

The Directors'

Bulletin

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SINGAPORE INSTITUTE OF DIRECTORS

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Transforming SMEs

Perspectives from thought leaders -

Hear from Roger Chia, Chairman & CEO, Rotary Engineering Ltd

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From the editor

You would by now have noticed that the frequency of the Directors' Bulletin has gradually increased. The intent, as has been indicated by the President previously, is to have at least six issues a year published. The primary aim is to inform, share and educate. We have also been pushing broadly for a thematic approach so that multiple views on certain topics can be explored and exchanged.

With this in mind, this issue focuses on growth; and more specifically on Transforming SMEs. Two critical messages need to be conveyed: the first is that the Directors' Bulletin is for all directors, whether from the big corporations or the small start-ups, and the second is that the MNCs of tomorrow really start off as the SMEs of today. Given the oft reiterated national message that Singapore is really a spring board for businesses to grow internally as well as to venture overseas, particularly in this climate, the Editorial Team saw the usefulness in focusing on transforming SMEs.

This issue of the Directors Bulletin is ripe with a varied range of articles and key personnel in various organisations sharing their experiences. The Perspective from Thought Leaders section, which in the last issue featured thoughts from business stalwart, Mr JY Pillay, in this issue, features Mr KP Chia, the Chairman and Managing Director of Rotary Engineering Ltd. Chia is credited with having built Rotary Engineering from the small partnership that it started out as in 1972. Speaking to Chia reveals a man of vision, of a desire to grow, of someone who is very hands-on and yet someone who believes strongly in empowering his employees. He is a very practical person, who does, not for the sake of doing, but because it is necessary; and this applies equally to why he has not seen a need to change the independent directors on his board over the years for now.

A key aspect that comes through my discussions with Chia is his focus on ensuring quality, which he identifies as a key tenet of his branding. To ensure quality, he spends a considerable amount of time ensuring that he has a trained work force. He also strongly believes in localisation of employees; ie having locals eventually run the overseas companies. On this, he has over the years put in adequate systems to ensure the move in this direction.

The issue of localisation is one that has come up from my discussions with various large corporations in recent weeks. Indeed, even Jeff Temmelt, the Chairman and CEO of GE, noted the same thing at a recent talk that he delivered in Singapore, a record of which appears in this Bulletin.

The focus on employees and hiring the right kind of people is also an issue that companies, and SMEs are no different, grapple with. The focus is really on finding the right skilled individuals who can fit into the organisation culture. Comments from Chia, as well as Angie Tang, the CEO of Franklin Offshore, show that the growth of a company is equally dependent on the right mix of employees at all levels, as it is on the leaders.

Other articles in this issue seek to provide SMEs with thoughts on the importance of branding and how this must

be brought into the boardroom, the importance of D&O insurance in particular for independent directors, and financial statements for SMEs. On this last point, the query explored is whether financial statements can be further simplified for SMEs.

You will see that no focus has been given to the downturn as such. But if one says that I have ignored the elephant in the room, then the retort is that there is in fact confidence amongst SMEs that they will ride these difficult times is high at 78%. This according to a study by DP Information, which is also included in this Bulletin.

Articles aside, the Institute continues to run its numerous training and sharing sessions. These have increased in frequencies over the last few months, and I do hope that you find them useful. Additionally, we are pleased to advise that the Institute's website will be substantially revamped and made more interactive for your use very shortly.

We do hope that this issue has provided you with insights into some of the key issues that must be at the forefront of your thinking as you plan and grow. It remains for me to thank, on behalf of the Institute, all contributors and others who have enabled this issue of Directors' Bulletin to be produced. The Institute looks forward to suggestions and thoughts from you on how else this Bulletin can serve your needs better. ■

Kala Anandarajah
Editor

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President's Message

Dear Fellow Members,

2009 has been a very challenging year for most businesses, both locally and globally, and I know many of you are looking forward to an improved business environment in 2010. The last two quarters have seen significant improvements in our economy and MTI has revised our GDP growth for 2009 from an earlier forecast of a range of minus 4 to minus 6 to a lower decline of minus 2.0 to minus 2.5 percent. While there is still a lot of uncertainty on the strength and sustainability of the current recovery, given that export demand has still largely not recovered, there is cause for cautious optimism. I believe we can all look forward to the new year with increased confidence even though the rate of growth is likely to be modest.

2009 has also been a busy year for our Institute as we embarked on implementing the recommendations of the strategic review carried out by PricewaterhouseCoopers. During the year, we strengthened our Secretariat, expanded our portfolio of training programmes, increased the frequency of our Directors' Bulletin and revamped our website. In the next few months we will relaunch our Directors' Register and introduce a new Directors' Matching service. Other activities relevant to the continued development and promotion of excellence in Corporate Governance (CG) and the effectiveness of boards will be implemented going forward as we seek to play an even more significant role in the enhancement of our CG eco-system.

The collaborative efforts of many stakeholders in this eco-system have helped Singapore to achieve a balanced regulatory regime and contributed to the development of an efficient and effective capital market. They have also enabled Singapore to attain a high standard of Corporate Governance which has been consistently ranked the best in this region by international agencies. However, much remains to be done and directors as a key stakeholder in our CG eco-system must continue to play an effective self regulatory role to ensure Singapore is not only able to maintain an efficient and balanced regulatory regime but also have a corporate governance model that is appropriate for this region. This is particularly so in the aftermath of the recent Financial Crisis which has exposed failures and weaknesses in corporate governance arrangements and highlighted the importance of qualified board oversight and robust risk management. Although these have been directed mainly at financial institutions such findings may equally be attributable to business organisations generally.

Our Institute has enjoyed strong support from many since our formation but as we move into 2010 I would like to call on all directors, former directors and potential directors to come forward and join our Institute and participate actively in our activities as we seek to develop it into an institute for directors by directors.

On the 6th of November we hold our 11th Annual General Meeting and Luncheon at which Mrs. Lim Hwee Hua, Minister, Prime Minister's Office and Second Minister for Finance and for Transport, will be our Guest-of-Honour. At this AGM, two of our longest serving Council members will be retiring. Mr. Chew Heng Ching, our Founding and only Chairman to date and Mr. Giam Chin Toon, SC, our current Treasurer, have both served our Institute, ably and selflessly for more than 11 years while Mr. Chew has led our Institute from its inception and has been largely responsible for developing the firm foundation of our Institute. I would like to take this opportunity, on behalf of our Governing Council, Sub-committees and our general membership, to thank both of them for their yeoman service and know that while their wisdom and leadership will in future be absent from our Council they will not be lost to our nation.

I would also like to inform all of you that at the first Council meeting post our AGM, Mr Keith Tay, our Vice-Chairman since our formation, and I will be stepping down from our respective offices having served the maximum number of terms allowed by our Institute's constitution but will remain in the Council.

On 4th October our Institute held a very enjoyable and successful annual golf tournament at the Raffles Country Club in excellent weather. All 36 flights were fully taken up and I would like to thank all corporations and individuals who participated and who sponsored prizes and products. My only disappointment, apart from a near disastrous round, was that the beautiful Mercedes-Benz E-Class E200 CGI BlueEFFICIENCY sponsored by Daimler South East Asia Pte Ltd for a hole-in-one was not won.

Warm Regards,
John KM Lim
President



Perspectives From Thought Leaders



Starting Up & Growing From Strength To Strength - Innovation, Strategising & Acting An Interview With KP Chia, Chairman & CEO, Rotary Engineering Ltd

By Kala Anandarajah (Editor)
Partner, Rajah & Tann LLP

Rotary Engineering Limited is one of the region's leading oil and gas infrastructure services companies with an extensive international experience offering fully integrated engineering design, procurement, construction and maintenance ("EPCM") services to the oil and gas, petroleum, petrochemical and pharmaceutical industries. Headquartered in Singapore, the Group has established a strong presence in the Asia-Pacific region and continues to make its mark as a global player. It is clearly a homegrown company that has done well over the years. The company now has 7,800 workers and this will grow to 10,000 workers shortly. How did it do this? What were the critical components it kept in mind as it grew bigger? What lessons can young SMEs starting up now and wanting to grow locally, regionally and globally learn from the Rotary Engineering example?

I had occasion to meet with KP Chia, or KP is as he known to friends and business associates, and he shared his experiences, good and bad, as well his motivations that has seen the growth of Rotary Engineering over the 37 years or so. What came out time and again during my conversation with KP was the fact that identifying the right people at different levels of the organization was critical. Once these people were identified, it was important to imbibe the right culture amongst the teams. Empowerment was critical, but only upon proper structures and processes being put in place. Empowerment over time, insofar as regionalization and globalization is concerned, also means allowing for localization to take root. I felt this recognition for the need for localization by Rotary Engineering was very

astute, as the largest of multinationals have indeed been going this way as well. But of course, this can only happen if the right culture has been imbibed through the organization and across the different borders where the company operates. All said, KP is a man of vision and all about hard work. He is hands on but recognises when to let go and let his team of middle management run the business. In his words, he says "how can I manage 7,800 workers. It must be a joke!"

KP is an inspiration to anyone who has a little bit of energy and willing to take a 'never can say die' attitude. The world is your oyster applies aptly to KP and the business that he has built up. KP shares his views on building culture and simply his experience in growing Rotary Engineering here.

1. What was your background and what let you to start your business operations?

I started out my career first as a civil servant and then as an employee in a fairly large electrical contracting outfit. During my employment with the electrical contracting outfit, I learnt the ins and outs of the trade and was able to identify opportunities for growth through change and innovation. Unfortunately, my employers then were not inclined to change. And I realized that if I stayed in the company, I would not be able to grow; there would be no future. As such, I decided to start our own business.

With two other like-minded persons, a colleague and another sub-contractor, we started our business. Each of us contributed S\$3000 together with two others, who became sleeping directors. So our business started with S\$15,000 as capital.

2. What were your motivations to grow?

I am an innovator and I like to evolve and grow. I saw the potential in electrical works and how it could be substantially improved through innovative ways. I was not going to get any where in my employed state given the more conservative approach that they had. And so I came out to grow. In doing so, I always felt that we needed to go where the competition had not gone or was not willing to go to. I did not know about the Blue Ocean theory then, but now I realize that that was what I was doing. For example, I went into Pulau Pesek at a time when not many were willing to. I was also willing to accept 2nd tier work as a sub-sub contractor. Overtime, the bigger players in the market came to us directly as they saw our quality and the cost efficient way in which we delivered our services. That gradually allowed us to grow and the larger contracts came directly from JGC Corporation, Esso and more.

But having started out in electrical works, I realized that there was much construction work that needed to be undertaken. Given this, I incorporated Rotary Engineering Pte Ltd to focus only on the civil aspects of the work. Whilst building up this business concurrently, we started doing instrumentation related work for which piping was critical. Along with piping, welding became a necessity. I therefore bought over Gulf Engineering, which provided me the inroads into mechanical works as well. You will see that we grew organically as well as through M&A activities.

As we grew our business line, I also looked into automation. We have spent considerably on this and today even the simple aspects of welding is automated. This contributes to the efficiency and quality of service we provide.

Additionally, I saw the advantages of providing integrated maintenance ("IMC"). To do this, I partnered with KBR and started Rotary KBR, now known as Rotary PSN.

I also saw the need to venture out into the region and not just focus on Singapore as otherwise the work would be too limited. I started in Malaysia, initially as retaliation to another party who had made it difficult for me to operate but grew very quickly there. I ventured into Thailand, China, India, Indochina and various other countries over time.

My motivation really was to provide the best service in as integrated a manner as possible. I am also someone who does not sit still and constantly exploring opportunities to grow. As opportunities presented themselves, I went out to seize them or to build on them. The more I seized and delivered the quality services that were sought, the more the

ROTARY ENGINEERING LTD'S CORE VALUES

- **S...** Safety above all, to protect our equipment, the environment and ourselves
- **T...** Teamwork to achieve quality products and services
- **R...** Recognition of employees' contribution and development of their potential
- **I...** Inculcation of continuous work improvement as our culture
- **D...** Development of pride and ownership in our work
- **E...** Excellence in all our efforts to meet our vision

reputation of the company grew, and that in turn boosted my motivation further.

3. You started out as a partnership in 1972. You subsequently incorporated yourself 3 years later to be able to bid for more projects, but within 8 years, you incorporated Rotary Engineering and then incorporated Rotary Electrical into it. What were the considerations at the forefront of your mind as converted the type of entity that you were as you grew?

The nature of the entity that we used was motivated by a number of different factors. Initially, it was about getting our small electrical business up and running. As you know our capital was only S\$15,000. With the purchase of two pick-ups at S\$7,000 each, it was all gone. This meant we had to borrow money. When we got a S\$105,000 project, we borrowed S\$40,000 from a friend and paid him interest for his goodwill. We made S\$40,000 from that project. But we needed to be more structured. So we corporatized in 1975.

Subsequently, as we grew and added new business expertise, we started additional companies along the way. This was really a natural progression and also a way of managing risk, getting finance, and getting the even bigger transactions.

4. What were some of the difficulties you experienced, whether it was getting sufficient finance, or convincing project awarders that they needed to use you?

We have seen at least four recessions during the lifetime of the growth of the company since 1972. Yet, we used every one of these adversities to our advantages and that has helped us grow further. For example, during the mid-1980s, one of the companies that we worked with was retrenching workers, including engineers and designers. We needed such expertise and so I went out to hire 18 such persons at one go. This gave us further inroads into the business expertise that we could offer.

Also with the ups and downs of the business cycles, we have had to focus on different aspects of our businesses at different points in time. For example,

we left maintenance work for a time in the 1980s when the work here dried up, and focused on construction. But in doing so, we managed to build better relations with our various clients, and in particular the oil majors, which helped us when we came back full force into maintenance work again.

5. How did you grow your brand over the years?

My brand is really SQP - Safety, Quality and Productivity. Without each of these qualities, we will not be able to grow as well. On safety, we strongly believe that our reputation lies in this. We recognize that with the number of hours clocked at any one time, there is likely to be accidents and fatalities, we do ensure that we keep this to a minimum. We constantly counsel our workers to be safe. As an example, with the recent hot season where dehydration became a problem, we held regular drink parades at our worksites. The management also ensured that they carried bottles of water and drank regularly within the line of vision of employees so that they would follow suit as well. The importance of drinking water was also stressed at toolbox meetings. This is a simple example, but shows you how seriously we view safety.

By focusing on SQP, we believe that Rotary Engineering has grown considerably and businesses recognize it as one that will provide good service in a safe and cost effective manner.

6. How reliant were you on external consultants to grow your brand and when you planned expansions, including areas of businesses as well as geographies?

Yes we use external consultants from time to time, whether to build our brand or for other purposes, including planned expansions. For example, we hired PWC to assist us with our entire integration process when we moved our ERP systems from IFS to SAP.

7. What were the criteria that you looked for in your employees when you hired them?

Many of our workers have worked with the company for over 25 years and several over 30 years. The employees have tended to be loyal as we treat them well. When we first hire, we ensure that the individuals are technically sound and qualified for the job. I am personally involved in hiring as I strongly believe that having the right person is critical. But over time, we empower them, including increasing their responsibilities, reward them through various incentive schemes, and promote the better individuals. This has allowed me to build a good and reliable middle management team.

8. How did you hire and manage your employees in your various overseas operations?

Insofar as our foreign companies are concerned, we typically start off by sending local employees who have been loyal and who are good at what they do to work with the locals. Along with this, we have established Overseas Training and Test Centers ("OTTC"), which is ITE accredited, in China and India. This ensures that all our employees are adequately skilled.

One unique issue about having a regional business is to ensure that right culture is communicated across the various entities. The OTTCs definitely worked. But over and above that, we typically start off by having our trusted and loyal employees, typically from Singapore, stationed for a period of time at the overseas outfit. The exact number would depend on the needs of that particularly entity and our business push in the country. Over time, however, we feel it important to localize the employees; ie have the locals grow gradually into management positions and lead the local entities. Localisation is critical because they are the ones who in fact who are able to bridge the local cultures and help bring in further business as well. Without localization, you run the risk of simply having nothing to do.

The overseas employees who advance are able to do this by understudying the experienced workers posted to their outfits; but also by being cross-seconded to HQ as well as the other business units in various countries. The movements around allow the various employees to get to know each other and there is cross training. Knowing the people in the organization, knowing how we work together is an important aspect of building culture. Some may argue that video conferencing achieves this; but really, you still need to meet the people face to face.

9. After becoming listed, you had to appoint independent directors onto your board. How did you first identify the independent directors to sit on your board? How do you now do this?

The IDs we appointed were experienced individuals who also knew the business. We ensured that we had a balance of professionals as well as met business requirements. We have not had to appoint new IDs over the years.

10. How is dissent, if at all, managed amongst the members of the board?

There has been very little dissent at the board as the board members are all very experienced. If the independent directors have queries or doubts, they

are encouraged to look at the issues further, conduct audits even if necessary. But I must stress that we have very stringent processes and procedures put in place that ensure that all decisions taken are above board. For example, on any related party transactions, the board as a whole is called to make a decision after the various pros and cons have been put on the table. There is also considerable due diligence undertaken before any major decision is taken in relation to investments or major projects.

11. How are you handling board renewal and succession planning?

There is no question of a right approach or wrong approach when it comes to board renewal. And it is not always necessary to change the board. What is critical is to assess whether you have the right mix on the board of directors who can effectively contribute to the growth of the company. For now, I have directors, including my independent directors, who know the ins and outs of my business. I don't see a need to change this. But as we are growing bigger and going global, it may be necessary to increase my board size. The injection of new blood with the old still around would be good.

In any event, even if there is no change in my board of directors as such, given that we are structured in a group manner, with many subsidiaries (perhaps functioning as business units or BUs), I ensure that the MDs at the BUs are very capable. They act as a very effective counter balance to any decisions taken at the main board, as their key role is to ensure that they do what is best for their BUs. The persons employed here are technically very sound.

On succession planning, I have already put the wheels into motion. I must make clear that the company and I are two different people, and that I have an excellent team in place who can manage the business. I know that I am not immortal and it is not fair for the company if we did not have proper succession planning. However, through the process of leadership change, I will continue to offer his counsel in the background, a voice in the shadow so to say.

12. Having seen the full gamut of being a truly family run start-up to the level that the company is at now, a regional MNC, if I may say so, how has management styles and the board approach had to change over the years?

The management style has grown and evolved, but not changed as such. On this, I always ran the company in a very corporate style, with many professionals hired. Hence, there was no real concern when we moved from private to public

listed. Having said this, I am still very involved in the business. I still review every new tender or project that comes up and provide input on what businesses to expand etc. I have always taken accountability seriously and so always ensure that all decisions are very carefully thought through and can be commercially justified. This practice has not changed, except that as a private company, some decisions were easier to take and move along faster. As a public listed company, there are more approval processes that we must go through. But this is good.

In any case, we are going through succession planning currently as stated. I am doing slightly differently through empowering my BU leaders. In other words, I have decentralized management to the various BUs, appointing MDs for each of the companies. They are held accountable as to how their respective company performs, but always ensuring that they act in the best interest of the company.

An important point to note is that although there are a few extended family members who work in the company, our focus is still on meritocracy and putting the best man forward. That has always been the case and will always remain so. In any event, not everyone in the family is interested in the business.

13. What advice do you have for young aspiring SMEs?

There are a few factors that aspiring SMEs must constantly bear in mind. These are:

- (a) Be specialized.
- (b) Stay focused.
- (c) Have continuous improvements in your products and services.
- (d) To be sustainable, look at related areas of growth locally, regionally and globally.
- (e) Strategic planning is important, looking at short, mid and long term. The exact length will depend on the specific size of the company.
- (f) Anticipate problems that will be encountered along the way. Ask 'what's the worst case?' and then think through the possible solutions one step at a time.
- (g) Recognise that there will be paradigm shifts from time to time, with changing client expectations. Therefore look at the changing demands, embrace it and see how to meet it.



Ms Angie Tang Of Franklin Offshore Shares

- A Rose In Male Dominated Industry On Growth And Plans

By Adrian Chan,
Partner, Lee & Lee

Overview

Franklin Offshore was first established in 1985 in response to growing needs for supply services in the offshore and marine industries in the Far East region. Today, the Franklin Offshore Group is an integrated provider of a comprehensive range of quality mooring and rigging equipment to the offshore oil and gas industry, complemented by our Merlion value added services. Franklin Offshore provides all types of steel wire ropes, cable laid slings, shackles and general lifting equipment. They have extensive experience in Offshore Marine Services which include the design, supply and deployment of deep water mooring systems, and FSO/ FPSO offshore installation.

Franklin Offshore is headquartered in Singapore, with their global presence spanning across Asia, Australia, North America, Europe and the Middle East. Their clients include major oil & gas exploration and production companies, drilling contractors, marine contractors and shipyards.

Over the years, Franklin Offshore, which consists of a group of privately held companies, has established a respectable reputation in the offshore oil & gas industry and achieved rapid growth in both revenue and before

tax profits to reach more than US\$193 million and US\$43 million respectively by the end of 2008. Other achievements by Franklin Offshore include Guinness World Records in 1993 for making the biggest diameter cable-laid rope and in 2003 for making the longest cable-laid grommet sling. Franklin Offshore first participated in the Enterprise 50 Awards in 2005 and had improved our standing from the 36th position in that year to clinch the Top Position in 2008, all within a span of 4 years.

The Institute's Adrian Chan spoke with Angie Tang, current CEO of Franklin on how she grew the company.

Please share with us your early years and background and how your childhood experiences have served you as the head of Franklin?

I was brought up in a very humble family. My father passed away when I was six years old. My mother worked as a washerwoman and my elder brothers had to give up their education to work for my uncle to help provide for the family and provide education for my sister and I. I had to look after my younger

sister and do the housework at a very young age. During my primary school days, I had already learnt how to make small sums of money here and there by helping my neighbours with some chores.

I completed my secondary education in Serangoon Secondary School in 1975. Immediately after my last "O" Level paper, I started work the next day in Selco Shipyard as a Store & Purchasing Clerk. After about two years, I left for Hock Cheong and Co Pte Ltd to be the Secretary to the Marketing Director where I was exposed to sales and marketing work. Between 1976 and 1984, besides my full time job, I took on two other part time jobs to earn extra income. I had always been the lead in Tupperware Sales doing house parties and also as a punter in Singapore Turf Club during the weekends. Nothing is too difficult for me as I have gone through a lot of hardship in all my life.

In mid 1985, together with a few other individuals, I started Franklin Offshore which initially dealt with the provision of rigging equipment such as steel wire ropes, cable laid slings and fittings to the offshore oil and gas industry. The business has grown tremendously over the years to what it is today.

What inspired you to break out on your own to set up Franklin Offshore in 1985 in this particular industry?

Due to the economic crisis in 1985, the company I worked for collapsed. I have great passion and confidence in this business and thought of giving it a try instead of looking out for employment.

What would you say would be your proudest moments as CEO?

My proudest moment as CEO was on the occasion of receiving the Enterprise 50 Award last year when Franklin Offshore was honoured with the 1st position amongst Singapore's Top 50 Private Companies in 2008. It is a testimony to and reward for the hard work that everyone in Franklin Offshore has put in over the years to grow the business from strength to strength.

My only regret is not having enough education.

Can you share with us some of the specific challenges that you faced as a woman CEO?

Like most, if not all, heavy industries, the offshore O&G industry is male dominated and rugged. It is not a typical industry that a woman would find affinity to. I have been exposed to the heavy industry as soon as I joined the work force and have learnt the ropes of the trade over the years.

Franklin's geographical reach and size has expanded substantially since the early days. What has been some of the particular difficulties that you have faced in expanding Franklin's business?

The major players in the international offshore O&G market are mainly from the West and Franklin Offshore being Asian has to work very hard in the early days to establish and prove ourselves to be a credible supplier of quality equipment and services. Over time, we have delivered on our promises to our customers and our proven track record has propelled our business beyond the shores of Singapore.

We also relied very much on the support of banks for credit facilities to finance our business expansion. Today, we have established our credit worthiness amongst the banks but it was not easy in the early days when Franklin Offshore was still in the infancy stage and lacked a proven track record in the market. But thanks to the banks which believed in our business and had rendered us help to grow our business to what it is today.

As we expand geographically, we faced challenges in doing business in different cultures and business environments. We have presence in Asia, Australia, America, Europe and Middle East and we have to learn to manage our workforce and deal with customers across various cultures.

Please describe the management style in the early days and how that has evolved and developed over the years?

The management style in the early days was an informal one as the company was small and does not need a structured corporate style. This has helped to forge a close, personal and strong relationship between management and staff and has contributed to the strong staff retention capability of the company. The size of the company has grown over the years and the Group staff strength numbered more than 550 worldwide currently. For effective management and control of the current Group, the style has evolved to a more corporate one whereby roles, responsibilities and functions are more clearly defined and accounted for. We have, at the same time, retained the personal touch and closeness to the rank and file which is the foundation of our strong employer-employee relationship, a very important contributing factor to the stability of our business.

What would you say would be the greatest asset that Franklin has today?

Our people make Franklin Offshore what it is today. The effort and drive of our dedicated workforce, coupled with

our superior technical know how, is behind the success story of Franklin Offshore. We treasure our people and reward them for their good performance and loyalty to the company. We do not talk about re-employment of older workers, at Franklin Offshore, it is continuing employment beyond the official statutory retirement age. Our greatest asset cannot be found on our balance sheet but without doubt, it is our people.

Was it difficult to recruit professionals and well trained managers on your staff?

Offshore O&G specialists are a limited pool of talents within our region and even worldwide. Very often, we have to source for such talents beyond our shore and they are always in high demand in the industry. When we get them on board, we leverage on our strong staff retention capability in nurturing and keeping such talents within our organisation.

Please share with us some examples of how you have managed to convince your employees that checks and balances, internal controls, better finance management and corporate governance are necessarily matters that needed to be focused on.

Through frank and open dialogue with employees that such checks and balances are important tools to manage our business effectively considering our current size and geographical spread. It is also a form of accountability to our shareholders. At the same time, we assure employees that our business philosophy has not changed and that it is not a reflection of management suspicion on employees but rather a progression in our management capability.

Most importantly, the Senior Management Team leading the group needs to set a good example for the employees.

When would you say was the period of greatest transformational change that the Franklin Group has undergone?

The greatest transformational change was the implementation of Corporate Structure, Corporate Governance and Internal Control Framework and the set up of new corporate functions like HR and Legal Departments.

Long serving employees with "traditional" mindset find it difficult to comply with new requirements and adhere to new procedures even for small matters. I need to put in a lot of effort to talk to and encourage them to accept that this is the way to move forward. Now, we are glad to have achieved almost 90% acceptance rate.

How do you train and treat your employees in the Franklin Group and what sort of qualities would require your staff to have?

Our new recruits are trained under the wings of our experienced staff especially in the technical areas. We also comply with the relevant statutory/operational training requirements by sending our staff for training at external training institutes. We provide competitive remuneration packages to our staff and good performers will be adequately rewarded. Our employees have a share in the fruit of our labour and no committed employee will be left out. We appreciate and recognise staff loyalty and we expect commitment and support from all our staff. While technical capability of staff is important, good working attitude is equally, if not more, important.

In the face of the global economic downturn, what sort of measures have you taken to ensure that Franklin will emerge from this crisis stronger?

Continue to focus in the development of customer relationships. If we neglect our customers during recession, they will neglect us when the economy turns around. Strengthen management-employee relationship (keep employees engaged, do not neglect their well-being) and gain employee commitment which will help to propel the company forward when business picks up. Stay relevant in the industry and keep up with new developments and opportunities. Ensure that the company continues to have a very strong balance sheet with ample cash and available credit facilities. Spend where necessary, but with prudence, to invest in the future.

Finally, how would you prepare Franklin for the next stage of growth and what are your immediate business plans to take Franklin to the next level?

I am looking at Offshore Installation Contractor business to take Franklin Offshore to the next level. We are still new in this business and are now establishing our foothold in this sector. We have established a dedicated team to spearhead this business and recruited the necessary human resources for the operation of this business.

We have also established our latest subsidiary company in The Netherlands to focus on opportunities in Europe and West Africa. We have also strengthened our presence in the Middle East by setting up a sales office in Dubai. Where we see opportunities and where it makes business sense, we will continue to enlarge our global footprint.



Vinacapital Group: Institutionalising And Growing A Vietnam- Based Asset Management Company

By Brook Taylor, Chief Operating Officer

Overview

VinaCapital Group was established in 2003 as the manager of a single USD10 million fund traded on the AIM market of the London Stock Exchange. Vietnam in 2003 was just starting to glimmer on the radar screens of foreign investors, and the three founding partners - Don Lam, Horst Geicke and Chris Gradel - thought it would take 2-3 years to invest the original capital. Instead, it took six months, and after subsequent rounds of fundraising and new fund launches, by the end of 2007, four short years later, VinaCapital Group had over USD2 billion in assets under management in three listed and one unlisted fund, with real estate, corporate finance and securities units joining the original investment management company.

From 17 employees at start-up, the company by the end of 2007 had 125 staff, mainly Vietnamese with several expatriates at the upper management level. While part of the rapid growth is due to the 'darling' status Vietnam achieved in global capital markets in 2006-2007, VinaCapital's investment success during 2003-2005, before the market took off, is what allowed the company to emerge as first-among-equals in Vietnam's emerging asset management industry.

Such rapid growth would challenge any start-up. Businesses that grow very quickly face several risks, chief among these being losing control of the core strengths and values that fed the initial rise. VinaCapital by 2006 faced risks associated with reliance on key individuals and an absence of formalized functions, an absence of formalized controls and processes (particularly regarding the risk management and compliance/governance functions), and an organisational structure that had long been outgrown. Thankfully, VinaCapital leadership, in early 2007, sensed the changing environment and put in place a comprehensive program to institutionalize the business - to consciously move from entrepreneurial start-up to established institutional business. As investment managers, this effort was from the outset understood as a move to best prepare the company for a strategic investment or public listing.

As is the case in many companies, the chief operating officer is a leading figure in institutionalizing the systems and processes that will allow the company to turn its rapid growth into a lasting source of success.

Establish Your Vision And Objective

The first step in the program was to establish a very specific vision and objectives, the steps to get there, and measurable indicators. For VinaCapital, the vision was to be the leading asset management and investment banking group in Vietnam, and the objective was to list on either a Vietnam or international stock exchange in 18 months (with the known risk that external conditions might close or lengthen that window).

Measurable targets included obvious financial indicators like assets under management, net income and revenue growth targets, as well as employee turnover rate, ratings in employer surveys, and more qualitative factors like market leadership, branding, and business relationships and network.

The strategy to achieve the vision was divided into six areas:

- 1) **expand** by developing new business lines,
- 2) **grow** existing businesses,
- 3) **promote** our brand in Vietnam and abroad,
- 4) **apply** international best practice and governance,
- 5) **retain and attract** the best talent, and
- 6) **deliver** superior returns to our stakeholders.

Strategic initiatives were developed to address each of these areas.

Expand And Grow

This strategy involved establishing new financial services companies, in addition to growing the assets under management in the existing funds. Securities and consumer finance were the first sectors targeted (and VinaSecurities was established in 2007). As the group grew, a formal change to the company structure was initiated to make authority and reporting lines clearer.

Promote The Brand

The VinaCapital brand was an established presence in Vietnam by 2006. We invested in our brand and promoted it by sponsoring and participating in numerous conferences and events, in Vietnam and abroad. More recently, we determined the brand needed to be redefined. A branding review was undertaken that has resulted in a new look for the corporate website and all online and printed materials. In addition to stating our place as Vietnam's leading asset manager, the company brand was further defined with the taglines 'Taking Vietnam to the world' (ie. being Vietnam's leading commercial ambassador and promoting investment into Vietnam) and 'Energising prosperity' (ie. being a leading private sector catalyst in Vietnam's economic development). With an active media voice and participation in leading international associations like the World Economic Forum, the VinaCapital brand is now known around the world. Within Vietnam, partners actively seek us out as being associated with VinaCapital implies a higher level of quality.

Apply Best Practice And Governance

Substantial effort has been made in applying best practices in IT systems, business processes, governance and disclosure, and risk management. In addition to the extensive experience of the founding partners, the Group has relied on world-class governance structures set up to raise and list funds on the London Stock Exchange AIM. The Group has recruited directors of international standing for independent boards for each listed fund. The Boards have been closely involved and given the management team invaluable advice and insights into strategy, organization and corporate governance issues. Furthermore VinaCapital has partnered with internationally recognized service providers in a range of fields for legal, corporate secretarial, custodial and other services, to provide assurance that international standards are followed throughout the business.

The role of internal audit and compliance has been expanded greatly, with a director of compliance hired in early 2008. Shortly after, a risk management function and processes were rolled out. Currently, all processes and controls are being documented (much of this work is now complete), including operating manuals, and so on. Many processes involving sign-off stages will be carried out via an intranet (portal) collaboration tool.

Another area of best practice for VinaCapital is corporate social responsibility. The VinaCapital Foundation is one of the leading corporate foundations in Vietnam, based on a model of original programs rather than a grant-making body. The current VCF programs include retaining top talent and delivering superior returns.

Retain The Top Talent

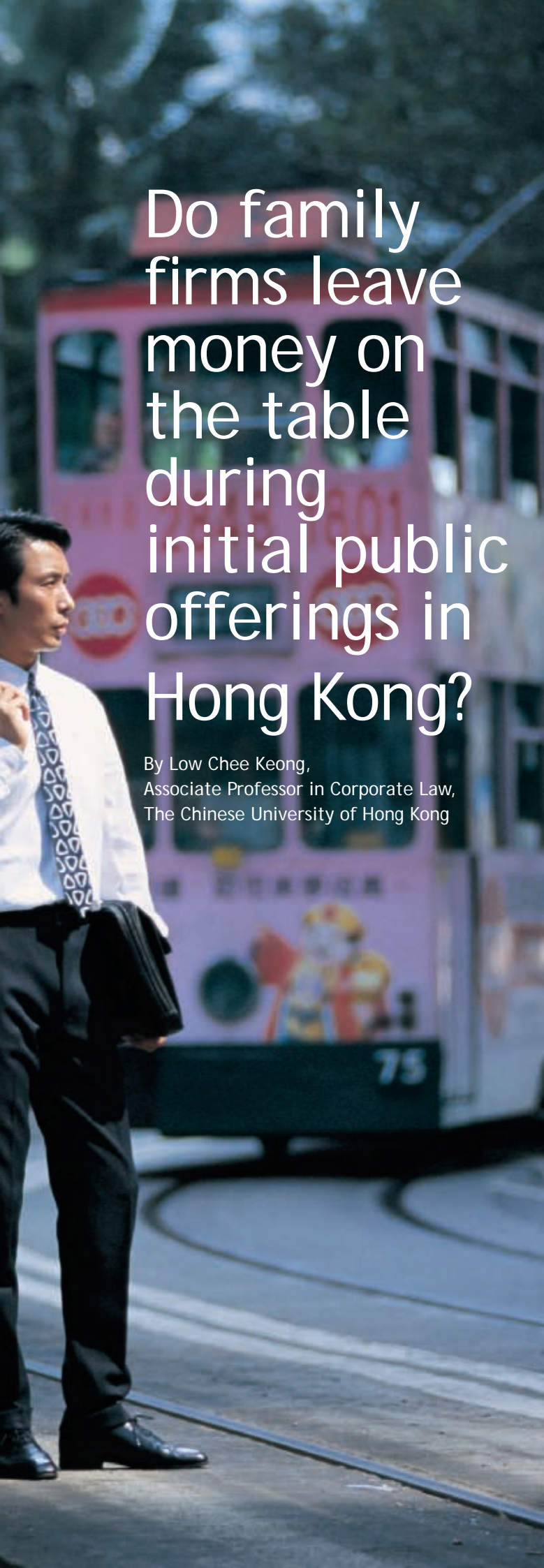
An important element of institutionalizing best practices involved HR and remuneration policies, employee performance measurement policies, and other efforts to attract and retain the best talent in Vietnam and from abroad. By early 2008, new staff had been added in compliance, communications, risk management and strategy (a management advisory director to support our investee companies).

Attracting and retaining top talent also means replacing people that are not performing or do not fit with the organisation's new direction. At VinaCapital this resulted in the replacement of several senior executives that were very talented entrepreneurs and business developers, but lack the institutional background to effect, or even understand, the changes which needed to be made to the business. Replacing these senior executives took a very long time. This is challenge VinaCapital will continue to face in the future - top international experience is hard to find within Vietnam. All the more reason to continue our effort to retain top talent by applying international-standard HR and remuneration policies.

Deliver Superior Returns

VinaCapital's investment funds continue to outperform competitor funds and relevant benchmarks. Of course, in saying that we must point out that all our funds saw their net asset values depreciate over late 2008 and early 2009. Last year was a challenging time for all investment funds, with asset values dropping anywhere from 40-60 percent or more for the majority of closed-end funds. Nonetheless, by outperforming the market, our funds and our company are well-positioned to benefit from a market recovery. This process, in Vietnam, already appears well underway and asset values and the share prices of our funds are recovering.

And our original goal of an IPO within 18 months. That was obviously shelved due to the collapse of global equities markets. It remains a target, but no timeline has been re-established for this process. But the other goals, including the expansion of business lines and enhancement of processes and controls, remain on track. In particular, the pace of institutional reform, focusing on governance and risk management, has picked up recently, including our first employee engagement survey and online compliance checks. By the time markets are ripe for VinaCapital to explore an IPO, our company will be positioned as the top financial services brand in Vietnam, with top talent and international-standard controls and processes in place. As more Vietnamese companies, including our investees, see the benefit of this effort, we hope corporate governance across Vietnam will continue to improve.



Do family firms leave money on the table during initial public offerings in Hong Kong?

By Low Chee Keong,
Associate Professor in Corporate Law,
The Chinese University of Hong Kong

Introduction

This paper seeks to address the principal issue of whether family firms mitigate or aggravate the under pricing of initial public offerings (“IPOs”) within an institutional environment of an emerging market where the separation of ownership and control is not robust. This issue is of particular interest in Asia where the majority of the public listed companies continue to be run either by individual owners or families or by state-owned or government-linked corporations which are usually regarded as being ‘exempt’ from the agency conflicts that arises from a separation of ownership and control. Using data from IPOs on the Main Board of The Stock Exchange of Hong Kong over a four-year period from January 2003 the authors find that family firms attained higher rates of over subscriptions as well as larger quantum of IPO under pricing which results suggest that the primary motive for such firms going public is to secure additional financing without losing control of the entities.

Quick Literature Overview

The short-run under pricing of IPOs - defined as the premium over the offer price at the close of the first trading day of listing - is a global phenomena that has been the subject of considerable academic research. The predominant theories are premised on information asymmetry that exists between the various parties engaged in the process leading up to and during the IPO.

Insofar as this relates to family owned companies two principal conflicting theories have emerged namely the agency conflict theory and the retain control theory. The former suggests that the level of under pricing is inversely correlated to the managers’ incentives to monitor investment banks and positively associated with the levels of owner-manager agency conflict. This theory assumes a separation of ownership and control with an agency conflict between managers and the shareholders of the company. It posits that managers strategically under price IPOs in order to maximize their personal wealth and that the incentive of the CEO to monitor underwriters increases in tandem with his or her personal equity ownership.

However, the foregoing may not be as applicable in Asia given the dominance of family owned companies that do not display similar agency conflicts. Given the perceived importance of corporate control the retain control theory predicts that family owners use IPO under pricing to ensure a high rate of over subscription of the shares in order to ensure that the block sizes of new shareholdings are significantly reduced. This is consistent with their primary objective namely to allow them to retain effective control of the listed company as minority shareholders with small shareholdings will find it neither cost effective nor efficient to monitor their investments.

A Brief Review Of The Parameters

The two theories as set out in the section above arrive at different conclusions as regards the role of family owners in the under pricing of IPOs. The prevalence of family controlled firms in Hong Kong has been widely documented particularly since the Asian financial crisis of 1997-98 as has the significance of the family in traditional Chinese ideology, the latter of which giving rise to a system of personal networks that revolve around informal relationships rather than formal legal contracts.

The agency conflict theory predicts a negative correlation between family ownership and IPO under pricing while the retain control theory predicts the opposite namely that such a relationship is positive. To study whether the agency conflict theory or the retain control theory applies in Hong Kong the authors distinguish family-owner managers from entrepreneurs. The former is defined as having control rights which they intend to pass on to future generations whilst entrepreneurs express none of these characteristics.

As a further refinement the authors define a company as a "family firm" if it has representation from at least two generations of the family on its board of directors - usually the founder and his or her son or daughter - and/or if siblings or cousins serve on the board since *ceteris paribus* this would increase the likelihood of passing control rights within the family. Companies which exhibit a significant presence of family members amongst its senior management are also deemed to be family firms. Although these members of the family are not presently serving on the board of directors they are nonetheless well placed to eventually gain control given their involvement with the day-to-day operations as well as the decision making processes within the company.

The sample comprises the full population of 209 IPOs on the Main Board of The Stock Exchange of Hong Kong from January 2003 through December 2006. Sixteen of these observations were eliminated as there were either listings by introduction (for which there was no public sale of shares) or listings of investment trusts or investment companies. A further 54 were eliminated on the grounds that they were either H-shares or Red Chips. H-shares refer to shares of companies that are incorporated in Mainland China which are listed in Hong Kong. These are in essence restructured state-owned enterprises which allow for public ownership. A 'Red Chip' is a company that is at least 30 percent directly held by Mainland Chinese entities which include state-owned organizations as well as entities controlled by provincial or municipal authorities. The shareholding threshold can be reduced to 20 percent if such companies exhibit a strong influence

of control of the board by the aforesaid Mainland Chinese entities. Whether rightly or wrongly so both H-shares and Red Chips share similar negative perceptions about their governance and weaker legal protection accorded to shareholders. As such the shares in these companies tend to command a higher risk premium and a resulting larger magnitude of under pricing which serves as a basis for their exclusion in the study.

The Results

Despite the absence of any significant differences in the offer size, the board structure and the percentage of shareholding by substantial shareholders between family firms and entrepreneur firms the results illustrate higher degree of IPO under pricing of the former. In particular, companies which have at least two generations of family owners on their boards of directors enjoy an average first-day return of 10.6 percent which is more than twice that of entrepreneur firms in the study. The median of first-day return of family firms is 4.8 percent which is again substantially larger than the 2.7 percent reported for entrepreneur firms. These results are even more pronounced for companies which have family members amongst their senior management although they may not be members of the board of directors.

Further regression models show a significant positive relationship between family firms and the level of IPO under pricing. These findings provide support for the retain control theory or at least suggest that it dominates the agency conflict effect for companies that are listed in Hong Kong. In a nutshell the evidence provides statistical grounds to state that IPO under pricing is more likely to be used as a means to entrench managerial control in Hong Kong by avoiding effective monitoring by a large outside shareholder.

Although the results are consistent with the prediction of the retain control theory it proffers only indirect evidence for the hypothesis that family firms use under pricing as a means to avoid large outside or independent shareholder blocks in the IPO process. To adduce more direct evidence the study is expanded to include an analysis of the rates of oversubscriptions of the retail tranche of the IPO which is reported by the company on the date of the announcement of the allotment of shares. The data shows an average rate of over subscription for family firms at 119 times as compared to 83 times for entrepreneur firms. Regression results between the subscription rates and first-day returns suggest that there is a four percent change in the subscription rate for every one percent change in the under pricing which lends further support to the assertion that under pricing is an effective means of attracting a higher rate of subscriptions by investors.

Conclusions & Limitations

This paper provides a plausible explanation on the under pricing of IPOs in Hong Kong and advances support for the retain control theory since (i) the quantum of under pricing is more significant in family firms as compared to entrepreneur firms and (ii) the rate of over subscription for such firms is significantly higher. It lends support to the anecdotal evidence that the main purpose of a family firm going public is to seek financing rather than to eventually sell the company.

Despite its scope this study is subject to a number of limitations. First it does not test the two hypotheses of agency conflict theory and retain control theory separately. Thus while the results as advanced indicate that the retain control effect dominates it does not suggest that there is no agency conflict effect as an explanation for under pricing of IPOs. Secondly the study does not provide direct evidence to support the retain control theory save for the testing of the rates of over subscription at the time of the IPO. Thirdly to minimize complexity of theoretical prediction the study adopts an admittedly simplistic approach to the agency conflict theory by ignoring possible effects that may arise from the other conflicts such as that between controlling and minority shareholders as well as between the issuers and their underwriters.

That said the paper has two principal attributes. First it provides evidence that funding is the primary purpose for a family firm going public. Secondly it lends support to the importance that family firms in Hong Kong - and possibly throughout Asia - place on the retention of control even after a successful IPO of their companies.

This article is a summary of an unpublished Working Paper (2007) by the author and Ms Xin Yu a copy of which can be requested from the former by e-mail at cklow@cuhk.edu.hk. The author acknowledges with gratitude the financial support of the CLP Group, Ernst & Young, Noble Group Limited and Tricor Services Limited without which this project would not have been possible. All opinions expressed herein and all omissions therefrom are the sole and exclusive responsibility of the author.



Jeffrey Immelt Shares Insight On Recovery - Talk At Raffles Hotel On 29 September 2009

By Ajinkya Tulpule*,
Senior Legal Executive, Rajah & Tann LLP

Background

Mr Jeffrey Immelt ("JI"), Chairman and CEO of the GE Group, presented in Singapore at a talk organised by The American Chamber of Commerce in Singapore (AmCham Singapore) and supported by the Singapore International Chamber of Commerce, the on 29 September, where he expressed his views about the speed and nature of the economic recovery from the global financial crisis ('GFC'). His talk focused on the approach that modern corporations need to take to remain at the forefront in an extremely competitive market place. Given the focus on growth in this issue of the Directors' Bulletin, the Institute sent a representative to the session. This short article captures the essence of what JI spoke about.

Key Areas Of Concern

JI started the session by highlighting the main areas of concern faced by large corporations today, including GE, and then gave a brief snapshot of some measures that can be taken to counter them. The five main problem areas highlighted were:

- **The Speed Of Recovery Of The US Economy**
JI believes that the speed of recovery from the GFC will be slow and quite possibly the slowest so far from any downturn in recent US history. He believes that the financial services industry, in particular, will be restructured with the amount of available credit being less than what has been available until now. The drop in available credit would in turn have an impact on businesses and GE Capital will be no exception.
- **The Nature Of American Consumers**
JI pointed out that based on US consumer data gathered over the years, the American consumer has always shown resilience and has been the driving force in economic recovery. However, he took the

view that the situation this time was different as the reduction of available credit will have a debilitating effect on the pace of recovery. This is particularly the case as it is difficult to drop interest rates any lower than the present rate of 0%.

- **The Role Of China And Other Emerging Economies**
JI took the view that China and other resource rich countries were able to fuel their own growth and are expected to be the 'engines of growth' for the world economy. This is possible due to the de-coupling of these countries from the US economy.
- **The Nature And Role Of The New Administration In The US**
JI pointed out that the new Obama administration in the US is highly activist and has been busy implementing regulations on corporate activity. He echoed the prevalent corporate sentiment when he expressed displeasure towards the new regulations. However, he went further to state that he understands that these new regulations are here to stay and that if a company, including GE, is to keep its market position, it should figure out a way to make money out of these regulations. The underlying message appeared to be that directors and senior management should remap their corporate plans and position their companies to benefit from these regulations rather than being burdened by them.
- **The Reputation Of Corporations**
JI noted that based on a recent Gallup survey large corporations are not popular in the US. The poll showed a popularity rating of 17% for large corporations.

* With input from Kala Anandarajah, Partner, Rajah & Tann LLP

+ Please note that JI did not review or vet this article, and hence the views expressed are as understood by the writer.

Best Way To Manage The Issues

JI next proceeded to share his thoughts on how a company can best manage the issues identified in the preceding section and continue making a profit. The key points identified by JI are as follows:

- (a) Companies must compete better, faster and stay more focused on market shares. In short, he said that businesses will have to get hyper-competitive.
- (b) Companies should be positioned themselves where the growth is available, such as:
 - (i) Resource-rich locations: Canada, Russia, Middle East, etc.
 - (ii) Asian risers: China, India and ASEAN countries, and
 - (iii) Rest of the world: such as Japan, Western Europe which have been the traditional spots for business growth. Given their level of development, business growth is more predictable in these countries.
- (c) Companies should have a profound dedication to developing technology and pursuing R&D.
- (d) Companies should hold a firm belief in the public administration system. On this, and with a particular focus on regulations, JI said that companies should believe in the regulatory system that is in place and think about how to profit from the new system. For instance, JI believed that senior management should analyse environmental legislation with a view to deriving benefit from the requirement to implement clean energy and eco-friendly technology. As another example, he pointed out that most old-school thinkers believe that health care reform equals losses, but the appropriate manner to approach the issue is whether they can make money from these reforms and regulations. For accomplishing this, he said that companies will need:
 - (i) a commitment to integrity: employees at all levels should place the company's interests over their own and maintain this high standard.
 - (ii) a commitment to performance; and
 - (iii) change / dynamism: since knowledge has no shelf-life, companies will need to constantly keep adapting and changing to create better products.

JI added that, to implement the above approaches, any company will have to become a better listener to the voice of the consumer. He gave GE's 'feedback mechanism' as an example of how GE has dealt with this issue. Under the feedback mechanism, GE representatives approach the general populace directly and get their feedback on how GE could improve itself. According to JI, the three most common suggestions received were:

1. Adaptability / flexibility: On this point, JI commented that although investors like to see certainty in an enterprise, they are not going to get that kind of certainty anymore. This is mainly because a corporation has to consistently adapt to its changing environment.
2. Partnership: companies should be well-networked with other enterprises
3. Real Solutions: whereby companies need to decentralize and allow local personnel to utilize local knowledge in designing / selling products. A central command is no longer feasible.

Role Of CEOs Post GFC

Having presented his thoughts on managing the post-GFC recovery, JI used the opportunity of the Q&A session to address other points as well as to clarify his earlier remarks. For instance, JI provided the audience with a brief description of the path that post-GFC CEOs should embark on to ensure good governance. He pointed out that CEOs, who are slipping back into pre-GFC practices, should realize that although they are responsible for their own compensation, such behaviour if left uncontrolled will have a serious effect on their reputation.

On the issue of reputation, JI said that he does not allow GE to rely on its affiliated company NBC for its reputation. Emphasizing that he takes corporate reputation very seriously, JI stated that, when it comes to GE, he himself ensures that its reputation meets a certain standard. He went further to state that CEOs should realise that businesses can also assist in creating a positive change and are not mere profit-making entities. Finally, JI reminded CEOs that they should also ensure that their companies are creating adequate jobs.

Succession Planning & Hiring Right For A Successful Company

Another question addressed to JI inquired about the practice at GE for succession planning. JI replied that GE has a very structured succession plan in place that involves training personnel who are at various levels in the organisation. As an example, he said that GE has identified several individuals with leadership potential and has grouped them according to their level of experience. These individuals, he said, are being trained to take over leadership positions within the company as and when their training is completed. JI also shared some details about a contingency plan at GE in the event that an unexpected event leads to his fateful death. He also stated that there is a strong protocol in place on whom to seek for instructions and approvals if he is no "longer around".



On being questioned about the successful criteria for a company, JI stated that, primarily, a company should be capable of being globally successful. He explained that a big part of being successful in the global arena will depend on the type of people that are employed. He then clarified that companies should employ people not for the information and knowledge that they have but for the speed with which the employee can learn and adjust to new areas. He emphasized that since the future is unpredictable quick learners are necessary.

Managing Bureaucracy

JI was also questioned about the approach a company should take when faced with bureaucracy, complacency and red tape. In response to this question, JI agreed that although having a large corporation is beneficial as it allows for faster expansion, it inevitably leads to bureaucracy, complacency and red-tape. JI's answer to bureaucracy was 'access' and that the onus to establish such access lay on senior management. He added that by being available to his employees from all levels, and at all time, he has remained readily accessible for grievance redresses as well as other issues. He added that to fight bureaucracy, a company will need the senior management:

- (a) to be aware of the problem;
- (b) to personally intervene when a complaint is made;
- (c) to "shake things up" to ensure that any bureaucratic systems are properly dealt with.

Maintaining High Ethical Standards

JI discussed the following processes that can be implemented to establish and maintain high ethical standards. According to Mr Immelt, a company will need to:

- (a) introduce strict rules on business ethics;
- (b) maintain the rules in the form of a manual or a policy document;
- (c) enforce the rules as and when necessary (including removing personnel who are in clear violation);
- (d) update the rules from time to time; and
- (e) perform periodic review.



Brands In Every Boardroom

It's Time For Brands In Every Boardroom

By Dr Lindsay Moore, of KLM, Inc in Boulder, Colorado, and Lesley S. Craig, Esq., of Townsend and Townsend and Crew LLP

Overview

The brand, in whatever form it takes, is now a mainstream concern for every senior corporate executive. Dr Lindsay Moore, of KLM, Inc in Boulder, Colorado, and Lesley S. Craig, Esq., of Townsend and Townsend and Crew LLP in Denver, Colorado, explain why.

The brand has risen to occupy a place of paramount importance on the pages of such stalwart business publications as Financial World, Business Week and Fortune. In the 1990s, when these reputable magazines first started reporting financial valuations for brands, much to everyone's surprise, these valuations were often greatly in excess of annual revenues. As the reality and significance of these valuations sank into the corporate world, the concept of the brand quickly rose to a new level of strategic significance.

But, despite this, many start-ups, technology-driven companies and others in business-to-business and non-consumer markets fail to recognise that this brand phenomenon applies to all organisations. Individuals working in such sectors have been accustomed to thinking of brands as a marketing concern that is only of interest to those who provide consumer goods or services. However, the brand, in virtue of its significant financial value and enormous potential to drive economic markets, has become a major factor in the corporate world, providing competitive advantage, delivering shareholder value and creating wealth and social prosperity.

How and why has the brand become so important? And how does one steeped in traditional concepts of corporate management and trademark law come to grip with this new phenomenon? The answer to the first question is easy: over the last decade or so, business and financial forces have been driven to recognise and account for the enormous value of a company's off balance sheet intangible assets, as collected in the brand. The answer to the second question is more difficult, and requires that executives and attorneys become more knowledgeable about what intangible intellectual assets are and how they must be deployed strategically to fulfil corporate objectives.

The Emergence Of The Brand

Fifteen years ago the brand was not even on the radar screen for senior corporate executives or their trademark counsel, and certainly rarely reached their respective boardrooms. At best, the brand as a working concept was limited to the marketing department of consumer goods enterprises.

But during the early 1990s a new corporate strategy - growth through acquisitions - emerged in the trademark-conscious world of consumer goods. This initiated a wave of merger and acquisition activity. However, as visionary corporate executives began to move across their market landscapes in search of acquisitions, they encountered an unforeseen obstacle in setting the value of the companies they wished to buy. In days past, book value and some multiple of revenues had been adequate to strike a deal. But suddenly, attractive companies, with their enhanced market capitalisations, were not to be had at book value driven prices because of their intangible assets. As accommodations were reached and increasingly pricey deals were struck, a whole new concept emerged that has since found its way into the top ranks of corporate management. It was the concept of intellectual capital. This came to refer to a range of intangible intellectual assets but primarily, because so many of these early and astounding deals revolved around famous brands, to the brand.

As we look back today, we can see that the early 1990s saw the beginning of a tremendous increase in economic activity worldwide. Mergers, acquisitions, new financial vehicles and complex business arrangements emerged to change radically the economic landscape, effecting companies of every shape and size for the better. During this time, mergers and acquisitions increasingly revealed that what made a company attractive to an acquirer, be it a famous brand or patented technology or the promise of a totally revolutionary business concept, was frequently not captured on its balance sheet. Book value, for so long the measure of traditional assets within the industrial economy, and market capitalisation, the value of an enterprise in the capital markets, had become widely divergent numbers. Thus, the traditional approaches to valuing enterprises were proving to be inadequate to capture the importance of these new intellectual capital assets and their compounded market capitalisation values.

As growth through acquisitions gained momentum, the paradigm shift that led from valuing and managing traditional physical assets to valuing and managing intangible and intellectual capital assets came to pass. And with it emerged the shift toward the strategic management of intellectual capital assets that has changed the priorities of corporate planning forever.

The Theory Of The Brand

The strategic thinking surrounding brands advanced by leaps and bounds during the 1990s to become the province of the most successful executives and strategic thinkers. Spurred by the emerging theory of intellectual capital assets, the brand was soon recognized as the ultimate intellectual capital asset - the *raison d'être* for all other forms of intellectual capital and as an end in itself for any and every successful enterprise, undertaking or corporate entity.

The diagram on the next page articulates the supremacy of the brand and its relationship to the other elements of intellectual capital, demonstrating how means-to-ends roll up and distill their value into the brand as the ultimate intellectual capital asset. This model portrays the general categories of intellectual capital assets, such as ideas, innovation, intellectual property, corporate culture and human resources such as talent and expertise. These intangible assets culminate in knowledge-based products and services that create goodwill and form the structure of what the brand means to its constituency and its surrounding world. In and of themselves, these prior intangible assets lack the orchestration and integration that they receive when they are organised with meaning and significance under the identity of a brand in the marketplace. The brand has the potential to distill, assemble and incarnate all of the other intangible intellectual capital assets in an enterprise. In other words, the brand comes to symbolise all aspects of a company in the minds of customers, consumers and society at large. When this meaning is respected, it becomes the positive brand equity that enhances the overall value of an enterprise.

The Rise Of Strategic Brand Management

As brands emerged as a bundle of profoundly important intellectual assets in a number of forward, thinking companies, brand management grew out of marketing as a new strategic discipline, led by a chief brand officer and under the watchful eye of the CEO, CFO and other key executives. With this shift in strategic significance, day-to-day marketing and the traditional role of trademark protection often came to be viewed as separate and more distant functions that were less integral to strategic thinking and the leveraging of intellectual capital assets per se.

For such companies, the brand and brand strategy grew rapidly throughout the 1990s, increasing in importance and often becoming the corporate strategy itself. Branding became the uber-discipline for CEOs and corporate strategists. On a weekly basis, the corporate world would see a new article or book emerge on the subject of branding, its management, its strategic significance, its financial valuation and ultimately how to use it to increase that holy grail of public markets and boardrooms - market capitalisation. Simultaneously, numerous branding houses emerged, specialising in the new discipline of branding and creating every aspect of a dominant, winning identity in the marketplace.

Soon, the marketplace became flooded with new brands, trademarks and slogans as the understanding of the value of brands and branding began to spread beyond consumer goods into industries that didn't even sell to consumers. One of these pioneering companies, Intel Corporation, with its "Intel Inside" brand strategy, began to teach technology players how to increase gross margins and minimise price degradation with a product line brand. Pharmaceutical giants adopted product branding architectures from food and beverage companies to turn drugs like fluoxetine hydrochloride into Prozac and then to go on to drive sales to record-breaking levels with demand created by direct-to-consumer advertising.

But what about the corporate brand? Despite the spread of brands into non-consumer industries, many enterprises still viewed corporate brands as mere trade names. But soon some leaders began to recognise that well-branded enterprises in any industry found it easier to command respect and set policy with governments, influence and establish industry-wide standards, find partners for strategic alliances and obtain new sources of capital, and that it was less expensive for them to expand globally, when the corporation itself was well recognised and regarded.

Companies that sold business-to-business, or that sold high-priced products and services in face-to-face negotiations, began to understand that their lack of concern for trademarks could extend to a failure to brand.

Even companies with many brands began to understand that the company itself still needed a brand. Archer Daniels Midland and BASF both existed for years before they began to spend millions of dollars in advertising to tell the world that ADM was: "The Bread Basket for the World"; or that: "BASF doesn't make the products you buy, ... it makes them better".

Soon brands began to penetrate beyond the corporate world. Suddenly governments, non-profit organisations and civic entities began to realise that they needed a brand to allow them to compete more effectively in their strategic arenas, whether to deter terrorism, obtain grant money or attract tourism. In this way, every industry and every undertaking was learning the brand business model.

The Importance Of Brands

Because all enterprises operate under a name, de facto all enterprises have a brand that connects their intangible assets with their customers and constituencies. In this sense, every name is a brand, whether it represents a company, an enterprise or a civic or public entity. Thus, the brand revolution is an opportunity for every entity in any sector of the economy, society or culture to establish, manage and leverage its meaning for its gain.

As a result, executive leadership within every organisation needs to recognise that brands are more than just the name of the company, a trademark for a product or a service mark for a service. Instead, the brand is a complex concept that creates organisational value and performs a number of important functions for every enterprise. Here are a few of those functions:

- Brands identify the enterprise or company and the source of all its goods and services.

- The brand stands for something specific: it is the corporate persona and it conveys value, creates trust, delivers assurances of a consistent quality and service, leading to repeat purchase and loyalty from consumers, users and the world at large.
- Brands are assets, constitutive of intellectual capital value and significant drivers and creators of market capitalisation, reputation and public integrity.

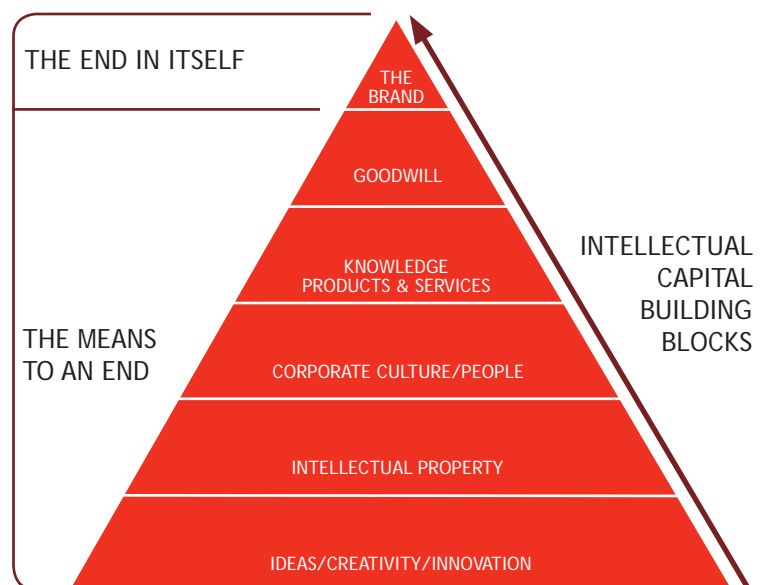
As distillers of the intellectual capital value of intangible assets, brands and their combined brand equity constitute the major economic force within the entire global economy, delivering marketplace value, shareholder wealth, livelihood, prosperity and culture.

There are hundreds of thousands of brands within this world but only thousands of these are brands that move markets and are highly valued. Successful brands are recognised as rare and valuable assets, which must be exploited carefully with wise and knowledgeable management that retains their financial value, their economic power and their social significance

Brands have become the most valuable asset within many enterprises, capturing the knowledge, the art, the science and the work of each person in each work day, making them the ultimate symbol of the companies for which they speak. This is the business reality of the 21st century.

The Brand and Intellectual Capital

The brand is an end in itself. It is the ultimate Intellectual capital asset and the reason for being for all other forms of Intellectual capital



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Right-sizing Financial Reporting Standards For Private Companies

By Kok Moi Lre,
Partner, PricewaterhouseCoopers LLP

Can Financial Statements Of Private Entities Be Simplified?

Currently, both private and public entities are required to prepare their financial statements using Singapore Financial Reporting Standards ("SFRS") under the Singapore Companies Act. It is clear that the primary focus of SFRS and International Financial Reporting Standards (in which SFRS are based on) are on listed entities. They demand much rigour in their application and contain extensive disclosure requirements so as to impose a high degree of public accountability on these listed entities. In addition, with the roadmap for IFRSs to converge with the U.S. GAAP by 2012, and the criticism of IFRSs during the global financial crisis, significant changes on IFRS are expected, which are likely to make them more onerous to apply.

Whilst the demands prescribed in SFRS and IFRS for listed entities are well appreciated and accepted, the same may not be said for private entities. IFRSs may have evolved to become too onerous for many private entities. For example, many private entities find it quite challenging to apply the requirements for accounting of financial instruments and disclosures of financial risks.

As IFRS continue to evolve in serving the varied needs of stakeholders of listed companies, the current one-size-fits-all approach for both private and public entities in Singapore should be relooked.

Does The Newly Issued IFRS For Small And Medium-sized Entities Offer Good Relief To Private Entities?

The International Accounting Standards Board (IASB) has recently concluded its six-year project on "IFRS for Small and Medium Sized Entities (SMEs)" in July 2009 and issued the 230-page accounting standard.

IFRS for SMEs attempts to meet the users' needs while balancing the costs and benefits to preparers.

The key features of the Standard are:

- (i) It is a stand-alone Standard; it does not require cross-reference to the full IFRSs.
- (ii) It is built on the foundation concepts of the full IFRS: the overall framework, the principles for recognising and measuring assets, liabilities, income and expenses, including the use of fair values are generally similar.

At first glance, the requirements of the Standard appears to be significantly reduced - the paragraphs in the Standards as compared to IFRSs are reduced by as much as 85 per cent. There are also specific simplifications in some areas. For instance:

- goodwill is amortised over a period of not more than 10 years rather than needing to be reviewed for impairment at least annually;
- all borrowing costs and research and development costs are expensed to the income statement rather than requiring to evaluate for capitalisation;
- hedging criteria are more relaxed than those in IAS 39;
- unquoted equity investment in associates can be accounted for at cost rather than using the equity accounting method; and
- the myriad disclosures on financial risks are not required.

In addition, proposed changes in the IFRSs have been made that will make the application of IFRSs even more challenging for private entities. For example, it is proposed that the exemption to account for unquoted equity investments at cost (in cases where the fair value of these investments cannot be reliably estimated) be removed in IAS 39. Determination of fair value of unquoted equity is not straight-forward and can be costly. The IFRS for SMEs standard contains an option to account for such unquoted equity investment at cost.

In addition, the IFRS for SMEs strives on stability; it will only be updated for significant changes once every three years. This would relieve pressure on financial personnel to continuously address the changes in the SFRS, in addition to making changes in processes and systems to cope with the changes in SFRS.

However, as the accounting concept of IFRS for SMEs is still based on the IFRS framework, certain complex areas such as accounting for deferred income taxes and share-based compensation are still featured in the SME standard. Hence, it can be considered still complex in some areas, especially for smaller private entities.

Should Singapore Private Entities Apply IFRS For SMEs?

One could say that the SME standard is, while simplified as compared to IFRSs, robust and of high quality.

A set of reliable, relevant and transparent financial statements is a non-negotiable quality of an emerging private company. A less-than-robust accounting framework would diminish the reliability of the financial statements and ultimately, trust with their various stakeholders and especially those non-owners such as the financiers, creditors, customers, employees and regulators. The use of a robust accounting framework is especially critical for emerging private companies as they go through their growth cycle when they particularly need to have access to competitive cost of funding from financiers or private-equity houses in their pursuit of growth and expansion.

In addition, the alternative financial reporting framework for private entities should not be so fundamentally different from SFRS or IFRS such that transiting to SFRS or IFRS becomes an exceedingly costly exercise when the emerging companies ultimately move towards public-listing.

From the regulators' perspective, it is also in their interest to uphold the Singapore's "branding" as a territory where businesses are conducted with high transparency and governance. The alternative accounting framework should be credible and results in suitably quality financial statements.

So, Which Entities Should Be Allowed To Apply The IFRS For SMEs?

As prescribed by IASB, the IFRS for SMEs can be applied to all entities that do not have public accountability rather than what its name suggests, i.e. and not by its size such as revenue, net assets or employees. Entities that have public accountability would include entities with shares or debts that are listed in a public market, banks, insurance companies, pension funds and security brokers or dealers.

The IASB has deliberately left the ultimate decision on which entities can adopt this Standard to the local regulator or standard setter, which in the case of Singapore, is the Accounting Standards Council (ASC).

The decision by ASC on which entities can apply the local version of IFRS for SMEs (perhaps SFRS for SME) is a significant one as it could impact many private companies in Singapore. ASC should study the decisions to be made by other territories, especially the Australia, New Zealand and Hong Kong whereby almost all private entities are currently required to prepare financial statements that are based on the full IFRS. In addition, it is also interesting to note that in the UK, whilst the private companies are currently preparing their financial statements in accordance with the UK GAAP, there is a keen interest to replace the UK GAAP with the IFRS for SMEs.

Privately-held entities in Singapore can benefit by choosing to adopt the IFRS for SMEs when ASC gives the go-ahead for adoption. In addition to lower compliance costs to individual businesses, at a macro level, this is also a relief to ease the demand for highly-skilled financial professionals currently needed for every company in Singapore as they need to comply with the full SFRS.

For emerging companies, the benefit to adopt the IFRS for SMEs should be evaluated against the expected time-frame to move into the full SFRS, ie the timing of a public listing. The shorter the time frame, the lesser the benefit to switch to the IFRS for SMEs as the companies would need to revert back to IFRS or SFRS in a short time.

For subsidiaries of listed groups locally or overseas, the benefit of switching to IFRS for SMEs is less clear as there may be a need to maintain two sets of financial books: one for group reporting in the full SFRS or IFRS and one for statutory reporting using IFRS for SMEs. In addition, its resources in financial reporting may also need to be trained and be conversant in two financial reporting frameworks, thereby increasing costs.

As the economy starts to show some form of recovery, emerging businesses poised to ride the upswing can certainly look forward to some relief in terms of financial reporting under the simplified IFRS for SMEs.

Six Ways To Protect Independent Directors

By Priya Cherian Huskins
Partner, Woodruff Sawyer & Co

Editor's Note: This article was written on the second anniversary of the historic out-of-pocket payments by the independent directors of WorldCom and Enron and the write felt that it was a good time to re-examine conventional wisdom. Given that we are looking at SMEs and how independent directors view them and whether they would be willing to serve on such boards, the Institute felt that it was useful to remind independent directors of certain key issues.

The Reminders

Many believe that independent directors of public companies put their personal assets at great risk when they agree to serve. Moreover, independent directors have been told that the best way to protect their personal assets is to have their companies purchase ever-larger amounts of director and officer liability insurance. That advice seems unassailable, but more than one independent director has winced at the cost. Are there alternatives to buying ever-larger D&O insurance policies? Here are six ideas:

1. Don't believe the hype

The rate of securities class action law suits—historically the largest exposure for directors of public companies—has decreased dramatically. In 2005, there were about 162 securities class action suits. In 2006, there were only 106, a 35% decline. Most suits brought against independent directors have either failed on the merits or have settled for less than the limit on the applicable D&O insurance policy. In contrast to conventional wisdom, this suggests that it is actually difficult to win suits against independent directors and the limits on D&O insurance policies are already adequate.

2. Embrace the Law

“Personal, unlimited liability” is the ominous phrase that correctly describes the exposure that independent directors face. And yet independent directors do not typically pay out of pocket when they are sued. One reason for this outcome is a legal framework that is ultimately protective of

independent directors. Directors who avoid any action that would compromise their independence and who are diligent on the most basic level—they read what they are asked to read, ask pointed questions, and refrain from ignoring warning signs—do what the law requires. Consequently, they are generally protected by the same legal system that would penalize them if they indulged in conflicts of loyalty or failed in their duty of care.

3. Install fire sprinklers

A company cannot have complete control over whether and when it will be sued, but independent directors can take steps to reduce their risk and enhance the possibility that a suit will be dismissed. Corporate governance, when properly executed, is the equivalent of fire sprinklers in a factory. If the unexpected event occurs, the advance planning of corporate governance prevents events from overwhelming the company. Consider, for example, the options backdating scandal. Companies with strong internal controls are not the companies being scrutinized for improper granting practices.

4. Look first to the company

Independent directors can protect themselves by entering into prodirector indemnification agreements. These agreements obligate the company to pay for legal expenses and damages on behalf of independent directors. Indeed, most director indemnification agreements provide coverage that is far broader than that granted by D&O policies. Independent directors should work with outside counsel and a knowledgeable insurance broker to ensure that they are maximizing the protection provided by the company.

5. Straighten up and buy right

“What limits should we buy?” is the most frequently posed question about D&O insurance. Typically, companies look to how much others are buying. It's called “peer data benchmarking,” and as a methodology surely has a place. But rarely do directors look at benchmarking and then declare that they

would like to be in the bottom quartile. The result is an escalation of insurance limits over time. Another, more systematic way to calibrate limits is to take advantage of three empirically verified observations: (1) securities class action law suits are generally the largest claims made against independent directors; (2) these suits almost always settle instead of going to trial; and (3) the ratio of the settlement to the loss claimed depends largely on a company's market capitalization. An informed insurance broker can use this information to recommend limits that more closely track a company's risk profile. Then there is the matter of policy language. The D&O policy is a highly negotiable contract. Companies looking only for the lowest price possible are asking for trouble. Consider having outside counsel review the policy or having another broker review what your regular broker is doing from time to time. The policies are extremely technical, and anyone without technical expertise will find it almost impossible to tell if a policy has been well written. Companies that would otherwise routinely hire outside experts for other large dollar transactions are well-advised to do the same for their insurance policies.

6. Personally protect

Some independent directors have long wanted to purchase a personal D&O insurance policy for themselves. This type of policy, known as a "wealth security policy," is not yet available in the market in a cost effective basis. However, we are likely to soon see the emergence of such policies. Wealth security policies are designed to pay on behalf of an independent director when both a director's company and the company's regular D&O insurance fail to do so. Though not necessary for everyone, having a wealth security policy will surely become another often-used tool for independent director protection. By implementing these six measures, independent directors will protect themselves from the personal, unlimited liability that can result from being on the board of a public company. The combination of these measures represents a more intelligent and cost-effective way to protect directors than the conventional wisdom of simply buying more insurance and paying ever-larger premiums.

An earlier version of this article by Priya Cherian Huskins was published in the spring 2007 edition of Board Room Briefings, a Directors & Boards Publication. Priya Cherian Huskins is a partner at Woodruff-Sawyer & Co., an insurance brokerage headquartered in San Francisco. Priya can be reached at 4150-402-6527 or phuskins@wsandco.com.



Annual SME Development Survey Shows 78% Of SMEs Confident Of Surviving The Downturn

By DP Information Group

Overview

Despite the worst economic conditions in 80 years, a high 78.0% of Singapore SMEs are confident of their ability to survive the economic downturn. And only 1.8% believe they are in danger of collapse if the economy does not turn around in the next six months.

This is the key finding of the 7th annual SME Development Survey conducted by DP Information Group (DP Info), Singapore's leading provider of credit and business information services. The SME Development Survey is the most comprehensive poll of SMEs ever undertaken in Singapore, with more than 2,000 companies responding to more than 38 detailed questions about their activities, challenges and aspirations.

According to Ms Chen Yew Nah, Managing Director of DP Info, tough times have been met head on with tough decisions by SMEs. "It is no surprise that SMEs are experiencing slower sales and pressure from their competition. After all, these are the most difficult economic conditions anyone can remember. It is encouraging to see such a high level of confidence in our SME community. It shows our SME managers are coping with the challenges and are well placed to capitalise on the upturn when it occurs. The response of our SMEs to the crisis has been to expand their business activity into new markets and product lines, while at the same time reducing their cost structure."

The Impact Of The Crisis

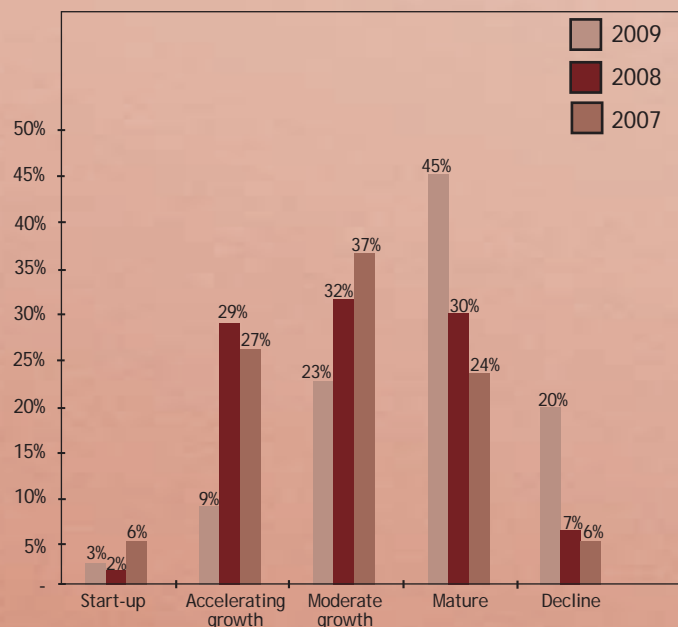
The impact of the crisis is obvious on the level of sales SMEs expect to generate this year, with 58.3% expecting lower turnover compared to 2008. A high 50.1% expect sales to fall by as much as 20% or more. Manufacturing companies are the hardest hit with 11.6% seeing demand for their products plummet by 40% or more.

A natural consequence of the lower level of activity has been an increase in the number of SMEs experiencing insufficient cash flow, from 20.0% in 2008 to 29.7% this year. The number of SMEs enjoying Accelerated Growth has fallen from 29% in 2008 to just 9% in 2009. Similarly, the number of companies that believe their business is in decline has risen almost three-fold, from 7% to 20%.

Accelerated Growth - Stages of Development

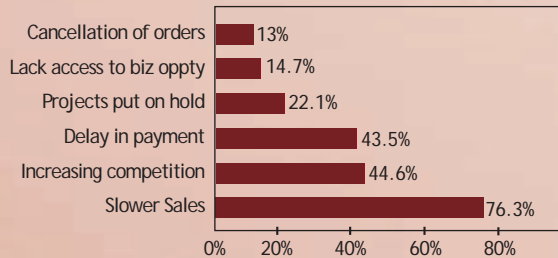
- Start-up: First 3 years of operation
- Accelerating Growth: turnover growth of > 10% p.a.
- Moderate Growth: turnover growth of up to 10% p.a.
- Mature: Zero turnover growth
- Decline: Negative turnover growth

Stage of Development



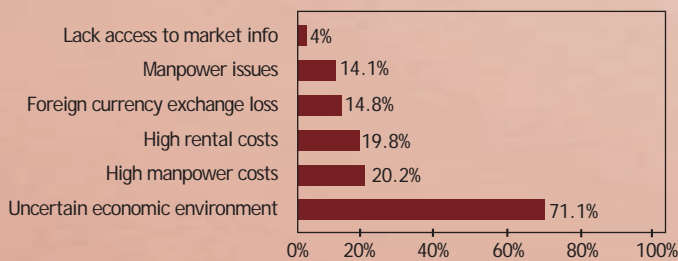
The most cited challenges faced by SMEs are related to sales, including slower sales (76.3%) and increased competition (44.6%). Delays in getting paid also ranks highly as an issue (43.5%).

Sale-related Issues



After sales issues, operating issues are the next most common concern with 71.1% stating the uncertain economic environment is a major factor for them.

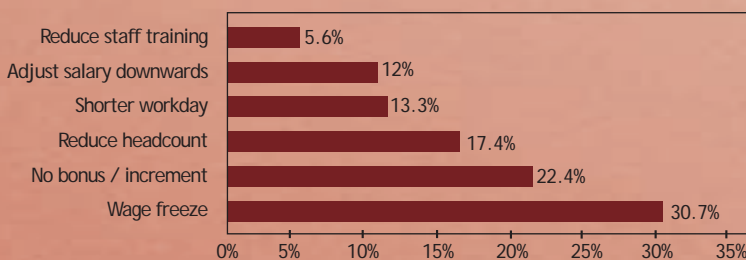
Others Operating Issues



The Response To The Crisis

To survive the downturn, Singapore's SMEs have responded with a range of measures, some contractionary, others expansionary. More than two-fifths (39.8%) are freezing new hires, while 31.9% are reducing their overall costs. To reduce staff costs, SMEs prefer to freeze wages (30.7%) and stop bonuses and wage increments (22.4%). Reducing headcount is seen as a last resort and favoured by just 17.4% of respondents.

Staff related measures to undertake



Expansionary measures include introducing new products or services (35.7%), increasing their overseas market presence (29.7%) and increasing their local distribution channels (23.9%).

The Jobs Credit Scheme announced in this year's budget, has helped SMEs to improve their cash positions, with a majority of 68.7% using it to offset their operating costs. A significant number (29.5%) have utilised it to increase their current cash position.

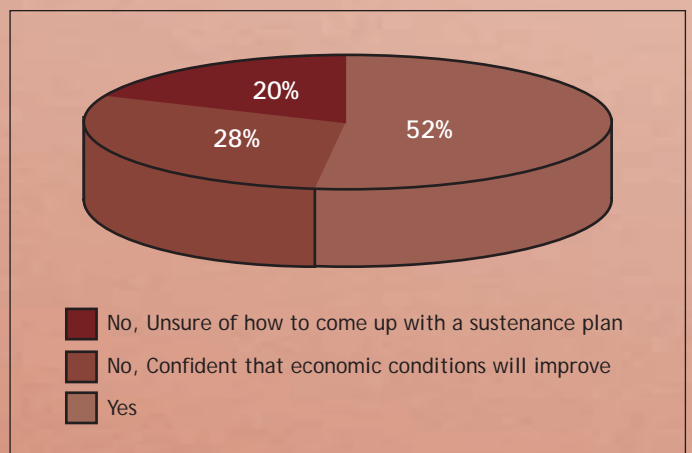
Business Outlook

While sales are expected to fall this year, the longer term outlook for Singapore SMEs is relatively optimistic. When asked if they could sustain their business if the economic crisis continues, 78.0% are confident they can do so. However, there is imminent danger of 9.6% of SMEs who feel that they cannot survive if the economy does not turn around in the next 12 months.

The biggest factor affecting the company's outlook is its size. Of the SMEs with less than \$500,000 in turnover, only 30.3% believe they can weather the storm indefinitely. The number that are confident jumps to more than 70.0% for companies with \$5 million turnover or more. The two groups that are least confident of surviving are those already making losses and those experiencing a fall in turnover by more than 40.0%. Nearly half of both groups (50.4% and 47.7% respectively) doubt their chances of survival.

Given the number of challenges faced by SMEs it is a concern that only 52.0% have plans in place to cope with the economic crisis if it continues. One in five are unsure how to develop a sustenance plan while 28.0% are confident the economy will turn around soon, so they feel no need to develop one.

Sustenance Plan



Access To Financing

Against a back drop of tighter credit and lower cash flows it is encouraging that 43.3% of SMEs have no financing issues.

There has been a shift towards internal financing with the percentage of SMEs relying on Shareholder Equity/ Retained Earnings increased from 60.0% in 2008 to 87.0% in 2009. There has also been an increase in the take up of Government funding schemes with 11.0% of SMEs doing so, compared to 7.0% last year. A major challenge for SMEs is the tighter controls their suppliers are placing on their credit terms. As a result 60.5% have plans to seek new or additional funding from the banks.

Technology

Similar to last year, 53.9% of SMEs do not intend to spend anything on Infocomm Technology and Technology Innovation. By contrast 27.0% intend to spend up to \$50,000 while another 11.8% intend to spend in excess of \$100,000.

The SMEs choosing not to spend funds on technology may well be missing out on benefits that could help them during the current economic downturn. A high 82.0% who have invested in technology have received material benefits - such as greater sales or profits - from their investment. Half of all these SMEs achieved improvements in productivity, 41.0% benefited from developing innovative products and services, while 36.0% improved their cost efficiency.

Internationalising

The proportion of SMEs engaging in international business rose from 64.0% in 2008 to 69.0% in 2009. Given the gloomy economic climate it was not surprising that the number of companies making their first move overseas fell this year, from 7.0% in 2008 to 2.0% in 2009.

The biggest challenges faced by Singapore SMEs venturing overseas are consistent across all industry sectors, with competition nominated by 60.0% of respondents. Concern about the economic environment in overseas countries has leapt from 22.0% in 2008 to 49.0% in 2009, while the challenge of accounts receivables collection emerges as the third biggest challenge, cited by 26.0% of respondents.

Recommendations

To address the key concerns and issues highlighted in this year's survey and to help SMEs prepare for the return to economic growth, DP Info has five recommendations to assist the SME community in Singapore:

- 1) Equip Singapore SMEs with the necessary knowledge and skill sets to develop strategies and business plans to sustain them for future growth beyond the current downturn;
- 2) Inculcate an environment that encourages SMEs to focus on growth, and introduce growth tracking and measurements;
- 3) Help SMEs mitigate credit risks through use of credit management tools such as Credit Bureau and Credit Rating;
- 4) Encourage SMEs to embrace technology innovation through collaboration with Institutions of Higher Learning; and
- 5) Greater promotion of Singapore's Free Trade Agreement to SMEs.

SID- Freshwater Advisers Breakfast Talk



The Institute and Freshwater Advisers jointly organized a breakfast talk for directors titled "Non Executive Directors' Fees - The State of the Market for Non Executive Directors" which was held on 21 August 2009 at Marina Mandarin. It was attended by 34 members and non members.

The guest speaker was Mr Jon Robinson, Managing Director of Freshwater Advisers. He shared with the participants his thoughts on appropriate structures for compensation for Non Executive Directors in Singapore companies and global developments in compensation practices.

The Institute thanks Freshwater Advisers for collaborating the talk with the Institute and all members and guest for their presence.



SID Luncheon Talk

A luncheon talk on “Warren Buffett Corporate Governance: Building a World Class Board of Directors” was held on 26 August 2009 at Marina Mandarin. It was attended by 89 members and non-members.

The guest speaker was Mr Robert Miles, an international renowned speaker, author and acclaimed Warren Buffet expert. He shared with members “Why study Warren Buffett Corporate Governance”, “Buffett’s 4 criteria for board membership”, “5 critical director responsibilities”, Buffett’s acquisition criteria and how it helps directors” etc.

SID thanks all members and guests for their presence.



Members' Night

An evening talk on "A Look at The Heart of Success - Discover the keys to work-life effectiveness" was held for members in the evening of 25 September 2009 at Union Square at The Amara.

The speaker was Mr Darren Tan, the master trainer for the work-life programme The Heart of Success with Focus on the Family Singapore. He shared with members on work-life harmony and highlight the importance of striving for a better quality of life and not merely a higher standard of living for yourselves and your employees.

It was attended by about 30 members and guests and the event was sponsored by NTUC Club.

SID thanks NTUC Club for kindly sponsoring the talk and all members for their presence.



SGX-SID-Aon Consulting RC & NC Workshops Series

The RC & NC Workshops series continued to be well received by members and non-members. It was jointly organized by the Institute, Singapore Exchange Ltd ("SGX") and Aon Consulting. The past 4 workshops were well attended.

"Incentive and Equity-Based Compensation Design Issues" was the third RC workshop and it was held on 16 September 2009. It was attended by 64 members and non-members. The presenters were Mrs Yvonne Goh of KCS Corporate Services Pte Ltd, who is also Council Member of SID, Messrs Na Boon Chong and Parangam Ray of Aon Consulting. Mr Bernard Tay, Non-Executive Chairman of Horwath First Trust, Mr Basil Chan, Council Member of SID joined the presenters as panelist for this session.

The third NC workshop was "Director Selection and De-selection" and it was held on 23 September 2009. The presenters were Mrs Yvonne Goh, Messrs Na Boon Chong and Donovan Oliveiro of Aon Consulting. Mr C K Lee, Chairman of Jurong Port Private Limited and Mr Yeo Wee Kiong, Council Member of SID joined the presenters as panelist for this session. It was attended by 49 members and non-members.

SID thanks SGX and Aon Consulting for collaborating with SID in the series of workshops.





WELCOME ON BOARD

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Call for Articles, Thoughts, Snippets, etc

The Institute would like to hear from you. Send us articles, thoughts or even short snippets of issues that you are keen on, that you want to share about, or that keeps you awake at night. It only needs to relate to directors and/or corporate governance. For articles, keep it to 1200 to 1500 words at most. Send your materials by email to the Institute at secretariat@sid.org.sg.

Congratulations

To Our New Fellows!

The Institute congratulates our following members who have been bestowed Fellowship of the Institute on 6 November 2009

Name	Company
Mr Lam Khin Khui	Egon Zehnder International Pte Ltd
Mr Steven Phan Swee Kim	Ernst & Young
Mr Anthony Cheong Fook Seng	Fraser and Neave, Limited
Mr Ian Spence	ISPENCE, Asia Pte Ltd
Mr Tan Chong Huat	KhattarWong
Mr Tham Sai Choy	KPMG LLP
Mr Adrian Chan Pengee	Lee & Lee
Mr George Goh Tiong Yong	Meiban Group Ltd
Mr Keith Stephenson	PricewaterhouseCoopers
Dr Kenny Yap Kim Lee	Qian Hu Corporation Ltd
Ms Yeo Lian Sim	Singapore Exchange Ltd
Mr Hsieh Fu Hua	Singapore Exchange Ltd
Ms Saw Phaik Hwa	SMRT Corporation Ltd
Mr Dilhan Pillay Sandrasegara	WongPartnership LLP
Mr Chia Kim Piow	Rotary Engineering Ltd



The new SID website will be launched at our Annual General Meeting on Friday, 6 November 2009.

Features will include:

- Easy access at a glance to training courses and events
- Online course & events registration
- Online payment for courses, membership and renewal fees
- New public search function of the website, while Members will have enhanced search capability (upon log in)
- Online polling/ survey capability
- Photo galleries
- Exclusive Members' only online registration for the new Register of Directors, which will become part of the proposed "Director Matching Service" for listed companies (to be launched in 2010)

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