies carefully to ensure they are consistent with organisational mandate, pricing regulations, market conditions, and public-interest obligations. Revenue-related decisions must consider affordability, fairness, competitiveness, and policy implications.

Boards must ensure that revenue forecasts are realistic, supported by evidence, and adjusted for economic cycles. Overestimation of revenue is a common cause of financial stress.

For SOEs with commercial activities, Boards must evaluate product pricing strategies, contract revenue structures, market positioning, and cost recovery mechanisms. For statutory bodies, Boards must assess whether service fees reflect cost structures, and whether subsidy mechanisms are transparent and justified.

Sustainability also requires maintaining sufficient liquidity and reserves. Boards must monitor cash flow projections closely, and ensure that the organisation maintains an adequate buffer to withstand volatility.

6.0 EXPENDITURE MANAGEMENT AND COST DISCIPLINE

Expenditure management is essential for ensuring value for money, operational efficiency, and financial integrity. Boards must insist on disciplined expenditure controls, supported by clear policies, authority limits, procurement procedures, and documentation requirements.

Authority limits define who can approve expenditures at various thresholds. These limits must be reviewed periodically, aligned with risk profiles, and approved by the Board. Delegated authority must be exercised responsibly, and major expenditures must be escalated to the Board or relevant committees.

Cost discipline requires rigorous scrutiny of expenditures. Boards must ensure that spending aligns with strategic objectives and operational needs. Wasteful or non-essential expenditure must be avoided. Management must justify expenditures with evidence and demonstrate cost efficiency.

Internal controls must ensure proper segregation of duties, verification processes, documentation of approvals, and checks against fraud or misappropriation. Regular expenditure reports must be submitted to the Board, highlighting trends, variances, and areas of concern.

Cost discipline is especially important for SOEs with limited revenue or those operating in subsidised sectors. Without disciplined control, even financially strong organisations eventually face sustainability challenges.

7.0 CAPITAL EXPENDITURE AND ASSET MANAGEMENT

Capital expenditure (CAPEX) involves significant financial commitments and long-term impact. Poorly executed CAPEX projects can lead to cost overruns, delays, technical failures, revenue loss, and reputational damage. Thus, boards must ensure that CAPEX planning, evaluation, and monitoring, are robust and systematic.

Before approving a capital project, the Board must require comprehensive feasibility studies, financial analyses, risk assessments, environmental impact assessments, technical evaluations, and procurement plans. Large projects must also include sensitivity analyses, scenario modelling, and mitigation strategies. Once approved, CAPEX projects must be monitored closely. The Board must receive periodic updates on project progress, cost variations, contract management, timeline adherence, and quality assurance. If cost overruns or delays occur, management must provide explanations and corrective action plans.

Asset management is equally important. SOEs often own large portfolios of physical assets, including infrastructure, land, equipment, and facilities. Boards must ensure that assets are recorded accurately, maintained properly, insured appropriately, and managed efficiently. Poor asset management leads to operational disruptions, increased maintenance costs, and reduced asset lifespan.

Effective asset management enhances operational reliability and protects public investments.

8.0 TREASURY MANAGEMENT AND CASHFLOW GOVERNANCE

Treasury management ensures that the organisation's cash, investments, and borrowings, are managed safely, efficiently, and in compliance with policies. Boards must ensure that treasury policies are robust, documented, and applied consistently.

Cashflow governance is critical. Boards must review cashflow projections regularly, especially in organisations with volatile revenue streams or large capital commitments. Management must identify potential cash shortages early, and implement mitigation measures.

Borrowing decisions must follow strict governance requirements. The Board must evaluate the organisation's capacity to service debt, interest costs, refinancing risks, and compliance with financial covenants. Borrowing should be done only when necessary, where it is strategically justified and aligned with long-term financial sustainability.

Short-term investments of surplus funds must follow policies that prioritise security and liquidity over speculative returns. SOEs must not place funds in high-risk investment schemes or unregulated instruments.

Treasury management strengthens financial resilience and protects the organisation from liquidity crises.

9.0 PROCUREMENT GOVERNANCE AND CONTRACT MANAGEMENT

Procurement is one of the highest-risk functions within any SOEs. Boards must ensure that procurement processes are transparent, competitive, fair, and compliant with laws and policies. Procurement must be free from corruption, undue influence, or favouritism.

Procurement policies must define procedures for tendering, evaluation, awarding, contract negotiation, and vendor management. Boards must ensure that procurement decisions are supported by documented evaluations, objective criteria, and thorough due diligence.

Boards must also oversee contract management. Weak contract management leads to cost overruns, disputes, project delays, and performance failures. Contracts must include clear terms, deliverables, penalties, performance guarantees, and monitoring requirements. Management must monitor contractor performance actively, and address issues promptly.

Procurement and contract management must comply with MACC Act provisions, including corruption risk assessments, conflict-of-interest declarations, and whistleblowing mechanisms.

10.0 FINANCIAL REPORTING AND TRANSPARENCY

Financial reporting must be accurate, timely, and compliant with accounting standards. Boards must ensure that management provides clear financial reports that include:

- statement of profit or loss / financial performance
- statement of financial position
- statement of cash flow
- variance analyses
- risk assessments
- explanations for deviations
- forecasts
- projections

Reports must be written clearly, analytically, and supported by evidence. The Board must review quarterly or annual reports for accuracy and compliance, in accordance with the MCCG and Companies Act 2016. Boards must be able to interpret financial data and identify issues. Management must not obscure poor performance through selective reporting or incomplete disclosures.

Transparency includes complying with statutory reporting requirements to regulators, SFSO, ministries and external stakeholders. Financial transparency strengthens public trust and reinforces accountability.

11.0 AUDIT FINDINGS AND CORRECTIVE ACTIONS

Boards must take audit findings seriously. Whether raised by internal audit, external audit, or regulatory inspectors, findings must be addressed promptly and thoroughly.

Management must provide action plans, timelines, and accountability assignments. The Board Audit and Risk Committee (BARC) must monitor follow-ups and escalate unresolved issues. Repeated audit findings indicate systemic weaknesses that require deeper intervention. Boards must insist on thorough root-cause analyses, rather than superficial corrections.

Audit oversight is essential for continuous improvement and governance maturity.

12.0 PREVENTING WASTE, ABUSE AND MISUSE OF RESOURCES

SOEs must protect public resources from waste, abuse, and misuse. Wasteful practices harm financial health, reduce public confidence, and sometimes mask more serious governance failures.

Boards must ensure that management enforces strict controls in high-risk areas such as procurement, project management, asset disposal, fleet management, staffing, allowances, and operational spending. Controls must be supported by monitoring systems, audits, and disciplinary measures.

Processes must ensure fairness, transparency, and accountability, at all times. Managers must not approve expenditures without justification, nor may they bypass procedures for convenience or personal benefit.

Boards must promote a culture of stewardship, where employees treat resources with the same care as their own. In addition, the Board must foster a zero-tolerance culture via internal controls and whistleblowing.

13.0 ALIGNING FINANCIAL MANAGEMENT WITH PCDS 2030

Financial governance must support Sarawak's broader development objectives. SOEs play a central role in implementing PCDS 2030 initiatives in renewable energy, digital transformation, green mobility, industrial development, social infrastructure, and economic diversification.

Boards must ensure that financial decisions such as budgets, investments, expenditures, and procurements, are aligned with PCDS 2030 goals. This includes prioritising sustainability, energy efficiency, digital readiness, human capital development, and equitable regional outcomes. Alignment enhances policy coherence, and ensures that financial resources contribute to long-term public value creation. Overall, the financial decisions must support economic diversification, sustainability, and inclusivity targets.

CONCLUSION

Part X establishes a comprehensive framework for financial governance, budgeting, and resource management. It clarifies the Board's role in overseeing financial sustainability, ensuring prudent spending, managing capital projects, safeguarding assets, monitoring procurement, and maintaining transparency. Sound financial governance protects public funds, strengthens performance, and supports Sarawak's development agenda. Strong financial stewardship ensures SOEs remain viable contributors to Sarawak's development.

The next Part will address **human capital and organisational culture**, focusing on talent development, values, and leadership systems.

PART XI

HUMAN CAPITAL AND ORGANISATIONAL CULTURE

1.0 INTRODUCTION AND THE STRATEGIC IMPORTANCE OF HUMAN CAPITAL IN SOES

The performance of an SOE is shaped by the competence, motivation, and behaviour of its workforce. In sectors such as energy, utilities, infrastructure, digital technology, transport, financial services, agriculture, and development, human capital plays an even more critical role, because these sectors require technical expertise, operational precision, and service excellence.

Hence, human capital must be viewed not as a cost, but as a long-term investment. SOE Boards must advocate for talent strategies that support innovation, digital transformation, customer service, sustainability, and operational reliability. They must ensure that the organisation possesses sufficient technical capacity to meet industry standards, regulatory requirements, and strategic ambitions.

In addition to that, human capital is central to building public trust. SOEs act as custodians of State resources and interact daily with the public. Their workforce must demonstrate ethical conduct, transparency, fairness, and accountability. Boards must foster a human capital environment that reinforces these values.

2.0 BOARD RESPONSIBILITY FOR HUMAN CAPITAL GOVERNANCE

Although Boards do not manage HR operations directly, they hold ultimate responsibility for setting human capital direction, approving policies, overseeing leadership culture, and ensuring alignment with strategy. This is why Boards must ensure that the organisation possesses systems for recruitment, development, evaluation, succession, performance management, rewards, and employee welfare.

Boards must review human capital reports regularly, including staffing levels, turnover, productivity, training initiatives, succession pipelines, and organisational health indicators. They must question inconsistencies, investigate emerging problems, and challenge assumptions that are not supported by evidence.

Boards must also evaluate whether the HR department possesses the capacity, professionalism, and integrity required to manage human capital functions effectively. Weak HR governance exposes the organisation to recruitment risks, performance gaps, integrity failures, and employee dissatisfaction.

Ultimately, Boards must ensure that human capital governance supports the organisation's long-term sustainability and strategic impact.

3.0 TALENT ACQUISITION AND RECRUITMENT INTEGRITY

Recruitment determines the quality of human capital entering the organisation. Boards must ensure that recruitment policies are fair, transparent, merit-based, and compliant with employment laws, public-sector guidelines, procurement standards, and integrity requirements.

Recruitment processes must include clear job descriptions, competency requirements, objective evaluation criteria, structured interviews, panel assessments, and thorough background checks. Board oversight is primarily required for critical and senior positions, but Boards must also ensure that recruitment across all levels follows established procedures.

Nepotism, favouritism, and undue influence, undermine governance integrity. Boards must ensure that recruitment decisions are free from political pressure, personal relationships, or external influence. All candidates must be evaluated objectively, and decisions must be supported by documentation.

Recruitment must be aligned with strategic needs. Boards must ensure that the organisation attracts individuals with the right technical skills, leadership potential, digital literacy, sustainability knowledge, and service orientation.

4.0 PERFORMANCE MANAGEMENT AND APPRAISAL SYSTEMS

Performance management links individual contributions to organisational outcomes. Effective performance systems motivate employees, clarify expectations, and provide data for rewards, promotions, and development.

Boards must ensure that performance appraisal frameworks are transparent, consistent, and aligned with the organisation's KPIs. Appraisal criteria must include behavioural indicators such as integrity, teamwork, customer service, compliance, and leadership. Performance ratings must be evidence-based and supported by documentation.

Boards must evaluate the effectiveness of the performance system periodically. Systems that are overly lenient, inconsistent or manipulated undermine morale and encourage mediocrity.

Performance management must be culturally embedded. Employees must understand that performance affects recognition, progression, and opportunities. Managers must be trained to provide fair evaluations, constructive feedback, and coaching. Nevertheless, effective human capital governance drives performance and public value.

5.0 TRAINING, LEARNING AND DEVELOPMENT

Continuous learning is essential for organisational excellence. Rapid technological change, evolving regulations, and shifts in industry dynamics require employees to upgrade their skills continuously. Boards must ensure that the organisation invests in upskilling, reskilling, and leadership development.

Training must include technical courses, compliance education, digital literacy, customer service, risk management, integrity training, and emerging competencies such as ESG, data analytics, and cybersecurity. Leadership programmes must develop managerial capability, strategic thinking, and organisational values.

Boards must evaluate whether training budgets are sufficient, whether programmes are well-designed, and whether learning outcomes translate into improved performance. Training must be measured not only by participation rates, but by impact on capability development.

Directors themselves must undergo continuous education. Board training enhances governance literacy and strengthens oversight.

6.0 LEADERSHIP DEVELOPMENT AND SUCCESSION PLANNING

Leadership determines organisational culture, performance discipline, and employee morale. Boards must ensure that leadership development is strategic, systematic, and linked to succession planning.

Organisations must identify high-potential employees early, and provide them with opportunities to develop leadership skills. Succession plans must cover critical roles including CEO, senior executives, technical specialists, and operational heads. These plans must include development pathways, coaching assignments, secondments, rotation opportunities, and exposure to strategic initiatives.

Boards must review succession plans annually, and evaluate whether internal talent pipelines are strong enough. If internal talent is insufficient, Boards must guide management in developing targeted recruitment or leadership programmes.

Without succession planning, organisations risk instability, knowledge loss, and leadership gaps. Succession planning is a governance necessity, not an optional HR exercise.

7.0 COMPENSATION, REWARDS AND FAIR REMUNERATION

Fair and competitive remuneration is essential for attracting, motivating, and retaining talent. Boards must ensure that compensation structures align with industry norms, organisational performance, financial sustainability, and public-sector expectations.

Remuneration must balance internal equity and external competitiveness. Excessive pay damages public trust; insufficient pay leads to talent attrition. Boards must therefore approve salary structures, bonus mechanisms, allowances, and non-financial benefits with careful consideration.

Performance-based rewards must be tied to objective KPIs. Bonuses must reflect results, behavioural standards, and integrity compliance. Boards must avoid reward structures that encourage unethical shortcuts, excessive risk-taking, or manipulation of performance data.

Transparency in remuneration supports public confidence. For senior executives, remuneration disclosures must comply with relevant regulations and governance guidelines.

8.0 EMPLOYEE WELFARE, WELL-BEING AND ORGANISATIONAL HEALTH

Employee well-being affects productivity, morale, safety, and long-term retention. Boards must ensure that the organisation maintains policies that support physical safety, mental health, work-life balance, fairness, inclusivity, and non-discrimination.

Workplace health and safety must comply with the Occupational Safety and Health Act 1994 (Act 514) and sectoral regulations. Boards must monitor safety incidents, near misses, regulatory inspections and remediation actions. Safety culture must be anchored in leadership behaviour and employee participation.

Employee welfare may include medical benefits, insurance schemes, career development opportunities, grievance procedures, counselling support, flexible arrangements, and workplace facilities. Boards must evaluate whether or not welfare systems are equitable and accessible.

Organisational health indicators such as employee engagement, turnover, absenteeism, disciplinary cases and survey results, should be reported to the

Board regularly. These indicators reveal deeper cultural issues and operational risks.

9.0 ORGANISATIONAL CULTURE AND VALUES

Organisational culture is the behavioural environment in which employees operate. Culture influences employee behaviour under pressure, decisions-making, problem solving strategies, and the preservation of institutional integrity.

Boards must take responsibility for shaping culture by setting the organisation's values, communicating expectations, and modelling ethical conduct. Culture must be reinforced through policies, leadership behaviour, rewards systems, disciplinary actions, and daily practices.

A strong organisational culture is characterised by integrity, professionalism, service orientation, accountability, teamwork, innovation, and respect. Conversely, a weak culture encourages complacency, corruption risks, conflicts, disengagement, and governance failures.

Boards must ensure that culture assessments are conducted periodically, and that interventions are implemented when cultural weaknesses are identified.

10.0 DIVERSITY, INCLUSION AND OPPORTUNITIES

Diversity strengthens innovation, broadens perspectives, and enhances organisational capability. Boards should ensure that the organisation promotes gender balance, generational diversity, inclusivity, and fairness in career progression. Inclusion must be actively cultivated through policies, training, and leadership behaviour.

Diversity is particularly important in Sarawak, where SOEs serve multi-ethnic communities and recruit from diverse backgrounds. Boards must ensure equitable opportunities for career advancement and representation across organisational levels.

11.0 INDUSTRIAL RELATIONS AND WORKFORCE ENGAGEMENT

Industrial relations must be managed with fairness, transparency, and respect. Boards must ensure that the organisation complies with labour laws, collective agreements, and ethical standards. Disputes must be resolved through constructive dialogue, rather than adversarial confrontation.

Boards must also ensure that employee engagement mechanisms are strong; town halls, surveys, feedback systems, and staff committees, promote open communication and organisational cohesion. Employees who feel heard are more committed, motivated, and aligned with organisational goals.

12.0 ETHICAL CONDUCT AND DISCIPLINARY SYSTEMS

Human capital governance must include mechanisms to address misconduct, enforce ethical standards, and protect organisational integrity. Boards must ensure that disciplinary procedures are fair, consistent, and aligned with relevant provisions under the Companies Act 2016, the Statutory Bodies (Conduct and Discipline) Ordinance, 2004, and applicable employment laws.

Cases involving fraud, corruption, harassment, discrimination, or gross negligence require immediate action. Boards must ensure that investigations are thorough, documentation is complete, and sanctions are appropriate. Failure to enforce discipline undermines credibility and invites governance risks.

13.0 ALIGNING HUMAN CAPITAL WITH PCDS 2030

SOEs must develop a workforce capable of supporting Sarawak's transition towards a high-income, digital, sustainable, and globally competitive economy. Human capital strategies must therefore be aligned with PCDS 2030 objectives in innovation, digital skills, green technology, creative industries, advanced manufacturing, renewable energy, and service excellence.

Boards must ensure that training programmes reflect these priorities, that succession planning supports leadership continuity in critical sectors, and that recruitment emphasises competencies relevant to Sarawak's future economy.

CONCLUSION

Part XI establishes a comprehensive model for human capital governance in Sarawak SOEs. It highlights the critical role of Boards in ensuring that talent, culture, and leadership systems, are robust, value-driven, and aligned with strategic priorities. Strong human capital practices enhance organisational performance, resilience, and public trust.

The next Part will address **stakeholder management, communications, public accountability, and State relationship management**.

PART XII
STAKEHOLDER ENGAGEMENT, COMMUNICATIONS, AND PUBLIC ACCOUNTABILITY

1.0 INTRODUCTION

SOEs in Sarawak operate within a complex ecosystem of stakeholders, whose interests, expectations, and concerns, influence the organisation's legitimacy and operational success. Unlike private corporations that primarily serve shareholders, SOEs must navigate the expectations of multiple groups such as government ministries, elected representatives and policymakers, regulators, communities, customers, employees, contractors, investors, the media, and the general public. Because SOEs manage public resources and often deliver services essential to daily life, stakeholder engagement is not merely an external relations function; it is a governance responsibility.

Effective stakeholder engagement enhances trust, strengthens accountability, facilitates smoother operations, and aligns the organisation with State priorities. Poor engagement, conversely, leads to misunderstanding, public dissatisfaction, reputational damage, and political risk. Boards must therefore ensure that stakeholder management is conducted strategically, ethically, and transparently. This Part explains the principles and practices that underpin stakeholder engagement in Sarawak SOEs, drawing from best practice guidance and public-sector governance expectations.

2.0 THE ROLE OF STAKEHOLDERS IN SOES GOVERNANCE

Stakeholders influence the SOE's ability to perform its mandate. Specifically, shareholder ministries provide policy direction, regulators ensure compliance, customers demand service quality, employees seek fair treatment, communities rely on services, suppliers contribute to operational processes, and the media influences public perception.

SOEs depend on these stakeholders for operational legitimacy and public confidence. Boards must understand stakeholder expectations, anticipate concerns, and ensure that engagement mechanisms reflect long-term relationship building, rather than short-term transactional communication.

Stakeholder interests may sometimes conflict. For example, customers may desire low prices, while financial sustainability requires cost recovery. Boards must balance these interests carefully, ensuring fairness, transparency, and alignment with State priorities.

Recognising the importance of stakeholders is foundational to public accountability.

3.0 THE BOARD'S ROLE IN STAKEHOLDER GOVERNANCE

Boards must oversee stakeholder engagement at the strategic level. This includes approving stakeholder policies, monitoring engagement programmes, reviewing public reports, and evaluating reputational risks. Boards do not engage in day-to-day communications; this remains the responsibility of management. However, Boards must ensure that engagement efforts reflect consistency, professionalism, and alignment with the SOE's mandate.

Boards must ensure that stakeholder engagement supports transparency and public accountability while protecting the organisation's operational independence. They must also monitor whether management manages stakeholder relationships ethically, avoiding undue influence, political intervention, conflicts of interest, or discriminatory practices.

When necessary, the Board Chair may act as the organisation's representative during critical engagements with ministries, regulators, or key national stakeholders. Such engagements must be coordinated with the CEO to maintain role clarity.

4.0 RELATIONSHIP WITH SHAREHOLDER MINISTRIES AND SFSO

SOEs in Sarawak have formal accountability obligations to shareholder ministries, sectoral regulators, and the State Financial Secretary's Office (SFSO). The relationship must be guided by professionalism, transparency, and respect for governance principles.

The shareholder ministry provides policy direction and articulates expectations through instruments such as Letters of Expectations, policy instructions, and periodic meetings. The Board must interpret policy direction while preserving operational independence. Management must not bypass the Board by responding directly to policy requests without Board knowledge.

SFSO plays a central oversight role in ensuring financial discipline, governance compliance, investment approvals, and reporting accuracy. Boards must ensure timely submission of financial reports, budgets, strategic plans, audit findings, and governance documents to SFSO. The relationship must be transparent and constructive.

Boards must also respect the principle that shareholder directions cannot override statutory obligations, regulatory requirements, or legal prohibitions. Compliance with the law is paramount.

A well-managed relationship with ministries and SFSO strengthens policy alignment, reduces ambiguity, and enhances performance accountability.

5.0 REGULATORY ENGAGEMENT

Regulatory compliance is a fundamental requirement for SOEs operating in regulated sectors, including energy, communications, transport, finance, environment and occupational safety. The Board must ensure that regulatory engagements are structured, respectful and evidence-based.

Management must maintain regular communication with regulators, ensure timely submission of reports, respond to inquiries, and implement regulatory requirements efficiently. Boards must receive updates on regulatory changes, inspections, enforcement actions, and compliance risks.

Boards must engage directly with regulators only on strategic matters or where governance issues require escalation. Board-level engagement must respect management boundaries and regulatory protocols.

Regulatory trust enhances operational resilience and protects organisational reputation.

6.0 COMMUNITY ENGAGEMENT AND SOCIAL LICENSE TO OPERATE

Many SOEs operate in environments where community acceptance is essential. Infrastructure projects, land development, utility services, rural connectivity, and resource management, require public trust and social legitimacy. Boards must ensure that the organisation engages communities with respect, fairness, and transparency.

Community engagement strategies must be inclusive, culturally sensitive, and grounded in accurate information. Engagement must occur early in project planning, not only after decisions have been made. Community concerns must be documented, addressed, and integrated into decision-making where possible.

SOEs must contribute positively to local communities through corporate social responsibility (CSR) initiatives, local employment programmes, environmental stewardship, and social support. Boards must ensure that CSR activities are strategic, measurable, and aligned with community needs, rather than symbolic gestures.

Community trust is a critical asset that strengthens the organisation's legitimacy.

7.0 CUSTOMER AND SERVICE RECIPIENT ENGAGEMENT

Customer engagement is essential for service-oriented SOEs. Utilities, transport providers, digital agencies, healthcare institutions, and welfare bodies, interact directly with the public. Boards must ensure that customer service policies are fair, accessible, and aligned with regulatory standards.

Customer feedback mechanisms must be robust, including call centers, feedback platforms, complaint channels, and service surveys. Management must analyse data regularly, identify recurring issues, and implement service improvements. Boards must review customer satisfaction reports, monitor service quality indicators, and evaluate the effectiveness of interventions.

Board oversight ensures that the organisation remains responsive to public needs and delivers quality service.

8.0 ENGAGEMENT WITH EMPLOYEES AND INTERNAL STAKEHOLDERS

Employees are internal stakeholders, whose engagement strongly influences organisational performance, morale, and culture. Boards must ensure that management provides communication channels, town halls, feedback systems, and grievance procedures.

Boards should monitor workforce sentiment, engagement survey results, turnover patterns, and workplace climate. If employee dissatisfaction is rising, Boards must investigate root causes and ensure corrective actions are taken.

Healthy internal engagement strengthens organisational cohesion, and reduces operational and reputational risks.

9.0 ENGAGEMENT WITH SUPPLIERS, CONTRACTORS AND BUSINESS PARTNERS

SOEs depend on suppliers, contractors, joint-venture partners, and service providers. Boards must ensure that engagement with external partners is guided by transparency, fairness, and integrity.

Procurement engagements must follow proper procedures and avoid privileged access, insider influence, or conflicts of interest. Vendors must be treated equitably and selected based on objective criteria.

Boards must ensure that contractors meet performance expectations, comply with contract terms, and adhere to safety and integrity requirements. Weak contractor oversight leads to delays, cost overruns, and reputational harm.

For joint ventures and strategic partnerships, Boards must ensure that agreements protect State and organisation interests, maintain governance safeguards, and align with organisational strategy.

10.0 MEDIA RELATIONS AND PUBLIC COMMUNICATIONS

SOEs operate in a media environment where information spreads quickly and public perception shapes trust. Boards must ensure that communication policies guide how the organisation engages with media, manages public inquiries, handles crises, and communicates major decisions.

Communications must be accurate, consistent, and authorised. Directors must not speak to the media without proper clearance. Miscommunication by Directors can damage credibility or misrepresent Board decisions.

Boards must also ensure that the organisation practices proactive communication, particularly when announcing major initiatives, responding to public concerns or addressing crises. Transparent communication strengthens public trust and reduces speculation.

11.0 CRISIS COMMUNICATION AND REPUTATION MANAGEMENT

In times of crisis such as service disruptions, accidents, financial irregularities, cyberattacks, or public controversies, communication is critical. Boards must ensure that crisis communication plans exist, are practised, and include clear roles, protocols, and approval processes.

Crisis communication must be prompt, accurate, and empathetic. The organisation must acknowledge issues, provide updates, explain corrective actions, and address public concerns. Boards must oversee crisis responses to ensure that communication protects the organisation's credibility.

Mishandling a crisis magnifies reputational damage and erodes public trust. High-maturity Board leadership ensures that communication reflects responsibility and professionalism.

12.0 PUBLIC REPORTING AND TRANSPARENCY

Transparency is central to public accountability. **SOEs must disclose relevant information about financial performance, strategic progress, governance policies, risk exposures, and organisational outcomes**. Boards must ensure that annual reports, sustainability reports, and mandated disclosures, are accurate, clear, and reflective of actual performance.

Public reporting demonstrates commitment to accountability, protects the organisation from misinterpretation, and strengthens public confidence in governance.

13.0 ETHICAL ENGAGEMENT PRINCIPLES

Stakeholder engagement must reflect ethical principles, including:

- honesty and transparency in communication
- fairness and respect in interactions
- confidentiality where appropriate
- avoidance of conflicts of interest
- adherence to laws and regulations
- impartiality and professionalism

Boards must ensure that engagement does not compromise integrity or expose the organisation to undue influence.

14.0 ALIGNING ENGAGEMENT WITH SARAWAK'S DEVELOPMENT PRIORITIES

Stakeholder engagement must support Sarawak's socio-economic aspirations. Boards must ensure that the organisation contributes positively to local communities, supports sustainable development, strengthens economic value chains, and promotes digital and green transformation in line with PCDS 2030.

Strategic engagement enhances policy coherence and amplifies the SOE's developmental impact.

CONCLUSION

Part XII establishes the governance principles and practices for stakeholder engagement, communications, and public accountability. By managing relationships strategically and ethically, SOEs protect their legitimacy, enhance public trust, and support Sarawak's long-term development.

The next Part will address **legal and regulatory compliance**, ensuring that SOEs operate fully within the law and understand their statutory obligations.

PART XIII

LEGAL AND REGULATORY COMPLIANCE

1.0 INTRODUCTION

Legal and regulatory compliance is a foundational pillar of governance for SOEs. **Because SOEs operate with public authority, manage public funds, and hold responsibilities that directly affect communities, any breach of law or regulation has implications far beyond the organisation itself**. Non-compliance can expose an SOEs to legal penalties, financial losses, operational disruptions, and reputational harm. It can also undermine public trust and damage the credibility of the State's governance systems.

In Sarawak, SOEs are governed by a combination of Federal and State laws, sectoral regulations, enabling ordinances, governance directives, procurement rules, financial procedures, and national anti-corruption legislation. With this, Boards must ensure that their organisations fully understand, implement, and uphold these obligations. Compliance cannot be treated as a technical formality; it is a legal duty, an ethical responsibility, and a governance requirement.

This Part sets out a comprehensive framework for legal and regulatory compliance in Sarawak SOEs, integrating principles from global governance standards, Malaysian legislation, and Sarawak's administrative architecture.

2.0 THE BOARD'S LEGAL OBLIGATIONS

Directors carry fiduciary duties to act in the best interests of the organisation, exercise reasonable care, uphold integrity, and ensure compliance with legal and regulatory requirements. These duties are grounded in the Companies Act 2016 for incorporated SOEs, while statutory bodies are governed by their enabling ordinances and sector-specific legislation.

The Board must ensure that the organisation has systems to identify, monitor, and comply with all relevant laws. Directors must not plead ignorance of legal requirements; they are obligated to acquire sufficient knowledge to discharge their responsibilities effectively. Failure to comply with legal obligations can expose Directors to civil liability, criminal charges, and reputational damage.

Therefore, Boards must actively ensure compliance, receive periodic legal briefings, question management where necessary, and intervene when risks arise. Strong legal oversight strengthens governance integrity and protects both the organisation and the Board.

3.0 THE LEGAL LANDSCAPE OF SOES IN SARAWAK

Sarawak SOEs operate within a layered legal landscape that includes:

(i) **Federal Legislation**

These include, but are not limited to, the following:

- Companies Act 2016
- Malaysian Anti-Corruption Commission Act 2009 (Act 694), including Section 17A (Corporate Liability)
- Employment Act 1955 and related labour laws
- Occupational Safety and Health Act 1994
- Cybersecurity laws in force and data protection principles
- Sector-specific laws (e.g., energy, telecommunications, transportation)

(ii) **Sarawak State Legislation**

These include, but are not limited to, the following:

- Enabling Ordinances establishing statutory bodies
- Statutory Bodies (Financial and Accounting Procedure) Ordinance, 1995
- Statutory Bodies (Conduct and Discipline) Ordinance, 2004
- Relevant provisions of the Sarawak Land Code
- State's circulars and guidelines
- Public Authorities Protection Ordinance
- State-specific regulations governing utilities, tenancy, natural resources and development planning

SOEs Boards must ensure that SOEs' legal teams understand the interplay between Federal laws and State laws, especially in areas where Sarawak retains authority under the Malaysia Agreement 1963 (MA63).

4.0 COMPLIANCE FRAMEWORKS AND SYSTEMS

Compliance cannot rely on ad hoc actions or individual awareness. It requires a structured framework comprising:

(i) **Policies and Procedures**

Documented guidelines governing operations, procurement, human resources, finance, safety, and integrity.

(ii) **Compliance Register**

A record of all legislation applicable to the organisation, including reporting deadlines and responsible departments.

(iii) **Compliance Officers or Units**

Personnel assigned to monitor legal obligations and update the organisation on regulatory changes.

(iv) **Monitoring and Reporting Mechanisms**

Regular compliance reports submitted to the CEO, Board Audit and Risk Committee (BARC), and the Board.

(v) **Training and Awareness Programmes**

Ensuring that employees understand legal requirements, particularly in high-risk areas.

(vi) **Internal and External Audits**

Legal compliance must be incorporated into audit plans, with periodic reviews and independent verification.

Boards must ensure that these systems are properly implemented and periodically updated.

5.0 COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

For incorporated SOEs, compliance with corporate governance standards is mandatory. These include:

- Malaysian Code on Corporate Governance (MCCG)
- Bursa Malaysia Listing Requirements (for listed entities)
- SFSO corporate governance directives
- Guidelines on integrity, leadership behaviour, and ethics

Boards must ensure that governance practices such as conflict-of-interest disclosures, Board evaluations, audit reviews, and risk management structures, meet regulatory expectations.

6.0 ANTI-CORRUPTION COMPLIANCE AND MACC SECTION 17A

The Malaysian Anti-Corruption Commission (MACC) Act 2009, particularly Section 17A, imposes corporate liability on organisations for corruption committed by employees or associates. SOEs must therefore implement "adequate procedures" to prevent corruption, as outlined in the National Centre for Governance, Integrity and Anti-Corruption (GIACC) Guidelines.

Adequate procedures require:

- risk assessments
- integrity policies
- whistleblowing channels
- awareness and trainings
- monitoring and reviews
- disciplinary frameworks

Boards must ensure that these systems are integrated fully into organisational processes. They must also receive periodic integrity briefings and oversee investigations of misconduct.

Failure to comply exposes the organisation and its Directors to severe penalties.

7.0 COMPLIANCE IN PROCUREMENT AND CONTRACTING

Procurement is a high-risk area for legal exposure.

Boards must ensure compliance with:

- procurement laws and regulations
- tendering procedures
- conflict-of-interest disclosures
- documentation requirements
- contract performance monitoring
- variation and dispute procedures

Improper procurement practices can result in MACC investigations, financial losses, and reputational harm. Boards must therefore insist on stringent legal oversight in procurement processes.

8.0 COMPLIANCE WITH EMPLOYMENT AND LABOUR LAWS

SOEs must comply with employment legislation covering:

- hiring and termination
- fair treatment and procedural fairness
- wages and benefits
- workplace safety
- protections against harassment and unfair employment practices
- industrial relations procedures

Boards must ensure that human resource policies align with legal requirements, and that managers are trained to implement them fairly and consistently.

9.0 DATA PROTECTION, CYBERSECURITY AND DIGITAL COMPLIANCE

As organisations increasingly rely on digital systems, compliance with data governance and cybersecurity principles becomes essential.

Boards must ensure that the organisation:

- protects personal data
- implements access controls
- monitors cybersecurity risks
- complies with digital regulations
- secures critical infrastructure
- responds promptly to cyber incidents

Cyber breaches can lead to operational disruption, financial loss, and legal liability. Boards must therefore treat digital compliance as a strategic priority.

10.0 ENVIRONMENTAL AND SAFETY COMPLIANCE

SOEs operating in sectors such as construction, energy, utilities, transportation, and resource management, face significant environmental and safety obligations.

Boards must ensure compliance with:

- environmental impact assessments
- pollution control standards
- occupational safety regulations
- emergency response requirements

Non-compliance can cause harm to communities, and expose the organisation to legal action and public criticism.

11.0 CONTRACTUAL COMPLIANCE AND LEGAL RISK MANAGEMENT

SOEs enter into contracts with vendors, partners, customers, financiers, and governments. Boards must ensure that contractual obligations are monitored and managed proactively.

Legal risk management must include:

- contract reviews
- periodic compliance checks
- performance monitoring
- dispute resolution mechanisms
- legal documentation controls

Neglecting contractual compliance exposes the organisation to lawsuits, penalties, claims, and financial losses.

12.0 LITIGATION MANAGEMENT AND LEGAL DISPUTE RESOLUTION

Boards must ensure that litigation matters are handled systematically.

SOE's Legal Division or Unit must:

- track all legal cases
- update management and the Board on developments
- assess financial and reputational risks
- recommend settlement or defence strategies
- work with external counsel when necessary

Boards must evaluate major cases and provide guidance on risk exposure. Litigation must be documented thoroughly and handled strategically, not reactively.

13.0 COMPLIANCE MONITORING BY THE BOARD

The Board should receive periodic compliance reports that include:

- legal updates
- regulatory changes
- compliance breaches
- investigations and outcomes
- sanctions imposed
- corrective actions

Boards must ask probing questions, investigate patterns of non-compliance, and ensure that management implements corrective measures. Repeated breaches signal governance failures that require deeper intervention.

14.0 ETHICAL COMPLIANCE AND GOVERNANCE CULTURE

Legal compliance is inseparable from governance culture. Even the best policies cannot prevent misconduct if the organisational culture tolerates unethical behaviour.

Boards must promote a culture of:

- integrity
- transparency
- adherence to rules
- accountability
- ethical leadership

Culture must be reinforced through leadership behaviour, policies, communications, and disciplinary actions.

15.0 ALIGNING COMPLIANCE WITH PCDS 2030

Legal and regulatory compliance supports Sarawak's progress towards becoming a digitally advanced, sustainable, and high-income economy.

Boards must ensure that compliance frameworks support:

- environmental sustainability
- digital transformation
- economic diversification
- talent development
- public trust

Therefore, compliance is both a legal obligation and a strategic enabler of development.

CONCLUSION

Part XIII sets out a comprehensive approach to legal and regulatory compliance in Sarawak SOEs. It clarifies the Board's legal duties, highlights key compliance areas, and establishes systems for monitoring and enforcing compliance. Compliance protects the organisation, strengthens governance, and preserves public trust.

The next section outlines the Board's responsibilities in overseeing digital transformation, technology governance, and cybersecurity risks.

PART XIV
DIGITAL GOVERNANCE, TECHNOLOGY OVERSIGHT, AND CYBERSECURITY

1.0 INTRODUCTION

Digital transformation has become an essential enabler of organisational performance, operational resilience, and public value creation. For Sarawak SOEs, digital systems underpin critical functions, ranging from service delivery and financial management, to infrastructure operations and data analytics. As Sarawak advances rapidly towards a digital economy under PCDS 2030, SOEs must adopt robust digital governance frameworks that ensure technology investments are strategic, secure, and aligned with organisational needs.

Technology brings unprecedented opportunities, but it also introduces new risks. Cybersecurity threats, data breaches, system failures, procurement vulnerabilities, and technological obsolescence, can significantly disrupt operations and damage public trust. The Board holds ultimate responsibility for ensuring that the organisation adopts technology responsibly, safeguards information assets, and implements systems that enhance efficiency and governance quality.

This Part provides a comprehensive narrative on digital governance, technology oversight, and cybersecurity within Sarawak SOEs. It outlines the Board's role, decision-making principles, risk management expectations, and digital transformation strategies aligned with global best practices and Sarawak's digital agenda.

2.0 THE STRATEGIC IMPORTANCE OF DIGITAL GOVERNANCE

Digital systems no longer serve as just support tools; they are now core components of organisational strategy. Effective digital governance ensures that:

Effective digital governance ensures that:

- technology investments support organisational goals
- systems are secure, reliable and scalable
- digital risks are managed proactively
- processes become more efficient and data-driven
- services to the public and stakeholders improve
- compliance with laws and data regulations is maintained
- innovation is encouraged within responsible boundaries

Digital governance strengthens accountability by increasing transparency, providing real-time data, enabling evidence-based decisions, and reducing manual errors. Without strong governance, however, digitalisation can lead to fragmentation, inconsistent systems, rising costs, and vulnerabilities.

Boards must therefore treat technology as a strategic priority, rather than merely a technical domain.

3.0 THE BOARD'S ROLE IN TECHNOLOGY OVERSIGHT

The Board must oversee the organisation's digital direction, and ensure that technology decisions support long-term strategy.

Board responsibilities include:

- approving the digital strategy and technology roadmap
- ensuring that digital investments are financially and operationally justified
- monitoring major ICT projects and digital transformation initiatives
- overseeing cybersecurity governance and resilience
- ensuring compliance with laws, regulations and digital standards
- evaluating risks associated with legacy systems, vendor contracts and technological obsolescence
- ensuring that data and digital tools support effective reporting

Boards must ask probing questions when approving technology proposals.

Examples include:

- Does the proposal align with organisational strategy?
- Is the system scalable and future-proof?
- What risks does it introduce?
- What is the total cost of ownership, including maintenance and upgrades?
- What alternatives were considered?
- Is vendor dependence excessive?
- How will success be measured?

By exercising informed oversight, Boards protect organisations from costly digital failures.

4.0 DIGITAL TRANSFORMATION AND ALIGNMENT WITH PCDS 2030

Sarawak's transformation under PCDS 2030 prioritises digital innovation, data-driven government, cybersecurity resilience, and digital talent development. SOEs must align their digital strategies with these State objectives.

Digital transformation strategies may include:

- automation of operational processes
- adoption of enterprise resource planning (ERP) systems
- implementation of digital dashboards and data analytics
- upgrading IT infrastructure to modern platforms
- expanding digital services for customers and stakeholders
- using digital technologies to enhance ESG reporting, carbon tracking and sustainability monitoring
- enabling remote operations and mobile workforce capabilities
- integrating Internet of Things (IoT) sensors for utilities or infrastructure SOEs

Boards must ensure that digital initiatives support organisational efficiency, enhance customer experience, reduce risk exposure, and contribute to the State's digital ambitions.

Digital transformation is not a one-time event; it is an ongoing journey that requires continuous investment, capacity building, and strategic foresight.

5.0 TECHNOLOGY POLICY AND ICT GOVERNANCE FRAMEWORK

SOEs must adopt comprehensive ICT policies and governance frameworks that cover:

- technology procurement
- system architecture and integration
- cybersecurity standards
- data management and privacy
- user access controls
- software licensing
- disaster recovery and business continuity
- incident reporting and escalation protocols
- cloud usage policies
- IT asset management

These policies must be approved by the Board and enforced consistently across the organisation. Governance frameworks ensure that technology use is disciplined, secure, and aligned with strategic and operational needs.

Boards must ensure that ICT policies are reviewed regularly to reflect emerging risks and technological advances.

6.0 DIGITAL RISK MANAGEMENT

Technology introduces unique risks, including:

- cyberattacks and malware
- data breaches and privacy violations
- system outages and business disruption
- project implementation failures
- vendor lock-in or contract disputes
- legacy systems and obsolescence
- human error in system usage or configuration

Boards must ensure that digital risks are integrated into the enterprise risk management (ERM) framework.

Risk assessments must be conducted regularly for:

- critical operation systems
- digital projects
- access controls
- data protection measures
- third-party vendor systems
- cloud services
- network infrastructure

Management must provide periodic updates on digital risk indicators, vulnerabilities discovered, system stabilisation efforts, and mitigation plans.

7.0 MAJOR ICT PROJECTS AND DIGITAL INVESTMENTS

Large ICT projects often carry high costs, high complexity, and high risk of failure. Boards must therefore oversee such projects closely.

Before approving an ICT project, Boards must require:

- a clear business case
- cost-benefit and total cost of ownership analyses
- user needs assessment
- feasibility and technical evaluations
- vendor due diligence
- implementation timelines and milestones
- risk management plans
- change management strategies
- sustainability and scalability considerations

Before approving an ICT project, Boards must require:

- a clear business case
- cost-benefit and total cost of ownership analyses
- user needs assessment
- feasibility and technical evaluations
- vendor due diligence
- implementation timelines and milestones
- risk management plans
- change management strategies
- sustainability and scalability considerations

During implementation, Boards must receive periodic progress reports covering:

- timelines
- budget status
- system testing outcomes
- change requests
- challenges and mitigation measures

An ICT project should only be considered complete once the system is stable, formally accepted by users, and fully operational.

8.0 DATA GOVERNANCE AND DATA QUALITY MANAGEMENT

Data is a strategic asset for SOEs. High-quality data supports:

- performance reporting
- risk monitoring
- financial analysis
- operational optimization
- customer service
- regulatory compliance
- strategic decision-making

Boards must ensure that data governance frameworks cover:

- data ownership and stewardship
- data standards and formats
- data privacy and protection
- data accuracy and validation methods
- data sharing protocols
- data retention and archival
- data ethics and accountability

Poor data governance leads to inaccurate reporting, regulatory breaches, and impaired decision-making.

9.0 CYBERSECURITY GOVERNANCE

Cybersecurity is one of the most critical components of digital governance. Attacks on public-sector organisations have increased globally, targeting sensitive data, infrastructure systems, and financial information. SOEs cannot assume immunity from cyber threats.

Boards must ensure that the organisation's cybersecurity framework includes:

- cybersecurity policies aligned with international standards
- network monitoring systems
- multi-factor authentication
- regular penetration testing
- malware detection and intrusion prevention
- incident response plans
- backup and recovery systems
- cybersecurity training for employees
- vendor security assessments
- periodic cybersecurity audits

Boards must receive regular cybersecurity updates from management and independent experts.

A single cyber incident can cause reputational damage, financial loss, service disruption, and legal liability. Cybersecurity must be treated as a Board-level priority.

10.0 INCIDENT RESPONSE AND CYBER CRISIS MANAGEMENT

Boards must ensure that the organisation has a comprehensive incident response plan that outlines:

- detection procedures
- roles and responsibilities
- communication protocols
- escalation procedures
- containment measures
- recovery steps
- post-incident review requirements

During significant cyber incidents, the Board Chair must be informed promptly. The Board must ensure that management:

- contains the breach
- preserves evidence
- engages cybersecurity experts
- communicates responsibly to stakeholders
- cooperates with regulators
- strengthens controls to prevent recurrence

Preparedness determines the organisation's resilience during digital crises.

11.0 TECHNOLOGY PROCUREMENT, VENDOR SELECTION AND CONTRACT MANAGEMENT

Procurement of technology carries unique risks due to complexity, intellectual property issues, long-term maintenance needs, and vendor dependence. Boards must ensure that procurement processes:

- follow competitive bidding where appropriate
- evaluate technical competence of vendors
- consider long-term support capacity
- avoid excessive vendor lock-in
- incorporate cybersecurity and data protection requirements
- define clear service-level agreements (SLAs)
- include termination and renewal clauses
- meet integrity and compliance standards

Vendor relationships must be managed professionally to ensure performance, transparency, and accountability.

12.0 DIGITAL TALENT AND ICT CAPABILITY DEVELOPMENT

Technology investments are ineffective without skilled personnel to operate, maintain, and optimise systems. Boards must ensure that:

- ICT departments are properly staffed
- digital skills development programmes are implemented
- employees receive ongoing training
- digital leadership capabilities are developed
- external expertise is engaged when necessary
- talent succession plans include digital roles

A digital-ready workforce strengthens the organisation's competitiveness and resilience.

13.0 DIGITAL INNOVATION AND FUTURE TECHNOLOGIES

Boards should encourage responsible innovation in areas such as:

- artificial intelligence (AI)
- machine learning
- robotic process automation (RPA)
- smart infrastructure
- cloud computing
- blockchain for transactional integrity
- IoT for asset monitoring
- digital twins for infrastructure modelling

Innovation must be guided by clear governance, ethical considerations, and risk assessments. Boards must ensure innovation adds real organisational value, and does not compromise safety or integrity.

14.0 INTEGRATING DIGITAL GOVERNANCE WITH ESG AND SUSTAINABILITY

Digital systems play an increasing role in achieving ESG outcomes. Boards must ensure that technology is leveraged to:

- track carbon emissions
- monitor energy usage where applicable
- support environmental compliance
- improve service delivery and inclusivity
- enhance transparency in reporting
- strengthen ethical governance

Digital governance and ESG practices reinforce each other, enabling smarter, more sustainable operations.

CONCLUSION

Part XIV establishes a comprehensive framework for digital governance, technology oversight and cybersecurity in Sarawak SOEs. Digital governance positions SOEs for future competitiveness. It clarifies the Board's strategic responsibilities in guiding digital transformation, safeguarding information assets, managing cyber risks, and ensuring that technology contributes to operational excellence and State development.

The next section address **sustainability, ESG, Climate Governance, and Green Transition**, an essential component of Sarawak's development agenda and global governance expectations.

PART XV
SUSTAINABILITY, ESG, CLIMATE GOVERNANCE, AND THE GREEN TRANSITION

1.0 INTRODUCTION

Sustainability and ESG principles have become integral components of modern governance. For Sarawak SOEs, embracing sustainability is not merely a response to global trends, but a moral, strategic and economic imperative. As Sarawak positions itself as a leader in renewable energy, biodiversity conservation, sustainable industries, and green development, under PCDS 2030, SOEs must play a central role in driving the transition toward a greener, more resilient, and more inclusive future.

SOEs are uniquely placed to lead this transformation, because they operate in sectors critical to sustainability, which are, energy, utilities, transportation, plantations, infrastructure, housing, community development, and environmental resources. Their practices influence public behaviour, industry standards, and environmental outcomes. SOEs Boards must therefore ensure that sustainability is integrated into strategy, operations, decision-making, and culture.

This Part provides a comprehensive narrative on ESG governance, climate risk oversight, sustainability reporting, and the green transition within Sarawak SOEs, drawing from global frameworks, Malaysian sustainability standards, and Sarawak's development priorities.

2.0 THE ROLE OF THE BOARD IN SUSTAINABILITY GOVERNANCE

Boards must take leadership in guiding the organisation's sustainability agenda. Their responsibilities include:

- setting the organisation's sustainability vision and priorities
- approving sustainability policies and frameworks
- overseeing climate-related risks and opportunities
- integrating ESG factors into strategic planning and investments
- ensuring environmental and social compliance
- monitoring sustainability performance and reporting
- reinforcing a culture of environmental stewardship and social responsibility

ESG governance must be embedded into Board discussions, committee responsibilities, and performance evaluations. Sustainability must not be treated as an optional initiative or CSR activity, as it is a strategic pillar of long-term value creation.

3.0 ALIGNING SUSTAINABILITY WITH SARAWAK'S PCDS 2030

PCDS 2030 emphasises green transformation, renewable energy expansion, low-carbon solutions, sustainable land use, and biodiversity protection. SOEs must align sustainability strategies with these priorities, including:

- advancing hydropower, solar, and renewable energy initiatives
- supporting hydrogen economy development
- promoting sustainable agriculture and forestry
- strengthening waste management and circular economy models
- enhancing rural development and social inclusion
- reducing carbon emissions from operations
- adopting energy-efficient technologies
- protecting natural ecosystems and wildlife corridors
- enabling climate resilience across infrastructure and utilities

Boards must ensure that strategic plans explicitly articulate how the organisation contributes to Sarawak's sustainability vision that is in line with the Sarawak Sustainability Blueprint.

4.0 ESG FRAMEWORKS AND SUSTAINABILITY POLICIES

SOEs should adopt comprehensive ESG frameworks that define commitments, responsibilities, and standards, across environmental, social, and governance dimensions. These frameworks should be guided by:

- the United Nations Sustainable Development Goals (SDGs)
- ESG principles in the Malaysian Code on Corporate Governance
- Bursa Malaysia sustainability reporting guidelines (where applicable)
- Global Reporting Initiative (GRI) standards
- Task Force on Climate-related Financial Disclosures (TCFD)
- ISO standards related to environment, energy, and sustainability
- Sarawak-specific policies and regulations

Sustainability policies must address areas such as:

- climate risk management
- carbon reduction targets
- energy efficiency and renewable energy use
- water stewardship and waste management
- sustainable procurement
- labour rights, diversity, and inclusion
- community development and stakeholder engagement
- anti-corruption and integrity commitments

Boards must ensure that these policies are implemented consistently across all operational units and subsidiaries.

5.0 ENVIRONMENTAL STEWARDSHIP AND RESOURCE MANAGEMENT

Environmental stewardship is fundamental for SOEs that manage natural resources, land, energy, or public services. Boards must ensure that operations minimise environmental harm and contribute positively to environmental conservation.

Key responsibilities include:

- compliance with environmental laws and permits
- conducting environmental impact assessments (EIAs) for major projects
- implementing pollution control measures
- ensuring proper waste management and disposal
- protecting water quality and biodiversity
- managing land use responsibly
- supporting reforestation and habitat restoration where appropriate
- reducing greenhouse gas emissions and adopting low-carbon technologies

Boards must receive regular environmental performance reports, and ensure corrective actions are taken promptly when issues arise.

6.0 CLIMATE GOVERNANCE AND DECARBONISATION

Climate change poses significant risks to SOEs, including operational disruptions, infrastructure damage, regulatory pressures, and increased insurance costs. Hence, Boards must oversee climate governance proactively.

Key dimensions include:

(i) **Climate Risk Assessment**

Boards must ensure that the organisation identifies climate-related risks where applicable such as:

- flooding
- extreme weather events
- heat stress
- supply chain disruption
- changing customer expectations
- future regulatory requirements

(ii) **Climate Mitigation**

Organisations should reduce their carbon footprint by implementing:

- energy efficiency programmes
- renewable energy usage
- fleet and transport decarbonisation
- process optimisation
- low-carbon technologies
- alternatives to fossil-fuel operations

(iii) **Climate Adaptation**

Boards can ensure resilience through:

- climate-resilient infrastructure
- diversified water and energy sources
- emergency preparedness plans
- improved drainage and flood defences

Climate governance enhances operational resilience and aligns with Sarawak's commitment to environmental leadership.

7.0 SOCIAL RESPONSIBILITY AND INCLUSIVE DEVELOPMENT

The “S” in ESG addresses the organisation’s impact on people (employees, customers, communities, and society). Boards must ensure that SOEs uphold social responsibility by:

- protecting employee rights and welfare
- promoting workplace health and safety
- ensuring equal opportunity and non-discrimination
- supporting community development programmes
- reducing service inequalities between urban and rural areas
- engaging indigenous communities respectfully
- providing affordable and accessible services
- ensuring safety and quality standards for products and services

Social responsibility strengthens trust, reduces conflicts, and enhances organisational legitimacy.

8.0 SUSTAINABLE PROCUREMENT AND SUPPLY CHAIN GOVERNANCE

SOEs can ensure that procurement practices reflect sustainability principles. Boards should guide management to:

- prioritise suppliers with strong environmental and integrity practices
- avoid suppliers involved in unethical behaviour
- require sustainability certifications where applicable
- evaluate lifecycle costs rather than lowest price alone
- encourage local procurement and SME participation
- incorporate ESG requirements into vendor contracts

Sustainable procurement reduces reputational risks and contributes to broader environmental and social outcomes.

9.0 SUSTAINABILITY REPORTING AND TRANSPARENCY

Boards should ensure that sustainability performance is disclosed transparently where applicable. Reports should include:

- carbon emissions and reduction efforts
- energy consumption and efficiency gains
- water usage and conservation initiatives
- waste generation and recycling performance
- biodiversity impact and restoration efforts
- social impact indicators
- governance and integrity metrics
- progress toward sustainability targets

Sustainability reporting strengthens accountability, supports regulatory compliance, and enhances investor and stakeholder confidence.

10.0 GOVERNANCE OF GREEN INVESTMENTS AND PROJECTS

SOEs often undertake green projects such as renewable energy installations, wastewater treatment facilities, urban greening initiatives, sustainable agriculture programmes, or green mobility projects. Boards must ensure that:

- green projects have clear business cases
- environmental benefits are measurable
- risks are adequately assessed
- financing structures are sustainable
- projects align with State and national green policies

The Board must also ensure that green projects do not fall into "greenwashing", which is the practice of exaggerating sustainability claims without delivering real environmental or social impact.

11.0 EMBEDDING SUSTAINABILITY IN ORGANISATIONAL CULTURE

Sustainability requires a shift in organisational culture. Boards should ensure that sustainability values are communicated clearly, reflected in policies, reinforced through training, and embedded into day-to-day operations. Employees at all levels must understand their role in reducing environmental impact and supporting social development.

Recognition programmes, sustainability champions, cross-functional green committees, and clear behavioural expectations, can strengthen cultural alignment.

12.0 INTEGRATION OF SUSTAINABILITY WITH RISK MANAGEMENT

Sustainability risks including climate risks, environmental breaches, community conflicts, and labour issues, must be integrated into the risk management framework. Boards must ensure that sustainability risks are identified, assessed, monitored, and escalated appropriately.

Sustainability opportunities such as energy savings, circular economy initiatives, green financing, and new technologies, should also be captured in strategic planning, if they are related to SOE's on core business.

13.0 CONTRIBUTION TO SARAWAK'S GREEN ECONOMY

By adopting robust sustainability practices, SOEs help position Sarawak as a leader in green development. SOEs can:

- pioneer renewable energy
- support hydrogen economy development
- promote sustainable tourism
- lead circular economy initiatives
- develop green mobility solutions
- protect natural environments
- support community inclusion and rural development

Sustainability strengthens Sarawak's economic competitiveness and enhances long-term prosperity.

CONCLUSION

Part XV establishes sustainability, ESG, and climate governance, as central components of SOEs governance. With sustainability governance ensuring long term resilience, the Boards should uphold that environmental stewardship, social responsibility, and ethical governance, are deeply embedded in strategy, operations, and culture. Sustainability aligns SOEs with global standards and Sarawak's development goals under PCDS 2030.

The next section covers **crisis Management, Business Continuity, and Organisational Resilience**, addressing the Board's role in ensuring preparedness for emergencies, disruptions, and major operational shocks.

PART XVI

CRISIS MANAGEMENT, BUSINESS CONTINUITY, AND ORGANISATIONAL RESILIENCE

1.0 INTRODUCTION

In an increasingly volatile and unpredictable world, Sarawak SOEs must be prepared to withstand crises that may disrupt operations, compromise safety, damage assets, erode stakeholder trust, or threaten financial stability. Crises can arise suddenly, from natural disasters, cyberattacks, infrastructure failures, pandemics, industrial accidents, regulatory actions, financial shocks, or reputational scandals. They may also emerge gradually through systematic weaknesses, mismanagement, or ethical breaches.

SOEs in Sarawak operate in essential sectors, such as energy, water supply, infrastructure, digital communications, transportation, agriculture, and public services. Their resilience is therefore vital, not only to the organisations themselves, but also to the functioning of society. A crisis in an SOE can impact households, businesses, investors, communities, and government operations. Hence, Boards must ensure that crisis preparedness, response mechanisms, and resilience systems, are firmly embedded in governance structures.

This Part sets out a comprehensive framework for crisis management, business continuity planning (BCP), disaster recovery, emergency communication, and organisational resilience.

2.0 THE BOARD'S RESPONSIBILITY IN CRISIS GOVERNANCE

Boards hold ultimate responsibility for ensuring that the organisation is prepared for crises and capable of responding effectively. While management executes crisis plans, the Board must:

- **approve crisis management and BCP frameworks**
- **ensure that crisis plans are tested regularly**
- **monitor organisational vulnerabilities**
- **receive timely escalation of critical incidents**
- **provide leadership and guidance during major crises**
- **oversee post-crisis reviews and long-term corrective actions**

Boards must avoid micromanaging the operational response, while remaining actively informed and exercising strategic oversight. During a crisis, the Board Chair often plays an important role in guiding the organisation's communication and engagement with government authorities.

3.0 CRISIS MANAGEMENT FRAMEWORK

A comprehensive crisis management framework must include:

- **crisis governance structure with defined roles and responsibilities**
- **crisis detection and early warning systems**
- **crisis escalation protocols**
- **crisis response procedures**
- **communication and stakeholder management plans**
- **role of crisis leadership teams**
- **coordination with government agencies and regulators**
- **continuity of operations procedures**
- **post-crisis learning and improvements**

Boards must ensure that the crisis framework is documented, accessible, and regularly reviewed.

4.0 TYPES OF CRISES FACED BY SOES

SOEs may face crises from multiple sources, including:

(i) **Operational Crises**

- equipment or system failures
- outages in utilities or infrastructure
- supply chain disruptions
- quality control failures

(ii) **Financial Crises**

- liquidity shortages
- major contract breaches
- unexpected liabilities
- credit rating downgrades

(iii) **Cybersecurity Crises**

- ransomware attacks
- data breaches
- system sabotage

(iv) **Integrity and Governance Crises**

- fraud or corruption revelations
- Board disputes
- management misconduct

(v) **Reputational Crises**

- negative media coverage
- public dissatisfaction
- customer service failures

(vi) **Safety and Environmental Crises**

- industrial accidents
- hazardous material leaks
- workplace fatalities
- environmental pollution incidents

(vii) **Natural Disasters and External Shocks**

- floods, storms, and landslides
- pandemics
- geopolitical disruptions

Boards should ensure that crisis planning covers all these categories.

5.0 CRISIS LEADERSHIP AND DECISION-MAKING

Effective crisis response depends on clear and decisive leadership. SOEs must establish:

(i) a **Crisis Management Team (CMT)** led by the CEO

(ii) an **Emergency Response Team (ERT)** for operational incidents

(iii) a **Board-level Crisis Oversight Group** for strategic guidance

During a crisis, decision-making must be faster, more coordinated, and highly disciplined. The CEO must lead operational decisions, while the Board Chair engages with shareholder ministries, SFSO, and key stakeholders.

Boards must ensure that crisis leadership roles are defined in advance, and that leaders receive training on crisis behaviours, communication principles, and decision-making under pressure.

6.0 CRISIS ESCALATION PROTOCOLS

Crises must be escalated promptly based on severity. Escalation protocols must define:

- **indicators that trigger escalation**
- **who must be notified**
- **timelines for reporting**
- **roles of the CEO, Board Chair, CMT and ERT**
- **regulatory reporting requirements**

Escalation failures are common causes of delayed responses and reputational damage. Boards must ensure that escalation procedures are unambiguous and practised regularly.

7.0 BUSINESS CONTINUITY PLANNING (BCP)

BCP ensures that essential operations continue despite disruptions. Boards must ensure that every SOEs has a comprehensive BCP that includes:

- **identification of critical services and processes**
- **business impact analysis**
- **alternative work arrangements**
- **relocation plans for critical staff**
- **backup supply chain strategies**
- **remote working capabilities**
- **data backup and recovery systems**
- **manual fallback procedures**
- **communication plans for staff and stakeholders**

BCP must be updated frequently and tested through simulations, table-top exercises, and full-scale rehearsals.

8.0 DISASTER RECOVERY AND SYSTEMS REDUNDANCY

Disaster recovery focuses on restoring infrastructure, technology, and data systems, after a major disruption. Boards must ensure that the organisation maintains:

- **backup data centres or cloud backups**
- **redundant systems for critical operations**
- **failover capabilities**
- **emergency power systems**
- **regular testing of backup and recovery processes**
- **documentation of recovery priorities**
- **agreements with external technology providers**

Infrastructure and utility SOEs must pay special attention to system redundancy to prevent large-scale service disruptions.

9.0 CRISIS COMMUNICATION AND PUBLIC ENGAGEMENT

Communication is often the most critical and challenging aspect of crisis management. Boards must ensure that crisis communication plans include:

- **protocols for media engagement**
- **public announcements**
- **social media communication**
- **coordination with government agencies**
- **updates to regulators**
- **communication with customers and communities**
- **protection of confidential information**

During a crisis, transparency is essential, but communication must be responsible, factual, and empathetic. Boards must ensure that communication does not mislead the public, conceal material facts, blame individuals prematurely, and create panic or confusion.

Boards must guide the CEO and Corporate Communications team to strike the right balance.

10.0 STAFF SAFETY AND CRISIS SUPPORT

Employee safety is paramount. Boards must ensure that:

- **emergency procedures are established for fire, flood, chemical exposure or workplace accidents**
- **personal protective equipment is available and used**
- **emergency drills are conducted regularly**
- **employee assistance programmes are available**
- **counselling services are provided during traumatic incidents**
- **staff welfare is prioritised during crises**

A safety-focused culture enhances resilience and reduces the severity of crises.

11.0 COORDINATION WITH GOVERNMENT AND EMERGENCY AGENCIES

SOEs must cooperate closely with:

- **the Sarawak Disaster Management Committee (SDMC)**
- **the Ministry of Utilities and Telecommunications Sarawak**
- **the Ministry of Transport Sarawak**
- **the Ministry of Public Health, Housing and Local Government Sarawak**
- **the Fire and Rescue Department of Malaysia (Bomba) and other emergency services**
- **the Royal Malaysia Police (PRDM) and other enforcement agencies**
- **local authorities and councils**
- **relevant environmental regulators, including the Natural Resources and Environment Board (NREB) Sarawak**

During major crises, coordination with these agencies is essential to protect public safety and restore operations quickly.

Boards must ensure clear liaison roles and communication protocols are established with these agencies.

12.0 POST-CRISIS RECOVERY AND LESSONS LEARNED

Once a crisis is resolved, the organisation must conduct a detailed post-crisis evaluation that includes:

- **assessment of root causes**
- **evaluation of response effectiveness**
- **identification of gaps in systems and culture**
- **documentation of lessons learned**
- **formulation of long-term corrective actions**
- **strengthening of policies, systems and training**

Boards must oversee the post-crisis review, and ensure that improvements are implemented without delay. A crisis wasted is a missed opportunity for institutional strengthening.

13.0 BUILDING ORGANISATIONAL RESILIENCE

Resilience is the capacity to prepare for disruption, withstand shocks, and recover quickly. To build resilience, Boards must ensure:

- **strong risk management systems**
- **diversified revenue streams**
- **stable financial reserves**
- **competent leadership**
- **robust infrastructure**
- **digital resilience and cybersecurity**
- **adaptable workforce capabilities**
- **effective stakeholder relationships**
- **a culture of continuous improvement**

Resilience is not a one-time activity; it must become a core organisational philosophy.

14.0 ALIGNING CRISIS MANAGEMENT WITH PCDS 2030

PCDS 2030 emphasises resilience as a foundation for a prosperous, sustainable, and competitive Sarawak. SOEs must therefore:

- **adopt resilient infrastructure practices**
- **enhance digital and cybersecurity readiness**
- **ensure resilient utilities and essential services**
- **strengthen rural and community resilience**
- **integrate climate adaptation into operations**
- **support State-wide emergency response systems**

Boards play a vital role in connecting crisis preparedness with the State's broader development objectives.

CONCLUSION

Part XVI establishes crisis management and resilience as key components of governance for Sarawak SOEs. Boards must ensure that their organisations are prepared for disruptions. Such organisations should also respond effectively, communicate responsibly, and recover quickly. Crisis readiness protects public safety, sustains essential services, and strengthens public confidence in the State's governance systems.

The next section covers **monitoring, Evaluation and Board Performance Assessment**, detailing how Boards assess their own effectiveness and sustain continuous improvement.

PART XVII
MONITORING, EVALUATION, AND BOARD PERFORMANCE ASSESSMENT

1.0 INTRODUCTION

A high-performing Board is not a static entity; it is a learning organism that continuously evolves, improves, and adapts to changing conditions. Governance effectiveness depends not only on structure and processes, but also on the Board's willingness to assess itself honestly, identify areas for enhancement, and commit to ongoing development. Monitoring and evaluation (M&E) are therefore essential components of governance excellence.

For Sarawak SOEs, Board evaluation is especially important, because SOEs operate in a context where public trust, accountability, service delivery, and financial sustainability, are paramount. Weak Board performance undermines organisational outcomes, exposes the State to risks, and can erode confidence in the governance of public institutions. Conversely, an effective Board strengthens the organisation's ability to deliver on its mandate, provide strategic guidance, and uphold integrity.

This Part sets out a comprehensive framework for monitoring, evaluation, and continuous improvement of Board performance. It integrates global best practices, Malaysian corporate governance guidelines, Sarawak's oversight expectations, and principles.

2.0 MPORTANCE OF BOARD MONITORING AND EVALUATION

Board evaluation serves multiple purposes, including:

- **assessing Board effectiveness** in fulfilling its responsibilities
- **ensuring Directors remain competent, active and engaged**
- **identifying governance weaknesses** before they escalate into crises
- **enhancing the quality of decision-making** through reflection and improvement
- **supporting Board renewal and succession**
- **strengthening trust** with shareholder ministries, regulators, and the public

Evaluation promotes self-awareness, accountability, and continuous development. It prevents complacency and ensures that Boards uphold high standards of professionalism and ethical conduct.

3.0 PRINCIPLES OF EFFECTIVE BOARD EVALUATION

Board evaluation must follow several core principles:

(i) Objectivity

Evaluations must be based on evidence, not personal impressions or politics.

(ii) Confidentiality

Directors must feel safe to provide honest reflections. Feedback must be treated with discretion.

(iii) Balanced Perspective

Evaluations must acknowledge strengths while identifying improvement areas.

(iv) Action Orientation

Findings must lead to concrete development plans, not merely documentation.

(v) Independence

Periodic external evaluations bring impartiality and strengthen credibility.

(vi) Continuous Process

Evaluation must occur annually, with progress monitored throughout the year.

Boards that embrace these principles mature faster and deliver higher value.

4.0 LEVELS OF BOARD EVALUATION

Board evaluation occurs at three (3) levels, each reinforcing the other.

(i) Board Collective Evaluation

Assesses the Board as a whole by examining its structure, processes, dynamics, focus, and effectiveness.

(ii) Committee Evaluation

Evaluates the performance of Audit, Risk, Nomination, Remuneration, Finance, Investment, and other committees.

(iii) Individual Director Evaluation

Assesses each Director's contribution, participation, preparedness, ethical behaviour, independence, and knowledge.

These levels create a holistic picture of governance effectiveness.

Effective evaluations assess several core dimensions:

5.0 COMPONENTS OF BOARD AND DIRECTOR EVALUATION

(i) **Strategic Oversight**

- quality of Board discussions on strategy
- ability to guide long-term direction
- alignment with PCDS 2030

(ii) **Financial Stewardship**

- understanding of financial data
- oversight of budgeting and resource management
- scrutiny of financial risks

(iii) **Risk and Internal Control Oversight**

- engagement with risk management
- responsiveness to audit findings
- oversight of cybersecurity and integrity risks

(iv) **Leadership and Ethical Culture**

- tone-setting
- integrity and ethical behaviour
- conflict-of-interest discipline
- respect for governance boundaries

(v) **Meeting Effectiveness**

- quality of deliberations
- preparation and engagement
- clarity and timeliness of decisions

(vi) **Stakeholder Accountability**

- responsiveness to public expectations
- oversight of transparency and reporting

(vii) **Competence and Professional Development**

- understanding of the sector
- commitment to continuous learning
- engagement in Directors' training

Collectively, these dimensions ensure a comprehensive and balanced evaluation of Board effectiveness.

6.0 ANNUAL INTERNAL BOARD EVALUATION

Annual evaluations form the foundation of Board performance improvement. The Board Chair, supported by the Company Secretary or Board Nomination and Remuneration Committee (BNRC), coordinates the process.

Key steps include:

(i) **Distribution of evaluation forms or digital surveys** covering Board, committee, and individual Director effectiveness.

(ii) **One-on-one interviews** between the Chair and each Director for qualitative feedback where applicable.

(iii) **Collection and analysis** of responses.

(iv) **Presentation of findings** to the Board.

(v) **Discussion of improvement actions** and identification of areas requiring follow-up.

To ensure effectiveness, the evaluation process should be conducted objectively and confidentially, with outcomes translated into concrete improvement measures. Through this discipline, annual evaluations promote consistency and discipline, ensuring governance evolves continuously.

7.0 PERIODIC EXTERNAL INDEPENDENT EVALUATIONS

At least once every three (3) years, or more frequently for large or high-risk SOEs, the Board may commission an **external governance expert** to conduct an independent evaluation. External evaluations provide:

- **greater objectivity**
- **benchmarking against global and national standards**
- **insights into sector-level governance trends**
- **identification of blind spots not visible internally**
- **credibility with regulators, ministries and investors**

To preserve independence and integrity, external evaluations must be conducted by qualified professionals free from conflicts of interest.

8.0 FOLLOW-UP ACTIONS AND GOVERNANCE IMPROVEMENT PLANS

Evaluation is only valuable if it leads to a real change. Boards should therefore develop a **Board Governance Improvement Plan** that clearly outlines:

- **priority areas for development**
- **timelines for implementation**
- **responsible persons or committees**
- **specific learning or structural interventions**
- **mechanisms to monitor progress**

Examples of improvement actions include:

- **revising Board charters**
- **enhancing director training**
- **improving meeting processes**
- **strengthening financial literacy**
- **changing committee structures**
- **addressing behavioural or cultural issues**
- **upgrading governance documentation**
- **introducing digital tools for Board effectiveness**

Boards must regularly review progress against the Improvement Plan, and ensure that agreed actions are implemented and embedded into governance practice.

9.0 DIRECTOR COMPETENCY FRAMEWORK AND CONTINUING EDUCATION

Boards must maintain a competency framework that outlines the knowledge, skills, and attributes expected of Directors. These may include:

- **financial literacy**
- **strategic understanding**
- **industry expertise**
- **governance knowledge**
- **integrity and ethical judgement**
- **human resource and remuneration understanding**
- **risk and audit literacy**
- **digital governance and cybersecurity awareness**
- **sustainability and ESG competence**

This framework should be reviewed periodically to reflect changes in strategy, risk profile, and regulatory expectations. The Board Chair should ensure that Director training programmes align with these competencies.

Continuing Education could include:

- **governance and regulatory updates**
- **sector-specific knowledge**
- **risk and integrity management**
- **digital transformation and cyber risks**
- **sustainability and climate governance**
- **leadership and behavioural training**

Continuous learning strengthens Board capacity and enhances governance quality.

10.0 CEO AND SENIOR MANAGEMENT FEEDBACK ON BOARD EFFECTIVENESS

The Board Chair should also seek feedback from the CEO and senior management regarding:

- **clarity of Board direction**
- **quality of Board decisions**
- **timeliness of approvals**
- **helpfulness of Board guidance**
- **areas where the Board may be overstepping or insufficiently engaged**

Such feedback should be sought in a structured and confidential manner, typically as part of the Board evaluation process, and coordinated by the Board Chair or an independent party. This upward feedback promotes transparency, mutual understanding, and improved Board-management relationships.

11.0 MONITORING ORGANISATIONAL PERFORMANCE AGAINST STRATEGY

Board performance is reflected in organisational results. Boards must continuously monitor:

- **financial performance;**
- **operational KPIs;**
- **risk indicators;**
- **public service outcomes;**
- **sustainability commitments; and**
- **customer engagement metrics.**

Monitoring must be proactive and analytical. Boards must not wait for crisis indicators to emerge; they must identify early signs of weakness.

Performance monitoring must be supported by high-quality data, digital dashboards, and accurate reporting.

12.0 DETECTING EARLY WARNING INDICATORS OF GOVERNANCE FAILURE

Boards must remain vigilant for early warning indicators such as:

- **repeated audit findings**
- **high management turnover**
- **delays in critical projects**
- **declining service quality**
- **rising customer complaints**
- **financial irregularities**
- **deteriorating liquidity**
- **culture of fear, silence or complacency**

To ensure timely awareness, Boards should require these indicators to be systematically tracked through regular reporting, committee oversight, and independent assurance channels. Detecting these indicators early allows Boards to intervene before problems escalate.

13.0 IMPROVING BOARDROOM DYNAMICS AND CULTURE

Board effectiveness depends heavily on interpersonal dynamics, trust, and openness. Boards must foster a culture where Directors:

- **speak honestly and respectfully**
- **challenge management constructively**
- **maintain independence of judgement**
- **avoid personal conflicts**
- **respect confidentiality**
- **uphold the organisation's interest above all else**

To build such a culture, expectations around conduct and behaviour should be clearly articulated, reinforced through example, and supported by appropriate Board processes. The Board Chair plays a central role in shaping Board culture, moderating discussions, and ensuring that all voices are heard.

14.0 SUCCESSION PLANNING FOR THE BOARD

Governance continuity requires planned renewal of the Board. Boards must work with shareholder ministries and SFSO to ensure that:

- **appointments follow a structured process**
- **Directors possess the required competencies**
- **term limits are respected**
- **diversity is balanced**
- **the Board retains institutional memory**
- **leadership succession for Chair and committees is planned in advance**

Effective succession planning reduces disruption, supports leadership continuity, and strengthens governance stability.

15.0 PUBLIC DISCLOSURE OF GOVERNANCE PRACTICES

Transparency in governance evaluation builds public confidence. Where appropriate and subject to confidentiality considerations, SOEs should disclose:

- **that Board evaluations have been conducted**
- **high-level key findings, without compromising sensitive information**
- **governance improvement priorities**
- **action taken or planned to strengthen governance**

Such disclosures enhance accountability. They also reinforce trust with stakeholders, and demonstrate a clear commitment to continuous improvement.

CONCLUSION

Part XVII establishes a robust framework for monitoring and evaluating Board performance. It emphasises accountability, transparency, and continuous learning, as pillars of governance excellence. Boards that embrace regular evaluation, honest reflection, and ongoing development, become more effective, strategic, and resilient. The next section will cover **governance of Investments, Joint Ventures and Subsidiaries**, addressing how Boards ensure proper oversight over group structures and external partnerships.

PART XVIII

GOVERNANCE OF INVESTMENTS, JOINT VENTURES, AND SUBSIDIARIES

1.0 INTRODUCTION

SOEs in Sarawak often operate as part of broader corporate groups that include subsidiaries, associate companies, joint ventures (JVs), special purpose vehicles (SPVs), and strategic investment entities. These structures enable SOEs to expand operations, develop new markets, collaborate with private sector partners, and pursue strategic initiatives aligned with Sarawak's development agenda. However, group structures also introduce complexity, additional risk exposure, and elevated governance expectations.

Weak oversight within corporate groups has historically been a major source of governance failures worldwide. Risks such as poor financial control, inadequate reporting, misaligned strategies, weak internal controls, conflicts of interest, unethical practices, or project failures, frequently originate in entities that are not subject to direct operational oversight by the Board. It is therefore imperative that SOE Boards establish strong governance frameworks to ensure consistency, compliance, transparency, and accountability, across all controlled and partially controlled entities.

This Part sets out a comprehensive narrative on the governance of investments, joint ventures, and subsidiaries, drawing from global benchmarks, Malaysian corporate governance codes, and Sarawak's expectations for SOEs group governance.

2.0 THE BOARD'S ACCOUNTABILITY FOR GROUP GOVERNANCE

While entities within the corporate group may have their own Boards and management teams, the parent SOEs Board remains accountable for group-level governance and performance oversight, consistent with its ownership and control rights. This includes responsibility for:

- **approving new investments, acquisitions and joint ventures**
- **ensuring governance structures across subsidiaries align with parent expectations**
- **monitoring financial and operational performance of group entities**
- **ensuring compliance with relevant laws and regulations**
- **reviewing risks emerging from subsidiaries or partners**
- **managing reputational exposure arising from group activities**
- **safeguarding the State's interest in all controlled entities**

Parent Boards must never assume that subsidiary Boards will automatically uphold governance standards. Oversight must therefore be active, structured, and ongoing, supported by clear expectations, regular reporting, and effective escalation mechanisms.

3.0 FRAMEWORK FOR GROUP GOVERNANCE

SOEs must adopt a **Group Governance Framework** that includes:

- **clear definitions of the role of the parent company**
- **governance expectations for subsidiary Boards**
- **policy guidelines on financial oversight**
- **reporting obligations from subsidiaries and joint ventures (JVs)**
- **risk management requirements across the group**
- **guidelines for director appointments in subsidiaries**
- **approval thresholds for major decisions**
- **escalation mechanisms for issues requiring parent Board attention**

The objective is not to micromanage subsidiaries, but to ensure alignment, accountability, and appropriate risk oversight.

4.0 GOVERNANCE OF STRATEGIC INVESTMENTS

SOEs often undertake strategic investments that support Sarawak's economic transformation, including:

- **renewable energy (hydropower, solar, hydrogen)**
- **digital infrastructure and telecommunications**
- **logistics and transportation**
- **industrial development**
- **agriculture and food security**
- **community development initiatives**

Boards must ensure that strategic investments:

- **align with the SOE's mandate and PCDS 2030**
- **demonstrate a clear business case or strategic rationale**
- **undergo proper due diligence**
- **comply with investment guidelines from shareholder ministries and SFSO**
- **include risk assessments covering financial, operational, legal, and political risks**
- **are supported by clear performance expectations**
- **include exit strategies where appropriate**

Investments must not be approved solely based on external pressure. Boards must protect the organisation from poor investments by demanding evidence-based analysis. In this regard, the SOE's must comply with the SFS Circular No.10/2024: Investment Policy and Guidelines for State Statutory Body, State Local Authority, and Government –linked Company of the Government of Sarawak.

5.0 DUE DILIGENCE REQUIREMENTS FOR INVESTMENTS AND PARTNERSHIPS

Before entering into an investment or JV, the Board must ensure that thorough due diligence is conducted covering:

(i) **Financial Due Diligence**

- financial viability
- revenue models
- cost structures
- liquidity and capital requirements

(ii) **Legal Due Diligence**

- corporate status of partners
- regulatory requirements
- litigation risks
- contract obligations

(iii) **Technical Due Diligence**

- project feasibility
- technology reliability
- operational requirements

(iv) **ESG and Sustainability Due Diligence**

- environmental risks
- labour issues
- community impacts

(v) **Integrity and Reputation Due Diligence**

- background checks on partners
- corruption or ethical risks
- past performance and market reputation

Boards must decline any investment where due diligence reveals significant risks that cannot be mitigated to an acceptable level.

6.0 GOVERNANCE OF JOINT VENTURES (JVs)

JVs are often used to leverage private sector expertise, share risks, attract investment, or develop new technologies. However, because control and decision-making are shared among partners, JVs present distinct governance challenges that require careful structuring and oversight.

Boards must ensure that JV structures include:

- **clear and enforceable shareholder agreements**
- **well-defined governance, decision-making, and reserve matters**
- **appropriate protections for minority interests, when applicable**
- **transparent and effective Board representation mechanisms**
- **clear dispute resolution provisions**
- **exit clauses and termination rights that protect the SOE's interests**
- **robust financial reporting and information-sharing obligations**
- **integrity, compliance, and anti-corruption clauses**
- **sustainability and ESG commitments aligned with Sarawak policies and development objectives**

The parent SOEs must ensure that JV arrangements do not result in the loss of strategic control, expose organization to disproportionate risks, or undermine its public mandate.

7.0 BOARD REPRESENTATION IN SUBSIDIARIES AND JVs

The parent SOEs must exercise particular care when appointing directors to subsidiary or JV Boards. Such appointments are a critical governance mechanism for safeguarding the State's interest and ensuring effective group-wide oversight. Board representatives must:

- **clearly understand their fiduciary duties to the subsidiary or JV**
- **possess the requisite technical expertise and governance competence**
- **report promptly and accurately to the parent company on material matters**
- **protect the State's investment and public interest**
- **avoid actual or perceived conflicts of interest**
- **uphold high standards of governance, integrity, and ethical conduct**
- **refrain from acting as agents of political, personal, or external influences**

To support effective performance, Board representatives should receive formal training prior to appointment. This training should cover:

- **group-wide governance expectations and accountabilities**
- **reporting and escalation requirements**
- **ethical standards and legal obligations**
- **conflict-of-interest identification and management**
- **subsidiary or JV-level risk, financial, and performance monitoring**

Poorly selected or inadequately prepared representatives can expose the SOEs to significant governance, financial, and reputational risks.

8.0 REPORTING REQUIREMENTS FROM SUBSIDIARIES AND JVs

Parent Boards must receive periodic reports from all controlled entities. These reports must include:

- **financial statements**
- **budgets and forecasts**
- **performance reports against approved KPIs**
- **risk management updates**
- **audit findings and follow-up actions**
- **compliance and regulatory reports**
- **major operational or strategic developments**
- **sustainability and ESG summaries, where appropriate**
- **issues requiring escalation to the parent Board**

To ensure consistency and comparability, reporting must follow standardised templates across the group. Parent Boards must review these reports critically, challenge management where necessary, and intervene promptly when weaknesses, emerging risks, or non-compliance are identified.

9.0 RISK OVERSIGHT ACROSS GROUP STRUCTURES

Risks arising in subsidiaries or JVs can have significant implications for the parent SOEs. Boards must therefore ensure that:

- **a consolidated risk register captures material risks across all entities**
- **subsidiaries and JVs adopt risk management frameworks that are compatible with group standards**
- **emerging and material risks are escalated promptly through defined reporting channels**
- **financial exposures, including guarantees, loans, and capital injections, are systemically monitored and approved**
- **major investment and project risks are reviewed regularly at the appropriate Board or committee level**
- **cyber, operational, integrity, and compliance risks are tracked consistently across the group**

A significant failure in a single subsidiary or JV can expose the entire group, and ultimately, the State, as it can impose a reputational or financial risk to the entire group and the State.

10.0 FINANCIAL CONTROLS AND SAFEGUARDS IN SUBSIDIARIES

Parent Boards must ensure that subsidiaries maintain strong financial controls environment, including:

- **clear segregation of duties**
- **compliance with approved procurement rules and financial authorities**
- **adherence to approved budgeting and expenditure controls**
- **timely, accurate, and complete financial reporting**
- **regular and independent internal audit coverage**
- **effective fraud prevention and detection mechanisms**
- **robust record-keeping and documentation standards**

Subsidiaries must not be treated as separate entities exempt from governance expectations. All financial controls must align with parent company policies and applicable regulatory requirements, ensuring consistent standards across the group.

11.0 FINANCIAL CONTROLS AND SAFEGUARDS IN SUBSIDIARIES

Boards must ensure that performance evaluation frameworks extend to all subsidiaries and JV entities. Monitoring must include:

- **financial performance**
- **operational KPIs**
- **ESG performance, where appropriate**
- **customer and stakeholder outcomes**
- **progress on strategic initiatives**
- **management capability and leadership effectiveness**
- **key risk indicators**

Subsidiaries or JVs exhibiting persistent underperformance require timely and proportionate corrective interventions, which may include:

- **change of leadership**
- **revision of strategy or business models**
- **operational restructuring or efficiency measures**
- **enhanced oversight and reporting requirements**
- **divestment or exit, where necessary**

Boards must be prepared to make difficult decisions promptly to safeguard public value, manage risk, and ensure the sustainability of the SOEs group.

12.0 EMPOWERMENT AND AUTONOMY OF SUBSIDIARY BOARDS

While parent Boards retain overall oversight, subsidiary Boards must be appropriately empowered to operate effectively. Subsidiary Boards must have:

- **defined operational autonomy clearly agreed limits**
- **authority to approve budgets, business plans, and key operational decisions**
- **the ability to appoint, evaluate, and where necessary recommend the removal of their CEOs**
- **responsibility for local decision-making in accordance with the approved agencies**
- **clear governance mandates aligned with group policies and expectations**

Excessive micromanagement by the parent Boards weakens, blurs governance roles, and reduces organizational effectiveness. Instead of centralised control, the goal is **controlled autonomy**, where empowerment is balanced with oversight.

13.0 CONFLICT-OF-INTEREST GOVERNANCE IN GROUP STRUCTURES

Group structures often create heightened risks of conflicts of interest, particularly where individuals serve on multiple Boards, or where commercial deals occur within the group. Boards must ensure:

- **timely and comprehensive declarations of conflicts of interest at all levels**
- **clear recusal procedures for Directors and executives involved in conflicted decisions**
- **independent reviews and approval of related-party transactions, where required**
- **full documentation, disclosure, and transparency of decision-making processes**
- **consistent application of ethical standards across all entities within the group**

Conflicts must be identified and managed proactively to safeguard the organisation's integrity, credibility, and public trust.

14.0 DIVESTMENT, EXIT STRATEGIES AND PORTFOLIO RATIONALISATION

Not all investments are meant to be permanent. Boards must therefore ensure that:

- **investments are reviewed periodically against strategic objectives and performance expectations**
- **non-strategic or persistently underperforming assets are identified and considered for divestment**
- **clear exit mechanisms are defined in shareholder or investment agreements**
- **divestments decisions follow transparent, well-documented, and fair processes**
- **financial, legal, and reputational impacts are assessed prior to any exit**

Portfolio rationalisation helps SOEs to sharpen their focus on core mandates, optimize capital allocation, and reduces unnecessary financial and risk exposure.

15.0 GROUP GOVERNANCE AND PCDS 2030

Group governance supports PCDS 2030 by:

- **enabling structured and well-governed partnerships**
- **supporting the expansion of key sectors such as renewable energy, the digital economy, agrofood, and infrastructure**
- **ensuring that investments are aligned with State development priorities and public value objectives**
- **strengthening accountability and stewardship for public resources**
- **enabling effective cross-sector coordination and coordination**

Boards must ensure that investments decisions contribute meaningfully to Sarawak's long-term economic, social, and sustainability goals.

CONCLUSION

Part XVIII establishes a robust framework for the governance of investments, subsidiaries, and joint ventures. It emphasises structured oversight, strategic alignment, financial discipline, risk management, and responsible partnerships. Effective group governance protects the State's assets, strengthens organisational performance, and expands development impact.

The next and final section of this Handbook covers **Governance Transformation, Reform Roadmap and Continuous Improvement**, completing the narrative foundation of this Handbook.

PART XIX

GOVERNANCE TRANSFORMATION, REFORM ROADMAP, AND CONTINUOUS IMPROVEMENT

1.0 INTRODUCTION

Governance is not a static state, but a dynamic, evolving system, that must continuously adapt to new challenges, changing expectations, and emerging opportunities. For Sarawak's SOEs, the journey of governance transformation is essential for maintaining public trust, achieving operational excellence, enhancing financial sustainability, and supporting the State's long-term development objectives under the PCDS 2030.

Many SOEs were created decades ago under different economic realities, governance philosophies, regulatory environments, and technological contexts. As Sarawak accelerates into a new era characterised by digital innovation, green transformation, global competition, and rising public expectations, the governance systems of SOEs must evolve accordingly. Such transformation requires not only updated policies, frameworks, and structures, but also meaningful shifts in organisational culture, leadership behaviour, Board competence, and the quality of stakeholder engagement.

This Part presents a comprehensive governance reform roadmap and continuous improvement strategy to institutionalise excellence across Sarawak's SOEs. It integrates lessons from international benchmarks, national governance reforms, State policies, the uploaded documents, and the earlier Parts of this Handbook.

2.0 THE IMPERATIVE FOR GOVERNANCE TRANSFORMATION

Governance transformation is driven by several critical factors:

(i) Higher public expectations

Citizens today expect greater transparency, integrity, professionalism, and demonstrable value for public funds, particularly from institutions entrusted within public resources.

(ii) Complex operating environments

SOEs increasingly operate in competitive and fast-evolving sectors, where innovation, efficiency, resilience, and accountability, are essential to long-term viability and relevance.

(iii) State development priorities

PCDS 2030 positions SOEs as key drivers of Sarawak's development agenda, requiring leadership in digitalisation, renewable energy, sustainable development, and the enhancement of public services.

(iv) Regulatory and integrity pressures

Strengthened anti-corruption enforcement and expanding legal obligations, including Section 17A of the MACC Act, demand more robust governance, compliance, and assurance systems.

(v) Risk and crisis landscape

Rising cybersecurity threats, climate-related risks, global market volatility, and complex operational challenges, require governance frameworks that are adaptive, resilient, and forward-looking.

Thus, governance transformation is not optional; it is both a strategic imperative, and a moral obligation, for SOEs entrusted with public value.

3.0 FOUNDATIONS OF GOVERNANCE TRANSFORMATION

Governance transformation must rest on five (5) foundational pillars:

- **Clear mandates and strategic alignment, ensuring that organisational objectives are well defined and aligned with State priorities**
- **Professional and competent Boards, equipped with the skills, experience, and independence required to provide effective leadership and oversight**
- **Integrity, ethics, and accountability, embedded in culture, decision-making, and control systems**
- **Transparent and disciplined performance management, supported by clear metrics, reporting, and consequence management**
- **Resilient and future-ready organisational systems, capable of adapting to evolving risks, technologies, and stakeholder expectations**

Collectively, these foundations ensure that governance transformation is systematic, sustainable, and firmly anchored in strong governance discipline.

4.0 STRATEGIC ALIGNMENT WITH PCDS 2030

Governance transformation must reinforce Sarawak's broader socio-economic aspirations. SOEs play strategic roles in:

- **modernising critical infrastructure**
- **expanding renewable energy initiatives and the hydrogen economy**
- **strengthening the digital ecosystem and cybersecurity capabilities**
- **enhancing rural development and regional inclusion**
- **supporting food security and sustainable agriculture**
- **upgrading public utilities and essential services**

- **promoting environmental stewardship and climate resilience**
- **developing local talent and high-skilled employment opportunities**

Boards should ensure that each SOE's transformation plans explicitly and demonstrably contribute to these State priorities, in line with the SOE's respective mandate, core business, and operating context.

5.0 GOVERNANCE REFORM THEMES

A comprehensive governance transformation programme typically includes the following elements:

(i) **Strengthening Board Competence and Independence**

- merit-based and transparent appointment processes
- structured induction and ongoing Director training
- regular Board, committee, and individual Director evaluations
- clear separation of governance and management roles
- robust conflict-of-interest policies and enforcement mechanisms

(ii) **Enhancing Transparency and Accountability**

- timely, accurate, and high-quality reporting to stakeholders
- sustainability and ESG disclosures aligned with recognized standards
- comprehensive integrity and ethics frameworks
- effective, trusted, and well-publicised whistleblowing systems.

(iii) **Reinforcing Financial Discipline**

- disciplined and outcome-oriented budgeting processes
- strengthened internal controls and financial oversight
- cost optimisation and efficiency initiatives
- improvements to procurement governance and value-for-money assurance

(iv) **Digitalising Governance and Operations**

- upgrades to core digital and ICT infrastructure
- automated and integrated reporting systems
- robust data governance and information management frameworks
- enhanced cybersecurity resilience and controls

(v) **Embedding ESG and Sustainability Governance**

- clear carbon reduction and environmental performance commitments
- adoption of green and sustainable procurement practices
- integration of climate-related risks into strategy and risk management

(vi) **Strengthening Performance Culture**

- Board-approved KPIs and performance contracts aligned with strategic objectives
- organization-wide scorecards to track outcomes and impact
- clear accountability for results at all levels
- defined consequences for persistent underperformance or non-compliance

(vii) **Building Organisational Resilience**

- effective crisis management and escalation systems
- tested business continuity and disaster recovery plans
- strong occupational safety, health, and environmental governance frameworks

Collectively, these themes guide governance transformation across leadership, operations, culture, and strategy, ensuring that change is coherent, sustainable, and aligned with Sarawak’s long-term development objectives.

6.0 THE SARAWAK SOES GOVERNANCE REFORM ROADMAP

To ensure consistency and State-wide alignment with the Sarawak SOE's Transformation Blueprint 2030 Toward Financial Self-Reliance and High Performance, a structured transformation roadmap should be implemented across all SOEs. This roadmap typically consists of the following phases:

Phase 1: Diagnostic and Baseline Assessment

Boards and management of SOEs should begin the transformation process with a comprehensive baseline assessment covering:

- **governance structures, roles, and Board effectiveness**
- **financial performance, resilience, and long-term sustainability**
- **operational systems and service delivery capabilities**
- **risk management and integrity frameworks**
- **internal controls environments**
- **legal and regulatory compliance systems**
- **technology, data, and digital readiness**
- **organisational culture, leadership capacity, and management competence**

This baseline assessment enables the identification of material gaps, emerging risks, and priority opportunities, for targeted and sequenced improvement initiatives.

Phase 2: Governance and Structural Reforms

Based on diagnostic findings, Boards should implement targeted governance reforms such as:

- **updating Board charters and terms of reference**
- **refining committee structures, mandates, and membership**
- **strengthening enterprise risk management and audit systems**
- **clarifying executive roles, authorities, and delegations**
- **redesigning performance management and**

- **accountability systems**
- **reviewing and updating key policies, including procurement, human resources, finance, digital governance, and sustainability**

Governance reform must be formally documented, approved, and communicated clearly across the organization, to ensure consistent understanding and effective implementation.

Phase 3:
Operational and Financial Transformation

This phase focuses on strengthening core operations through:

- **process re-engineering and workflow optimisation**
- **financial restructuring and capital efficiency measures**
- **prioritisation and sequencing of project pipeline**
- **enhancement of service quality and customer outcomes**
- **cost optimisation and efficiency improvement programmes**
- **implementation of digital transformation initiatives**
- **workforce capacity building and leadership development**

The goal is to achieve sustained operational excellence, improved service delivery, and financial sustainability.

Phase 4:
Cultural, Leadership and Capability Transformation

Transformation requires a change in mindset, values, and behaviours. Boards with close cooperation and support from SOEs management, must drive:

- **ethical culture reinforcement**
- **leadership development programmes**
- **high-performance culture initiatives**
- **strengthened accountability**
- **coaching and mentorship systems**
- **talent development and succession programmes**

Cultural transformation ensures long-term sustainability of reforms.

Phase 5:
Monitoring, Evaluation and Continuous Improvement

The final phase institutionalises transformation through:

- **performance monitoring and reporting**
- **periodic governance evaluations**
- **annual transformation reviews**
- **independent external validations**
- **integration of new standards and global best practices**

Continuous improvement ensures that reforms remain relevant, effective, and responsive, to evolving challenges and expectations.

7.0 SUCCESS FACTORS FOR GOVERNANCE TRANSFORMATION

Successful governance transformation depends on the following critical factors:

(i) **Strong Leadership Commitment**
Boards and CEOs must demonstrate consistent and unwavering support for reform, setting clear expectations, and leading by example throughout the transformation process.

(ii) **Clear and Measurable Objectives**
Transformation initiatives must be guided by concrete objectives, supported by defined timelines, measurable indicators, and regular monitoring of progress.

(iii) **Stakeholder Engagement**
Shareholder ministries, SFSO, regulators, employees, and communities, must understand the purpose of the transformation, and actively support its implementation.

(iv) **Professional Competence**
Effective transformation requires skilled professionals, appropriate external advisors, and a robust internal team, with the capability to design, implement, and sustain reforms.

(v) **Integrity and Ethical Discipline**
Governance transformation cannot succeed without strong ethical behaviour, compliance with laws and policies, and a firm commitment to transparency and accountability.

(vi) **Adequate Resources**

Both governance and operational reforms require sufficient and sustained investment in systems, people, and technology, to ensure meaningful and lasting outcomes.

8.0 BUILDING A CULTURE OF CONTINUOUS IMPROVEMENT

Boards must nurture a culture where:

- **continuous learning and capability develop valued**
- **mistakes are identified early and addressed promptly**
- **decision-making is driven by data, evidence, and insights**
- **innovation and responsible risk-taking are encouraged**
- **weaknesses and shortcomings are confronted honestly and constructively**
- **excellence in performance and conduct becomes the norm**

Continuous improvement ensures that SOEs remain competitive, resilient, and aligned, with government expectations and public value objectives.

9.0 INSTITUTIONALISING GOVERNANCE EXCELLENCE ACROSS SOES

To sustain long-term governance excellence, SOEs should institutionalise:

- **standardised governance frameworks and policies**
- **structured Director induction and continuous training programmes**
- **common KPI and performance measurement frameworks**
- **periodic and annual governance audits or reviews**
- **shared digital platforms and tools for reporting and oversight**
- **consistent ESG and sustainability standards aligned with State priorities**

This approach promotes uniform governance standards across all SOEs while allowing appropriate flexibility to reflect sector-specific risks, mandates, and operating contexts.

10.0 THE FUTURE OF GOVERNANCE IN SARAWAK SOES

Looking ahead, governance in Sarawak will need to respond proactively to:

- **rapid technological change and digital disruption**
- **rising sustainability and ESG expectations**
- **intensifying global competition for talent and skills**
- **growing cyber, data, and climate-related risks**
- **evolving regulatory and policy landscapes**
- **heightened public scrutiny and accountability demands**

Boards must cultivate foresight capabilities, anticipate emerging challenges, and guide organisations, with strategic clarity, sound judgement, integrity, and a strong commitment to public value.

CONCLUSION

This final part concludes the main body of this Handbook. It emphasises that governance transformation is a continuous journey, supported by strong leadership, disciplined implementation, transparency, and clear alignment with Sarawak's development agenda.

By embracing governance excellence, SOEs can serve as powerful engines of public value, economic prosperity, and societal progress. This Handbook represents a comprehensive, integrated, and forward-looking framework, to strengthen Board effectiveness, and elevate governance standards across all SOEs.

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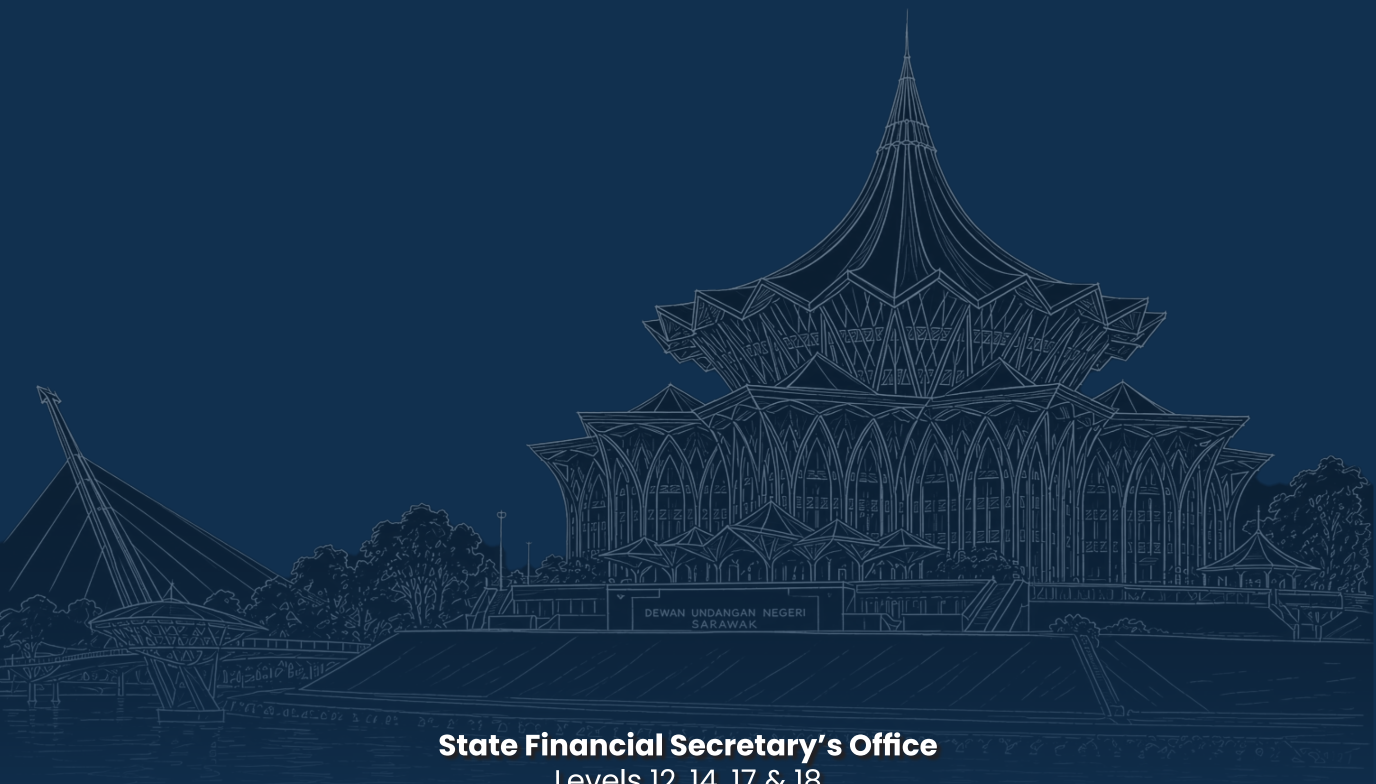
ABBREVIATIONS

ABBREVIATION	MEANING
AI	Artificial Intelligence
ARC	Audit and Risk Committee
BCP	Business Continuity Plan
BOD	Board of Directors
Bursa Malaysia	Bursa Malaysia Securities Berhad
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMT	Crisis Management Team
COO	Chief Operating Officer
CSR	Corporate Social Responsibility
DoA	Delegation of Authority
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
GDP	Gross Domestic Product
GLC	Government-Linked Company
GRI	Global Reporting Initiative
HR	Human Resource
IA	Internal Audit
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFAC	International Federation of Accountants
ISO	International Organization for Standardization
IT	Information Technology
JV	Joint Venture
KPI	Key Performance Indicator
MACC	Malaysian Anti-Corruption Commission
MCCG	Malaysian Code on Corporate Governance
MOF	Ministry of Finance
NACP	National Anti-Corruption Plan

ABBREVIATION	MEANING
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PCDS 2030	Post-COVID Development Strategy 2030
PDF	Portable Document Format
PPE	Personal Protective Equipment
SOP	Standard Operating Procedure
SOE	State-Owned Enterprise
SFSO	Sarawak Financial Secretary's Office
TOR	Terms of Reference
TCFD	Task Force on Climate-related Financial Disclosures
UK	United Kingdom



State Financial Secretary's Office
Levels 12, 14, 17 & 18
Wisma Bapa Malaysia
Petra Jaya
93502 Kuching
Sarawak, Malaysia.

Tel : 082 – 441957   Faks : 082 – 441676

http://sfs.sarawak.gov.my