SID Directors Conference 2012

Corporate Governance In The New Normal

SID

Singapore Institute of Directors

3 Shenton Way #15-08 Shenton House Singapore 068805 • Tel: 6227 2838 • Fax:6227 9186 • www.sid.org.sg

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Keppel Group

Keppel Corporation Limited
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SID Directors Conference 2012
Corporate Governance In The New Normal

The annual conference organised by Singapore Institute of Directors

9.00 am to 5.00 pm, Wednesday, 12 September 2012 Marina Bay Sands Singapore

Programme

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Mr John Lim, Chairman, Singapore Institute Of Directors</td></tr>
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Mrs Josephine Teo, Minister Of State
Ministry Of Finance And Ministry Of Transport</td></tr>
<tr><td></td><td colspan="2">Keynote Address: Restoring Public Trust In Capitalism – The Director's Role
The Honourable Barbara Hackman Franklin, Chairman, National Association Of Corporate Directors
Has Capitalism failed? If not, is it perfect? Is there a better alternative that the public can go to in the new normal that we currently face? This session looks briefly at the alternatives to capitalism, and paints a setting where captalism still works in the new normal. But given changing and evolving environments, how can directors aid in restoring public trust in capitalism? How can directors assure their shareholders and other stakeholders that capitalism still presents the best balance to wealth creation whilst maintaining good governance?</td></tr>
<tr><td>1000</td><td colspan="2">Networking Coffee Break</td></tr>
<tr><td>1030</td><td colspan="2">Panel: Governance And Directorships: New World, New Rules
How does this new world that we operate in impact governance and directorships in corporations? How do directors balance the ideals that perception inculcates with what the rules in fact mandate? Are the changing new rules a portend of more severe ones to come? How do corporations and directors meet these new rules recognizing that reality dictates meeting multiple stakeholder interest as being paramount? Can new rules indeed be introduced to aid directors govern and direct in the new normal?
A high powered panel of observers and practitioners, with varying views, from the international corporate governance scene debate these current heated issues on corporate governance and the holding of directorships.</td></tr>
<tr><td></td><td>Moderator:</td><td>Mr Ho Kwon Ping, Executive Chairman, Banyan Tree Holdings Limited</td></tr>
<tr><td></td><td>Discussants:</td><td>Ms Barbara Hackman Franklin, Chairman, National Association Of Corporate Directors
Professor Walter Woon, Faculty Of Law, NUS & Dean, Singapore Institute Of Legal Education
Mr Chew Choon Seng, Chairman, Singapore Exchange
Tengku Tan Sri Dr Mahaleel Bin Tengku Ariff, Chairman, Tien Wah Press Holdings Bhd
Mr Chang Tou Chen, Managing Director, Head Of Global Banking Southeast Asia, HSBC</td></tr>
<tr><td>1200</td><td colspan="2">Lunch and Networking</td></tr>
<tr><td></td><td colspan="2">Lunchtime Address: Business Value Creation - The New OECD Corporate Governance Initiative
Mr Mats Isaksson, Head Of OECD's Corporate Governance Division
Corporate governance rules, regulations and practices should not be a goal in themselves; rather they are means to a greater end. That end, according to Mats Isaksson, should be about capital access and resource allocation in the economy, not just in the new normal but had always been but was perhaps lost along the way.
Isaksson who was responsible for the recent revision of the OECD's principles and guidelines on corporate governance, will share OECD's thinking on business value creation. He will discuss why and how the effectiveness of individual governance rules can be evaluated and how these are closely linked to the investment process and the ability of the financial sector to serve the needs of the real economy.</td></tr>
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1330	**Panel: Business And Social Convergence: New Corporate Social Realities** Increasingly, business is not simply about more profits. Corporate social responsibility is being extended beyond the old thinking of the token corporate giving. Instead, a new form of compassionate capitalism is being championed as social activists, regulators and the public at large make the greater needs of the planet and its people felt in corporate boards across the world. What exactly is happening in this emerging landscape of the increasing convergence between the business and the social sectors? How should corporations and their boards respond to these new corporate social realities? Are there greater burdens or opportunities for companies operating in an endangered world? A panel of well-known speakers who are substantively engaged in both the social and business sectors will share their experiences and explore these issues in depth.	
	Moderator:	*Mr Gerard Ee, Chairman, National Kidney Foundation & Council For Third Age*
	Provocateur:	*Mr Willie Cheng, Author, Doing Good Well And Chairman, CHARIS*
	Discussants:	*Mr Seah Kian Peng, CEO, NTUC Fairprice Co-operative & Co-Chair, Social Enterprise Association* *Dr Andreas Heinecke, Founder & CEO Of Dialogue Social Enterprise Ltds* *Ms Janet Ang, Managing Director, IBM Singapore* *Mr Mike Stamp, Senior Consultant, FSG*
1500	Networking Coffee Break	
1530	**Panel: Board Diversity & Dynamics: Who Should Be On The Board** Board diversity is becoming the rage. Is it simply about having more women on the board? Or does it go beyond to require more colour, creed and language on the board? Or, is it about different stakeholders' representation, bringing on board different cultures, skills, experiences, and aptitudes - regardless of gender, colour, creed or language? How do we identify the right mix to be on the board? Who is responsible for this task - the nominating committee or more? How does board diversity result in greater board dynamics? What's the role of the chairman in ensuring greater dynamics? Are there differences in approaches depending on the type of board one is dealing with: not-for profit, family run, or multi-national? Panelists from a range of professions and backgrounds, colour, creed, and language debate this very fundamental issue that forms the cornerstone of good governance and directing. They discuss issues around whether the new normal has changed how boards should be put together, looking at reality and drawing from best practices. They share personal preferences along with the practical and realistic approach to adopt.	
	Moderator:	*Associate Professor Ho Yew Kee, Department Of Accounting, NUS Business School*
	Provocateur:	*Ms Lee Suet Fern, Managing Partner, Stamford Law Corporation*
	Discussants:	*Mr Mats Isaksson, Head Of OECD's Corporate Governance Division* *Ms Aliza Knox, Managing Director, Commerce, Google Asia Pacific* *Ms Shireen Muhiudeen, Managing Director / Principal Fund Manager, Corston-Smith Asset Management Sdn. Bhd.* *Mr Irving Low, Partner, Head Of Risk Consulting, KPMG Advisory LLP, Singapore*
1700	End	

Speaker Biographies

Speaker Biographies

Mrs Josephine Teo
Minister Of State, Ministry Of Finance And Ministry Of Transport

Mrs Josephine Teo was appointed Minister of State for Finance and Transport in May 2011. She first became a Member of Parliament in May 2006 for the Bishan-Toa Payoh Group Representation Constituency and was Chairman of the Government Parliamentary Committee for Education from June 2009.

In 2007, Mrs Teo was elected to the Central Committee of the National Trades Union Congress (NTUC). As its Assistant Secretary-General, Mrs Teo oversaw the Singapore Industrial and Services Employees' Union (SISEU), Young NTUC and the Staff-Centric function. She also chaired the Industrial Workers Education and Training Fund.

As a labour MP, Mrs Teo represented the labour movement on the government-appointed Economic Strategies Committee and co-chaired the sub-committee on Fostering Inclusive Growth. She also served on the Boards and Governing Councils of Singapore Workforce Development Agency, Singapore University of Technology and Design, Nanyang Polytechnic and Human Capital Leadership Institute.

From July 2009 till her appointment as Minister of State, Mrs Teo was concurrently the Chief Executive Officer of Business China, a not-for profit organisation launched in 2007 by its Patron then-Minister Mentor Lee Kuan Yew and China Premier Wen Jia Bao, whose mission is to nurture an inclusive bilingual and bi-cultural group of Singaporeans. She continues to serve on the Board of Directors of Business China.

An alumni of Dunman High School and Raffles Junior College, Mrs Teo graduated from the National University of Singapore with a Bachelor of Social Sciences (Honours) in 1991 winning several honours. She obtained a Master of Science in Economics from the London School of Economics on scholarship from the Economic Development Board (EDB). Whiles serving at EDB, she was involved primarily in enterprise development and was seconded to China-Singapore Suzhou Industrial Park Development Private Limited in 1996. Following her return in 1998, Mrs Teo headed Human Resources, first in EDB and later in Agency for Science, Technology & Research (A*STAR) . She was also Adjunct Faculty at the Centre for Creative Leadership (CCL) in Asia from 2002 to 2006.

She is married with three children.

Mr John Lim Kok Min
Chairman
Singapore Institute Of Directors

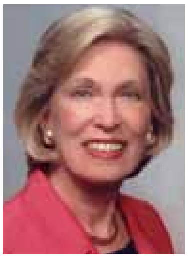
Mr John Lim Kok Min is currently the Chairman of Gas Supply Pte Ltd and Vice-Chairman of the Singapore Institute of Management.

He was formerly Deputy Chairman of NTUC FairPrice Co-operative, Executive Deputy Chairman of LMA International NV, and Chairman of Building & Construction Authority, Chairman of Senoko Power Limited, and Deputy Chairman of the Agri-foods and Veterinary Authority of Singapore. He was previously Group Managing Director of Pan-United Corporation Limited, MPH Ltd and Chief Executive Officer of Cold Storage Holdings Ltd.

He now sits on the Boards, Audit, Remuneration and Nominating Committees of several listed and non-listed companies. He is a member of the Corporate Governance Council, Securities Industry Council, Company's Act Review Steering Committee, Management Committee of Singapore Compact for Corporate Social Responsibility, Senate Member of the Marketing Institute of Singapore, a former director/Council Member of both the Singapore International Chamber of Commerce and the Singapore Confederation of Industries, a member of the Audit Committee Guidance Committee and the Disclosure and Accounting Standards Committee.

He is the Chairman for the "OECD Asian network on Corporate Governance for State Owned Enterprises" and a core member of the OECD Asian Roundtable.

He has extensive private and public sector experience in South East Asia, UK and Australia/New Zealand.



The Honourable Barbara Hackman Franklin
Chairman
National Association Of Corporate Directors

Ms Barbara Hackman Franklin, former US Secretary of Commerce under President George H.W. Bush, is an advisor to businesses with global interests, with an emphasis on China and Asia.

Ms Franklin has been a director of 14 public companies and is currently a director of Aetna, Inc. and The Dow Chemical Company, and is a trustee of American Funds and a member of the International Advisory Board of Lafarge, Paris, France. Mrs Franklin's career includes over 30 years of service on corporate boards. She is considered an expert on corporate governance, auditing, and financial reporting practices.

She led the first White House effort to recruit women for high-level government jobs as a staff assistant to President Richard Nixon, an effort which resulted in tripling the number of women in those positions (1971-73). Her White House story is told in a new book by Lee Stout, A Matter of Simple Justice: The Untold Story of Barbara Hackman Franklin and A Few Good Women.

Ms Franklin is Chairman of the National Association of Corporate Directors, Chairman Emerita of the Economic Club of New York, a director of the US-China Business Council, the National Committee on US-China Relations and the Atlantic Council.

Mr Mats Isaksson
Head Of OECD's
Corporate Governance Division

Mr Mats Isaksson is Head of the Corporate Affairs division at the Organisation for Economic Co-operation and Development (OECD). He is responsible for leading the OECD's work on corporate governance, company law, privatisation, state-owned enterprises, dispute resolution and other policy areas of importance to a sound and competitive business environment. Mr Isaksson participated in the development of the OECD Principles of Corporate Governance and was in charge of the comprehensive revision of the Principles in 2004. He also lead the work to develop the OECD Guidelines for Corporate Governance of State Owned Enterprises and initiated the OECD's work on the State in the Market Place. He also served as Secretary to the OECD Business Sector Advisory Group, which issued a report on "Improving Competitiveness and Access to Capital in Global Markets".

Mr Isaksson has experience from working with both OECD and non-OECD countries and of corporate affairs issues in transition countries and emerging markets. Recently, his work has focused on corporate governance and the financial crisis where he has also participates actively in the work of Financial Stability Board. He is currently launching new OECD work on Corporate Governmance, Value Creation and Growth aming to identify corporate governance policies that will help bridge the gap between the financial and corporate sectors and improve access to capital markets for corporations and entrepreneurs. Mr Isaksson serves on the Advisory Board of the Millstein Centre for Corporate Governance and Performance at the Yale School of Management and is Senior Visiting Fellow at the Stockholm Centre for Commercial Law. He is a founding Director of the Swedish Corporate Governance Forum and a member of the European Corporate Governance Institute.

Mr Ho Kwon Ping
Executive Chairman
Banyan Tree Holdings Limited

Mr Ho Kwon Ping is the Founder and Executive Chairman of Banyan Tree Holdings, a Singapore-listed company engaged in the development and management of hospitality and residential projects. The Banyan Tree and Angsana brands currently comprise 30+ hotels and 60+ spas in over 20 countries around the world. Wholly-owned Banyan Tree Capital also manages around US$ 500 million of investors' funds in the hospitality field.

Mr Ho is also the Founder and Executive Chairman of Laguna Resorts and Hotels, a Bangkok-listed company which pioneered the development of Asia's largest integrated destination resort, Laguna Phuket. He is also the Chairman of several listed and private family companies engaged in agricultural processing and foodstuff manufacturing.

Mr Ho is also the Founding Chairman of Singapore Management University (SMU), the third national university. For this contribution he was awarded the Singapore Government's Meritorious Service Medal in 2010.

Some of the awards and accolades conferred on Ho Kwon Ping include: Honorary Doctorate -- Johnson and Wales University (2000); London Business School Entrepreneurship Award (2005); CEO of the Year -- Singapore Corporate Awards (2008); Newsweek Top 25 Asian Business Leaders (2009); Top Thinker -- Singapore Yahoo Awards (2011); Real Estate Personality of the Year - South East Asia Property Awards (2011). He is the first Asian to be conferred the Lifetime Achievement Award of the American Creativity Association (2010)

Born in 1952, Ho Kwon Ping was educated in Tunghai University, Taiwan; Stanford University, California and the University of Singapore. He worked as a broadcast and financial journalist and was the Economics Editor of the Far Eastern Economic Review until 1980. Mr. Ho is married to Claire Chiang. They have two sons and a daughter.

Professor Walter Woon
Faculty Of Law, NUS
And Dean, Singapore Institute Of Legal Education

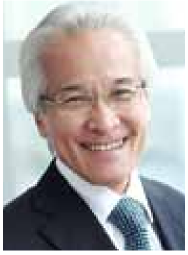
Professor Walter Woon is David Marshall Professor of Law at the Law Faculty, National University of Singapore. He is concurrently Dean of the Singapore Institute of Legal Education and Deputy Chairman of the Centre for International Law, National University of Singapore.

Professor Woon was a Nominated Member of Parliament (1992 to 1996) and was instrumental in the passage of the Maintenance of Parents Act. From 1995 to 1997 he was Legal Adviser to the President and Council of Presidential Advisers. Between 1998 and 2006 he was Singapore's ambassador to Germany, Greece, the European Communities, the European Union, Belgium, the Netherlands, Luxembourg and the Holy See. From 2006 to 2008 he served as Solicitor-General, and subsequently became Attorney-General from 2008 to 2010.

He has also served as a member of the board of directors of the Monetary Authority of Singapore, Judge Advocate-General and member of the Presidential Council for Minority Rights. He was a director of two listed companies between 1989 and 2001.

He was called to the Bar in 1984 and was appointed Senior Counsel in 2007. He is an Honorary Fellow of the Singapore Institute of Directors.

He has written several books on company law, commercial law and the Singapore legal system, as well as three novels.



Mr Chew Choon Seng
Chairman
Singapore Exchange

Mr Chew Choon Seng has served as an independent director on the SGX board since 1 December 2004. On 1 January 2011, upon the retirement of Mr J Y Pillay, Mr Chew's appointment as Chairman of the board took effect.

Mr Chew is also Chairman of the Singapore Tourism Board and a director of the Government of Singapore Investment Corporation Pte Ltd.

Until his retirement in end 2010, Mr Chew was the CEO of Singapore Airlines Limited and Deputy Chairman of its listed subsidiary, SIA Engineering Company Limited, for over seven years, and was a member of the Board of Governors of the International Air Transport Association. He was named Outstanding CEO for 2007 in the 23rd Singapore Business Awards of March 2008.

Mr Chew graduated with a Bachelor of Mechanical Engineering (First Class Honours) from the then University of Singapore in 1969, and a Master of Science in Operations Research and Management Studies from the Imperial College of Science and Technology, University of London, in 1970.

Tengku Tan Sri Mahaleel Bin Tengku Ariff
Executive Chairman
Tien Wah Press Holdings Berhad

Tengku Tan Sri Mahaleel Bin Tengku Ariff is currently the Executive Chairman of Tien Wah Press Holdings Berhad. He also sits on the boards of New Toyo International Holdings Ltd, Nestle" (Malaysia) Berhad and a few other non-listed companies.

Tengku Tan Sri Mahaleel has a very diverse career background spanning a period of 40 years. Over the years, he has gained experience in various industries, including fast moving consumer goods, food, paper packaging, cigarettes distribution, oil, marine, aviation and automotive. He first started his career in Nestle in Marketing and Sales before joining Shell Malaysia in 1974 for 20 years. He left Shell Malaysia to join New Toyo, Mofaz and Proton.

Tengku Tan Sri Mahaleel was Malaysia's representative in the Asia Pacific Economic Council and Asean Business Advisory Council. He is currently on the Advisory Board in the Graduate School of Business, University Sains Malaysia and is a former Regional Board member of London Business School.

Mr Chang Tou Chen
Managing Director
Head Of Global Banking
Southeast Asia
HSBC

Mr Chang Tou Chen heads Global Banking (Corporate Banking and Investment Banking) South East Asia for HSBC, a business unit which generates revenues of approximately US$900m per annum. His clients include a range of local corporates, multinationals and financial institutions.

Mr Chang has advised on M&A transactions totalling over US$30b for clients such as Singtel, Keppel Corp, First Pacific Group, Danone, Bristol Myers Squibb, Carlyle Group, and raised innovative financing totalling over US$20bn for clients such as GIC, Neptune Orient Lines, Capitaland, Khazanah, Genting, YTL.

In addition, Mr Chang has often presented at seminars by Petronas, the Chicago - Graduate School of Business, NUS Business School - Business Times CEO luncheon, MergerMarket, LSE Investment Banking Conference and is a regular guest host on CNBC's Squawk Box/ Worldwide Exchange as well as a regular guest on Channel News Asia, BBC and Bloomberg TV.

Prior to HSBC, Mr Chang worked at Citigroup and Price Waterhouse.

Mr Gerard Ee
Chairman
National Kidney Foundation &
Council For Third Age

A Chartered Accountant with the Institute of Chartered Accountants in England and Wales (ICAEW), and a Certified Public Accountant (CPA) of Singapore, Mr Gerard Ee started his career as an accountant in 1974 and became a public accountant in 1978 until his retirement as a Partner of Ernst & Young in June 2005.

Mr Ee has a passion for community service and throughout his career he found time to serve on various committees in the social service sector. Mr Ee was formerly the President of the National Council of Social Services, President of the Automobile Association of Singapore and has chaired an extensive range of social service organisations and programmes which include juvenile rehabilitative centres, grassroots organisations, schools, and various programmes for the elderly and youth.

Today, Mr Ee is Chairman of the National Kidney Foundation and also chairs the Public Transport Council, Council for the Third Age, Singapore Institute of Management Governing Council, Eastern Health Alliance and Changi General Hospital. He chairs the Audit Committee of Great Eastern Life Assurance Co. Ltd, and the Audit Committee of MOH Holdings which provides oversight on the Group Internal Audit function covering all the restructured hospitals in Singapore.

Mr Willie Cheng
Author, Doing Good Well &
Chairman, CHARIS

Mr Willie Cheng is former country managing partner with Accenture. He is currently a Director of Singapore Press Holdings Limited, UOB Bank Limited, NTUC Fairprice Cooperative and Singapore Health Services Pte Ltd. He is a member of the Governing Council of Singapore Institute of Directors.

Mr Cheng is active in the nonprofit sector. He is chairman of CHARIS Singapore and a director on several nonprofit organizations. He is author of Doing Good Well: What does (and does not) make sense in the nonprofit world, and The World That Changes The World: How philanthropy, innovation & entrepreneurship are transforming the social ecosystem.

Mr Seah Kian Peng
Chief Executive Officer
NTUC Fairprice Co-operative & Co-Chair Social Enterprise Association

Mr Seah Kian Peng is the Chief Executive Officer (Singapore) of NTUC Fairprice Co-operative and Singapore's largest supermarket group.

Mr Seah is also the Deputy Speaker of Parliament and a Member of Parliament for Marine Parade GRC. He is also the Chairman of the Government Parliamentary Committee for Community Development, Youth and Sports.

Mr Seah has worked in both the public, private and co-operative sectors. He is active on the community front and is presently the Vice Chairman of the South East CDC, and a board member of the Marine Parade Leadership Foundation, Centre for Fathering, Health Promotion Board and National Parks Board. He is also the co-chair of the Social Enterprise Association of Singapore and the Vice-President of Singapore Compact for CSR.

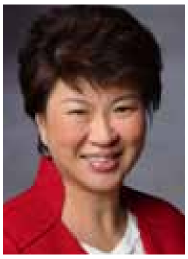
In 2005, he was elected to the International Co-operative Alliance Board of Directors, the first and only Singaporean on this global board. Last year, he was appointed by the United Nations to be a member of the Advisory Group for the United Nations International Year of Cooperatives 2012.

Dr Andreas Heinecke
Founder & CEO Of Dialogue Social Enterprise Ltds

Dr Andreas Heinecke, is the founder and CEO of Dialogue Social Enterprise (DSE), a Hamburg-based social enterprise with global outreach. DSE seeks to create jobs for disabled people and to change the mindset towards otherness, chiefly through exhibitions such as "Dialogue in the Dark" and "Dialogue in Silence," and Business Workshops. Since 1988, DSE and its exhibitions have created more than 6,000 jobs for disabled and disadvantaged people and seen by visitors in more than 30 countries.

Dr Heinecke has been recognized for his social entrepreneurship in several awards. In 2005, he became the first person to be elected Fellow of Ashoka: Innovators for the Public in Western Europe. Two years later he was nominated "Outstanding Global Social Entrepreneur" by the Schwab Foundation. In 2008, Dr Heinecke was nominated as a member of the World Economic Forum's Global Agenda Council on Social Entrepreneurship.

He is currently Honorary Professor at the Danone Chair of Social Business at the European Business School. Since 2011, Dr Heinecke has also been active in academia.



Ms Janet Ang
Managing Director
IBM Singapore

Ms Janet Ang has been Managing Director of IBM Singapore since July 2011. Prior to this, Ms Ang was Vice President (VP) of Infrastructure Technology Services and then VP of Strategic Services for IBM Greater China Group.

From May 2005 to January 2009, before returning to IBM, Ms Ang was Vice President with the Lenovo Group. She joined Lenovo when it acquired the IBM PCD business.

Before joining Lenovo in 2005, Ms Ang was with IBM in Greater China, Singapore and Japan for 23 years.

Ms Ang serves on various committees in the community. She is an elected member on the Board of Trustees of the International School of Beijing (ISB) and is Chairperson of ISB's Head of School Transition Team. Ms Ang was elected for a second-term as Vice Chairman of the Singapore Chamber of Commerce in China (SingCham) and is a senior member of the Singapore Computer Society, a member of the International Women's Forum (Singapore Chapter) and member of Business China (Singapore).

Mr Mike Stamp
Senior Consultant
FSG

Mr Mike Stamp is a senior consultant with FSG, a nonprofit consulting and research firm founded by Mark Kramer and Professor Michael Porter of Harvard Business School that focuses on increasing social impact.

In his 6 over years with FSG, he has advised numerous companies and their partners on shared value strategy and implementation, and on corporate social engagement. His work has spanned four continents, and has included industries such as food and beverage, energy, healthcare, chemicals, IT and finance, among others.

Mr Stamp has been written extensively on shared value and similar topics on the intersection of business and society. Most recently, he co-authored two papers on the shared value and global health: Competing by Saving Lives (FSG / GBCHealth, March 2012) and Private Enterprise for Public Health (Every Woman, Every Child, July 2012). He has also written Creating Shared Value: a How-To Guide for the New Corporate (R)evolution (HP / FSG, April 2011); Corporate Social Responsibility in the Agri-Food Sector: Harnessing Innovation for Sustainable Development (FAO / UNIDO, 2008); and CSR Performance Measurement: from Proving to Improving (ICEP Global CSR Casebook, 2008). He is currently working on a paper on shared value and corporate social innovation.

Associate Professor Ho Yew Kee
Department Of Accounting,
NUS Business School

Associate Professor Ho Yew Kee is an Associate Professor in Accounting from the NUS Business School. He is an accountant by training having obtained his Bachelor of Economics with first class honours in accounting and Master of Economics from Monash University, Australia. He obtained his Master in Industrial Administration and PhD. from Carnegie Mellon University (CMU), USA. He has taught in Monash University, CMU, and currently is an associate professor of accounting at the NUS Business School. Professionally, he is a Fellow with CPA Australia and a Singapore CPA. In addition, he holds a professional qualification with the CFA Institute as a CFA.

Associate Professor Ho teaches Accounting and Financial Management in the Executive MBA (EMBA). He does research in both accounting and corporate finance. The multi-disciplinary approach to research while as a doctoral student at CMU helps him to publish articles ranging from accounting to finance, law, human resource management and industrial organizations. He has published more than 50 articles in journals, books, newspapers and conference proceedings.

Associate Professor Ho is involved in several Executive Development Programmes, (for example, Stanford-NUS Executive Programme, Singapore-Commonwealth Advanced Seminar for Chief Executives, Samsung School of Asia Manager Programme, AGC-NUS University, MacDonalds, DHL, Alcatel-Lucent, NPARKS, Monetary Authority of Singapore, National Healthcare Group, among others). He also serves as a financial consultant for corporations and expert witness for litigation purposes. His consulting works include valuation of companies, stock options, financial planning and evaluation of companies and internal control designs and systems.

Associate Professor Ho serves as Chairman of the Audit Committee of St Luke Hospital, SATA CommHealth, The Boys' Brigade in Singapore and is a member of the Council, Ngee Ann Polytechnic, and board member of Accounting and Corporate Regulatory Authority (ACRA), United International Securities Ltd and several other charities. He also sits on the investment committee of several other organizations.

Ms Lee Suet Fern
Managing Partner
Stamford Law Corporation

Ms Lee Suet Fern is the Managing Partner of Stamford Law Corporation. Her practice focuses on mergers and acquisitions, equity and debt capital markets and corporate finance.

Ms Lee has been involved in many of Singapore's most significant corporate transactions and has been named leading practitioner in numerous professional publications. She has also been awarded the inaugural Euromoney Asia Women Business Law Awards for mergers and acquisitions and private equity.

She is the Chairman of the Asian Civilisations Museum Board, a member of the National Heritage Board, a member of the Advisory Board to the Law School at Singapore Management University and a trustee for Nanyang Technological University.

She also serves on the boards of public listed companies in Singapore and Europe, including Fortune Global 500 companies.

Ms Aliza Knox
Managing Director, Commerce
Google Asia Pacific

Ms Aliza Knox joined Google in 2007 as Managing Director of the Online Sales Group, where she led the team's growth and strategy in Asia Pacific. She currently heads Google's commerce and mobile payments initiatives in the Asia Pacific region.

Ms Knox has significant financial services and international experience. She was Senior Vice President, Commercial Solutions at Visa International, where she developed Visa's procurement and travel solutions for governments and businesses worldwide. Previously, she was Senior Vice President, International, at Charles Schwab, and Partner and Head of Financial Services at Boston Consulting Group in Sydney and Singapore.

She is passionate about improving communities and coaching others on professional development. In Singapore, Ms Knox runs Google's APAC Women@Google program, serves on BoardAgender, and is a member of the Ministry of Education Committee to Review University Education Pathways Beyond 2015. She's also a board member of a workforce development organization in the U.S. and an advisor to Women Media Networks (Asia).

Ms Shireen Muhiudeen
Managing Director/Principal Fund Manager
Corston-Smith Asset Management Sdn. Bhd.

MS Shireen Muhiudeen founded Corston-Smith Asset Management in 2004. Under her stewardship, Corston-Smith is now a partner of British Telecom Pension Scheme (BTPS), which today owns 30% of Corston-Smith Malaysia. Ms Muhiudeen brings to her extensive current ASEAN client portfolio more than 23 years of focused fund management experience, which she honed as chief executive of the Malaysian arm of insurance giant AIG Investment Corporation from 1991 till 2003.

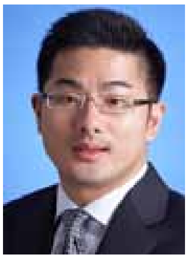
Of special interest to her are issues of good corporate governance and transparency and Corston-Smith nurtures and nudges all companies it invests in towards such best practices. Today, Corston-Smith is Malaysia's only asset manager admitted as a signatory to the United Nations Principles of Responsible Investing (UNPRI) and Ms Muhiudeen has successfully drawn international investors to Malaysia by launching the ASEAN Corporate Governance Fund in 2008 and the ASEAN Shariah Corporate Governance Fund in 2009.

To drum the importance of corporate social responsibility further, Ms Muhiudeen and her Corston-Smith colleagues have written and published a free handbook for young people entering the workforce on the nuts and bolts of personal finance. Titled 'Learn to Make Sense of Your Money - What They Don't Tell You When You First Start Work', it is available in English and Bahasa Malaysia.

Besides having her own monthly column, 'Governance Matters', in Malaysia's biggest-selling daily - The Star, the avid advocate of equal gender representation in boardrooms is regularly sought after for her views by global broadcasters such as Bloomberg and CNBC.

An equally avid sportswoman, Ms Muhiudeen represented Malaysia in the Junior Wimbledon tennis championships in 1981 and has served on the board of Tourism Malaysia, and Malaysia's Sports Advisory Council.

Ms Muhiudeen is married with three lovely children.



Mr Irving Low
Partner, Head Of Risk Consulting
KPMG Advisory LLP, Singapore

Mr Irving Low is Partner with KPMG Advisory LLP in Singapore. He currently heads the Risk Consulting practice. He has been with KPMG for over 20 years, having worked in both the London and Singapore offices. His focus is varied across many industries, such as property development and construction, manufacturing, insurance, engineering and financial services.

Mr Low is KPMG's ASPAC leader for Board Advisory Services practice. He is currently leading a regional ASPAC team working together with the global Governance, Risk and Compliance team, looking at global changes in board and corporate governance practices. He has undertaken numerous corporate governance reviews for both public and private organisations, in light of the renewed focus in this area. He is a frequent invited guest and speaker at public forums on corporate governance.

Mr Low is also an adjunct associate professor with NTU Business School and a council member of CPA Australia, Singapore Division. He also sits on the International Board Committee, which oversees the international expansion strategy of CPA Australia globally.

Ms Kala Anandarajah
Partner
Rajah & Tann LLP

Ms Kala Anandarajah is a partner at Rajah & Tann LLP, where she heads the Tier 1 Competition & Trade Law Practice and leads the Corporate Governance Practice.

With over two decades of experience, she has been cited as amongst the Best of the Best - Women in Business Law 2010 for her work in Antitrust and Competition Law and for Corporate Governance. She has also been cited as a leading lawyer in the various areas that she practices in by international peer-reviewed legal ranking publications such as The International Who's Who of Lawyers, Euromoney Guide to the World's Leading Lawyers, AsiaPacific Legal 500, and The Who's Who of Leading Practitioners Singapore .

Ms Anandarajah has written widely, including the first book on Competition Laws, on Corporate Governance and on Trade in Singapore, and presented at numerous conferences internationally.

Apart from her legal practice, Ms Anandarajah is a member of the Ministry Of Manpower Workplace Safety And Health Council, a member of the Transplant Ethics Committee (Lay-Persons), a director of the Singapore Institute of Legal Education, and a member of the Governing Council of the Singapore Institute of Directors. In 2004-2005, she was a member of the Review Committee for Singapore's Code of Corporate Governance.

Corporate Governance & Directorship

Developments In Governance: Revisions To The Singapore Code Of Corporate Governance

By Annabelle Yip, Partner, WongPartnership LLP

Introduction

On 2 May 2012, the Monetary Authority of Singapore ("MAS") issued a revised Code of Corporate Governance. The changes were made after a public consultation and following recommendations made by the Corporate Governance Council ("CGC"). The revisions reflected in the new Code of Corporate Governance (Code 2012) effect changes to the existing Code of Corporate Governance (Code 2005) in several key areas including director independence, board composition, multiple directorships, remuneration practices and disclosures, risk management, and shareholders' rights and role.

The CGC subsequently issued its Risk Governance Guidance for Listed Boards in May 2012, which complements the principles and guidelines of the Code relating to risk management and internal controls and gives guidance to listed company boards on the carrying out of their risk governance oversight responsibility.

The Code 2012 will generally take effect in respect of annual reports relating to financial years commencing from 1 November 2012. Accordingly, for companies with financial years commencing 1 January, their annual reports for FY2013 — typically issued in March/April 2014 — should describe their corporate governance practices with specific reference to the principles of the revised Code, including disclosing any deviation from any guideline of the revised Code together with an appropriate explanation for such deviation. The exception is the requirement for independent directors to make up at least half of the board in the circumstances specified in the Code (as discussed below). Changes to meet this requirement should be made at the annual general meetings following the end of financial years commencing on or after 1 May 2016. Hence, companies with financial years commencing 1 January should make the necessary changes by their annual general meetings for FY2017.

Since the Code 2012 was issued, much has been written and spoken about the practical steps that need to be taken by listed companies in order for their governance practices to meet the new standards set by it. This article focuses rather on the values introduced or expanded on, which underlie the revisions made to the principles and guidelines of the Code 2012 by the CGC and the MAS.

Sustainability And Ethics

The role of the board captured in Guideline 1.1 reflects the broader sense of corporate responsibility that has arisen particularly over the last decade. The Code 2012 acknowledges that companies have obligations to a wider group of stakeholders than just its shareholders. As the Guide to Sustainability Reporting for Listed Companies of the Singapore Exchange notes, stakeholders include shareholders, employees, customers, suppliers and communities, with varied nature and interests. The Code 2012 recognises that companies have a responsibility to consider sustainability issues such as environmental and social factors, as part of their strategic formulation. It also specifically refers to the board's responsibility to set the company's ethical standards.

Long-Term Interest Versus Short-Term-ism

Underlying a number of principles and guidelines of the Code 2012 is the focus on the company's long-term interest and success. This is evident from the various references to it in the sections dealing with the board's role as well as those dealing with remuneration, as well as in the reference to sustainability. The sections on remuneration make several references to long-term incentives that companies are encouraged to adopt as part of the remuneration of directors and key management personnel ("key management personnel" being defined as the chief executive officer or equivalent, and other persons having authority and responsibility for planning, directing and controlling the company's activities). This emphasis on taking a longer-term view may be construed as a response to the misguided drive to achieve short-term profits at the expense of business sustainability that is widely considered to have contributed to the 2008 global financial crisis.

Training

Professionalising boards and raising their standards of performance will improve governance standards and enhance value creation. The Code 2012 makes clear that it is the company that is responsible for arranging and funding the training of its directors.

The Code 2012 increases the emphasis on directors' training, expanding on the guidelines of the Code 2005 in several ways: training for incoming directors should be comprehensive and tailored, and first-time listed company directors should receive training in areas such as accounting, legal and industry-specific knowledge as appropriate. The tasks of the Nominating Committee ("NC") have also been expanded to cover the review of training and professional development programs for the board.

The training provided should be disclosed in the company's annual report. In addition, the Code 2012 requires the board to disclose in the company's annual report measures taken by Audit Committee ("AC") members to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements.

Independence

After considering various perspectives as well as international developments, the CGC arrived at the view, stated in the Consultation Paper on the Proposed Revisions to the Code issued in June 2011, that to enable independent directors to act effectively in companies, it was important for them not to possess any relationship with stakeholders (which would include 10% shareholders and organisations providing material services to the company). This view has been enshrined in the Code 2012 through various provisions that tighten the existing requirements for independence:

- Formal Measures Of Independence

  Independent directors should be able to exercise objective judgment on corporate affairs independently, in particular, not just from management, but also from shareholders with an interest in 10% or more of the total voting shares in the company. Accordingly, an independent director is now defined as one with no relationship with the company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgment with a view to the best interests of the company.

  This means that a director will generally not be considered independent if he, inter alia:

  - is a 10% shareholder of the company;
  - is an immediate family member of a 10% shareholder of the company; or
  - is or has been directly associated with a 10% shareholder of the company (i.e. if he is accustomed or under a formal or informal obligation to act in accordance with its directions, instructions or wishes in relation to the company's affairs) in the current or immediate past financial year.

  The Code 2012 also stipulates that where a company or any of its subsidiaries has made or received from certain organisations significant payments (generally, in excess of S$200,000 per annum in aggregate) or material services (such as audit, banking, consulting and legal services) in the current or immediate past financial year, a director associated with that organisation (or whose immediate family member is so associated) may not be considered independent. Such association arises by being that organisation's 10% shareholder, its partner with a stake of 5% or more, or its executive officer or director.

  The Code 2012 also provides that once an independent director has served for a continuous period of nine years from the date of his first appointment, his continued independence beyond this period should be subject to particularly rigorous review. In doing so, the board should also take into account the need for progressive refreshing of the board, and explain why any such director should be considered independent This nine year principle, which is new to the Code and which has caused substantial controversy, recognises that directors who have been on the board for a substantial length of time may develop a level of familiarity and cosiness with management and major shareholder which may impede their ability to exercise independent judgment from them.

- Board's Discretion To Determine Independence

  In all the above cases, it is, at the end of the day, up to the NC and the board to assess each director's independence, and open to the board to come to the conclusion that he should be considered independent, and to explain its basis for that conclusion in the company's annual report. Assessment of independence is an ongoing requirement and not just to be done annually.

- Half The Board To Be Independent

  The Code was further amended to stipulate that at least half of the board should be independent in specific circumstances. Where these circumstances do not apply, the existing requirement in the Code of at least one-third of the board to be independent continues to apply.

  The circumstances that will require that half of the board be independent (which are also the circumstances in which a lead independent director should be appointed) are the following:

  - Where the Chairman and CEO is the same person (the Code states that these roles should in principle be held by different persons);

- Where the Chairman and CEO are immediate family members;
- Where the Chairman is part of the management team; or
- Where the Chairman is not an independent director.

As mentioned above, a longer grace period will be given to companies to comply with this requirement.

Diversity

It is now widely accepted that a diversity of backgrounds and expertise of directors brings with it a diversity and richness of views which, when shared openly and constructively, help companies to make better, more aware and informed decisions.

The Code 2012 specifies that the board and its board committees should comprise directors who as a group "provide an appropriate balance and diversity of skills, experience, gender and knowledge of the company". The reference to gender is notable; while some other jurisdictions have introduced gender diversity on listed boards through mandatory quotas or disclosure requirements, Singapore has gone down the gentler route of a Code recommendation.

It remains to be seen if companies will take note and act accordingly. In any case, given that there will be an increased demand for independent directors given the changes to the definition and circumstances relating to independence in the Code, it may be inevitable that more women, and indeed, a much wider pool of potential directors with a range of different ages, countries, skills and experiences, will be tapped on to meet the need.

Board Renewal And Succession

A company's business is dynamic, and over time, its geographical, business and strategic focus will change, and the composition of its board must evolve to meet the company's changing needs.

The Code 2012 places renewed emphasis on board succession and renewal, referring to it in the nine-year principle, the expanded role of the NC to make recommendations to the board on relevant matters relating to review of board succession plans for directors, and the fact that important issues to be considered as part of the process for the selection, appointment and re-appointment of directors include composition and progressive renewal of the board.

Information Flow

Under the Singapore Companies Act, the business of a company is to be managed by or under the direction of the directors. The Code expresses it another way, specifying that the board's role includes providing entrepreneurial leadership, setting strategic objectives, and ensuring that the necessary resources are in place for the company to meet its objectives.

Because of this fundamental responsibility of the board, it is imperative that directors have independent access to management and full, timely access to information on an on-going basis relevant for them to make fully informed decisions in the company's interest. The Code 2012 enhances the existing provisions of the Code in this regard.

Devoting Sufficient Time And Attention

At the same time, directors have to be committed to devoting sufficient time and effort to reading, understanding and digesting all the information provided to them, and arriving at considered views on the matters before them for decision.

The commitment and competencies of a director as well as his contribution and performance (e.g. attendance, preparedness, participation and candour), including, if applicable, as an independent directors, is specified by the Code to be relevant to the determination of whether he is to be re-appointed to the board.

In addition, one matter that has been debated in the media is the issue of whether the recent corporate governance scandals in Singapore were attributable at least in part to directors not having sufficient time to give proper attention to the businesses of the companies whose boards they sit on. Publicity has been given to some prominent examples of persons holding what may be considered to be an excessive number of listed company directorships.

In the light of this, the Code 2012 specifies that the NC's decision whether a director is able to and has been adequately carrying out his duties as director should take into consideration his number of listed company board representations and other principal commitments. "Principal commitments" is defined as all commitments involving a significant time commitment e.g. full-time occupation, consultancy work, committee work, non-listed company board representations and directorships, and even involvement in non-profit organisations. In addition, the Code

2012 requires the board to determine the maximum number of listed company board representations that any director may hold, and disclose this in the company's annual report.

Transparency

The Code 2012 improves transparency in several areas by requiring enhanced disclosure in the annual report.

One notable area is in remuneration, where remuneration of individual directors and the CEO must now be disclosed on a named basis to the closest $1,000, with a breakdown of remuneration earned through fixed salary, variable/performance-related income/bonuses, benefits in kind, stock options, share-based incentives and other long-term incentives. Additional disclosure is required of the aggregate remuneration paid to the top five key management personnel who are not directors or the CEO, and of the aggregate amount of termination, retirement and post-employment benefits that may be granted to directors, CEO and the top five key management personnel. Disclosure is also required of salaries of employees who are immediate family members of a director or the CEO whose annual remuneration exceeds $50,000. Such disclosure should be made on a named basis, indicating the employee's relationship, and in bands of $50,000.

An important new requirement which will aid the understanding of shareholders of how performance is rewarded is the requirement that companies disclose more information on the link between remuneration of the executive directors and key management personnel and their performance. The annual remuneration report should set out a description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met.

Link Between Remuneration And Risk

It has become common wisdom that a key factor contributing to the global financial crisis was the disconnect of remuneration from risk, thereby resulting in excessive risk-taking to inflate bonuses coupled with a lack of accountability. To address this view, the Code 2012 now expressly refers to the connection between remuneration and risk in several places. Principle 8 states that the remuneration level and structure should be aligned with the long-term interest and risk policies of the company. Guideline 8.1 specifies that performance-related remuneration should take into account the risk policies of the company, be symmetric to risk outcomes and be sensitive to the time horizon of risks.

Additionally, companies are now encouraged to include contractual provisions that allow for clawback of remuneration in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the company.

Complementing the Code 2012, the Risk Guidance provides in its sample terms of reference for a board risk committee the duty to provide advice to the Remuneration Committee ("RC") on risk weightings to be applied to performance objectives incorporated in executive remuneration.

Risk Governance

New Principle 11 and guidelines on risk management and internal controls have been included in the Code 2012, underscoring their importance. Notably, the first statement of Principle 11 makes it clear that the board is responsible for the governance of risk. The new guidelines relevant to risk management and internal controls included in the Code 2012 clarify the board's role as inter alia being the following:

- To determine the company's levels of risk tolerance and risk policies, and oversee management in the design, implementation and monitoring of the risk management and internal control systems.
- To comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems, in the company's annual report. The board's commentary should include information needed by stakeholders to make an informed assessment of the company's internal control and risk management systems. This obligation supplements the obligation found in the SGX Listing Manual, to set out in the annual report, the opinion of the board, with the concurrence of the AC, on the adequacy of the internal controls, addressing financial, operational and compliance risks.
- To comment in the annual report on whether it has received assurance from the CEO and the CFO on the effectiveness of the company's risk management and internal control systems and that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances.

- To establish a separate board risk committee or otherwise assess appropriate means to assist it in carrying out its responsibility of overseeing the company's risk management framework and policies.

In recognition of the important role of the AC, the Code 2012 states that at least two members, including the AC Chairman, should have "recent and relevant" accounting or related financial management expertise or experience (as the board interprets such qualification in its business judgement).

New provisions in the Code 2012 relevant to internal audit include the assignment of the AC to approve the hiring, removal, evaluation, and compensation of the head of the internal audit function (or the accounting/auditing firm or corporation if the internal audit function is outsourced), and that internal audit should have unfettered access to all the company's documents, records, properties and personnel, including access to the AC.

Shareholder Rights And Responsibilities

The most significant change to the Code with respect to shareholders has been to include a new statement on the role of shareholders. While this is not part of the Code, it was issued together with the Code by the CGC in its final recommendations to the MAS in November 2011, and is intended to encourage shareholders to engage constructively with the board and with management. By becoming more actively involved in questioning boards and management and holding them accountable for their actions and decisions, shareholders can play an important role in improving the corporate governance of companies whose shares they hold, bringing poorly managed or under-performing companies to account, and thereby improving shareholders' value.

The Code 2012 itself places renewed emphasis on recognising the ownership rights of shareholders and facilitating their right to participate and vote at general meetings. Companies are recommended to devise an effective investor relations policy to promote communication with shareholders, and boards to establish and maintain regular dialogue with shareholders, to gather their views and address their concerns. The steps taken by the board in this regard should be stated in the annual report.

Conclusion

Many of the principles and guidelines of the revised Code are grounded in the values which underpin good corporate governance such as independence, transparency, integrity, professionalism, diversity, ethics and sustainability. Much has already been written about the business case for good corporate governance, and companies should bear this in mind as they approach this transitional period before the coming into effect of the revised Code and decide which of the recommendations of the revised Code they intend to adopt.

This article also appeared in the Institute's Conference booklet for the Annual Directors Conference held on 12 September 2012.

Looking Forward To The Issues That Will Shape Board Agendas

By The Honourable Barbara Hackman Franklin
Chairman, National Association Of Corporate Directors

We start the new year in a new place—one dramatically different from where we have ever been. Expectations for board performance are higher than ever, and our work as directors—our wisdom, good judgment and integrity—is more vital than I can remember in the 30 years that I have been serving on corporate boards.

One main reason is the extreme uncertainty and volatility of the current time. The U.S. is recovering from the recession and the economy is growing, though not robustly. The euro zone has sovereign debt problems. Japan has suffered severe natural disasters. World economic growth has slowed, and global stock markets go up and down seemingly on a whim.

Add to this mix the passage of the Wall Street Reform and Consumer Protection Act (a.k.a. Dodd–Frank)—the most sweeping financial reform legislation in 50 years— which requires federal agencies to craft 400 new rules. Nearly a quarter of these were assigned to the Securities and Exchange Commission, including some directly aimed at greater transparency into the workings of the boardroom and the qualifications of directors.

There are a several specific challenges to keep in mind for the year ahead—challenges that have been dogging boards for quite some time.

The Issues

Executive compensation is a continuing challenge. Public concern about “excessive” CEO compensation just won’t go away. “Say on pay,” the nonbinding advisory shareholder vote on executive compensation, went into effect for the 2011 proxy season. And even though the say-on-pay votes were overwhelmingly positive, we shouldn’t take much comfort in that. I believe there will be closer scrutiny of executive compensation in the year ahead. As long as the U.S economy is soft and unemployment remains too high, there is the risk that another scandal or other spark could ignite yet another big wildfire around executive compensation. That would extend an invitation to government to once again step into the boardroom. As directors, it’s imperative that we endeavor to pay for performance—not nonperformance—and really mean it.

The second issue is diversity. Broadly speaking, this includes diversity of thought, experience, skills, gender and race. The NACD co-hosted two events last year with governance and governance-related experts and experienced officers and directors to try to better understand the dynamics of diversity. A key challenge: What is holding women back? I spoke at a session in New York aimed at promoting more women on boards and finding ways to crack the 15 percent barrier. That’s the percentage of board seats held by women on Fortune 500 boards. (The percentage is even lower for the boards of smaller companies, according to the 2011 NACD’s Public Company Governance survey.) That 15 percent figure has remained pretty much unchanged for the better part of the last decade. The challenge is to understand why and then to do something about it.

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I’m a fervent believer in the power of diversity, broadly defined, because I have seen the results first- hand. A more diverse group can bring new ideas to the board table as well as new ways of looking at old ideas and old problems. This, together with enlightened leadership, can bring more value not only to the board but also to the company.

In the year ahead, I look forward to continuing NACD’s mission to “move the needle”. One key to this movement is annual board and director self- assessments. Clearly, these are essential elements in ensuring board renewal. Such assessments can illuminate any gaps in experience and expertise that changes in strategy may make desirable.

The third issue is new technology — mobile, social, the cloud, plus emerging technologies whose names we do not yet know.

I'm a fervent believer in the power of diversity, broadly defined, because I have seen the results first- hand. A more diverse group can bring new ideas to the board table as well as new ways of looking at old ideas and old problems. This, together with enlightened leadership, can bring more value not only to the board but also to the company.

There are young people in my company, the 20-somethings, who think I am "out to lunch" on these technologies and their growing influence. They have challenged me to get up to speed, and I'm working hard to better understand, for example, how social media can be used to communicate with and listen to shareholders, customers and employees. That's the positive side of these wonderful new discoveries.

There is the other side, though, and that's the risk side. It means that a company's internal control structure must run constantly to keep up with the advances. We as directors need to run to keep up with what is going on, too, if we are to do a proper IT oversight job. We must help companies guard against the cybercrimes that can result in the theft of identity or intellectual property—or entire system meltdowns. It's a tall order for those of us over 30, but it is well worth reaching for.

Working Together

Please consider NACD your partner as you work to meet the challenges of today's corporate environment—to understand fully the businesses you serve, how they make money, their strategies and risks— and as you continue to build strong, diverse boards whose members work well together in a culture of openness and candor. NACD is committed to keep ing you at the forefront of knowledge by giving you the tools you need to be the best you can be.

Let me conclude with a last thought from the American philosopher Yogi Berra: "If you don't know where you're going, you might not get there." Well, I think we know where we're going. We know as directors that the work we are doing is essential—for our companies, our shareholders, our stakeholders, our countries' economies, as well as the global free mar- ket system of capitalism. We will carry on with this vital work. Let's pledge to be the best we can be.

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Corporate Governance, Value Creation & Growth

By Mats Isaksson, Head Of Corporate Governance Division, Organisation For Economic Cooperation & Development ("OECD")

Introduction

The OECD Corporate Governance Committee and the Capital Markets Board of Turkey organized the meeting "Corporate Governance, Innovation and Value Creation" on 1 February, 2012 in Istanbul. A volume of the presentations at the meeting was published by the OECD. The publication and further information is available at http://www.oecd.org/corporate/corporateaffairs/.

This article provides an overview of the publication and the issues discussed.

Assessing Effectiveness Of Corporate Governance Rules

Corporate governance rules, regulations and practices are not a goal in themselves. They are supposed to be means to a greater end. Be it minority rights, mandatory bids, or independent directors, the rules and regulations that we put in place should serve a purpose. And it is against this purpose and these objectives that the quality of any corporate governance system should be evaluated. So, we need to find a benchmark against which we can assess new regulations and evaluate existing ones.

From a public policy perspective, this benchmark consists of three core criteria against which we can evaluate the effectiveness of individual corporate governance rules. The criteria are closely linked to the investment process and the ability of the financial sector to serve the needs of the real economy.

The first criterion is that corporate governance rules should ensure that new business opportunities get access to capital. For this, the rules must be credible enough to make investors take money out of their mattresses and invest in equity. But they must also be designed to provide company founders and entrepreneurs with the right incentives to seek external funding for innovation and growth. Just as investors may keep their money in the mattresses, some entrepreneurs would rather keep their companies in the tool shed or at least out of the public domain. Sometimes at a cost in terms of lost business opportunities and growth.

Second, corporate governance rules should ensure that capital is efficiently allocated among corporations. That is to say that the rules should reward investors who contribute to bringing new and genuine information to the market. They should also discourage any opportunities for pure rent seeking. Only then will equity prices provide the best possible information about a corporation's potential. And only then can we be sure that capital is allocated to those who can make the best possible use of it. A market where everyone is rewarded for trying to second guess everybody else, obviously does not meet this criterion.

Finally, a good corporate governance system should reward competent monitoring of corporate operations once the resources are allocated among them. This requires both a long-term commitment and a lot of talent among owners. A corporation is not a self-playing piano. It requires a tremendous amount of work to keep it innovative, dynamic and on the cutting edge. Where do we find shareholders with the incentives and skills to carry out this very demanding but also pivotal task?

Impact Of Corporate Governance On Investments

Looking at these criteria, it is easy to see that the corporate governance system affects every step and aspect of an economy's investment process.

At the first stage, corporate governance is all about creating an environment for access to capital.

At the second stage, the focus is on efficient allocation of capital between competing ends.

And at the third stage, corporate governance should encourage competent monitoring of investments once they are in place.

We know from history that nothing is more important to economic prosperity than the level and quality of investment. This is also why corporate governance from a public policy perspective, should never be seen as a static zero-sum game whose main objective is to regulate how different parties to the company should split a given set of assets or a given result. The economic objective is to make sure that the rules serve the purpose of innovation, value creation and growth.

Organizing For Innovation & Growth

This dynamic, economic and growth-oriented approach to corporate governance is well-reflected in the three sections of this volume.

The first section addresses the process of value creation within the corporation and analyses how that process is influenced by different financial and contractual arrangements. It also analyses the merits of contractual freedom and the balance between strictly mandatory rules on one side and a more enabling corporate governance environment on the other side. We are also reminded that both capital markets and the corporate world are constantly evolving. So, what is an efficient corporate governance rule at a certain point in time may no longer be efficient as circumstances change; as financial markets evolve, as new instruments appear and as corporate structures develop.

The second section focuses more closely on the role of owners; in particular, controlling owners who hold large stakes in individual companies that they actively monitor, sometimes at a considerable cost. In the early days of the corporate governance debate, Berle and Means saw controlling owners as a straightforward solution to the corporate governance problem. Yet that section of their book is seldom quoted. Most of the academic community got carried away in a different direction. This is unfortunate, because worldwide, companies with concentrated ownership is actually the rule, not the exception. So it is obvious that the shaping of corporate governance rules and regulations need to take the incentives and dynamics of large and sometimes controlling owners into account.

The third section focuses on emerging markets. It is inevitable that a growth-oriented and dynamic approach to corporate governance will lead us to the emerging markets, with their sometimes unique corporate governance structures and saving patterns.

Today's extensive shift of financial assets towards emerging markets is one of the main factors that change the global capital markets. However, contrary to developed economies, investors in these economies have a relatively low appetite to buy listed equities. Because of this and demographic trends in developed economies, long term projections point toward a shortage of equity capital for enterprises in emerging markets. By 2020 this may amount to more than 10 trillion USD and, if nothing is done, it may very well create an obstacle to entrepreneurship, growth and better paid jobs. Improvements and adaption of corporate governance practices will play a key role in bridging this equity gap by creating a robust and credible investment environment for both domestic and foreign equity investors.

These issues are discussed extensively in the third section. It addresses the particular needs of businesses in emerging markets and how companies that are often semi-informal or privately held can gain access to the capital they need by adopting a more institutional structure, without losing their entrepreneurial spirit and flexibility.

This article also appeared in the Institute's Conference booklet for the Annual Directors Conference held on 12 September 2012.

Extraordinary Companies Run By Ordinary People

By Ho Kwon Ping, Executive Chairman, Banyan Tree Holdings Limited

I've argued on various occasions that any reforms of the global financial system which is based purely on regulatory changes and unaccompanied by fundamental changes in social values will be in vain.

So I wasn't surprised to read that whilst a new American "pay czar" is trying to impose pay cuts on top investment bankers, the very same bankers have paid themselves this year – with economic recovery hardly having started – the same obscene bonuses as before. It'll be a cat-and-mouse game for a while, until politicians have pontificated enough and the public has gotten its pound of flesh. Then back to normal.

Plus la change, plus la meme chose --- you don't need to be a French philosopher to know that the more things change, the more they remain the same. Glorification of the hero-CEO and accompanying incentives to promote and perpetuate this ethos, remains largely unchanged in corporate America. And so, other than some short term self-flagellation and public stone-throwing, social behavior will revert back to norm. And since norms are shaped and endorsed by the values of a society, we can safely assume that social values will not change.

I've wondered whether I was naïve in believing in the importance of values as the determinants of behavior – public or private. But I'm not alone, I found recently. In a recent speech, (entitled whimsically " If I could remodel society" - a topic given to and not chosen by me), I listed several ideas. The one which elicited the most audience applause was the suggestion that any investment banker's bonus above 6 months salary be taxed at 70% and redistributed to primary and secondary school teachers, who are the most important transmitters of values after parents.

This was a suggestion only half in jest. The part not to be taken seriously is that it will ever be considered by policymakers. What is not in jest is the notion that it is insufficient to penalize the avaricious; that we must rebalance values in society by incentivizing those whose roles are insufficiently recognized. Even in rural Asia, although teachers' salaries are very low, they occupy a social position higher than in the West (and higher, unfortunately, than in wealth-conscious Singapore). And until fundamental values which underpin a society – the very values which school teachers used to, and are still supposed to transmit -- are imbibed by future investment bankers who are now still schoolchildren, nothing will change.

Unfortunately, a community of peers does not necessarily ensure that self-less values will be created and promoted. Peer groups can tend to be very self-serving. I'm reminded of this when I recall my years serving on the remuneration committee of a large public-listed company. All the independent directors were supposed to reflect the better values of that industry and of society in general, and to guard against self-serving management. But, while comprising reputable CEOs of other eminent companies, the remuneration committee became a grouping of back-scratchers. As a total outsider, I watched with bemused alarm, at how performance targets were reduced or stock options "reset" (essentially moving the goal posts so that the ball can be said to have scored a goal) so that management could receive their same bonuses and stock options even if the company or share price clearly did not do well.

Fellow CEO's as independent directors on each other's remuneration committees could be expected to know what was good for everyone. Whether a jury or a remuneration committee filled by peers, such groups can be expected to reflect "insider" values which are often self-serving. Only a "jury" composed of diverse voices from civil society, can be the only true representation of a society's evolving values. These outside voices can be members of the public, whose common-sensical values of what is egregious versus exemplary behavior can be important ballast against corporate greed.

This is not an academic issue, but has direct relevance to the future of business in Singapore.

In recent years, Anglo-American capitalism – the Wall Street ethos which celebrated the celebrity CEO – has become fashionable in some quarters of Singapore industry, including our TLCs and GLCs. Like a designer brand, the hero-CEO was coveted as a sign of a company's embrace of aggressive, profit-maximizing corporate values. The notion that a single CEO can be so singularly critical to a company's success that he is worthy of bonuses some twenty times or more than that of his direct subordinates, became a benchmark of a company's willingness to embrace American-style, corporate machismo.

Never mind that facts, even in America, did not bear out this thesis. The super-large, Fortune 500 companies whose CEOs' average tenure is less than 5 years and who received bonuses 20 times more than other members of their team, did not achieve higher total shareholders returns over the medium to long term, than the smaller companies whose CEO's rose from the ranks, served for longer periods, and received bonuses perhaps (only!) several times that of their direct subordinates.

Yet in Singapore the infatuation with hero-CEOs continued, even when the public started to turn against that very ethos. Criticisms in the media by columnists and letter-writers against American-style bonuses were met by bland statements that the remuneration committees of these public companies had followed proper governance rules. Thankfully, the public outcry against American-style CEOs in some Singapore boardrooms has tempered some of the enthusiasm of other boards to behave like Wall Street, and has initiated some public debate about the kind of corporate culture we want to create in Singapore. Business schools, boardrooms, media pundits and certainly the much-maligned "layman" should all jump into the scrum because the hero-CEO should not just be of concern to remuneration committees but is at the heart of the kind of society we want to create.

Hopefully, a thoughtful debate may even lead to some serious consideration as to whether the highly individualistic ethos of Anglo-American capitalism should be replaced by alternatives which reflect the communitarian traditions of Asian culture. Asia is widely accepted to be the economic leader of this and perhaps even the next century, but its thought leaders have hardly given thought to the notion that alternative – Nordic, Western European, Japanese, to name a few – modes of capitalism have long co-existed with the dominant, Wall Street variety, and that each socio-economic system needs to develop a business ethos and system which draws upon the best traits of its own cultural heritage, rather than simply ape the erstwhile dominant system.

My objection to the disturbing rise of the hero-CEO and outsized bonuses is not due to some fuzzy sense of egalitarianism, nor is it an emotional diatribe against elitism. Leadership by its very definition requires inequality and elitism. The danger of the hero-CEO cult is that it corrodes the spirit of collegiality and collaboration which is not only at the heart of every successful corporate culture but is often its competitive advantage.

The kind of corporate culture I admire and hope all our companies can aspire to – including my own – is exemplified by Singapore's most admired company, Singapore Airlines. When I was a director of SIA and the board debated management succession issues, a fellow director remarked that the airline is an extra-ordinary company run by very ordinary people.

This was not a disparaging remark to belittle the quality of its management team. On the contrary, it was a very astute – and admiring -- observation that when capable, committed and passionate people – but ordinary nevertheless – come together, the sum of parts is extraordinarily greater than the average whole.

The leadership of any company is critical to the success of the mission, but no one individual is mission-critical. And the incentives scheme – which drives human behavior and determines corporate culture – must reflect and reinforce this ethos. A society with corporate superstars who, like super-nova, burn brightly and then flare out, leaving a dark hole after them – that is not my vision for Singapore.

Just as SIA is the pride of Singapore, so too should its ethos be the secret of our sustainable success: an extraordinary society comprising ordinary citizens, reveling in the diversity of their contributions, united in vision and purpose.

An edited version of this article titled as "Curbing the Rise of the Hero-CEO" was first published in The Straits Times on 18 November 2009.

Your Take On The Corporate Governance Code 2012 – An Informal Survey Of What Different Stakeholders Feel

By Kala Anandarajah, Partner, Rajah & Tann LLP, Council Member, Singapore Institute Of Directors

Overview

With the introduction of the revamped Corporate Governance Code 2012 ("CG Code") to take effect with respect to financial years commencing on or after on 1 November 2012, the Singapore Institute of Directors ("Institute") did a quick reaction poll on the feel of the revisions brought about by the CG Code. The aim was to pull together thoughts and views from directors, managers, lawyers, auditors and more.

The Institute was heartened to receive a fair number of responses. The general trend of the responses was that on an overall basis, the proposed changes were to be welcomed; although many felt that the rules have been made more demanding. The reality is that not a lot of what has been introduced is new insofar as the roles and obligations of the directors are concerned. What is new goes to the definition of independent directors and the requirements related to risk management. What is encouraging is the slightly more fleshed out recitals of what is expected of the chairman of the board as well as some of the other directors and the committees. Time will tell as to the effectiveness of these revisions to the Code on how companies are managed.

Set forth in this article are the quick views on what you thought. The Institute will be happy to continue to receive feedback – do keep them flowing to us – which we will then review and consider how best it can be dealt with, if the need arises.

Q1. The revised CG Code comes after nearly 7 years from when the last round of revisions were made in 2005, and which had come into force in 2007. Do you see the CG Code as having evolved with the times, and if so how?

The general response observed that rules have become more stringent, particularly with every round of review of the CG Code. Some saw this as part of an evolution, whilst one respondent saw this as "plugging holes that have been exposed, i.e. a tightening".

On the stricter approach, one respondent observed that the requirements are now stricter for directors to perform their roles and responsibilities. This respondent saw this as a positive change. Query, however, whether the rules have indeed become stricter in this respect, or is it more that there the revisions provide slightly more clarity. This was a suggestion by one respondent who felt that the revisions provided greater clarity to the topics and roles, reflecting a maturity of roles in the industry.

Another respondent noted that the rules are now tighter as regards the definition of who qualifies as an independent director. This is true, and perhaps was necessary, although perhaps the 10% threshold as regards relationships with shareholders might still have not gone far enough. This writer's further personal query is whether any number of rules can indeed address the issue of independence adequately.

Q2. Some of the key changes introduced are in and around the definition of independence of directors. Do you think that the proposed changes have gone far enough? If yes, how so? If no, how so?

The majority of the respondents agree that the changes were necessary, and in fact now provide better clarity as to who qualifies as an independent director. One respondent even observed that "independence is reinforced where it was lax before". Yet another, however, noted that the spirit and intent of the definition of independent directors remain the same, with independence really a matter of a "state of mind and strength of character". This respondent's observation is astute, yet it is to be noted that the CG Code has still not been able to deal with these issues of "state of mind and strength of character"; obviously these are not matters that can be effectively dealt with through rules and guidelines.

All said, one respondent felt that the CG Code now provides a good balance even currently, with the changes introduced to tweak the definition of independent director. Whether this is indeed a fact remains to the seen.

Q3. The CG Code introduces a new 9 year period pursuant to which a director who has occupied a directorship for a continuous period of 9 years or more will be deemed in the first instance to be non-independent, although this can be explained away. This rule mirrors that in the financial industry. Is this requirement a fair one? Will it be hard to implement in practice?

On whether a 9 year period should be applied beyond which to deem a director as non-independent, the majority of the views were affirmative. It was observed that over a "prolonged period, complacency sets in and arms length judgment could be influenced".

Quite a few of the respondents also felt that this was a requirement that would not be difficult to implement in practice. There was just one strong view suggesting that the requirement was arbitrary, and that it would be hard to prove independence (or more likely continued independence) in any specific situation in any event.

Q4. The CG Code makes specific reference to 'gender' when it makes mention of diversity. This is new. Do you think that gender diversity on the board is necessary? What changes would having gender diversity bring to the board? Are there enough women (let's face it, the requirement is targeted at women) to enable boards to have gender diversity?

This query garnered the most number of responses. This was not to be unexpected as the reality in the words of one respondent is that "most CEOs, key personnel of board members remain men".

Whilst there were some responses specifically addressing the issue of gender, most of the responses were focussed on having a diversity of skill set and views. On this, one respondent noted that directors should be drawn from different industries and ages as these are "beneficial to bring across … more 'rounded' views and input". Another respondent noted that "in the economic field, man and woman should be evaluated / assessed on the same platform. We should be neutral".

On those specifically wanting gender diversity, one respondent noted that it "was necessary [as it] brings different view points and opportunities; should require more women on the board".

The debate is still out on this one, although any attempts in trying to regulate whether formally or otherwise this particular issue should be one carefully treaded. Whilst man and woman are made differently, better boards are not made just through gender diversity. At the end of the day, diversity is necessary – but it is an animal that must be managed not tamed.

Q5. Do too many directors hold too many directorships? The CG Code does not make mention to a limit on the number of directorships that a director can hold; although it does require the board to disclose this and consider if a director has too many directorships. Additionally, the CG Code does, as the Code has done in the past, allude to the fact that a director must devote sufficient time and attention to his director function. Do directors in fact devote sufficient time to their work? Has the CG Code gone far enough in ensuring that they do? Could anything else have been done?

The results appear to weigh in favour of having limits in the number of directors, as there is a general feel that many "ride on reputation rather than actual work done and contribution". Whether this is true or not, what is clear is that regulation is not going to be easy as every company has different requirements and every individual is made differently. The laments of sufficiency of time are not one that can be objectively determined in all situations. Hence, the decision on the number of directorships one individual should hold is best left to himself to assess, and to the company deciding to bring him on to assess.

On the former, the candid observation by one respondent hits the issue on the nail – "let the directors get into trouble first; then they will realise that they too many directorships and eventually they will make their own decision to relinquish". On the latter, the nominating committee has been tasked with this function in recent times, and they must and should be allowed to perform their roles responsibly. As one respondent observed, "this should be a commercial decision taken by the company".

Q6. Risk Governance is seemingly a new concept introduced by the CG Code. Is the responsibility for the governance of risk rightly placed with the directors? How can directors manage this?

The consensus here was that this was a matter that was best handled by the CEO together with management and not by the board.

This writer's personal views are that risk management cannot be left entirely to management. Even if we go with the narrow view that the board can only exercise oversight and nothing more, they need to be responsible for ensuring that the right people have been appointed to review the specific risks issues in the organisation, that the risks have indeed been identified and be assured that they are looked into and processes to manage these are looked into, and to ensure that the veracity of the systems and processes are tested from time to time. In this regard, the article on

Developments In Governance: Revisions To The Singapore Code Of Corporate Governance elaborates further on the critical responsibilities now expected of directors in relation to risk management.

Q7. How well equipped are directors to comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems? Do you think you are ready to take this challenge on? Are you concerned about the potential liabilities?

This is an issue related to risk management. The majority of the views were that directors needed to be better equipped to be able to handle reviewing and commenting on the adequacy and effectiveness of internal control issues. One respondent alluded to the fact that directors needed to be aware and mor sensitive to business risks and have the requisite acumen. This is obviously not something that can be learnt in school – it comes with experience. Several other respondents suggested that directors needed professional qualifications.

All said, the revisions to the CG Code clearly provide more guidance.

Q8. Are directors paid too much or too little for what they have to do? Do you think their remuneration rightly reflects the risk levels they undertake? Do explain your response.

The general view here is that directors are not paid sufficiently for the risks that they undertake. However, several also recognised the difficulties associated with identifying the best approach to ascertaining how much directors ought to be paid. What is intended to assist is the Risk Guidance, which complements the Code, which provides in its sample terms of reference for a board risk committee the duty to provide advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

Q9. Do you believe that you as a director get sufficient information on boards? Does the CG Code aid in enuring that better and the right information is given to you? What can be done to improve this further?

The responses were mixed as regards this question. Some felt that they were getting sufficient information, whilst others felt they were not. One felt that there was enough information available, and it was really up to the directors to endeavour to get more from the company as they saw the need to do so.

The more accurate response perhaps is one which indicated that given boards meet infrequently, there is little information exchanged and shared. Further, this respondent noted that with non-executive functions and low remuneration, the frequency of engagement was limited. If these facts were indeed true, then it raises the query of whether the directors can truly perform their role effectively.

To this end then, surely the guidance provided by the Code must certainly help, and will at least ensure that more frequent and timely information is provided to directors. This was the consensus of the respondents. Indeed, in this writer's view, directors who do not receive sufficient information owe it to themselves to request for more, and to make mention of the fact of lack of information being provided at board meetings eve, so that it is properly minuted.

Q10. Board renewal and succession planning has always been a part of the CG Code. Is this a practical approach to take? How does such planning sit in the with the likes of the issues at Barclays given the recent Libor announcements?

The respondents did not directly respond to this question, nor were there clear responses touching on Barclays, as expected.

Yet, a couple of views proffered are useful. One respondent notes that succession and renewal planning are part of risk management particularly viewed as part of the long term performance of the company, whilst another said that these were part of the company's strategy. Both views are of course absolutely correct, and which clearly recognise that time and effort must be put into the process.

The views and opinions expressed are those of the writer and not necessarily those of the Institute.

Board Diversity & Dynamics

Who Should Be On The Board?

By Elaine Yew, Managing Partner, Singapore, Egon Zehnder International

Introduction

It is broadly accepted that the role of the board is critical in all aspects of corporate governance including setting the strategic direction of the company, its culture and values; defining performance objectives and their monitoring; selecting, supporting and supervising the executive team; and ensuring compliance and risk management. In order to live up to this role fully, the board must function effectively, and board effectiveness starts with having the right people.

So, Who Should Be Appointed To The Board?

Through Egon Zehnder's board advisory work all over the world, and many conversations with executives and non-executive board members about what makes an effective board, it is clear that there are some "must-have" characteristics and competencies that apply in any situation where the board is truly acting as a steward of the company and its stakeholders.

At the same time, however, beyond those fundamentals, there is no "template" for the background, experience and style that determines the ability of a director to contribute meaningfully. Every company and its board faces its particular challenges and has its particular needs and culture, so making good decisions about who would be effective on the board will vary from case to case, once the fundamental criteria are met. Depending on the current state of the business and the market, the focus of the board - and therefore which individuals will be the biggest assets - will inevitably vary. Each company needs to formulate a board with the right balance, chemistry and diversity of experience, gender, culture and personalities.

"Must-Have" Competencies

Going back to the "must-have" qualities for an effective board member, we consistently observe four key competencies that characterize exceptional members of any board:

- independence and integrity
- ability to work collaboratively with others
- drive for results
- strategic mindset.

The fundamentals for a board director to be effective start with integrity and independence, of both thought and action. Integrity includes taking the role seriously and investing time to understand the business and get deeply into the subjects that are deliberated at the board. A board director needs to have the clear appetite and capacity to put in the time to deliver well against that role. This will often require a meaningful amount of time beyond attending meetings and reading meeting papers. We see integrity also as having the courage to speak one's mind and being candid and honest in one's views, and being willing to challenge fellow board members and executives in a constructive way when necessary. Boards should have directors who are willing to put themselves on the line and to defend what they believe to be right for the company and the stakeholders, even if against the tide of popular opinion to the contrary. Independence from any particular stakeholder's agenda is the other important qualifier; objectivity and the judgment and ability to balance sometimes conflicting interests of different stakeholders is fundamental to being an effective board director.

Another important skill for a board director is the ability to collaborate well with fellow board members and with the Executive team, such that the whole is greater than the sum of its individual parts. With the executive team, the challenge is in finding the right balance between constructive questioning and offering advice and support. A board director should also stimulate productive debate amongst fellow directors to arrive at a well thought-through point of view, stimulating input from others to raise the bar in terms of the quality of the board's dialogue and decisions. Being ready to hear others' opinions with sensitive listening but questioning when needed, and the ability to pull together different perspectives in coming to a decision are important attributes of being a good chairman, but these are equally important for all board directors . Given they do not have the opportunity to spend much time together, board directors face an additional challenge in acting as a team and thus it is all the more important that each director brings a fundamental disposition to engaging proactively and working well with others.

The role of a board is to ensure that the company delivers on its commitment to its shareholders and its fundamental responsibilities to other stakeholders. Board members need to have a drive for results and a focus on getting to good outcomes. Underlying that must be strong business sense and an ability to weigh up risk return in a sophisticated way, decisiveness, and a strong appetite to keep doing better. Being a director means

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taking ownership for how the company performs, and holding the management team accountable to meeting high standards in every way. Directors must come with a clear understanding of "what good looks like", so should themselves have experienced a high-quality organization, and have the drive to guide the company to perform in the same way.

In addition to being accountable for the immediate performance of the company, a key requirement of any board is to take a broader and longer term view of the market and the company's positioning within it. This involves having a vision and looking beyond the obvious, but also requires synthesis of a great deal of information, to arrive at views that will shape decisions in the boardroom. Genuine curiosity about the business and the industry, and agility in thinking, are important indicators of an ability in this area. The best board directors are those who have demonstrated that ability in their earlier career, and reflexively look beyond today in their thinking for the company.

Productive Tension Of Competencies

As can be seen in Figure 1, the competencies diagonally opposite each other exist in a kind of productive tension in each board director that needs to be carefully balanced. Any shift in this balance can hinder good decision making.

When considering an individual for a role as a non-executive director, a judgment needs to be made based on their demonstration of a balanced skill level in each of the four areas.

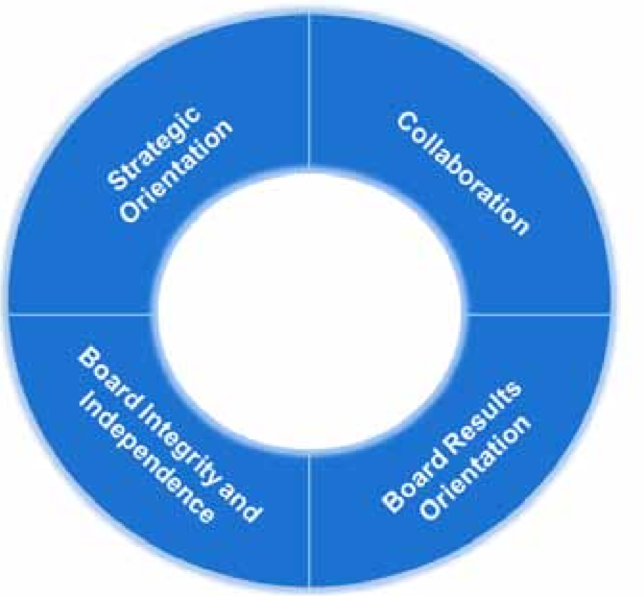

Figure 1: "Productive tension" amongst essential qualities for effective Non-Executive Directors

The Composite Picture

In addition to considering the qualities of directors individually, the overarching challenge is to ensure that the combination of individuals on the board is right. The most effective boards are ones that can think and operate as a team, and create a whole greater than the sum of the parts.

There should be enough similarities – particularly in breadth of experience and stature – for the individuals to regard each other as peers and come more easily together as a group, but enough differences to avoid the directors approaching situations with too similar views and mindsets, leading to "group think". The chemistry of the group also needs to create constructive peer group pressure for each individual to pull their weight and to engage fully.

There has been much discussion around the importance of diversity in representation on boards. Our view is that the focus should not be on gender or ethnic diversity per se; rather, the commitment should be to have diversity of experience and perspectives, however that may be brought onto the table. Benefiting from that diversity is another challenge in itself, and requires a conducive environment to draw out the different

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perspectives and strengths of each individual. That conducive environment starts with having directors who are open-minded, curious and fundamentally confident.

The Selection Process

In discussing who should be on the board, we need to touch on the process of selection. There needs to be a rigorous, thorough and transparent procedure for the appointment of new directors to the board that is clearly understood by all.

This is not yet the case with many Singapore companies today. There needs to be a clearer articulation of criteria for the selection, how it links with the company's strategic priorities and current board profile, and how each candidate fits with the criteria. Criteria should go beyond skills and experience, to include the competencies discussed earlier, and also personal attributes including intellect, critical thinking and judgment, courage, openness, honesty and tact, the ability to listen, forge relationships and develop trust.

The search for the right candidate should involve a broad and systematic process, such that the Nominating Committee is considering and selecting amongst a number of possible strong candidates.

The Journey To Do Better

Many Singapore companies and organizations have boards that are highly committed to living up to their responsibilities of governance and are approaching this role thoughtfully. An important big step in the continued journey of these boards to keep doing better will come from conducting their selection of board members with some of the considerations shared above in mind.

Destination: Board Diversity

By Aliza Knox, Managing Director, Commerce, Google Asia Pacific

Driven by the benefits of a more diverse board, companies around the world are actively working toward gender inclusion at the highest levels of their business. Glimmers of diversity on corporate boards are slowly, but steadily, appearing. The issue of board diversity is now garnering the attention it deserves, and together, we can find new ways to build on this increasing momentum.

Where Does Board Diversity Stand?

Let's take a look at some statistics.

In the US, almost 90 percent of S&P 500 companies have at least one woman board member. However, there are far fewer female directors at smaller companies, with only 60 percent of the companies in the Russell 3000 index having at least one woman director, and half of the small cap companies in the Russell 2000 Index with no female directors at all. In addition, while 90 percent of Fortune 500 companies have at least one female director, less than 20 percent have 3 or more women serving together.[1]

In Europe, a McKinsey study of 235 companies suggests that the majority of large businesses are devoting significant resources to resolve the gender imbalance at the board level, making progress with diversity, recruitment, and promotion processes. Indeed, 63 percent of the companies have at least 20 different initiatives in place as part of their gender diversity programs. And in eight out of nine countries, there are now more women on corporate boards--for example, 20 percent of board members in France are women, up from 8 percent in 2007, and 19 percent in the Netherlands, up from 7 percent.[2] However, despite the growth, the relatively low percentages suggest there's still a ways to go on board diversity.

Companies in the Asia Pacific are behind on the board gender diversity curve. In a sampling of the largest companies in Australia, China, Hong Kong, India, Malaysia, New Zealand, and Singapore, only twenty-two out of 700 boards had more than two female directors.[3]

There are positive developments in the Asia Pacific region. According to the Australian Institute of Corporate Directors, the proportion of women on Australia's boards rose from 8 percent in January, 2010 to 14 percent in July 2012, meaning that almost 30 percent of all board vacancies over that period were filled by women.[4] A McKinsey review also noted broader awareness around diversity and talent development within some APAC companies. South Korean executives, who stated that they expect to accelerate diversity measures in their companies, were particularly notable in their acknowledgement of the importance of gender diversity initiatives.[5]

Interestingly, in Pakistan, women make up 30 percent of boards (where the majority is family owned companies, and founders have learned that their daughters, more than their sons, want to help run the companies).[6]

Singapore is lagging in its corporate board diversity: 60% of SGX-listed firms do not have a single women on the board. Globally, Singapore's female participation in boards ranks second to last, just ahead of India. Growth of female representation in boardrooms is heading in the right direction, but is slow, with 6.6% of SGX boardroom positions held by women in 2008, up to 6.9% in 2010.[7]

Why Does Board Diversity Matter?

Why should we care about diversity at the highest levels of business?

Here are some reasons:

- **Diversity improves financial performance.**

  In the US, companies with gender diverse boards delivered markedly better results. For example, Fortune 500 companies who had at least three women on their boards of directors found that:

  - Return on equity increased by at least 53 percent.
  - Return on sales increased by at least 42 percent.
  - Return on invested capital increased by at least 66 percent.[8]

  In Europe, 89 European companies with more than two women on the board outperformed, on average, their sector in return on equity (11 percent vs. an average of 10 percent), operating result (EBIT of 11 percent vs. 6 percent), and stock price growth (64 percent vs. 47 percent).[9]

  In Australia, board diversity affected ASX 500 corporate performance as follows:

  - Companies with women on the board delivered a higher return on equity (ROE) than those without women on their board.
  - Over three years, companies with no women directors

delivered a -.1 percent ROE, vs. almost 7 percent for companies with women directors; over five years, the respective numbers are .5 percent vs. just over 9 percent.

» Companies with women on the board outperformed companies with no women on the board in 8 of 10 sectors.[10]

» In Singapore, an extensive study of SGX-listed companies, gender diversity on boards was noted to bring about a greater exchange of ideas, improved group performance, and new insights and perspectives and was also found to have a strong, positive association with firm performance.[11]

- **Diversity enhances organizational performance**

A McKinsey study examined differences between leadership behaviors based on gender and looked at behaviors that positively affect organizational performance. The study found that the leadership behaviors more frequently exhibited by women improve organizational performance by strengthening three dimensions:

» Accountability (via expectations and rewards behaviors)

» Leadership team (via role model and people development behaviors)

» Work environment and values (via people development and participative decision making behaviors)

In contrast, leadership behaviors frequently exhibited by men strengthen other dimensions:

» Coordination and control (via control and corrective action)

» External orientation (via individualistic decision making)[12]

Female directors were also found to have better attendance records than male directors, male directors have better attendance on more gender-diverse boards, and women are more likely than men to join monitoring committees.[13]

Having both men and women on a board ensures a more balanced set of skills and behaviors to govern the organization.

- **Diversity breeds innovation**

Diversity is tied to stronger problem solving and creativity. The London Business School found that innovation improves with gender mix, peaking when there is close to a 50:50 proportion of men and women on teams.[14]

The sentiment that diversity benefits innovation is shared by key thought leaders: Alan Lafley, the former CEO of Procter & Gamble, said "Diverse organizations will out-think, out-innovate and outperform a homogeneous organization every single time."[15]

- **Diversity Brings You Closer To Your Customers**

Consider another reason to prioritize board diversity, this time from the perspective of effectively catering to your customers. Many companies serve audiences of myriad ethnicities, nationalities, cultures, languages, and genders. Yet, company boards do not always represent the customer base they serve, despite the fact that a board's primary mission is to understand its customer base to build the business.[16]

Simply put, how can we expect to serve our customers if we can't relate to them?

AutoNation, the largest auto retailer ($4.6B market cap) in the US, recently added to its board Alison Rosenthal, a woman with experience in social, growth, international, and mobile. Mike Maroone, AutoNation's President and COO, said "We looked at our board [and realized] it's male dominated, while women make over 50 percent of the purchasing decisions in our business."

Also, consider LuluLemon, which recently added Facebook local and mobile executive Emily White to its board. Christine Day, CEO of LuluLemon, stated "We wanted a board member who understands how our target guest thinks, is a leader in the world of digital innovation and social, and understands steep growth. Emily is part of a new generation that is going to change the game."[17]

John Donohoe, CEO of Ebay, who added Facebook product marketing exec Katie Mitic to their board, stated "We were looking to add people who understand the web of the future and our consumer (50 percent of whom are women), and who are product and tech savvy."[18]

And when I asked Deborah Ellinger, CEO of The Princeton Review, for her thoughts on gender diversity, she said "There is no question that having a woman on board helps, especially in companies where the customers are predominantly women. We see things from a different angle, and therefore are able to provide a very different perspective."

Recent Asian examples of female leaders who bring a different

perspective to corporate boards include Wei Christianson, CEO and managing director of Morgan Stanley, on the board of Estee Lauder; Ying Yeh, vice president and chairman of Nalco, on the board of ABB/Volvo; and Jennifer Li, CFO of Baidu, on the board of Philip Morris.

- **Diversity aids recruiting**

  Finally, do not forget about board diversity's impact on a company's ability to attract talent. Over half of university graduates worldwide are women, which represents a significant future talent pool for businesses everywhere. To attract these graduates, you'll need some recruiting firepower on your board for your outreach efforts.

  In a recent New York Times profile of Sheryl Sandberg, Facebook COO and the first woman on Facebook's board of directors, one industry professional referred to Sheryl as "radioactive plutonium when it comes to a recruiting weapon within Facebook," saying "Young women really want to be her and learn from her."19 Imagine the recruiting benefits of having someone on your company's board who's surrounded by that much magic.

  Women on a board can be also be role models for current employees, serving as real-life examples that women can succeed at the highest levels of a company and industry. In a recent gender diversity survey of 13 large companies in Asia, one respondent said: "Women in high positions encourage junior women. It shows by example that there is an opportunity. I am the first female director to take such a position... In Japan, when hiring new employees at an organisation job fair, this can increase the number of female candidates. It gives a good public image."[20]

What Can Be Done To Diversify Boards?

Designing and improving diversity programs at the board level can take shape in any number of ways. While there's no single solution to the problem, there are no boundaries, either. That means we can all look to our teams, partners, peers - even our governments - for guidance. We can embrace the opportunity to rely on our own creativity in making the right changes for our companies. And we can take cues from other pioneers in the industry who are well on their way to enviable levels of diversity on their boards.

Here are some suggestions:

- **Create motivation**

  Governments can set legally binding quotas for the proportion of women on corporate boards.

  For example, because of a quota implemented in Norway ten years ago, women sit on 40 percent of boards there today.[21]

  The mere threat of quotas can also bring about change. For example, in the year that the French government introduced, but didn't yet pass, a quota for women on boards, companies in France doubled their female representation on boards.

  Instead of forcing quotas, Malaysia opted to use a shared goal among companies as a source of national inspiration, creating a target of 30 percent of women directors on boards.[22]

  Companies should consider other motivating factors unique to their situations. For example, in Japan--which has one of the lowest female labour participation rates among OECD countries--the labor force is predicted to shrink by 15 percent between 2010 and 2030, threatening GDP growth. Women can help fill this gap.

  High-visibility industry experts or persons of authority can also help create urgency around gender diversity simply by calling attention to it as a critical component of corporate governance. This approach has been used in Singapore. Magnus Böcker, CEO of Singapore Exchange Ltd. has said "It is imperative for boards to comprise an appropriate mix of skills and mindsets. Our listed companies are encouraged to review their Boards' composition and balance of gender diversity, to meet the increasing demands from investors on good governance and corporate sustainability."[23]

- **Plan for succession**

  Let's assume a company has prioritized gender diversity at the board level, or is looking to replace or add members. How does that company create a pipeline for the next generation of female directors?

  Many regions around the world are already making strides toward finding, recruiting, and nurturing female candidates for future board positions. For example, the European Business Schools and Senior Executive Women recently launched a call to action for business schools to identify and promote female senior leadership, enable professional networking for women, increase the inflow of women to business schools, and tailor curricula to prepare female candidates. Following the call to action, a growing list of "board ready" women--7,000 as of June 2012-- highlights the enormous female director candidate pool for European (and global) corporations.[24]

In the US, the Forté Foundation, a group of 39 business schools, asked its member schools to identify at least five potential women to serve as corporate board members. The foundation will partner with other groups to expand the list, with a goal to produce a pool of roughly 165 board ready women. Last, Forté will offer assessment tools and education to prepare women for potential board positions in the future.[25]

In Australia, the Australian Institute of Company Directors has developed a wide range of initiatives to increase the pipeline of women on boards and in senior management positions, including recommendations for boards to report on diversity policies and goals for senior management; transparency in board selection processes; and a database for current and aspiring women directors.[26]

The Singapore Institute of Directors has created a site where women can post their interest in serving on boards. To make further strides locally, perhaps the SID can initiate its own programs with business schools and women's networks in a similar fashion to the European and US efforts above. The need for urgent action in Singapore is clear: it will take 158 more board seats held by women to reach 10% female representation on SGX boards.[27]

With the new corporate governance code in Singapore, the definition of an independent director is now stricter. As a result, companies will need to hire new independent directors, which represent a great opportunity for boards to consider female candidates.

- **Be creative**

  I challenge all of us to think more creatively about how to find and develop potential female director candidates: Within our own companies, can we pilot programs where women can serve on internal committees or subsidiary boards? How about grooming mid- and top-level executives for board positions early on? For example, the Australian Institute of Company Directors developed the Chairmen's Mentoring Program, where leading chairmen and experienced directors of ASX 200 companies provide personal guidance to aspiring female directors over the course of a year, share their knowledge of governance issues, and help mentees build their professional networks.

  To complement our internal activities, can we also look externally and consider sourcing director talent from outside our industry? For example, Google's board of directors includes Shirley M. Tilghman, president of Princeton University, and Ann Mather, who has a varied background in media, finance, and computer animation.

The Goal: A Fuller, Richer Board To Drive Company Success

As, Susan Wojcicki, a member of Google's senior management team, said: "With stiff competition and fast product cycles, there's not enough room to be gender-biased. What matters is being able to show product innovation and growth."[28]

I look forward to seeing more global companies proactively harness the contributions of both men and women at the highest levels of their organizations. Until that point, however, we need to revolutionize our thinking around corporate boards and aggressively seek out the diversity in leadership that will make our businesses thrive.

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Greater Transparency In Annual Reports

By Irving Low, Partner, Head of Risk Consulting, KPMG Advisory LLP, Singapore

On 2 May 2012, the Monetary Authority of Singapore (MAS) issued the updated Code of Corporate Governance (Code). The announced changes will affect annual reports for financial years commencing from 1 November 2012.

The changes in the Code of Corporate Governance are timely. Since the last update of the code in 2005, the business environment has become a lot more complex. Business today is also conducted more seamlessly across the borders of the world. It also addresses the information needs of shareholders which are increasingly sophisticated and discerning.

Publicly listed companies will now have to describe, through positive disclosures in their annual report, how they are complying with the principles of the Code.

As an interim measure, some allowances have been made for companies to implement the required changes. This can be done following the end of the financial years commencing on or after 1 May 2016.

Arguably the most important change to the Code is Principle 11. This formalises the Board's responsibilities for risk governance and internal controls.

If any governance issue arises, the Board must be able to show how it concluded that risk was adequately assessed and managed in your company.

If you are a senior management person in a listed company, do you have the proper documentation in place?

More important than ever, any positive assertions made in the annual report have to be supported. In line with both Rule 1207 and the Code, financial, operational and compliance risks must be covered by the statement provided.

Not Well Understood

Many companies have the misconception that the report provided by their external auditors is sufficient basis for the Board's statement.

External auditors only provide an opinion on the company's financial statements, and thus cover only a certain part of financial risk.

The remaining financial risks, plus operational and compliance risks, must be assessed by internal auditors, risk managers and the key management of the company. In particular, the key management – the CEO and CFO – are responsible for all areas of risk.

To address the need for oversight of the company's risk management framework and policies, some Boards have established a separate Board Risk Committee. Others have merged the Audit and Risk Committees to create an Audit & Risk Committee (ARC).

In effect, the Board can still adopt one of the three models recommended by the Audit Committee Guidance Committee (ACGC) – risk oversight by Board, risk oversight by Audit Committee or having your management team (the Risk Committee) reporting directly to the Board.

Using An Enterprise Risk Management Framework

The details of Principle 11, coupled with the tasks that the Board is responsible for, will require companies to establish and implement a framework for enterprise risk management.

Not only will such a framework enhance the ability of the Board to manage risks, this framework will also regularly assess the adequacy and effectiveness of a company's risk management and internal control systems.

There are some companies which believe they have done enough by undertaking an Enterprise Risk Assessment. However, assessments merely identify the risks.

An Enterprise Risk Management Framework is much more than just risk assessment. It is about how risks are identified, assessed, reported and monitored. It is also about the organisational culture, how risks within an organisation are being dealt with.

For instance, if fraud is being flagged and identified, then how do the senior management and board deal with the fraud event?

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Greater Transparency In Annual Reports

If the fraud event is being reported and dealt with promptly, it will send the message that fraud is not tolerated, then we could assume that the culture and the tone at the top is strong.

When the broader framework is in place, it manages the risk by covering reporting, policies, escalation processes and develops a culture of risk awareness.

On top of commenting on the adequacy and effectiveness of such risk management and internal controls in the annual report, Principle 11 also requires the Board to also comment on whether the CEO and CFO regarding the effectiveness of the company's risk management and internal control systems.

To be able to provide such a statement, the Board must ask itself if it is able to support the opinion made.

As directors, have they also discharged their roles and responsibilities adequately and have they asked all the questions they ought to have?

While the first step is relatively straightforward, it is the second point that is new in the revised Code. It will present much more of a challenge for companies.

There are real pressures from regulators, government and tax payers. Compliance costs will increase. Stakeholders are becoming more discerning and sophisticated and financial meltdowns and corporate busts are not helping.

On top of commenting on the adequacy and effectiveness of such risk management and internal controls in the annual report, Principle 11 also requires the Board to also comment on whether the CEO and CFO regarding the effectiveness of the company's risk management and internal control systems.

There is no doubt that the sheer amount of work that Principle 11 will require of the directors and the Board has caught a lot of people unaware.

Thus, having a framework for risk management is important. If the companies invest and get everyone on board to develop a good understanding of how it works, then it will be in place.

Down the road, this will just become much more of a maintenance and review task. It will often get harder before it gets easier.

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Winds Of Change for Audit Committees Of Singapore Listed Companies

By Associate Professor Ho Yew Kee, Department Of Accounting, NUS Business School

When I did my undergraduate accounting studies in the 1980s, there were only 14 accounting standards with no more than 300 pages in total and the most innovative valuation concept was the discounted cash flow (DCF) model in accounting for finance leases. Financial instruments were not on the horizon whatsoever.

Fast forward to 2012, we now have 43 statements of financial reporting standard (FRS) with the famous (or infamous) FRS 39 “Financial Instruments: Recognition and Measurement” alone comprising 82 pages accompanied by an implementation guidance of another 172 pages. The binomial or Black-Scholes-Merton option pricing formula – which used to be like Greek to many accountants - can now be used to price options according to FRS 102 “Share-based Payment”.

Running parallel to this significant change in the financial reporting landscape is the growing importance of an audit committee (AC) in the governance of listed companies. The role of an AC was a non-issue in 1980s. Although ACs have been mandatory for listed companies in Singapore for more than 20 years, it was scandals such as Enron and WorldCom, and the ensuing Sarbanes-Oxley Act (SOA) of 2002 in the US, which really focused attention on the responsibilities and composition of the AC, particularly relating to financial reporting.

According to Section 2 of the SOA, an AC is “for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer” and in Section 407, it states that there is the requirement for the issuer “to disclose whether or not, and if not, the reasons therefor, the audit committee of that issuer is comprised of at least 1 member who is a financial expert” and the Commissioner shall consider “whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer….”

According to Section 2 of the SOA, an AC is “for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer” and in Section 407, it states that there is the requirement for the issuer “to disclose whether or not, and if not, the reasons therefor, the audit committee of that issuer is comprised of at least 1 member who is a financial expert” and the Commissioner shall consider “whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer….”

It seems like the high water mark is for at least one member of the AC to be deemed a financial expert for the proper functioning of an AC, as proposed by the SOA. However in Singapore, the corporate governance code recommends that at least two “members, including the AC Chairman, should have recent and relevant accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgement.”

In a recent survey published by ICPAS on ACs of listed companies in Singapore, it was found that only 22.5 % of the members of ACs in the listed companies in Singapore had major areas of education and formal training in accountancy or finance. In the same survey, it was also found that 35.4 % of the members of ACs had accountancy or finance as their major full time experience. On the other hand, it is somewhat heartening to note that only 11.6 % of the 724 listed companies surveyed did not have at least one member of the AC with formal accounting or finance training. However, if we include senior management experience to include experiences in accounting and financial matters, then only 1 % of the surveyed companies did not have at least one financially trained member in the AC. With regards to at least 2 members of the AC being financially-trained, the percentages are much lower.

Given this, we should consider upping the water mark. Should we not consider the requirements of Sec 407 of SOA to include at least one member of the AC to have “through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions”?

There are research findings in the US that suggest listed companies with at least one financial expert: 1) reduces the occurrence of misappropriation of assets; 2) is present in firms with higher litigation risk; 3) provides greater support for proposed adjustments post-SOA; 4) induces quality accruals; and 5) results in lower incidence of restatement. The empirical evidence suggests that the presence of a financial expert in the AC as defined by the SOA does help in the financial governance of a listed company.

I believe that it is high time for listed companies in Singapore to have at least one member of the AC who is knowledgeable in financial reporting or has accounting or auditing expertise and is a member of any global organisation for the accountancy profession within the International Federation of Accountants (IFAC). It will be ideal if such a member has been or is a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of a listed company or large private company. The current vague requirement in the revised code of corporate governance in Singapore concerning two members of the AC with “recent and relevant accounting or related financial management expertise or experience” may not be sufficient.

The Malaysian listing rules require at least one member of the AC to be a member of the Malaysian Institute of Accountants or have passed the examinations specified in the Malaysian Accountants Act. Likewise the Hong Kong listing rules expect at least one of the three independent non-executive directors on the Board to have “through experience as a public accountant or auditor or as a chief financial officer, controller or principal accounting officer of a public company or through performance of similar functions, experience with internal controls and in preparing or auditing comparable financial statements or experience reviewing or analysing audited financial statements of public companies.”

Therefore, it may be opportune time for Singapore to consider requiring listed companies to have at least a member of any global organisation for the accountancy profession on the AC in line with Singapore’s position as an important financial centre in Asia.

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Business & Social Convergence

The Market And The Social Economy: Can The Twain Meet?

By Willie Cheng, Author, Doing Good Well, & Chairman, CHARIS

It used to seem pretty straightforward. The commercial world stood on one end and the charity world, the other. One is for profit, while the other is not. Two largely separate worlds where their purpose, basis and cultures differed, but they coexist symbiotically.

In recent times though, fundamental questions have been raised and efforts made to remake both the market and social economies.

The Market Economy

The commercial world is based on market economics where the prices of goods and services are freely determined by the supply and demand of goods and services. Underlying this is Adam Smith's theory of an 'invisible hand' which would ensure that the pursuit of individual self interests by market participants will result in an overall equilibrium and the collective good.

The fall of the Berlin Wall in 1989 marked the ascendancy of the market economy and the capitalist system. 'Greed is good' became fashionable. Market-based economies across the world boomed. To be sure, there were technical corrections along the way, but governments and economists somehow managed to control the down cycles before they worsened.

The current global financial crisis can be traced to the unravelling of subprime mortgages in the US in 2008. Experts have their explanations as to why it happened. Alan Greenspan, former chairman of the US Federal Reserve, described it as 'an accident waiting to happen' due to 'the underpricing of risk worldwide'.[1] Paul Krugman, the Nobel Prize winning economist, saw the crisis as having its roots in the 'savings glut' of Asia which led to a 'global paradox of thrift'.[2] The Economist followed a similar tack to blame it on 'global imbalances – mainly, America's huge current-account deficit and China's huge surplus'.[3]

But perhaps, the root cause lies in the foundation of the free market. Why did we believe that a system which is premised on the very negative human traits of selfishness and greed will not rebound on us? As we had sought to live by the sword, then we need to bear the consequences.

The Social Economy

If the free market is about unadulterated self-interest, the non-profit world entails the opposite – pure selflessness. The non-profit sector flows (at least it is supposed to) with the milk of human kindness, meaning and fulfilment. People give freely of their time and money for the community causes they believe in.

This non-profit world complements the profit world because it picks up those who could not be provided for by the free market. In fact, it often picks up the broken pieces created by the excesses of capitalism. However, to do so, the non-profit world depends largely on the largesse of the profit world – or those who have profited from it.

Not all, however, is rosy in the non-profit sector. For one, without sufficient self-interest in the equation, efficiency and effectiveness can sometimes go by the wayside. Even worse, it seems that we can never completely eliminate self-interest; after all, you could argue that that is how human beings are. And when self-interest rears its ugly head, the non-profit world has had its fair share of ethical failings and abuses. Hence, there had been calls made and measures effected, especially in the aftermath of charity scandals, for greater accountability and greater regulation of the non-profit sector.

The dependence of the non-profit world on the profit world also has its implications. It allows those who have the means (the donors) to direct how the non-profit sector should function. Of late, many of the neo-philanthropists are seeking to import their ideas and practices from their profit world into the non-profit world. It ranges from simple corporate concepts of good governance and accountability to the more esoteric aspects of what has come to be called philanthrocapitalism (see box).

The jury is out on how social enterprises, venture philanthropy and the likes will pan out in terms of impacting the non-profit world.

The hopes are high in many quarters. A report, The Phoenix Economy by Volans[4] speaks of 'a new economic order…and a new generation of innovators, entrepreneurs and investors (who are) accelerating the changes essential for delivering scalable sustainable solutions to the world'. The report celebrates 50 organisations which were effectively developing market solutions to the world's most pressing social and environmental concerns.

Social Reality

Despite the hope, there are reservations on how far these experiments in meshing business practices with social goals can progress.

Social enterprises, for example, have been markedly unsuccessful compared to their commercial counterparts. An

Philanthrocapitalism

- Philanthrocapitalism is a term that has emerged to broadly describe the movement where business approaches are substantively used to solve social problems. The following have been variously covered (some questionably) under the umbrella of philanthrocapitalism:

- Mega-philanthropists who apply their capitalist gains to achieve social goals through market-based approaches. For example, Bill Gates is using his money to support economic incentives for companies and others to develop and implement solutions for areas stricken by disease and poverty, particularly Africa.

- Social enterprises which are regular businesses with a social mission. Typically, they are said to have multiple bottom lines – environmental sustainability, social returns and profits channelled towards the charity or community. For example, the Condoms & Cabbages Restaurants, along with 15 other businesses, funds Thailand's largest nongovernmental organisation, the Population and Community Development Association (PDA).

- Social entrepreneurs who are social innovators that effect large-scale social change. Dr Mechai Viravaidya, founder of PDA and initiator of its social enterprises, is a prime example of a social entrepreneur. However, not all social entrepreneurs are business-oriented or philanthropists. Hence, social entrepreneurs should not necessarily be considered philanthrocapitalists.

- Venture philanthropy refers to the application of venture capital approaches to helping social organisations. Key aspects are personal engagement and a focus on the capacity building (as opposed to the mission-based programmes) of the client organisations. Social Venture Partners is the world's largest venture philanthropy group with affiliates in 25 cities. Members contribute small grants of money and time to support a selected charity or social enterprise in their capacity-building efforts.

- Even Corporate Social Responsibility (CSR), where it is socially transformational, has been classified under this canopy of philanthrocapitalism. An example is the joint venture between the Danone and the Grameen Bank. Apart from creating business and employment opportunities for the poor in Bangladesh, the health food company has also partnered with the community development bank to provide food for undernourished children in the country.

analysis by the Bridgespan Group[5] showed that beyond the few celebrated cases and the hype of misleading statistics, social enterprises were generally not profitable. Another report on social enterprise by Seedco[6] cautions against mixing models: "Non-profits must understand that the desire to earn income and the desire to use business practices to pursue social change are two different and almost entirely incompatible objectives for a non-profit organisation."

The incompatibility of principles underlying the commercial and the social world is a frequent point of contention by skeptics of this 'heady and seductive cocktail' of philanthrocapitalism.[7] Michael Edwards in Just Another Emperor? The Myths and Realities of Philanthrocapitalism[8] highlights the contrasting assumptions underlying the workings of the market and the social sector: wants versus rights, competition versus cooperation, consumers versus citizens, technocracy vs politics, and market metrics versus democratic accountability.

Yet, how far philanthrocapitalism, social entrepreneurs or any adjustments in the workings of the social sector, for that matter, can go in creating lasting and sustainable social change is limited by one undeniable fact – the dependence of the social sector on the commercial sector.

The social sector depends largely upon the largesse of the commercial sector in applying its resources (time, money, expertise) to bear in fomenting social change. To be sure, many social workers and entrepreneurs make do with the bare minimum that they can access. But by virtue of this dependence, the social sector will never approximate the size and impact that the market can make.

And it does not. In most countries, the social sector pales in comparison to the commercial sector and the public sector. In the U.S., for example, the social sector makes up to less than five percent of the Gross Domestic Product whereas the commercial sector is about 85 percent.[9]

The Market And The Social Economy: Can The Twain Meet?

In a book review of The Power of Unreasonable People: How Social Entrepreneurs create Markets that Change the World, The Economist pointed out that ‘the greatest agents for sustainable change are unlikely to be the well-intentioned <social entrepreneurs mentioned in the book>. They are much more likely to be the entirely reasonable people, often working for large companies, who see ways to create better products, reach new markets and have the resources to do so.’[10] It cites the example of Ratan Tata, founder of India’s largest company, the Tata Group, who ‘may improve more lives than any social entrepreneur has done’ with his one-lakh car.

Market Utopia

The fact is that creating social value is not the domain of social workers and the social sector, but also of corporations and the commercial world. As highlighted by The Economist, the potential for creating that social value can be far greater with companies who have greater resources. The long-term sustainable answer to a just and kind society may thus lie in reforming the commercial world, instead of merely focusing on expanding and enhancing the social world.

That move, many will argue, had started and is well on the way, with the CSR movement.

CSR is about good corporate citizenship. It is a commitment by businesses to address the economic, environmental, moral and cultural concerns of the communities in which they operate. The commitment is typically manifested through a range of progressive initiatives, from enlightened human resource practices, ethical conduct and environmental responsibility, to corporate volunteerism and philanthropy.

Unfortunately, the main argument used by CSR advocates is that CSR can be good for business. As a consequence, where companies find little value to their business in CSR, they do not practise it - which is in the majority of instances. Hence, the low take-up rate of CSR.

The proper rationale for CSR should be responsibility – the responsibility of power that corporations wield in impacting the community. Since (voluntary) CSR has limited take-up, there have been calls to mandate it through greater regulations. Thus, increased regulations have been effected over the years in areas such as environmental protection, business ethics and governance. The current global financial meltdown is seeing more regulations and restrictions being pushed in the area of governance and ethics, to prevent a similar future occurrence.

The limitation of regulations is that they are established to prevent corporations and persons from doing wrong, but it is difficult to legislate corporations and people to impel them to do good. Regulations on acceptable behaviour may also be just dealing with the symptoms rather than the roots of the problem. The root cause lies in the nature of the corporate beast. Joel Bakan, a legal scholar noted that corporations are legal persons constituted to be pathologically selfish, to ‘valorise self-interest and invalidate moral concern.’[11] This ‘singularly self-interested’ inborn gene of a corporation has led to a prevailing institutional culture of ‘obsession with profits and share prices, greed, lack of concern for others, and a penchant for breaking legal rules’.

Therefore, the long-term answer should be to redefine what a corporation is. Corporation 20/20, an initiative of Tellus Institute and Business Ethics,[12] seeks to do just that. It has developed a set of principles (see box) that provides businesses, investors, government, labour and civil society with an overarching framework for building a sustainable future.

Such redefinition across the board will take time. But the current debate on how the market economies should be tweaked or changed provides an opportune time to move this agenda.

Corporation 20/20
New Principles for Corporate Design

- The purpose of the corporation is to harness private interests to serve the public interest.
- Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.
- Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs.
- Corporations shall distribute their wealth equitably among those who contribute to its creation.
- Corporations shall be governed in a manner that is participatory, transparent, ethical and accountable.
- Corporations shall not infringe on the right of natural persons to govern themselves nor infringe on other universal human rights.

Doing Good And Doing Well

The forces of change in both the market and the social economy have been driven by different considerations.

For the social economy, there is the increasing belief that it is too bloated and inefficient, and that the infusion of business principles would increase accountability and reduce waste. For the market economy, there is an increasing recognition that self-interest had been taken to an extreme that had brought out the worst in all the players.

The good news is that there is agreement that the world will only be a better place if we balance social and economic objectives. The answer may not lie in meshing the two economies to achieve a force-fit, as many of the philanthrocapitalism initiatives seek to achieve. It probably lies more in getting each sector to recognise the value of the other and borrowing the best from each other.

For the social economy, it is to recognise that a modicum of enlightened self-interest can create the incentive structures that will increase the sector's effectiveness. There is also a need to recognise its dependence on and the value of the commercial sector. While the social sector is a critical pillar of any economy and the transformative work of social entrepreneurs is necessary in making a difference and in leading the way, a much greater social impact can be achieved by changing the culture of the commercial sector.

For the market economy, it is to recognise that the enlightened long term self-interest of corporations is a balanced approach to all its stakeholders. This means creating social value as well as economic value for its owners. It is important to embed this thinking in corporate culture and structure. Despite the financial muscles that corporations wield, the social sector's 'soft power' in mobilising the community to support or censure corporations, can tip the balance for some corporate players.

Meanwhile, the celebration of social entrepreneurs, philanthrocapitalists and socially responsible corporations can hopefully move us more speedily forward to this brave new world where doing good and doing it well are fundamental values embraced by players in both the market and the social economy.

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This article is condensed from one first published in Social Space 2009, a publication of the Lien Center for Social Innovation.

What's Driving Convergence Now

This article is an extract from the publication, "Convergence Economy: Rethinking International Development In A Converging World" by Gib Bulloch, Peter Lacy and Chris Jurgens of Accenture. The article summarizes the key driving forces behind the convergence economy.

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If ever there was any doubt that conventional development approaches struggle to respond to the world's big problems, it was dispelled in September 2010, at the 10-year checkpoint for the UN's Millennium Development Goals (MDGs). Although many East Asian nations have succeeded in meeting and in some cases even exceeding their MDGs, the shortfalls across parts of Africa, South Asia and elsewhere—especially in countries wracked by conflict—are nothing short of tragic. This is not the place to dwell on facts about aid budgets being frozen and resources being trimmed. We know enough about the broken promises of the G8 summit in Gleneagles in 2005, and about the impact of the recent financial crisis on international development budgets. Similarly, one doesn't need to look far for statistics that confirm the prevalence of diseases such as malaria or the persistence of poverty worldwide. These are reasons enough to think anew about how society can respond. Considering cross-sector convergence as one important new category of response, it's worth examining what is driving the trend. Here is what we've found.

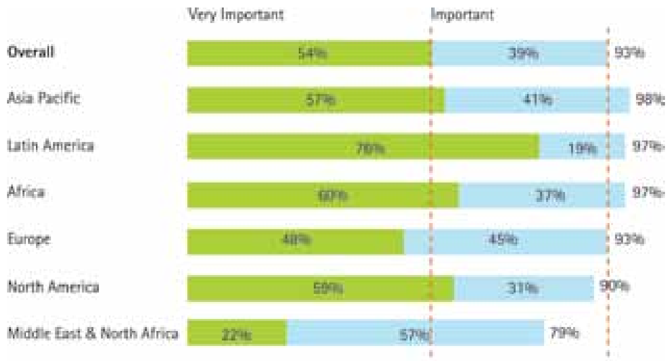
The Rising Power Of The Emerging-Market Consumer

Businesses have woken up to the fact that what they once deemed social is now strategic to their organizations. Not only do they understand that there is money to be made in doing good, but they see long-term value in presenting themselves as exemplary corporate citizens in terms of social responsibility.

With the rise of the multi-polar world—a world defined by multiple centers of economic activity in which emerging markets possess increasing geopolitical and economic clout—it becomes clear that those at what has been called "the base of the pyramid" in emerging nations represent powerful mass markets, sources of talent, and sources of political stability—or turbulence. Accenture's 2010 report—"Africa: The new frontier for growth"—gives a glimpse of this. In aggregate, African nations have seen a sharp increase in economic performance, with their combined GDP growing by an average of 6 percent between 2002 and 2008, making Africa the world's second fastest-growing region.

People Are Already Rethinking Capitalism

Capitalism 4.0, by Anatole Kaletsky, makes the point that capitalism's strength is ultimately about its adaptability. Kaletsky describes three waves of capitalism, as defined by the tension between government-led economies and market-led ones. In the



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses)

Figure 1: Almost all CEOs believe that sustainability issues should be part of their organizations' strategies in future

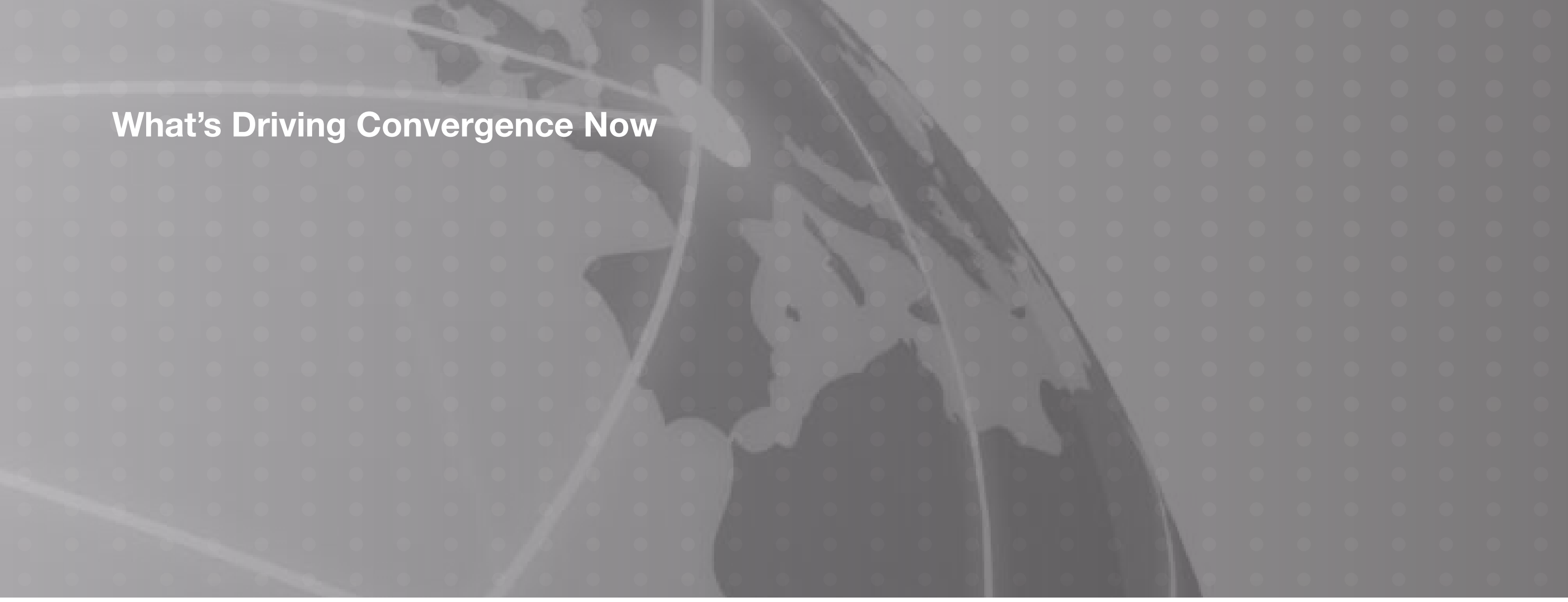
'NGOs often view peer organizations that engage the private sector with a mix of disdain (for potentially selling out on mission) and envy (for gaining access to the private sector's resources). The question is always—"How tainted is the money?...How close is the smoking gun?"'

'We need to focus on outcomes over organizational parochialness.'

19th century, the two were distinct; right up to the 1980s, notes Kaletsky, the idea was that the government knew best. From the 1980s onward, the prevailing sentiment was an almost religious belief in the power of markets in every part of society—often at the expense of government. The recent recession proved that thinking to be flawed.

Now, Kaletsky argues, there is room for a new version of capitalism—a more pragmatic form that is guided by needs and capabilities. In this context, convergence is a pragmatic, outcome-based trend that breaks down preconceptions about which sector "should" deliver development goals and replaces it with which sector "could" best deliver those outcomes.

Coincidentally, Harvard Business School professor Michael Porter has spoken out recently on the topic in his "principle of shared value"–a term brought to the forefront by FSG Social Impact



What's Driving Convergence Now

Advisors. In Porter's most recent article-Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth–he expands this principle– asserting that to create shared value, we need to think differently—and that ultimately what's good for society is actually also good for business.

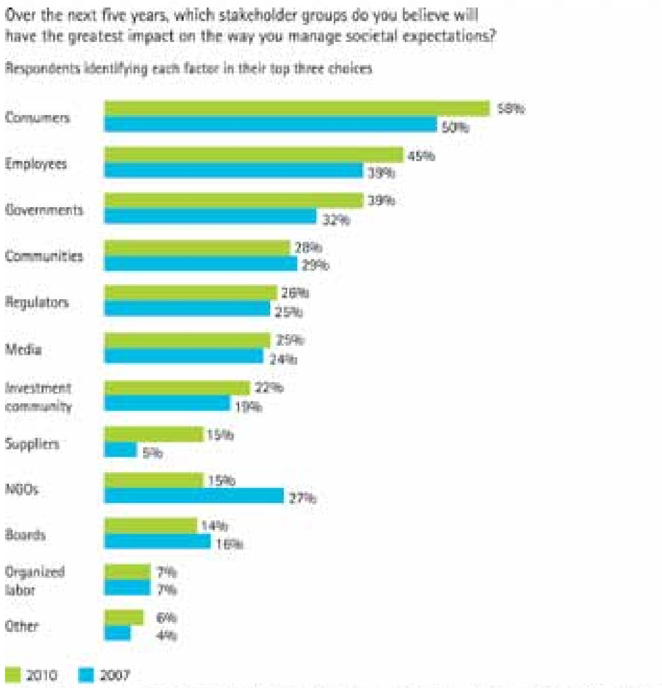
Instead of assuming that making a profit is all that matters—often at the expense of the community—business leaders need to believe that creating societal benefit is a powerful way to create economic value for the firm. Many examples are emerging that demonstrate that there doesn't have to be a trade off between profit and societal value. Porter continues that companies are starting to understand that when they think about the environment for example— they reduce energy consumption and travel—and make more profits. Also that products don't need to be contrived. Food products that are nutritionally good and environmentally good are what consumers want—and that again leads to more profits.

Framed in this context, convergence is not only about a new era of development; it is also a new, pragmatic trend toward shared value in capitalism as a whole. This perspective breaks down preconceptions about which sector should deliver development goals and replaces it with ideas about which sector can best deliver development outcomes.

Changing Role For NGOs As They Warm To Business

It has become increasingly clear that if society is to make real progress in the next decade and beyond, the development community must harness the latent socioeconomic power of business. "The role of the private sector is increasingly important for humanitarian assistance," noted António Guterres, UN High Commissioner for Refugees. "Lending their knowledge and expertise… is crucial as many of these projects would otherwise be outside of our reach." Adds Barbara Stocking, Oxfam's chief executive: "Businesses are starting to consider how they source their produce to have an impact on the lives of people living in poverty. New ethical business models which incorporate marginalized farmers are an exciting step forward and a solution that can bring business benefits too." She cites Unilever as among the first global food manufacturers to make a commitment on this scale.

In 2010, only 15 percent of CEOs polled in our UNGC study identified NGOs as a key stakeholder in terms of influencing their approach to sustainability, compared to 27 percent in 2007. (See Figure 2) This may point to the fact that NGOs are no longer setting the agenda in terms of policy and issues, or that the degree of pressure that they are exerting on business is beginning



Source: United Nations Global Compact CEO Survey 2010 (based on 766 completed responses). 2007 data from McKinsey UN Global Compact survey.

Figure 2: Nearly 60 percent of CEOs view consumers as the most important influencers of their organizations' approaches to sustainability

'It's about playing to your strengths—each sector bringing something to the table. Business can bring capital and knowledge on how to shape things in a commercially viable way.'

'This will be a journey of education—showing examples of successful projects as well as demonstrating that brand recognition is so much higher in emerging markets than expected.'

to wane. But our onversations with CEOs tell a different story. Indeed, they indicated that although NGOs may have shifted their tone and strategy over recent years, they remain an important and influential player. Through our discussions, we have seen examples of NGOs partnering and collaborating with business to achieve specific, local development objectives, part of a wider shift from NGOs as pressure groups to delivery partners.

In addition, some 78% of CEOs told us that they believed their company should engage in multi-stakeholder partnerships to address development goals—although there is currently a performance gap that varies by industry. (See Figure 3.)

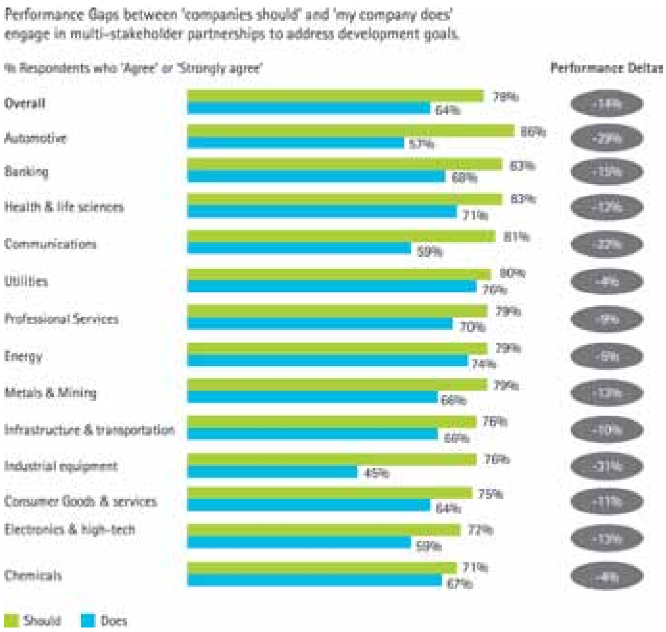


Figure 3: 78% of CEOs believe that their company should engage in multi-stakeholder partnerships to address development goals. However, this ambition isn't being met and varies by industry

Business Leaders "Get It" And Are Getting Involved

There is now plenty of evidence that today's captains of industry are keen to understand fully the broader impacts of their businesses, both good and bad. For instance, nearly four-fifths of the CEOs polled in the Accenture-UN Global Compact survey indicated that collaboration is the only way in which they can keep their sustainability commitments. Certainly, most attuned CEOs now have a sense of the carbon footprints of their business operations and are taking steps to reduce them. More progressive businesses are also trying to understand their "water footprints" or even their "poverty footprints"—a term developed by Oxfam.

Fully 93 percent of the chief executives polled in the recent Accenture-UN Global Compact study say they believe that sustainability issues should be fully embedded within their strategies and core businesses in the future. (See Figure 1) The same study shows that 78 percent of CEOs believe their companies should engage in industry collaborations and multi-stakeholder partnerships to address development goals. That confirms the gradual shift away from the purely philanthropic narrative hitherto typical of business. Interestingly—and importantly—CEOs in emerging nations are even more convinced of the need for convergence and tackling sustainability issues than are their developed-world counterparts. Those corporate chiefs are particularly affected by the proximity of sustainable development challenges—in other words, many of the most pressing development issues are right in their backyards.

'If there is no conflict of interests the partnership can be done very well. The major problems come when the private sector organisation is merely trying to promote their own products and/or have alternative agendas to the NGO.'

'NGOs are often worried about 'selling their soul' – but they also recognize their own limitations in that they are not known for performance focused delivery. NGOs may find themselves more acceptable in government situations if business is also at the table.'

Socioeconomic Metrics Are A Reality

Some for-profit organizations are dropping quarterly earnings guidance to the investment market in favor of a focus on long-term performance. That's what Paul Polman, chief executive of Unilever, did not long after joining the company. Non-profits are active too. Oxfam has developed a comprehensive methodology for measuring the positive and negative socioeconomic impacts of the broader business operations of a number of multinationals. The methodology came out of Oxfam's and Unilever's seminal study of 2003, which highlighted just what enormous power businesses can have, not by exercising their corporate social responsibility (CSR) budgets but by leveraging their core business operations.

Citizens Want Sustainability

Citizens are consumers and employees too. The Accenture-UN Global Compact CEO study found that 58 percent of CEOs cite consumers as the most important stakeholder group that will affect the way that business will manage societal expectations (See Figure 2).

CSR is not just an agenda item in the West; it is on the rise as consumer demand in developed countries seeks more sustainable and value-driven approaches. Businesses are responding accordingly.

Technology Is Enabling New Collaborations

The proliferation of collaborative software, the growing popularity of cloud computing (think Google's Gmail service), and the surge of smartphone sales all help make it easier for organizations of every type to work with one another. New communications channels and media— tools such as Cisco's Telepresence videoconferencing system—are becoming more affordable. Some, such as Skype and Google's video chat service, are free.

At the same time, e-learning is transforming education. It is expanding the capacity and effectiveness of teachers, opening up access for hard-to-reach communities, and enabling simultaneous modes of education.

Mobile phone technology is arguably the most important enabling factor in e-learning. Globally, the number of mobile phone subscribers has increased dramatically. In Kenya alone, the number of mobile phone subscribers increased by 300 percent between 1999 and 2007. The Kenyan Agricultural Commodity Exchange has linked up with Safaricom, the country's largest cell phone provider, to equip farmers with up-to-date commodity market prices over their phones. The GSMA Development Fund—affiliated with the GSMA, a trade group for the worldwide mobile communications industry—leverages the expertise of its members to accelerate mobile solutions for people living on under US$2 per day.

Why Can You Not Do Good And Earn Well? : Social Entrepreneurs Caught In A Moral Conflict

By Andreas Heinecke, Founder & CEO Of Dialogue Social Enterprise Ltds

Karl Kraus, a 19th century satirist, once asked a student about his field of study. The student answered: "Business ethics", to which the Austrian writer and philosopher then replied, "Well, then I guess you have to decide".

As old as this story is, it has a lot of relevance in the present times. The question of what is considered to be "good" and what is considered to be "bad" always plays a major part in business. Earning money and generating profits is considered the domain of those who generate economic assets and promise a high monetary return. This is the case for entrepreneurs such as Bill Gates and Mark Zuckerberg; top managers of multinational corporates such as Llloyd Blankfein and Michael Dell who ensure their stockholders high returns; and even consultants and lawyers who consult and in the process build assets in their practice.

Moral concerns arise when the wheel is overturned and economic asset building is directed by greed and carelessness, threatening to put the economy in danger. But even these concerns calm down eventually and the basic principle of whoever supplies economic value is allowed to remain.

Presumably, earning money is not considered the domain of those who approach asset building with a different kind of approach. This would include social entrepreneurs who take social change seriously, but believe in bringing about this change not in a traditional sense through charity but through entrepreneurship and innovation. This breed believes in a combination of economic machinery and a focus on a social mission. It is here where the uneasy questions arise: To what extent should a company remain social in order to not lose its credibility? How is it possible to balance the financial and social risk? How much money is allowed to be generated when doing business with the poorest in the world?

There is no doubt that social entrepreneurs greatly enhance a state run supply systems, public welfare institutions or initiatives counting only on donations and sympathy. They conquer what have been the biggest obstacles to large scale social change in society for ages flaws in administration, political dependencies, absent professionalism and, especially, the moaning about the evilness and injustice on this world.

Social entrepreneurs are brave and take personal risks. Instead of seeing problems, they discover market opportunities and detect niches to fill them in with solutions to solve a particular plight/state of social emergency. They demonstrate creativity and follow their goals through personal motivation. Of all social entrepreneurs, 95 % persevere and establish scalable systems.

In the last 30 years, 3,000 of these social entrepreneurial avant-gardes have been identified in a rigorous selection process by the two leading networks, Ashoka and the Schwab Foundation for Social Entrepreneurship, and ever since, they have pursued their goal of driving change and changing the world. "Everybody is a change maker" is their mantra and Ashoka views its fellows as "Innovators for the Public". Global or customized solutions for local problems are found, be it fair trade, the use of regenerative energies or the supply of micro credit.

There is one particular social entrepreneur who embodies this concept like no other Muhammad Yunus who, at one time, was almost considered to be a Messiah. He established the Grameen Bank and has played a major role in spreading the idea of microcredit worldwide. In 2006, he was awarded with the Nobel Peace Prize and brought the concept of social entrepreneurship into the spotlight.

It almost seemed as if the paths of snobby Wall Street traders and starving daily laborers from Bangladesh could perhaps cross and they could do business together. Yunus managed to encourage some of the world's leading companies like BASF, Danone, Adidas and General Electric, to name a few, to frame a hybrid social business model in which social goals such as fighting against hunger and poverty could be approached in a more business oriented manner.

The concept of Social Business was thus born. The model is fairly widespread now and is a lever for the fight against poverty and hunger. Suppliers of microcredit began springing up like mushrooms and since then, there is rarely a financial service provider that has not recognized the potential of poor people. Social Investment Funds developed and Cash and Care came together under captions such as Venture Philanthropy or Impact Investment.

In Mexico and India, microcredit institutions managed to even list at the stock market. It almost seemed as if squaring the circle could actually succeed. The solution of urgent social, educational or environmental problems can be covered with economic interest. Yunus has always strongly recommended social business to not give bonuses to the shareholders. According to him, the investments should be earned back but the profits should serve only to extend the social business itself. Yet his urgings, which you could almost see as a warning, disappeared under the social gold fever.

Why Can You Not Do Good And Earn Well? : Social Entrepreneurs Caught In A Moral Conflict

Disillusionment set in fast. Social entrepreneurs lost their perceived innocence as soon as media reports about microcredit receivers being driven to suicide by social grasshoppers started appearing and there was talk about infidelity and personal gain. Money was said to be made off the back of the poorest, an issue that, even without any media exaggeration, led to a core problem of social and corporate trade.

Is it possible to earn fairly well, while doing good? In what way does a social entrepreneur and his orientation for successful financial outcome differ from other commercial entrepreneurs? Whereas the latter are measured by their financial value, this measurement apparently applies to the social entrepreneur only indirectly, if at all.

A social entrepreneur is measured by the social value he generates for society. Whether the enterprise is nonprofit or for-profit does not say anything about the social content itself. It is a mere valueoriented decision, which distinguishes the social entrepreneur from business entrepreneurs. Peter F. Drucker, an American managementconsultant, puts the credo for a social entrepreneur this way "Mission comes first". If this is not being stated and shown clearly, the social entrepreneur is in danger of being criticized and losing his base. He will be accused of false motives and of being considered hypocritical and he may end up getting defensive.

The social goals threaten to dissipate as soon as profit sets in. Until there is profit, this issue does not matter as almost all social entrepreneurs had to work very hard to survive.

For years, many of these social entrepreneurs, "not forprofit" is the motto but "noloss" is what really matters to them. However, after years of experimenting and operating in this semiprofessional manner, the tide turned.

Social entrepreneurs are able to work more efficiently and professionally, backed by the support of organizations like Ashoka and the Schwab Foundation who forward to them probono mandates from consulting agencies, PR agencies or law firms. Universities and business schools take up the idea, starting to analyze their business models and invite social entrepreneurs to discuss their theories and strategies. Social entrepreneurs rise and establish themselves as a constant on world economic forums, where they initiate business deals and find capital. This nourishes a culture of openness, also helps the social entrepreneur to secure his existence.

It is unquestionable that social entrepreneurs are committed to an idea and take personal risks. They give up possible careers in the real economy and do not think about retirement arrangements. In many cases, it takes years for an idea to develop into business.

Furthermore, social entrepreneurs are magnets and attract people who take on personal risks themselves to the cause they are attracted to. Even if the situation looks grey, they hope for better times to maintain financial stability along with the social impact.

Yet when they start operating successfully and achieve some amount of financial security, they face a new problem. In what ways are the profits allowed to be spent? Are some of the profits allowed to flow to the social entrepreneur or so after years of sweat? Can he or she finally earn a decent employee's salary?

The answer is: Yes and No. What matters are adequacy, proportionality and circumstance.

Yunus' rigorous approach allows distribution in relation to the level of investments. This does not refer to opportunity costs. It is about the hard cash necessary to build up the enterprise. Social entrepreneurs have to keep exact and transparent account of these expenses to provide doubtless proof. The profits of social enterprises should furthermore be used to pay the employees according to their performance. Salary standards in public service with their performance criteria and additional regulations can be used as a guideline here. Should the enterprise turn out to be so successful, generate profits, be valued at a high price or even get traded publicly, these profits should be used to establish new enterprises or support other institutions committed to common good, rather than creating personal wealth.

Summing up, the handling of the profits generated in the fields of social enterprises must be determined by the following criteria: Social entrepreneurs must commit themselves exclusively to their social mission. Any profits should only be used to support and further this social mission. The question of how to handle the generated profit has to be defined very clearly before initiating the business. A disclosure of capital, enlistment of salaries and tax returns should be provided, similar to how GuideStar does this in the US. Only through absolute transparency and an open communication a moral conflict can be avoided.

Summary Of Primer On Governance For Social Enterprises In Singapore

By Associate Professor Mak Yuen Teen, NUS Business School

The Social Enterprise Association, as the umbrella body to promote social enterprises in Singapore, recently launched the Primer On Governance For Social Enterprises. The purpose of the primer is to guide its social enterprise members in creating greater transparency and procedures for the benefit of their beneficiaries, customers, partners, funders and investors.

This article summarizes key aspects of this primer.

What Is A Social Enterprise?

Social enterprises are registered organisations that apply business strategies to achieving social, cultural and/or environmental goals.

They can be structured as for-profit or not-for-profit entities. To the extent that they are financially sustainable, they would be more effective in achieving their mission. In addition, the surpluses that are generated are applied in a way that keeps them true to their basic social, cultural and/or environmental mission.

In Singapore, a social enterprises can take on different organisational forms such as a society, sole proprietorship, partnership and company. It need not be established as a company.

Below is a general set of characteristics the association uses to guide its work on defining social enterprises:

- It is designed specifically to address certain social, cultural and/or environmental issues
- It declares its mission in its constitution or declares it publicly if it has no constitution
- It uses business strategies and activities to tackle its stated mission
- It generates and distributes its revenue and surpluses to achieve its stated mission

There are four social enterprise models in Singapore, namely work integration model, plough back profit model, subsidised service model and social needs model.

Social enterprises can be for profit or not-for-profit. It can be supported by governmental grants or investment capital. It differs from charity as it has a risk taking attitude, aims at self-sustainability and deals with the market economy. It differs from commercial profit-making enterprise which is socially responsible as it is defined by its social objectives which are as important as its financial objectives.

What Is Governance?

The Organisation for Economic Cooperation and Development (OECD) states: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring."

Good governance of social enterprise requires the effective management of relationship between management, the board, investors and other stakeholders and appropriate structures, systems, processes and incentives to support these relationships. These factors depend to a great extent on its stage of development, its legal forms and rules and regulations.

Good governance also focuses on the spirit and ethics, beyond the letter of the rules and regulations. It is important for social enterprise to consider the interest of its different stakeholder groups with a focus on its stated missions.

A board of directors is mandatory for a company. A society is required to have a committee of management under the Societies Act. Other types of entities, such as a sole proprietorship, may not require a board or equivalent body.

A board of directors is useful for providing better oversight over the activities of management of the social enterprise and can be a useful source of advice to management. It can improve the accountability, long term performance and sustainability of the social enterprise.

However, to be able to achieve these objectives, the board must be thoughtfully constituted with the right people and never with the sole objective of compliance in mind. There should be appropriate provision for rotation and renewal. A term limit, especially for directors who are not involved in management (non-executive directors), can be considered to encourage renewal. The board must also understand clearly its roles and responsibilities vis-à-vis management.

Summary Of Primer On Governance For Social Enterprises In Singapore

If a social enterprise is not required to establish a board of directors, and does not believe that the benefit of such a board exceeds the cost, it can consider establishing an advisory board instead. An advisory board has a more limited role of providing advice to management and does not have a governing role. As the enterprise grows and has accountability to more stakeholders, governance will be a more important consideration and this advisory board may then evolve into a governing board.

The composition of an advisory board is however different from that of a governing board. It would comprise of individuals selected on the basis of their passion for the cause, their knowledge and their connections. While these are important for a governing board, a governing board's first and foremost is a fiduciary duty of acting in the best interest of the enterprise, it would need to balance the "performance" and "comformance" (or accountability) of the enterprise. It needs a robust "challenge" function and may overrule management.

Executive directors are also called employee directors or management directors. They have full-time roles in the organisation. Non-executive directors are not involved in management and are therefore less conflicted and expected to play a larger role in overseeing management. In the listed company sector, non-executive directors are further classified into those who are considered independent and those who are not, based on whether there are certain relationships between the director and the company, other related companies, key officers and major shareholders.

A good chairman is absolutely critical for an effective board and for the board to be able to work well with management. He must have strong leadership skill and yet not domineering. He should be willing and able to commit more time than other non-executive directors in developing a good understanding of the business of the social enterprise, in developing a rapport between the board and the chief executive officer, to participate at important external events and to work with management to plan the agenda for board meetings.

It is important for the chairman of the board to be separate from the chief executive officer.

Firstly, it ensures that there is not too much power concentrated in one individual and to ensure some checks and balances to address this inherent conflict when the board is to approve strategies proposed by management and monitor the implementation of these strategies. This includes the approval of the remuneration of management and evaluating management's performance.

Second, the separation of roles allows the CEO to focus on growing the social enterprise, formulating and implementing strategies and day-to-day management, while the Chairman to lead the board to focus more on the overall direction, core values, key risks, broad policies and oversight and providing advice to management.

Thirdly, the separation of roles allows for better utilisation of talents as the attributes of a good CEO for a social enterprise can be quite different from the attributes of a good Chairman. A good social enterprise CEO is likely to be entrepreneurial and passionate about the social mission, but these may not be the right skills set to lead the board and get most out of the directors.

As a social enterprise grows, it may find separating the two roles not only allows for better governance, but also ensures that the social entrepreneur is able to focus on using his strengths to grow the enterprise, while having someone else run the board. A very large social enterprise may even find that it is better not to have the social entrepreneur involve in the day-to-day management or in running the board so that he can focus on new ideas and innovations. For example, in some large companies founded by entrepreneurs, the founder transit over time from a founder-cum-CEO-cum-Chairman role, to eventually assuming a role like a chief strategy officer (or in Bill Gates' case, to a chief software architect at one time) and leaving the role of CEO to someone else.

On top of a need to have character, commitment and competencies, it is important for a board to collectively have a mixed of competencies in areas such as industry knowledge, business management experience, law, accounting and finance, human resource management and so on, to have sufficient perspectives to discharge its governance responsibilities.

The appointment of directors is governed by constitution if there is one (e.g. in articles of association for a company). It is useful to have a proper search and nomination process in place, which can be overseen by a nomination committee. This would include identifying the attributes being sought in new directors, searching for the candidates, interviewing and doing due diligence on candidates, before they are recommended to the board for appointment. The Centre for Non-Profit Leadership and the Singapore Institute of Directors can assist in the process.

Conflict of interests can occur when the interest of a board member or staff conflicts with the interest of the social enterprise. It usually arises where a board member or staff has an interest in a decision or transaction. Related party transactions are transactions between the social enterprise and those who potentially have a significant influence or control over the decision to undertake those transactions. It is hence important to have policies and procedures to disclose interest and not be personally involved in making decisions where they are conflicted.

Whether the board of social enterprises should be remunerated is likely to depend on size and stage of the development of the social enterprise. The pay of the management team in social enterprise should allow it to recognise and reward good performance. Payment of the special workforce should be equitable and comparable to paid work of the regular workforce.

Like regular businesses, social enterprise needs to manage an annual operating budget and cash budget. The larger social enterprise should also run a capital budget. Above financial management, the board and management need to monitor and report its social impact such as jobs created for beneficiary or improvement in quality of life.

A social enterprise needs to identify key risk which may impact its performance and sustainability. Areas such as over dependence on founder, inadequate capitalisation, lack of market intelligence and inability to provide evidence of value add must be identified and monitored.

A social enterprise needs to put in place internal controls in finance, operation and compliance. This includes procurement procedures, receipting, payment procedures and approval limits, IT controls, ethics, and compliance with rules and regulations. An audit can be useful to identify potential improvements on operational efficiency.

How Would A Social Enterprise Start-Up Effect Governance?

Together with the governance primer, the Social Enterprise Association has developed a governance workshop to guide its social enterprise members on how even one man outfit can have procedures and systems in place to practice good governance. This will win and establish stakeholders' confidence in social enterprise as the preferred model to deliver social impact to the community.

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The Firm offers insightful leadership and talent advisory services, across all industry sectors, bringing to bear proprietary leadership assessment methodology, understanding of "what good looks like" in the talent market, and deep experience of working on complex and sensitive talent management issues across the world, with a broad range of different organizations. The partnership structure with a single global profit pool ensures real collaboration across borders and practices, and a very long-term mindset and approach to relationships.

Egon Zehnder established its Singapore office in 1982 and it continues to serve as the hub for the Firm's South-East Asian activities, alongside our KL and Jakarta offices. Egon Zehnder is the largest senior level executive search firm in Southeast Asia.

More information about the Firm may be obtained from its website www.egonzehnder.com.

About The Singapore Institute Of Directors

About The Singapore Institute Of Directors

Formed in 1998 following a private sector initiative to raise the level of corporate governance in Singapore, the Singapore Institute of Directors (SID) today has more than 1,700 members, which include prominent individuals such as listed company directors, corporate leaders, lawyers and accountants. The Institute has an 18-member Governing Council comprising reputable business leaders and professionals.

SID is the national association of company directors for the local corporate community. It aims to be a professional body promoting the highest professional and ethical standards of directors through networking, education and information. Its leading role is to raise the level of professional standing and standards of directorship in Singapore. It also aims to increase the pool of persons who are suitable to serve as non-executive independent directors in public listed companies. The secretariat of the SID is currently located at 3 Shenton Way, #15-08 Shenton House, Singapore 068805. More information about the SID can be obtained at its web site www.sid.org.sg.

Singapore Corporate Awards

The Singapore Corporate Awards (SCA) is organized by The Business Times and supported by Singapore Exchange.

SID is a partner of SCA and is responsible for the short-listing, evaluation and recommendation of the winners of the Best Chief Executive Officer and the Best Managed Board awards.

For more information on SCA visit www.scawards.com.sg

Singapore Board of Directors Survey

This survey on board practices of Singapore listed companies is organized by SID with support from Singapore Exchange and in partnership with Aon Hewitt, Egon Zehnder International and PricewaterhouseCoopers.

The survey is designed to address matters relevant to current needs and questions of companies and their directors, and present trend information on corporate governance.

For a copy of the survey, please visit www.sid.org.sg or call (65) 6227 2838

SID Statements of Good Practice

The SID's Statements of Good Practices have been developed as a result of requests from its members to provide guidelines on certain fundamental issues of board performance, accountability and corporate responsibility, in a succinct and practical way.

To view or down load the Statements, please visit www.sid.org.sg

Board Appointment Service

The Board Appointment Service (BAS) provides companies with access to search for suitable candidates from SID's database of members who are willing to serve as independent directors. This service is complimentary for SID's corporate member for one search per year.

For more information on BAS, please visit www.sid.org.sg

Directory of Board Advisors

This Directory on SID website provides one-stop information for companies looking for professional advice on governance related matters.

Membership

Individual Membership

Criteria

Membership is open to all company directors; senior executives of large corporations, statutory boards and regulatory authorities; senior academic personnel; partners, sole proprietors and senior managers of professional practices involved in corporate matters or corporate governance issues.

Membership is open to all nationalities, regardless of place of residence.

Membership Benefits

- Members enjoy discounted rates on all courses, seminars, talks and events organized, sponsored or endorsed by SID.
- Forum to deliberate on new initiatives or proposed reforms to existing laws affecting directors and companies.
- Free copy of the SID Directors' Code of Professional Conduct, our in-house magazine the Directors' Bulletin, and other SID publications from time to time.
- Complimentary participation in the Board Appointment Service.
- Fellow and Ordinary members are eligible to use the designated letters FSID/MSID.

Corporate Membership

Criteria

Any body corporate or entity formed, incorporated or registered in Singapore or elsewhere that has its affairs directed or managed by a board of council of directors or members and which supports and practices good corporate governance.

Membership Benefits

- Be part of the national network and centre on corporate governance, and emphasize your company's interest and support of good corporate governance.
- Full access to a one-stop corporate governance resource base to understand and improve your company's corporate governance practices.
- Facilitate continuing professional training of directors and senior management through SID's comprehensive selection of courses. A corporate member is entitled to nominate one complimentary Principal Nominee and two Supplementary Nominees with waiver of entrance fee and annual subscription.
- Facilitate filling board positions either through the complimentary formal means of SID's Board Appointment Service or the informal networks provided by SID.
- Other financial benefits such as complimentary attendance at SID Directors Conference, Breakfast or Luncheon events, discount on advertisement, and many more as may be added from time to time.

For more information, please visit www.sid.org.sg or contact the secretariat at (65) 6227 2838

SID Governing Council 2011/2012

Chairman	: Mr John Lim Kok Min	
First Vice-Chairman	: Mr Reggie Thein	
Second Vice-Chairman	: Mr Adrian Chan Pengee	
Treasurer	: Mr Basil Chan	
Council Members	: Mr Keith Tay	Dr Ahmad Mohd Magad
	Mr Boon Yoon Chiang	Mr Daniel Ee
	Mrs Yvonne Goh	Mr Yeo Wee Kiong
	Mr Yeoh Oon Jin	Mr Willie Cheng
	Mr Lim Hock San	Mr Andy Tan Chye Guan
	Ms Yeo Lian Sim	Mr Kevin Kwok
	Ms Kala Anandarajah	Mr Soh Gim Teik

SID Directors Conference 2012 Organising Committee

Chairman	: Ms Kala Anandarajah	
Members	: Mr Willie Cheng	
	Mr John Lim Kok Min	
The Secretariat	: Mr Sovann Giang	Mr Kerric Seah
	Mr Gabriel Teh	Ms Serene Chia
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3 Shenton Way #15-08
Shenton House
Singapore 068805

Telephone:
(+65) 6227 2838

Fax:
(+65) 6227 9186

Opening Hours:
8.30am - 5.30pm
(Monday - Friday)

Course Enquiries and Registration:
admin@sid.org.sg

Membership Enquiries and Registration:
admin@sid.org.sg

General Enquiries & Sponsorship opportunities:
secretariat@sid.org.sg

Website:
www.sid.org.sg