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Singapore Institute of Directors

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Doing Great Business… the power of Corporate Social Responsibility

An Interview with Ms Claire Chiang of Banyan Tree Holdings Limited

Singapore Institute of Directors

MISSION STATEMENT

To promote the professional development of directors and corporate leaders and encourage the highest standards of corporate governance and ethical conduct

THE INSTITUTE'S OBJECTIVES ARE:

- To be the national association of company directors for the local business community. The SID works closely with its network of members, professionals such as accountants and lawyers, and the authorities to identify ways to uphold and enhance standards of corporate governance.
- To act as a forum for exchange of information on issues relating to corporate governance and directorship in Singapore. The SID plays a leading role in holding discussions and providing feedback to the authorities on matters of concern.
- To organise and conduct professional training courses and seminars to meet the needs of its members and company directors generally. Such courses aim to continually raise the professional standards of directors in Singapore by helping them raise their effectiveness through acquisition of knowledge and skills.
- To regularly publish newsletters, magazines and other publications to update members on relevant issues, keeping them informed of latest developments. These publications also serve as reference materials for company directors.
- To be responsible for the discipline of members. The SID has drawn up a code of conduct for directors in Singapore setting out the standards to ensure they discharge their responsibilities dutifully and diligently.

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PUBLISHER

Singapore Institute of Directors
3 Shenton Way #15-08
Shenton House
Singapore 068805
Tel : 65 6227 2838
Fax : 65 6227 9186
Email: secretariat@sid.org.sg
Website: www.sid.org.sg

EDITOR

Kala Anandarajah

DESIGN

Wini Tenorio

PRINTER

Entraco Printing Pte Ltd

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The Business Enablers

With half of 2010 over, the economy appears to have steadied itself, and businesses are slowly but surely starting to see positive returns. It makes every sense, therefore to look at giving back.

This issue of the Directors' Bulletin thus looks at Corporate Social Responsibility or CSR, as the phrase is commonly abbreviated to, which has gained significant interest over the years. There are varied reasons for this, as I note in my book on Corporate Governance: Practice & Issues published in December 2009 by the Academy of Law Publishing. These reasons range from truly philanthropic to business oriented motivations.

As I further note in my book, the term has increasingly been intertwined with the concept of corporate governance and the fact that the value of a corporation will increase if that corporation adopts and practices CSR. As to whether there is truth to this remains a matter of surveys and studies, with conflicting evidence surfacing. What is clear, however, is the fact that a corporation cannot be said to exist in a civil and economic society for the sole and singular purpose of profit maximisation. In the words of Dave Packard, the co-founder of Hewlett Packard Company: "I think many people assume, wrongly, that a company exists simply to make money. Whilst this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so that they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society, a phrase which sounds trite but is fundamental."

Several of the articles included in this issue of the Bulletin reflect this comment. The interview so kindly provided to us by Claire Chang of Banyan Tree Holdings Ltd shows CSR in action. The Banyan Tree projects appear to have always found a root in giving back to the local environment. As noted in the interview article, the Executive Chairman of Banyan Tree in 1992 had said that "Resorts in the third world have both the potential to be agents of social and economic development in less developed areas, or as a source of friction and alienation within local communities". It is obvious that Banyan Tree chose the former.

Other CSR related articles in this issue include looking at ways to reduce carbon and from a practical stand point and accounting for CSR. The latter article on accounting for CSR provides valuable suggestions as to how CSR can be given the recognition it rightly requires, and refers to the recently prepared ISO 26000, which is a set of guidelines for social responsibility. Once introduced, the ISO 26000 can become a powerful tool to aid companies. This article on accounting also ties in very nicely to the one on the rise of sustainability reporting.

Apart from CSR related articles, this issue of the Directors' Bulletin looks at the Budget 2010, ISO 31000 on managing risks and importantly, what makes a good director. The article relating to what makes a good director captures a discussion held in conjunction with the graduation ceremony of the inaugural Executive Certificate in Directorship programme jointly organized by SMU and the SID at the Singapore Management University. It is a good read of frank views.

I take this opportunity to say thank you to all contributors to this issue of the Directors' Bulletin. It remains for me to ask members to please send us their views, articles and more for this Bulletin. Till the next issue, wishing one and all the best!

Kala Anandarajah
Editor

CHAIRMAN'S MESSAGE

Dear fellow members,

Warm greetings to all!

All too soon we are now in the middle of the year, and over at the Institute, we continue to busy ourselves with developing new programmes to continually improve the quality and relevance of our training initiatives to our members.

To this end, you would likely have read recently in the newspapers a press release by SGX and the Institute about a new series of training programmes to further enhance corporate governance and board effectiveness. The new programmes include a Listed Company Director (LCD) programme, which focuses on comprehensive training on corporate governance and a Growing Enterprise Management (GEM) programme, which focuses on effective governance processes and accountability, particularly for small to mid cap listed companies and unlisted companies.

While we remain committed to providing more comprehensive training for Directors of listed companies, we also intend to focus attention on the need to start "grooming" directors of SMEs and privately-owned emerging enterprises as a long term strategy to build capacity and improve the level of corporate governance in Singapore. We believe that good corporate governance practices will place SMEs in better positions not only when they seek to be listed, but would also be beneficial to their shareholders and other stakeholders in the longer run. In this regard, in conjunction with Spring Singapore, the Institute will conduct in August a modified GEM programme for SMEs. Spring Singapore has agreed to provide subsidies for participants from eligible companies.

With the support of SGX, both the LCD and GEM programmes will be conducted in China as well, targeted primarily at Chinese companies planning to list in Singapore and those already listed.

Our efforts at training and grooming Directors of both large and smaller listed and unlisted companies are based on our belief that for Singapore to maintain a sustainable and high level of corporate governance, it is essential that our directors are competent and up to date on relevant developments in their profession. We also believe that sustained excellence in corporate governance in a balanced eco-system can only be achieved if regulatory discipline and market discipline are supported by strong self-discipline. Our belief is that the last discipline is the most important discipline for sustainability. A strong self-discipline will reduce the need for stringent regulations.

In this regards we are encouraged by the treatise recently released by MAS where "shared responsibility", "risk appropriate" and "outcome focused" were mentioned as key tenets. We support MAS' emphasis on a balanced regulatory regime. While the MAS tenets are intended for financial institutions, we feel that they are equally relevant for all listed companies.

In May 2010, the Institute launched the first stage of its new Board Appointment Service by inviting members who are interested to be Independent Directors to register their interest. The response from members has been very encouraging. The next stage, expected to be launched in July, will be to invite companies to start using the service as an additional avenue in their search for suitable Independent Directors.

While we continue to develop programmes and activities that will support the development of effective boards, the Institute is also focusing on the development of effective networking. In this connection we are currently planning a number of activities, such as regular luncheon talks, an annual conference as well as our annual golf tournament. This annual golf tournament will be held on 22 August 2010 at the Sentosa Golf Club and we hope many members will support this event. I look forward to seeing many of you in our future events and at our golf event.

Warm regards,

John KM Lim
Chairman

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2010

SID Annual Golf Tournament
Sunday 22 August 2010 (pm)
Venue: Sentosa Golf Club, Tanjong Course

Come and join your fellow directors and the corporate community for an afternoon of golfing fun, dinner and networking

Sign up now as only limited places are available
Please call SID Secretariat at telephone 6227 2838 for registration/more information

Doing Great Business … The Power Of Corporate Social Responsibility

An Interview With Ms Claire Chiang Of Banyan Tree Holdings Limited

By Paul A Zaman
CEO of Qualvin Advisory Pte Ltd,
Member, SID Publication &
Website Committee

Few Singaporeans have not heard of Banyan Tree and the luxurious and elegant hotels, spas and resorts they operate in the region, with resorts now as far flung as China, Maldives, Latin America, Africa, and Ireland.

In the boardroom of Banyan Tree Holdings Limited, on Upper Bukit Timah Road, SID had the chance of talking with the vivacious Ms Claire Chiang. Claire is the Managing Director of Retail Operations, the Chairperson of the Banyan Tree Global Foundation, and also Chairs Banyan Tree's China Business Development team and the task force on Human Capital Development. Banyan Tree's Executive Chairman, Mr Ho Kwon Ping ("KP" as he is commonly known) is her husband. Along with KP's brother Mr Ho Kwon Cjan (who is Managing Director for Banyan Tree's Design Services), KP and Claire are the co-founders and provide leadership to the Banyan Tree Group. We asked if we could talk with Claire to get insights into what Corporate Social Responsibility (CSR) means to them as a pre-eminent SGX listed company with a market capitalisation of over S$625 million. The Banyan Tree Group has won over 550 awards in the areas of hospitality, resorts, spas, design, corporate governance and social responsibility. Banyan Tree Holdings Limited has a six-person board, with four independent Directors (two of which are women) forming the majority in keeping with governance best practices.

The latest 2009 Annual Report for Banyan Tree states that sustainable development as a socially responsible business is a core value of the Group. This involves customers, employees, communities, environment, suppliers and generating sustained long term returns on investment for shareholders. This sets for context for our interview.

The June 2006 IPO document states **'We have considered the physical and human environment when making business decisions. The resorts and hotels that we have built have been constructed using design and construction techniques that minimise the damage to the environment to the extent practicable. … In addition we seek out opportunities to support local business. Each resort carries out community development and environmental projects.'**

This describes how the values and behavior of good CSR are embedded into management thinking rather than a separate management system for middle and senior management to follow.

In the current 2009 sustainability report a quote from 1992 made by Executive Chairman Mr Ho Kwon Ping is restated **"Resorts in the third world have both the potential to be agents of social and economic development in less developed areas, a source of friction and alienation within local communities"**.

Claire explained that the genesis of Banyan Tree lies in the vision of its three founders as they purchased and developed the parcel of land which was a wasteland created by tin mining and which would later become Laguna Phuket and the birth of the Banyan Tree brand. However, KP and Claire could see the potential of bringing the land back to its natural beauty and started upon that endeavour of designing beautiful villas and helping nature revert back to its natural splendour. That is history yet it illustrates that social responsibility is a core corporate philosophy and this creates wealth from great architectural design and leveraging natures natural beauty, which customers are very willing to pay for.

We first sought to confirm that Banyan Tree Executive Management discusses CSR in the Boardroom. Claire explained that: "Banyan Tree rarely has CSR as a specific boardroom agenda item as from the foundation of the company, and so way before its public listing 2006, the values and awareness of CSR issues were embedded in consciousness and decision-making process.

Many companies have CSR as a middle management process with little attention at Board level, and so we pressed Claire further on how Banyan Tree Group lived and breathed CSR. Claire suggests that **"doing CSR, is basically the right thing to do and by looking after the core values we also look after our profit bottom line"**. Claire expanded upon this by saying **"you must both walk-the-talk and work-the-walk"**. She explained that this means putting in effort and support to everyone to execute the CSR agenda.

We asked Claire to expand about this topic of management and staff. Claire added **" Very simply, by engaging employees and managers in activities that add value and which are linked to core company values, it attracts, retains and motivates people. This in turn makes it easier to deliver exceptional and memorable service to guests, a critical step for referrals and repeat business, leading to lasting profitability"**.

Employees are clearly core partners in the Group's operational and financial success story and so we asked more about

this area. Claire said that **"The core values are embedded in leadership and so we get buy-in and belief at the operational level, where we develop and encourage champions. We empower our associates to participate in our efforts to create positive impacts within the communities where we operate"**.

We asked if Institutional Investors questioned Banyan Tree's widespread and visible CSR projects. Claire again commented; **"We invite our partners, key property developers and investors, to visit us at Laguna Phuket and see for them selves what we do. It is then very easy for these partners to understand the positive impact added by the CSR way of doing business. Simply embedding and then breathing our core values and CSR principles into our business practices, from design thru to delivering memorable customer service, means that we deliver on our service promise and this reflects in a healthy financial bottom line. We also are proud of our overall triple bottom line goals and accomplishments"**.

We asked Claire about the types of questions Institutional Investors asked at quarterly results briefings and other small group meetings. She said that **"they asked surprisingly few questions and because the Banyan Tree Group had been producing substantial Sustainability Reports since 2006, this would probably answer most institutional investor questions"**. In terms of whom the Sustainability Reports are written for, she said **" everyone from Analysts to Activists, and in between"**.

There is an imminent ISO26000 guideline on Social Responsibility that affects all organisations, listed and unlisted companies, government departs and statutory boards, Institutions, NGO and Charities. We wondered what the view was on this. Claire suggested **" We are aware of ISO26000 and we are aware of many CSR and Environmental standards and guidelines around … we focus upon those most relevant to us in the Hospitality, Hotel and Resort industry, we make sense of it and work with it"**.

The Group's Green Imperative Fund was set up in 2001 to **'expand and formalise our environmental conservation and community development efforts'**. Banyan Tree Global Foundation (BTGF) was formally set up in 2009. It is funded by a guest contribution of US$2 per night per room for guest occupancy in the Banyan Tree Resort. This is matched dollar for dollar by the hotel. Banyan Tree Global Foundation then enables the direct funding of social and community projects that benefit the local community where Banyan Tree assets are located. Often Banyan Tree will also contribute professional, management and technical resources to support projects and encourage staff volunteering. Banyan Tree Global Foundation currently includes Claire Chiang, Ariel Vera and Eddy See as Directors and is working towards including additional independent directors to align with governance best practices.

We asked Claire about the relationship between the Foundation and the Group. Claire explained that **"Banyan Tree Global Foundation provides CSR consultancy and financial support for projects at a local level whereas the Banyan Tree Group deals with strategic and operational business issues "**.

To conclude the interview and discussion, we felt it would benefit SID Members to hear from Claire what she thought where the three key messages that a company new to CSR could focus upon.

'Firstly, understand what is the purpose of your business and how does it improve the lives of people (employees, customers, neighbours and community at large)?

Secondly, What is your purpose for growth, other than to increase profits?

Thirdly, today's best employees seek out meaningful and relevant work, what are your doing to ensure your Company fulfils its responsibility to provide this'

Accounting For CSR

By Mint Kang
A Singapore-based freelance writer specialising in business and finance. She holds a business degree from the Singapore Management University and an editorial position on the Mensa Singapore management committee.

For years, businesses have recognized that they have an obligation to conduct their operations in a manner that will benefit society and the environment, or at least cause the minimum amount of harm. Whether this is achieved by directly reducing negative externalities or by offsetting them through schemes such as emissions trading, the financial bottom line is increasingly beginning to share the spotlight with both social and ecological concerns.

"Businesses cannot regard themselves as working only for their shareholders," says Professor Pang Yang Hoong, dean of the SMU School of Accountancy. "Instead they must see themselves as having many stakeholders other than shareholders, because they employ staff and workers, and they consume limited resources, including natural resources."

It has also long been established that companies must make the impact of their operations transparent— not only the short-term economic impact, but the longterm social and environmental impact as well. Such disclosure takes the form of sustainability reporting, and a wide range of accounting standards exists for it. They include the Global Reporting Initiative's G3 framework, the United Nations ecoBudget metric for resource management, the ISO 19011 standard for environmental management systems auditing, and the ISO 26000 standard on social responsibility, which is currently under vote and may be published later this year. Out of these, the GRI's framework is generally considered one of the main benchmarks for reporting non-financial performance.

Sustainability reporting, also termed CSR reporting or social accounting, concerns an organisation's accountability to its stakeholders. It focuses on the triple bottom line, or the three P's—people, planet and profit, with the environment in particular beginning to garner more attention as the climate change issue heats up. "It should be possible for businesses to implement measures that are environmentally friendly, and be made to report how they have done so, and the impact of the measures they have implemented," says Professor Pang. According to a 2008 survey carried out by KPMG International, this is already taking place globally. The survey found

that over 80 percent of the top 250 companies in the Fortune 500 issued sustainability reports, constituting a 30 percent jump from 2005, when the last survey was held.

From a more cost-benefit oriented stance, sustainability reporting is considered a link between the company's internal interests and the concerns of external stakeholders, and as such involves the credibility of the company in the eyes of external parties. It also offers a more rounded view of a business—the ground-level opportunities available to it and similarly the non-financial challenges it faces. Because of this, according to Mr Tan Wah Yeow, head of KPMG Singapore's risk advisory unit, indirect stakeholders such as financial analysts and credit rating firms will be able to evaluate it more accurately.

At the same time, however, disclosure of a company's non-financial performance ought not to be seen as a means for advancing its financial agenda. "It must be emphasised that such reporting should not be seen as a marketing tool, but a genuine effort to report on the positive and negative values the company is giving to its stakeholders," says Mr Cheung Pui Yuen, audit partner at Deloitte Singapore.

> "It must be emphasised that such reporting should not be seen as a marketing tool, but a genuine effort to report on the positive and negative values the company is giving to its stakeholders..."
>
> Mr Cheung Pui Yuen, audit partner at Deloitte Singapore.

Sustainability Reporting In Singapore

Corporate social responsibility is well known here and around the region, with both large and small companies acknowledging the need to be socially and environmentally friendly in their activities. However, companies that include extensive details of it in their annual report remain in the minority. In the 2009 Asian Sustainability Rating, which benchmarks Asian companies by their level of sustainability disclosure, Singapore ranks second-last in the region—ahead of only Pakistan. Also from last year's statistics, GRI lists only five Singapore-headquartered companies that adopted the G3 Guidelines and published data on their sustainability efforts. And only one company in Singapore, CDL, participated in the Carbon Disclosure Project 2009 and allowed its data to be made public.

One of the main reasons for this deficit is lack of understanding at the ground level, where companies may not see why there is a need for them to be transparent about their sustainability efforts. "We feel that companies are actually doing quite a lot of CSR work, but people are just not seeing it," says Ms Marie Morice, director of CSR Asia Singapore.

Another factor is the lack of formal requirements at the regulatory level, either general or specific. The existing IFRS based accounting standards here encourage environmental reporting, but do not make it mandatory, and there is no real pressure from either the public or the regulatory bodies for companies to take the extra step. In contrast, corporate governance receives far more attention and is usually the main focus of disclosure here.

On top of all this is the perception that social and environmental reporting may not be worth the trouble. While companies are perfectly willing to carry out sustainable development, reporting it in detail involves a further investment of time and resources which small companies in particular may feel they cannot afford.

"Perhaps from cost versus benefit perspective, many may view that the market would not place emphasis on this area," says Mr Cheung. "The focus of reporting is perceived to be shareholders' value rather than stakeholders' value."

There is also the chance that companies may not wish to deliver a report on the negative impact of their activities. A company that is polluting the environment but is unable to reduce or offset its externalities, perhaps due to lack of knowhow or resources, might not want to make this known for fear that stakeholders will penalise it.

Making Sustainability Attainable

The accountancy sector, according to ACCA, has a major role to play in sustainable development. "Their professional skills, such as analysis, quantification of benefits, reporting, judgement and business knowledge, put them in a prime place within their organisations to help make a change," says an ACCA spokesperson. "By promoting transparency in business, companies of all sizes and all sectors can target significant improvements in business performance, enhance relationships with stakeholders and realise benefits in support of their long-term commercial success."

The accountancy sector here has already joined hands with social and environmental interest groups here to drive public awareness of such disclosure, and to help companies understand the reporting tools available. For instance, ACCA Singapore, Singapore Compact and the Singapore Environment Institute have been organising workshops on sustainability reporting

since last year, aimed at equipping companies with an understanding of how sustainability reporting works, why it is necessary and how to undertake it. CSR Asia holds free briefings and training sessions for companies that wish to know more about social and environmental disclosure.

Regulatory bodies can play a part in nudging companies towards sustainability reporting, too. Given that environmental reporting is already encouraged, it should be possible to implement non-mandatory guidelines for broader disclosure in the future. Such guidelines would probably follow a qualitative approach rather than a quantitative one, as research has shown that qualitative disclosure is used far more often. A 2008 survey jointly conducted by GRI, CSR Asia and the University of Hong Kong found that the overwhelming majority of key topics—covering items such as education and training, cause-related marketing and social inclusion— were reported qualitatively.

There is also the fact that the quantitative approach is not entirely feasible for sustainability reporting. Assigning a value to each and every social or environmental cause and effect would be far more costly than the result is worth. "There will tend to be significant estimates and judgment involved," says Deloitte's Mr Cheung. "For example, the benefits of proactive actions may, over the long term, increase reputational value and competitive advantage, and reduce the cost of capital."

A stronger top-down push towards disclosure might involve the stock exchange, suggests CSR Asia's Ms Morice. Bursa Malaysia, for instance, includes sustainability reporting among its listing requirements, which SGX does not presently do. "There is definitely a role for the stock exchange to play," says Ms Morice.

Closer to the ground level, the details of implementing sustainability reporting are easier to deal with than many companies believe. Many audit and consultancy firms here, including the Big Four, already offer specialised sustainability reporting services. For companies that prefer to carry out their own reporting, there are the many workshops and training seminars conducted by organisations such as CSR Asia and supported by bodies such as the Singapore Environment Institute. And for companies that are just starting out in the calculation and disclosure of sustainable development, conventional accounting standards do in fact allow for certain aspects of non-financial performance, primarily carbon emission, to be reflected on the bottom line in a regular annual report.

In the long run, though, the tipping factor will be investors and consumers who are increasingly more educated, more aware and possessed of a greater sense of personal responsibility. "Investors in the region do want to know what companies are doing," says Ms Morice, and what investors want to know is not just how much money a company is making but how it is helping to better the society and save the environment.

Corporate governance reporting, the most popular form of disclosure here, both contributes to and benefits from Singapore's reputation as a clean, transparent business environment. There is no reason why social and environmental reporting cannot do the same. ■

The G3 Guidelines

The G3 Guidelines were published in 2006 by the Global Reporting Initiative. They are meant to be used as the basis for an organisation's annual reporting, and as such include comprehensive principles and guidance on a report's content, quality and boundary. The Guidelines are currently in their third version (hence the term "G3") and are incrementally updated based on public feedback.

The G3 Guidelines contain indicator protocols for the following areas: product responsibility, environmental impact, social impact, human rights, labour practices and, of course, economic impact. The community and human rights indicators are presently being updated.

ISO 26000

The ISO 26000 international standard is a set of guidelines for social responsibility, not a specification document. As such, it is not intended to replace any existing frameworks. It is based on best practices from social responsibility initiatives worldwide and focuses on the identification, recognition and integration of social responsibility principles throughout an organisation. The principles named in the standard are: organisational governance, human rights, labour practices, environmental practices, fair operating practices, consumer issues and community involvement and development.

ISO 26000 was published in draft form last year and balloting on it ended this February.

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FEATURE

Carbon Reduction The Way Forward

By Annabelle YIP, Partner, and Kalyn LIANG, Practice Trainee, WongPartnership LLP, Environmental and Green Economy Practice.

Overview

Climate change is today recognised as the most pressing global issue. According to the United Nations Intergovernmental Panel on Climate Change, a reduction of 50-80% of global carbon emissions is required by 2050 to prevent material and irreversible damage to the environment.[1] Responsible companies need to take action now to reduce their carbon footprint. The world is moving towards lower carbon economies and it is expected that governments will put in place more and more regulations requiring companies to manage and contain their carbon footprints in the future. Even if regulations are not imposed, there are tangible benefits for companies to operate in an environmentally sustainable way. Those who take early action will be able to capitalise on the edge this provides them and will be able to produce greater shareholder value.

Initiatives Around The World

Governments

Internationally, over 180 countries have ratified the Kyoto Protocol, which sets binding obligations on countries to reduce carbon emissions, Singapore being one of them. Singapore recognises the urgency of the situation and has pledged to reduce its carbon emissions by 16% below business-as-usual levels by 2020 if the world manages to reach a strong, legally binding deal.

The Singapore government's policies are reflected in the recent papers published by the Economic Strategies Committee titled "Ensuring Energy Resilience and Sustainable Growth" and the Inter-Ministerial Committee on Sustainable Development titled "Sustainable Development Blueprint". The undertakings by the Singapore government require every individual and public and private sector entity to make urgent and substantial reductions to its carbon emissions. The Ministry of the Environment and Water Resources has set up a S$20 million Innovation for Environmental Sustainability Fund to provide financing for innovative projects that will help Singapore become environmentally sustainable.[2] The Building and Construction Authority

1. Intergovernmental Panel on Climate Change, Climate Change 2001: Synthesis report. Cambridge University Press, Cambridge, UK, 2001. See also the United Nations Framework Convention on Climate Change at http://unfccc.int/press/fact_sheets/items/4976.php
2. Singapore Green Plan 2012

Many international businesses have, on their own initiative, committed to reducing their carbon footprint and have taken steps to achieve their targets.

has also set up the Green Building Council to complement and support the government's initiatives to accelerate the greening of buildings by 2030.[3]

The European Union is moving towards the concept of producer responsibility where manufacturers will be increasingly liable for the carbon efficiency of their production process. The United Kingdom ("UK") Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") has been introduced this year to incentivise energy efficiency and reduce energy use amongst approximately 20,000 companies and other organisations in the UK. Through the CRC, the UK government will set a cap on the permitted annual carbon dioxide emissions of such organisations and the organisations will have to purchase allowances to cover the amount they require. At the end of each compliance year, a "name and shame" table based on information gathered from participants will be published. The aim is to give organisations financial and reputational incentives to reduce their emissions. The money raised from selling allowances will be "recycled" back to participants; organisations which perform well may well receive a net gain from participating in the CRC.[4]

Private Initiatives

Many international businesses have, on their own initiative, committed to reducing their carbon footprint and have taken steps to achieve their targets. United Technologies Corporation reduced its carbon footprint by 19% from 1998 to 2008 even as it doubled its output.[5] General Electric aims to reduce absolute carbon emissions by 1% by 2012 and has already successfully reduced the intensity of its carbon emissions by 30% in 2008, both as measured against 2004 levels.[6]

Private organisations have also jumped on the green bandwagon. The Pacific Asia Travel Association ("PATA") CEO Challenge 2008 saw leaders from all sectors of the travel and tourism industry agreeing to collaborate on a range of initiatives to confront climate change.[7] According to an article published by PATA on the Tourism Authority of Thailand's website, Banyan Tree Hotels and Resorts established a corporate goal to cut carbon emissions between 10-30% per property and 20% across the group in 12 months, while Marriott Internationals' stated goal was to reduce emissions by 20% in 10 years.[8]

Regulations

Although there are currently no climate change regulations in Singapore, they may be introduced in future. Corporations that have environmentally sustainable plans now will find themselves better placed to internalise the costs of such regulations and continue to operate efficiently. Some countries have already begun to regulate carbon emissions. Carbon tax has been imposed in the Canadian states of British Columbia[9] and Quebec.[10] Emissions trading, which requires corporations to limit their carbon footprint to the amount of carbon credits they hold, has been imposed in at least 27 European countries. Failure to comply with this usually leads to a fine imposed by the government, which increases operational costs.[11]

California has committed to reducing its carbon emissions by 25% by 2020 by passing the Global Warming Solutions Act of 2006. This Act tasks the California Air Resources Board to ensure that California will fulfil such commitment by, amongst other things, preparing a scoping plan to achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions and implementing mandatory reporting of greenhouse gas emissions. The Act also empowers the California Air Resources Board

3. http://www.sgbc.sg/index.php/green/about/mission/
4. http://www.businessgreen.com/business-green/analysis/2255466/crc-fast-facts-businesses-know
5. The Economist (issue 19-25 Jan 2008), at page 15 of the special report on corporate social responsibility
6. General Electric Ecomagination Fact Sheet at http://ge.ecomagination.com/annual-reports/ecomagination-fact-sheet.html
7. http://www.toinitiative.org/fileadmin/docs/ActivityReports/press_rel/press_release_pata.pdf
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to penalise breaches of compliance deadlines by stringent administrative, civil or criminal penalties.[12]

Benefits Of Carbon Reduction

Carbon reduction is not merely a public-relations exercise that can be costly to implement – it can generate both savings as well as growth for companies.

Savings

Reducing Waste

Corporations that are able to reduce their carbon footprint will be able to reap substantial cost savings resulting from the lower quantity of carbon consumed. Over time, as the price of carbon increases, these savings will be multiplied over time and become more substantial in contributing to the company's bottom-line. As early as 2007, Banyan Tree Hotels and Resorts launched a campaign to monitor and systematically reduce the carbon emissions of its resorts. Its Singapore office saw a 6% drop in electrical consumption levels within four months of the launch of the campaign.[13]

Increasing Operational Efficiency

Return on investment into energy efficient technologies are averaging about three to five years.[14] General Electric is an example of a company that experienced high return on investment in green technologies. In May 2005, General Electric launched "Ecomagination" – an initiative to create more energy efficient products. It invested US$750 million into cleaner technologies in 2005 and increased this to US$1.4 billion in 2008. In 2008, Ecomagination products brought in revenues of more than US$17 billion. That year, General Electric saw earnings that were the third highest in the company's history and was named the fourth most valuable brand in the world by Businessweek.[15] According to an article published in the website greenbiz.com, Wal-Mart increased its income in 2008 by US$200 million just by revamping product packaging.[16] Locally, MobileOne is aiming to reduce its carbon footprint by as much as 35% simply by using newer equipment.[17]

Products

As more people take notice of climate change issues, more investors are asking about the sustainability of businesses and more consumers are conscious of purchasing "green" products from "green" companies. Companies that are pioneers in becoming environmentally friendly firms will enjoy a crucial market differentiation for their products and services over their industry peers. They will enjoy better pricing power for such products and services. They also have a toehold in new markets that require green products and services. Wal-Mart, for example, has introduced a Sustainability Index, to help create a more transparent supply chain, drive product innovation and provide customers with information they need to assess products' sustainability.[18] Corporations have to do more than just pay lip service to sustainability and "greening" efforts. As consumers and investors become more educated, and with information widely available over the internet about "green" practices and the existing practices of corporations, it is not enough to label a product or service as "green". Increasingly, consumers and investors are asking probing in-depth questions about corporations' green credentials and how truly sustainable or "green" their products or services are, and querying the methods used in the determination of their carbon footprint.

Corporate Image

Corporations that are environmentally friendly find that they have a better corporate and brand image. Over time, shareholders of eco-friendly corporations may receive better returns resulting from the adoption of green practices. Such corporations may find it easier to attract ecologically aware investors and consumers. As the public becomes more aware of climate change issues and

As more people take notice of climate change issues, more investors are asking about the sustainability of businesses and more consumers are conscious of purchasing "green" products from "green" companies.

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sustainable practices, more people will also be attracted to working for such corporations, which are perceived to be more socially responsible. Companies are also less at risk of backlash from the community due to practices that are deemed to be irresponsible.

An example of such a risk being played out was provided in March 2010 when Greenpeace International revealed that Nestlé bought palm oil from corporations that were destroying rainforests to supply such palm oil. In response, stated that it had replaced its supplier and would use certified sustainable palm oil by 2015. Nestlé continues to face a barrage of criticism online as some members of the public and non-governmental organisations such as Greenpeace have deemed such actions to be insufficient as they do not sufficiently limit Nestlé's impact on the destruction to the rainforests. Greenpeace International has stated that it will continue its campaign until Nestlé has removed palm oil from the errant supplier from its supply chain completely.[19]

Implementing Carbon Reduction Measures

Steps To Be Taken

The most critical step in establishing a carbon reduction plan is to measure the company's current carbon emission levels. The company must be able to measure its emissions in order to set targets and to identify areas where carbon reductions can be made. The company should set a firm and realistic carbon reduction target, measured from the current (baseline) levels. More companies can aim to manage or reduce their carbon footprint or more ambitiously to be carbon neutral or even carbon positive, even though such targets are not mandatory. The next step would be to assess how to meet reduction targets in the most cost-effective manner. To this end, the company can set up a task force to identify possible methods to reduce carbon emissions, and the efficiency and cost of such methods. Relevant departments and personnel within the business should be assigned responsibility for proposing and implementing the selected methods and meeting the targets set. These methods may include increasing energy efficiency, using renewable energies, buying carbon offsets, or a combination of these and other initiatives. If buying carbon offsets comprises one of the selected methods, companies should take the cost into account in managing their operational costs and cash flow.

Singapore Spearheads Carbon Management Initiative

Corporations may be reluctant to implement green policies that are perceived to be costly and cumbersome. However, in the long run, the cost savings should more than offset the costs of implementation. Further, implementation is now made easier with more corporations offering services to assist in this area.

In Singapore, the CarbonNeutral Company, a world leading provider of carbon reduction solutions, has partnered six organisations, including major Singapore corporations such as City Developments Limited and Pan-United Concrete Pte Ltd, to test the first web-based carbon management tool pilot programme, which is supported by the Singapore Economic Development Board.[20]

One of the six organisations committed to this pioneer project is WongPartnership LLP, one of the leading law firms in Singapore and the only law firm to participate in the initiative. "When the Firm was presented with the opportunity to work with The CarbonNeutral Company in a pilot carbon management scheme, we saw this as an opportunity and had no hesitation in accepting the offer. In line with this, we launched our Environmental & Green Economy Practice as we foresee the development of a whole new cluster of economic activities generating from green projects and sustainable development. Our Practice is unique as it is part of a two-pronged approach to support the Firm's green initiative in its existing core business areas (some of which already span the green economy) and its own corporate social responsibility programme," says WongPartnership's Managing Partner, Dilhan Pillay Sandrasegara. Partners spearheading WongPartnership's Green Initiatives also add that there will be attendant benefits to the Firm in the form of savings on some operational costs as the Firm recycles more to reduce waste and also makes more efficient use of energy. Assuming it successfully reduces about 10% of its greenhouse gases emissions and waste, the Firm expects there to be a correlated decrease in operating costs.

Conclusion

The global move to lower carbon economies is gathering momentum and governments, investors, stakeholders, consumers and corporate and working partners all increasingly require corporations to be more environmentally responsible. Internally, corporations will face mounting pressure to reduce their carbon emissions as resources get scarcer and carbon constraints increase. Those who are able to adopt environmentally friendly strategies early will not only reap savings but will experience growth from the benefits highlighted above. ■

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20. http://www.carbonneutral.com/about-us/media-centre/press-releases/singapore-to-lead-the-way-with-carbon-management-tool-pilot/

The Rise Of Sustainability Reporting

By K Sadashiv
Ernst & Young's Asean leader
for Climate Change and
Sustainability Services

Sustainability reporting or non-financial reporting has now become the hot topic at discussions about businesses and their future. Ernst & Young's K Sadashiv, Asean leader for Climate Change and Sustainability Services, discusses the rationale for sustainability and the rise of corporate sustainability reporting.

Defining Sustainability

To examine the reasons as to why companies consider corporate sustainability reporting, let's begin with an understanding what sustainability really is.

Sustainability is almost always spoken in the context of "sustainable development". Arguably, defining what is sustainable is probably easier appreciated by defining what it is not!

To be not sustainable can be linked to a gamut of activities. It starts with the lack of responsibility shown to the environment. Very often, it is associated with the negative image of potentially "extractive and polluting" business practices that adversely affect the community where the business' operations are based, and beyond, for those with significant supply chain relationships. In these cases, support from stakeholders whether customers, government, shareholders or community could become tenuous, which can affect continued operations and sustainability. Expansionary business objectives need to balance their activities against their responsibility to preserve the environment and community.

The other potentially "exploitative" aspect is a business' attitude towards its employees and its customers, for example, in not providing equal opportunities to capable employees, or not supporting them to achieve their highest potential. By that same tone, providing products or services produced in an exploitative manner will not gain support in the longer term from increasingly discerning customers. Finally, if a business is not behaving ethically and does not demonstrate proper governance, the business is unlikely to be sustainable in the long run.

So sustainability or sustainable development is about making decisions that maximize benefits to the natural environment and communities, while maintaining or enhancing financial viability.

It has begun to be evident and proven in recent times that businesses, which behave in an environmentally, socially and ethically responsible manner, improve not merely the sustainability of the environment but their very own sustainability. Companies are also recognizing that carrying out a few "socially responsive" activities as a means of window-dressing is just not good enough.

Embedding Sustainability Into Corporate Strategy And Agenda

With sustainability issues coming to the forefront, they have migrated from being mainly the concern of environment engineers, safety and health inspectors, HR managers or heads of corporate communications, to the CEO's table and his team of corporate strategists. Increasingly, a role is being carved out for the post of Sustainability Manager who, similar to the internal auditor, tends to report to the CEO or an independent member of the Board.

More than ever, stakeholders, both existing and future, are demanding to see the non-financial performance record and plans. They are also evaluating the additional liabilities that may be inherent in a potential acquisition or investment by way of relevant carbon liabilities especially in countries that have greenhouse gas reduction obligations under the Kyoto Protocol. The factors constituting sustainable corporate behavior are now viewed as risks and potential threats, and by the same token, a tremendous competitive advantage if the right approaches are undertaken.

Sustainability Reporting And Reporting Frameworks

All of a company's sustainability initiatives have usually been reported as part of the annual report along with the financial performance. However, increasingly, they are reported in a stand-alone report. In its simplest form, the sustainability report or SR began as a mere compilation of non-financial initiatives and activities being undertaken by companies. And in the past, companies mostly followed their own reporting styles. In the late 1990s, the Global Reporting Initiative (GRI) - an initiative of the UN Environment Programme - was formed, marking an important step forward.

GRI is one of the most widely used frameworks globally. The first two versions of the GRI sought to consolidate and standardize process and criteria while the third (and latest) generation GRI-G3 provides clear directions on the information to be included in a report, and the form it should take. Much of that direction is about content: defining, benchmarking and ensuring the quality of information in the report. This includes showing clear answers for materiality and sustainability, making reports clear, concise and accurate, and ensuring strategies, management intentions and stakeholders concerns are addressed. It is relevant to all organizations, irrespective of size, sector or location, and can be voluntarily, flexibly and incrementally adopted. Sector supplements for selected industries are provided in addition to the core guidelines to capture unique sustainability issues.

The other generic non-financial reporting standard that is increasingly adopted is the AccountAbility AA1000 Principles Standard 2008 (AA1000APS), along with some industry-specific guidelines developed by industry associations. The internationally applied AA1000APS provides a framework for organizations to develop a principles-based approach to non-financial reporting, and gives guidance on indentifying opportunities as well as managing non-financial risks and compliance.

Principles Of Non-Financial Reporting

A sustainability report should address all material (i.e., relevant and significant) issues affecting stakeholders. Both GRI-G3 and AA1000APS provide a selection of principles to be considered when reporting on sustainability. These include:

Inclusivity - AA1000APS states that "inclusivity is much more than a stakeholder engagement process". It is the commitment to be accountable to those stakeholders that the organization impacts, and those who have an impact on it. It also enables their participation in identifying issues and finding solutions. In the words of AccountAbility: "It is about collaborating at all levels, including governance, to achieve better outcomes."[1]

Materiality - An issue is considered "material" if it will influence the decisions, actions and performance of an organization or its stakeholders. GRI-G3 defines materiality as "the topics or indicators reflecting an organization's economic, environmental

So sustainability or sustainable development is about making decisions that maximize benefits to the natural environment and communities, while maintaining or enhancing financial viability.

and social impacts that would influence the assessments and decisions of stakeholders."[2] AA1000APS defines materiality as "the analysis of information which takes into consideration sustainability drivers, and accounts for the needs, concerns and expectations of the organization and its stakeholders."

Responsiveness – Defined in AA1000APS as "how an organization demonstrates its response and accountability to its stakeholders." A responsive organization addresses its material issues and responds to its stakeholders in a comprehensive and balanced manner.

Stakeholder Inclusiveness – Similar to responsiveness, the GRI-G3 states that "the reporting organization should identify its stakeholders and explain how it has responded to their reasonable expectations and interests."

Completeness - According to GRI-G3, "completeness is the coverage of the material topics, the GRI-G3 indicators and the definition of the report boundary which sufficiently reflects economic, environmental and social impacts, enabling stakeholder assessment." While completeness is no longer an explicit AA1000 principle in the revised 2008 edition, it remains a key concept to the extent to which materiality, inclusivity and responsiveness have been achieved.

Assurance

As with financial reporting (where it is a statutory requirement), having independent assurance over a non-financial report can enhance its credibility. AA1000AS 2008 explains that "reporting organizations and their stakeholders increasingly accept that robust, independent external assurance is a key way of increasing the credibility and effectiveness of their reporting, and ultimately their performance."

For assurance providers, the most widely used sustainability reporting assurance standards are:

- The International Standard on Assurance Engagements

  (ISAE 3000) which sets out guidance for the provision of assurance over engagements other than audits or reviews of historical information.[3]
- AA1000 Assurance Standard (AA1000AS 2008) which provides guidance for evaluating the adherence of a reporting organization to the principles of inclusivity, materiality and responsiveness, as well as the reliability of associated performance information.[4]

In line with accounting standards for financial reporting, ISAE 3000 and AA1000AS 2008 outline two types of assurance approaches that can be undertaken by assurance providers for non-financial reports.

The differences relates to the way the opinion or conclusion is expressed:

Limited (or moderate) - The assurance provider's conclusion is generally expressed in a negative form, indicating that the information subject to the review has not been found to be materially incorrect and that "nothing has come to their attention" based on the limited scope of procedures. Therefore a moderate level of assurance has been expressed.

- Reasonable (or high) - The assurance provider's opinion is generally expressed in a positive form, indicating that the information subject to the audit is materially correct and a high level of assurance has been expressed. "Reasonable assurance" is less than absolute assurance. Reducing assurance engagement risk to zero is rarely attainable or cost-beneficial.

Typically the reporting company and the assurance provider should agree on the terms of the engagement at the start, specifying clearly the nature of the assurance engagement, whether reasonable or limited.

Conclusion

While sustainability reporting and its assurance may be a relatively new idea in the local context, leading companies that are concerned with their long-term sustainability are recognizing that there are indeed opportunities in this area to gain competitive advantage and investor confidence. Being sustainable and effective in sustainability reporting is never an overnight exercise. It will require genuine buy-in at all levels of the organization, a thorough review across the broadest and deepest spectrum of business activities, and strong commitment to ensure accountability of a company's non-financial performance. ■

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ISO 31000
The Global Standard To Guide Organisations In Managing Risks, Building Resilience Whilst Positioning To Take Opportunities In The Aftermath Of The Financial Crisis

By Kenneth Chin
CEO of Tricor Roots Consulting, specialists in the areas of Governance, Risk & Compliance (GRC) and can be contacted at info@tricor-roots.com.

A decade ago, the idea of having a full fledged Risk Management function to manage the Enterprise Risk Management (ERM) process across an organisation was relatively new to Singapore. This started to change in light of the Global Financial Crisis (GFC) that begun in 2008 and continues to create havoc. The challenges created by the GFC have also starkly highlighted the differences between the well-run organisations versus those that have relatively weak foundations. This has been demonstrated clearly by the slew of global accounting scandals and corporate governance failures, including a number of S-Chip companies in Singapore.

In addition, having best practices in ERM is becoming increasingly a necessary requirement for operating in a global marketplace. The examples of these include:

- The ratings agency Standards & Poor's has begun to include evaluating an Organisation's ERM framework and practices as part of the overall credit rating process;
- Insurers and re-insurers are seeking to evaluate the effectiveness of Organisational Risk Management in its premium calculation; and
- MNCs are reviewing the risk management strategies at potential partners and vendors as part of the selection process.

In efforts to build organisational resilience and develop a competitive edge, Enterprise Risk Management as a framework is now right at the top of boardroom agendas.

In Singapore, the awareness of ERM first came into prominence in the Code of Corporate Governance in 2001 ("The Code"), and was subsequently revamped in 2005. As part of the Code, companies listed on the Singapore Stock Exchange (SGX) were required to declare in their annual reports whether they have reviewed their company's

The development of the ISO 31000 standard is the culmination of years of work led by Australian, Canadian and many other global risk authorities, and represents a standardised blue print which will simplify the decision on how to start and continue the process in managing risks.

internal financial controls, operational and compliance controls, and risk management policies and systems established by Management (collectively "internal controls") and comment on the adequacy of the internal controls. However, the listing rules require neither the implementation of enterprise risk management nor compulsory disclosure of enterprise risk management activities.

Tightening Of The Risk Management Requirements

The requirements for Risk Management and transparency is about to be tightened significantly. The Singapore Exchange Ltd. (SGX) on 9 December 2009 proposed 36 changes to the market's corporate governance regime in Singapore in a wide-ranging review of its Listing Rules.

Amongst the changes proposed by the SGX, some of the key amendments include:

- to require the audit committee's assessments of the company's internal controls and risk management policies and systems to be disclosed in the annual report; and
- that newly listed companies appoint a Governance Adviser to assist in ensuring that they have the "framework and practices of good corporate governance as befits a listed company." The SGX proposes that areas of Governance that the advisor weigh in on include internal controls, risk management processes, board practices, accounting and reporting.

The changes above places greater accountability on the Audit Committee, comprising primarily of non-executive and independent directors, to comment on the adequacy of their company's internal controls, risk management policies and systems. These requirements are expected to be formalised by the later part of 2010.

The changes proposed are in line with Risk Management disclosure requirements in various other jurisdictions, including that of China, where the Government introduced the Chinese version of the Sarbanes-Oxley Act, known as China's Basic Standard for Enterprise Internal Control, or C-SOX. The standard requires companies to evaluate their internal controls, publish an annual report and audit the effectiveness of their controls.

Basis For Audit Committee To Provide Oversight Over The Adequacy Of The Company's System Of Internal Control

In order to carry out its role, the Audit Committee will require a reliable & formal basis for providing its comments on the adequacy of the company's internal controls. In this respect, the implementation of a robust Enterprise Risk Management framework is critical. There is clearly much work to be done. In a recent survey conducted by the Singapore Institute of Directors on Board practices among listed companies, the proportion of companies surveyed with an enterprise-wide risk management (ERM) system in place was only 41% in 2008, with another 59% planning to implement the ERM system within 3 years. This has deteriorated compared to an earlier survey in 2005, where 54% of companies said they had an ERM system.[1]

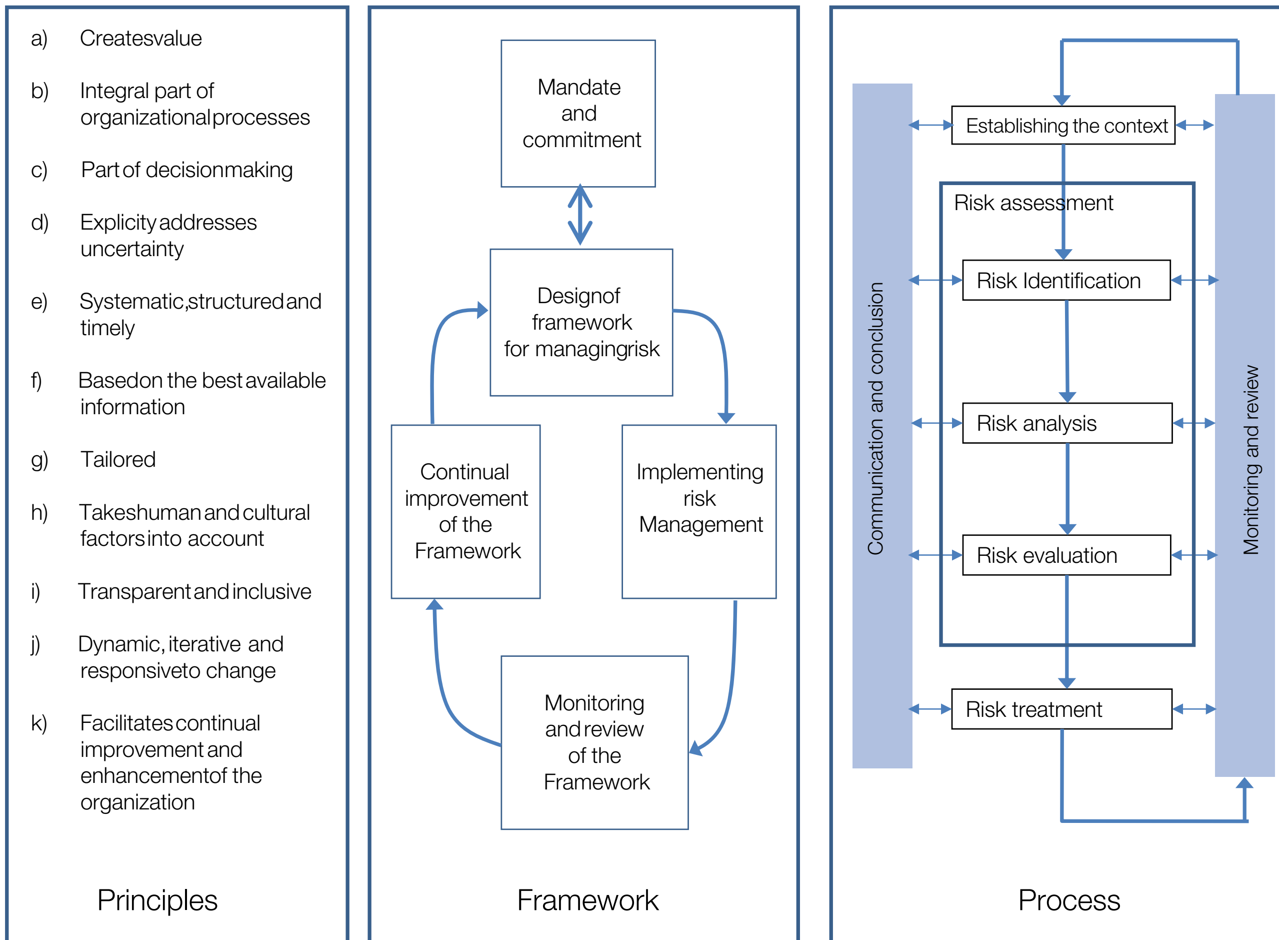
Although a number of organisations have begun the process of implementing a formal risk management process, one obstacle has prevented rapid progress; not knowing where to start.

Part of the problem in the past has been the large number of options available to organisations. These included the Australian & New Zealand Standard (AS/NZS 4360 framework), which have gone through 3 iterations in the past decade and the COSO framework issued by the Committee of Sponsoring Organisations of the Treadway commission. In addition, large accounting and insurance firms have further complicated the landscape by creating their own standards.

Release Of ISO 31000 As A Global Standard For Risk Management

During November 2009, the International Organization for Standardization (ISO) released ISO 31000, the new gold standard in Managing Risk. "ISO 31000 is expected to help industry and commerce, public and private, to confidently emerge from the crisis. (It) can be applied throughout the life of an organisation, and to a wide range of activities, including strategies and decisions, operations, processes, functions, projects, products, services and assets" says Kevin W. Knight, Chair of the ISO 31000 working group. 2 One of the potential benefits of an International standard will be to provide a uniform approach and language for managing risks. Critically, ISO 31000 provides a basis for the Board to have effective oversight of the organisation's System of Internal Control.

Figure 1: Principles for Managing Risk (This chart was reproduced from the ISO 31000 on Risk Management (2009).



The development of the ISO 31000 standard is the culmination of years of work led by Australian, Canadian and many other global risk authorities, and represents a standardised blue print which will simplify the decision on how to start and continue the process in managing risks. Fortunately for organisations that have been using an existing Risk Management standard, the ISO 31000 has been developed using AS/NZS as the starting point and incorporates best practices following extensive consultation.

How Does ISO 31000 Assist The Organisation To Effectively Embed A Risk Management Process?

There are three (3) critical elements that drive the ISO 31000 and are required to be in place for effective Risk Management, which covers:

- The principles for Management risk or the purpose/context of Risk Management within the organisation
- The Framework that covers the basis of managing risks
- The specific Organisational Process needed for managing risks

The relationship between the three parts is illustrated in Figure 1.

Defining the Principles of Risk Management

The new standard explicitly documents the principles of risk management. These 11 principles highlight the dynamic nature of risk management and clearly articulate how organisations should understand and apply the process of managing risk.

Approach in Designing the Framework for managing risks

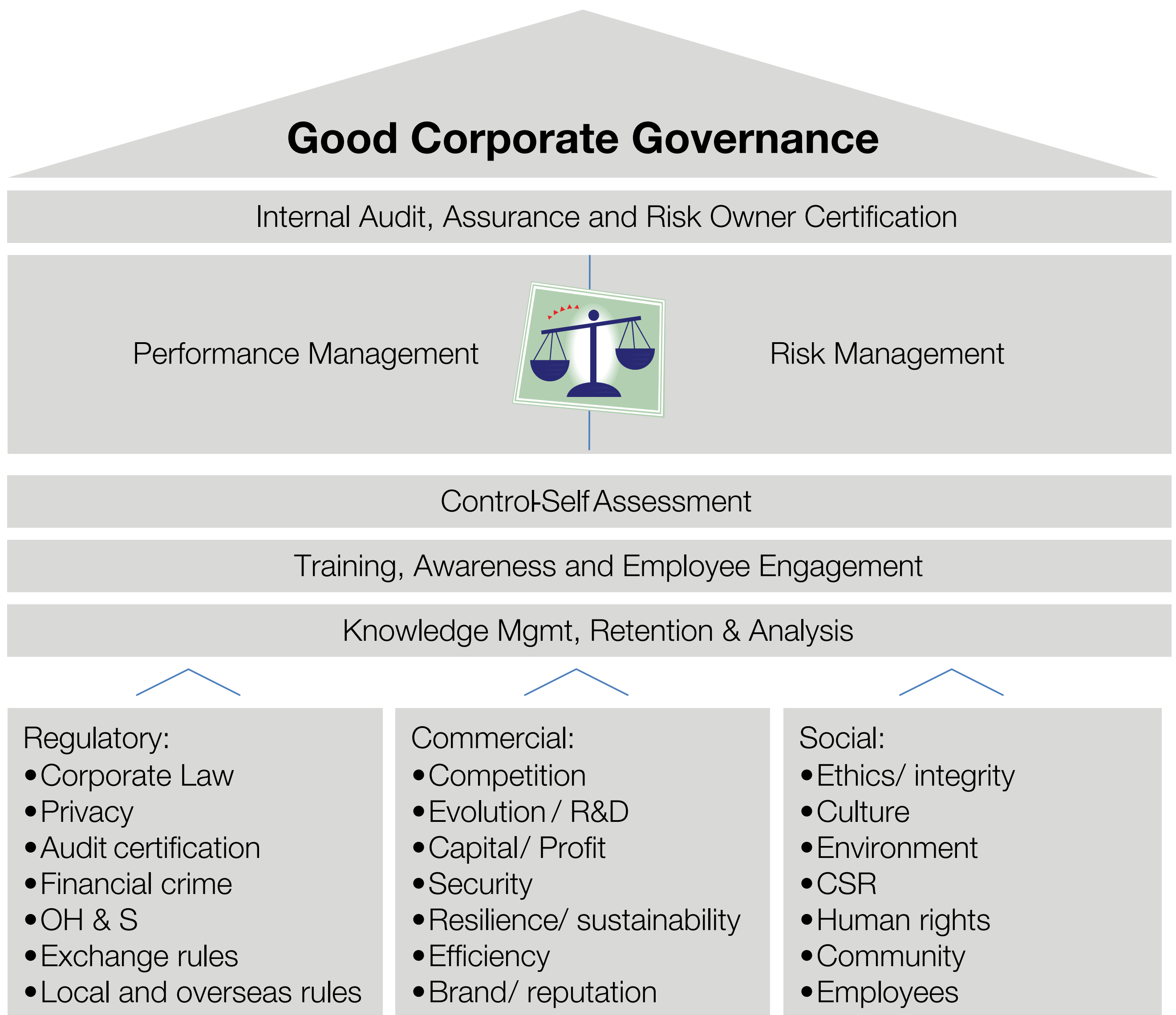
The Framework section of the document provides a practical, adaptable guide to the development of an organisation-specific risk management framework. It sets out the key elements that should be incorporated into an ERM framework to ensure that it operates effectively.

Implementing the process for managing risks

Lastly, ISO 31000 includes an outline of the specific Risk Management processes that builds on the ERM framework which ensures that the Risk Management process is embedded throughout the organisation, supports the management decision making process and critically, is sustainable.

To further support this process, an

Figure 2: Framework for Integrated GRC (Adapted from Tricor Roots Consulting's ERM Guidance (2008)



Annex of Attributes of enhanced risk management has been included in the document. These five attributes represent an advanced benchmark for the management of risk for organisations to aspire to.

ERM As A Corporate Radar For ISO 31000 For Directors & Senior Management

The ISO 31000 arguably set outs clearly the key messages or learning points in driving an effective ERM program. This includes the following:

- The need to set out the principles of Risk Management for the organisation, for which Risk Management is intended to create value, which takes it beyond the view of loss minimisation
- The link of Risk Management to demonstrable and measurable achievement of objectives, which includes improvements to organisation activities and processes
- Risk management is not a standard, compliance or tick-of-box activity for certification that can be separated from the main activities and processes of the organisation, but is instead an integrated part of organisational processes.
- Risk Management has to assist decision makers to make informed choices and prioritise actions.

Critical to embedding a practical and sustainable Risk Aware culture under ISO 31000 is that the risk management is not intended to describe a separate management system, but rather to assist organisations to integrate risk management within the context of the overall management system. Organisations, including government agencies, must therefore adapt and customise the framework components according to their specific needs and circumstances. An example of how ERM in integrated into part of Good Corporate Governance is illustrated below in Figure 2 and drawn from Tricor Roots Consulting's Governance Risk & Compliance (GRC) Framework.

The increasing globalisation of the companies in Singapore is driving them to bring their risk management and internal control systems in line with international practices.

The concept begins from an integrated approach for which knowledge management plays a critical role in identifying both external and internal issues. These issues are generally drawn from regulatory, commercial and social factors that impact on the organisation. There is a need to filter and sort out areas, ensuring appropriate training and engagement with employees and balancing its affect on both the performance and risk management strategy of the organisation. Internal Audit and Compliance functions plays a critical independent role to ensure information integrity before this information is presented to the Board for decision making process, thereby providing a holistic and balanced view.

Some of the specific steps that are alluded from this standard on incorporation into daily activities at organisations to embed a practical and sustainable ERM framework is described in relevant sections below, and covers the following:

- Establishment of a clear mandate and commitment from the leadership of the organisation. This should be formalised in a Risk Management Policy and adopted framework on which you can base your risk related activities
- Alignment between the risks against the business objectives of the organisation. This should not be generic hypothetical objectives, but specific & measurable objectives within the Strategic business plans of the organisation, customised based on your industry and key strategies.
- Ensuring risk appetite is in line with the business plan and clearly articulated
- Clear Risk Assessment process, whether qualitative, quantitative or semi-quantitative, to be clearly decided upon based on the complexity of the business and the needs of stakeholders
- Risks must be pro-actively measured in the form of Key Risk Indicators (KRIs). Much like measuring our blood pressure to determine our health risks, corporate & operational KRIs are critical to tracking key risk occurrence and impact, enabling immediate actions to be taken where necessary.
- Clear Control-self assessment through allocation of ownership for risks across the organisation
- Accountability and incentive HR programs to promote good risk management and governance broadly
- Clear Key Performance Indicators (KPIs) to measure the effectiveness of the Risk Management process for ongoing tracking & analysis.
- Collaboration between Risk Management and Internal Audit as independent assurance providers to ensure key risks are included in the Audit Planning process.
- Use of Risk Management technology tools to support an effective ERM process, in particular the monitoring element of the Risks.

Each of the actions above should be co-ordinated in line with Internal Audit, the Board Risk Management Committee and Audit Committee championing the process.

Gold Standard To Build Organisational Resilience

The increasing globalisation of the companies in Singapore is driving them to bring their risk management and internal control systems in line with international practices. With the release of ISO 31000, there is now a global standard to guide Directors towards implementing a robust and effective Enterprise Risk Management Framework that suit the organisations' needs.

In conclusion, it should be stressed that any standard or guidance simply remains theoretical until it is designed and implemented within an organisation based on its specific needs. The ISO 31000 provides a world-class foundation for which a robust, holistic and sustainable Risk Management framework can be implemented.

A copy of the standard can be purchased directly from the ISO website at: www.iso.org ■

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Budget Reflections: Getting The Show Back On The Road

By David Sandison, Tax Partner,
PricewaterhouseCoopers Services LLP

This time last year, Singapore found itself in the middle of a crisis -not, admittedly, of its own making -which called for the implementation of a "resilience package" that would enable it to hunker down and survive the passing storm.

The general outlook, judging by the tenor of this year's Budget speech, was that the storm had indeed passed. What was needed now was to take a compass bearing and get on with the original plan for the sustainable growth of the Singapore economy and its people.

Whilst not everyone may share the optimistic view that the worst is over, there is no doubt that, whatever one's persuasion, Singapore needs to take a serious look at its long-term situation sooner rather than later.

The report of the Economic Strategies Committee (ESC) painted an enormous tableau, and it was clear that all the Minister could do in this Budget was to point the ship in the general direction by putting in place some of the fundamental strategies that would underpin the way forward, and be consistent with the conclusions drawn from the ESC report, which he asserted the government accepted.

The approach he took was very much from the bottom up. The thrust of the initiatives announced were aimed at the lower paid, the consolidation and growth of SME's, and a general upgrading of quality and productivity from the lowest levels up, through training and innovation. Here are some thoughts on the wider implications of the Budget for the economy.

Wither Personal And Corporate Tax Rates?

The rates of personal and corporate taxes is always is a hot topic in wish lists running up to the Budget. However there is a difference between what one may wish for, and what one expects. There were obvious hopes that the highest personal tax rate of 20% would be brought down in line with the corporate rate, which is something that has traditionally happened if not always within the same year, then certainly within the year after that. It is now three years since the corporate rate departed on its own downwardtrend, leaving personal tax rates where they were.

Taking a step backwards, it should have been clear that there was little motivation or pressure for personal tax rates to be lowered at this point. Firstly, when compared with the personal rates in Hong Kong, it could be seen, although not easily, that Singapore's personal rates were competitive. Singapore's rates are in fact lower than those of Hong Kong for the first $500,000 of taxable income. This should be enough to keep a large chunk of the population happy. Secondly, it might have been considered politically insensitive to be seen to be helping the rich get richer, at a time when it was the lower paid and those facing redundancy who were struggling and most in need.

A rate reduction would also have cut across one of the subtle but clearly present policy drifts, distilled from the Budget content, towards a redistributive tax system. This showed itself in the guise of the new graduated property tax regime.

But there are two sides to every coin. It could be argued, for instance, that the government missed an opportunity in the struggle for foreign talent. Windfall bonus taxes in the UK, on top of a swingeing 50% rate of tax on incomes over £150,000 (roughly the S$320,000 where the top rate of 20% kicks in), could have been capitalised on. A little tweak downwards in rates (and the publicity that came with it) could have created a tipping point for many a poor London banker pondering why he was digging his second-hand Mazda out of a snowdrift where his straight-out-the-wrapper Porsche once stood.

On the corporate tax side, again, the motivation for further reductions was clearly absent. Although a cosmetic win over Hong Kong's 16% rate may have provided some emotional stimulus, it was technically not required. As was gleaned from the rate used in the Budget for converting R&D tax benefits to cash, the average rate of tax paid by Singapore companies across the board is a mere 7%.

> "But the Government cannot decide which enterprises should succeed or phase out, or say exactly what the corporate landscape should look like 10 years from now. We must rely on the market to achieve this restructuring"
>
> Minister for Finance, Singapore

The End Of Incentives?

But this brings us onto another interesting area. A few years ago, countries such as Singapore, who had relatively low tax rates as well as a tax incentive framework that homed in on certain activities or industries, were targets for a disaffected OECD who were concerned about what they called "harmful tax practices". Basically the organisation was taking a swing at jurisdictions that did not need to raise significant amounts of tax through their direct tax system, as their fiscal balances did not call for it (unlike in most cases, those of the countries the OECD represented).

It is true to say though, that the heat has come out of this issue, with much more focus latterly being placed on banking secrecy and exchange of information. Nevertheless, this earlier pressure did leave an impression, and some countries did indeed seem to yield to it. Ireland, for example removed its 10% incentive rate and compensated for this with an across-the-board reduction in the full rate of corporation tax.

The question is whether this is still a possibility for Singapore going forward. Two things cause me to raise this question. The first is a throw-away comment made by the Minister for Finance in the Budget speech itself, when he said,

"But the Government cannot decide which enterprises should succeed or phase out, or say exactly what the corporate landscape should look like 10 years from now. We must rely on the market to achieve this restructuring"

Relying on the market suggests a move from letting the government choose the targeted industries. This could indicate a gradual convergeance of basic and incentive rates.

The second hint at a possible move in this direction was the removal of the troublesome "Qualifying Base" for banks. This has resulted in the incentive rate being moved upwards from 10% to 12%. This is the first time I can ever remember a rate hike. Perhaps some food for thought.

Graduated Property Tax Regime

As noted above, a graduated property tax regime was introduced for owner-occupied residential property, which seeks to shift some of the government handouts (for example GST rebate costs) from the government to the better off, with the Finance Minister hinting, as he did, that this may be an increasing trend. As noted above, this goes hand-in-hand with the resistance against personal tax reductions. It may also help stave off, to a degree, concerns about Singapore's gradual slippage to a welfare state on the back of an increasing trend over the past few years for government handouts.

Looking at the impact of these changes, it is likely that an increase will only be felt by those whose properties have an annual value of over S$77,000, something enjoyed by a mere 0.4% of all

owner-occupied residential properties. In addition, as a percentage of income, the increases are likely to be shrugged off by those who own the more expensive properties; but the reductions will make a more substantial difference for the lower income group.

And The Foreign Worker Levy?

Perhaps the area of the Budget that has to date stimulated the most discussion is the government plans to increase the foreign worker levy, so as to help stimulate a productivity focus.

There are perhaps some difficulties with this. Productivity is most easily enhanced in the manufacturing industry where machines and clever systems can replace people and do things more quickly and accurately. The service industries, which rely more on personal interaction and customer care, will struggle more to achieve noticeable productivity increases that do not also damage the customer relationship. You need only to have been hanging on a banking call centre line for twenty minutes, listening to some inane advertising for things you have not the remotest interest in, to get my drift; and that is after hammering all the buttons and shouting at your phone.

Two industries in particular, and which are of great economic benefit to Singapore, will feel the impact of the foreign worker levy hike: construction and food and beverage. Certainly, construction techniques are forever improving; but there is no substitute for human intervention and control. Also, Singapore, unlike some European cities, is surrounded by a wealth of cheap labour that is not going away anytime soon.

On the F&B side, there is again no choice. This industry is already plagued by labour shortages. Foreigners must be brought in to fill the gap, as there are simply not enough Singaporeans to go around; and the day you have to pour your own wine out of a chiller in a five star hotel is the day I give up drinking (in five star hotels at any rate).

So the rate hikes may simply convert into cost increases for some industries, and into tax-take for the government.

Whither Singaporeans?

All this talk of foreign talent and labour brings us onto an interesting discussion about demographics. Pure-bred Singaporeans are, mathematically, a dying race. There are not enough new ones being produced, so maybe some productivity enhancements are needed here. But there is an interesting bit of daylight beginning to appear between Singaporeans and the rest. The foreign worker levy increases may be one manifestation of this; recent increases in school fees for permanent residents sending their children to local schools may be another. These are interesting moves at a time when integration of foreign talent is at a critical point, not only for the economy, but putting it brutally, for the survival of the race. The question Singapore needs to ask is "what is it that makes a Singaporean". The answer sadly is no longer "Two Singaporeans".

And The Rest?

For the rest of the Budget, it was a bit of a rag-bag of tweaks and extensions to incentives, with the maritime sector getting a slight edge over the rest this year. Corporate tax stayed where it was at 17%, which is where it was expected.

Perhaps one interesting new incentive, aimed at assisting credit starved start-up businesses, was the Angel Investor scheme, which turned the board around by giving tax deductions for investment, rather than what has for many years been on offer – tax deductions for failures. This is something we had been calling for a while now, and although the scheme does not go as far as it could, it is again heartening to see the government responding to ideas and feedback.

Overall, the Budget has given more food for thought in the aftermath than what might have been obvious on the day. Again, it produced nothing that will shatter the earth, but as Lao Tzu allegedly said, "The journey of a thousand miles starts with one step". Budget 2010 took that first step on what is inevitably going to be a long journey. ■

What Makes A Good Director?

How can the quality of directors be assessed? What is the number of directorships that one person can reasonably hold? How long should a director sit on the board? These were some of the questions that were raised at a panel discussion "What makes a good director?" at the Singapore Management University (SMU). The effectiveness of company directors came under the spotlight after the recent calls to raise the professional standards of directors in the corporates of Singapore.

The discussion was held in conjunction with the graduation ceremony of the inaugural Executive Certificate in Directorship programme jointly organised by SMU and Singapore Institute of Directors (SID). The SID was formed to promote the professional development of directors and to encourage the highest standards of corporate governance.

The moderator of the panel discussion was Associate Professor Annie Koh, Dean, Office of Executive and Professional Education, SMU. The panellists were: John Lim, Chairman, Singapore Institute of Directors (SID); Lee Suet Fern, Senior Director, Stamford Law Corporation; Saw Phaik Hwa, President and CEO, SMRT Corporation; Teo Soon Hoe, Senior Executive Director and Group Finance Director, Keppel Corporation; Christina Ong, Partner, Allen and Gledhill Advocates and Solicitors.

The programme, the first of its kind in Singapore, is a formal certification process for director training. It aims to provide holders of this certificate knowledge on areas ranging from the role of directors, their legal obligations, and how to assess, market and manage human resources from a strategic level.

Report Cards For Directors Too?

Why are directors important? They play a critical role in a company: they represent the interests of all shareholders; they keep watch over the company's management team and provide the necessary guidance and expertise. They shoulder responsibilities that are by no means light, and in this rapidly

"Effective are boards who find a successful formula, where every single director has his role to play. It is how they eventually evolve as a team – as a group of people who know what certain directors can contribute – that makes the boards effective..."

Teo, Keppel Corporation

changing business environment, playing an increasingly complicated role. Their actions tie them to the level of corporate governance of the company.

The discussions kicked off with the question: how does a company and its board go about assessing the quality of its directors? Put it simply, tough, especially in the Asian business environment. "Singaporeans are very kayki (which means polite in the Hokkien dialect). We tend not to want to offend others, so the report card is: Everybody is okay," said SMRT's Saw. Her view is shared by Stamford's Lee and SID Chairman Lim.

Does using facilitators or consultants help improve the quality of our directors then? Only if people are willing to open up, said Saw. To do that, people must be honest about how they feel and be ready for an open face-to-face engagement. As Lee said, the company will not go far unless there is some form of constructive feedback.

However, while an effective director is important, an effective director alone does not mean an effective board, said Keppel's Teo. After all, it is about the actions and decisions of the entire board, and not the capabilities and personalities of individual directors. "You can have the best director – that is individually qualified – but you don't necessarily get an effective board at the end of the day," he said.

"Effective are boards who find a successful formula, where every single director has his role to play. It is how they eventually evolve as a team – as a group of people who know what certain directors can contribute – that makes the boards effective," said Teo.

What Is Right, What Is Long?

Another hot topic is whether the number of directorships should be regulated. This is sparked off by a lingering concern among investors on the number of board seats individual directors should sit as well as it might be too much of a stretch.

This is a point that Lee agrees. From her perspective, it is "physically very difficult to do so many directorships" because the time demands for reporting financial results are "all bunched at the same time". Singapore-listed companies are obliged to release their financial results for the first three quarters within 45 days after they close their books, and 60 days for full-year results. More often than not, companies tend to do so just before the deadlines and it is not too difficult to imagine the rush as directors need to meet and approve the accounts before they are made public.

Lee believes that self-regulation does not deter people from taking on too many directorships. "It is bad for us and bad for the investing public," she said. While she accepts that all guidelines are arbitrary, she feels that it is sometimes "better to have it than have a free-for-all".

As one of the most high-profile lawyers in Singapore, Lee sits on the board of French insurance giant AXA – one among the handful of Singaporeans with the chance to sit on boards of such a multinational corporation.

Lee does not give a specific number of directorships that one person can hold, but she suggests having a guideline for people with full-time employment, another for those without full-time employment, and perhaps, a third one for those who are already executive directors of a public listed company.

However, Keppel's Teo disagrees with the limit of directorships. He feels that "it is an individual director's responsibility to ensure that if he sits on any board, he has time for it." SID's Lim concurs with Teo. His stand is that the limit of directorships is best left to the nominating committee, the board and director himself to decide. "There is sufficient pressure for nominating committees to take an objective position," he said.

Besides raising the concern of directors holding too many directorships, Lee believes that a director should not sit on the board for too long, or they will get so comfortable with the management that they will not want to ask 'stupid' questions.

This is also the view of SMRT's Saw. Even though this may spell more work for management, she felt that it was all worthwhile as "you need people who ask questions". What's more, new directors bring with them a different scope of experience, she said. "Every six to seven years is very good," said Saw, whose company is the dominant operator of train services, has a board of "revolving door directors" who stay for only six years. "I'll be very concerned if a board member stays 10 or 20 years in the company," she said.

Lim is also for the concept of board renewal too. "I personally believe that every board should have a director that is fairly new because if he has sufficient courage, he will ask a lot of questions that older directors may not ask. If we do not allow new directors to come in and be mentored and groomed, where

are we going to get our future supply of directors then?" he said.

While Teo believes too that the board should be continuously renewed, he nevertheless finds it unfortunate that a director would be perceived as non-independent after nine years serving on the board. Teo is referring to a proposed measure by the Monetary Authority of Singapore for financial institutions. "Directors who served for many years do not necessarily become less independent," he said. As it is, he thinks it is difficult enough to find good directors. The reason is quite obvious: with their wealth of knowledge and experience won over the years via the hard way, they can't just be replaced with a snap of the fingers.

Board Appointment Service

From his vantage point, Lim has observed that many companies are approaching the usual names to serve as directors. He feels that the pool out there is "certainly bigger than the 4,000 directors that sit on the boards of companies" here in Singapore.

"We believe there are many directors who are available, who are competent, but are probably not as well-known," he said. To address this concern, the SID has introduced a match-making service, known as the Board Appointment Service, whereby for a nominal fee of $1,000, companies can tap into the institute's network and database to search for suitable director candidates.

"We will have their template, their qualifications, their experiences, including specific industry experience... And when companies look for directors, we'll ask what sort of skills they are looking for, any specific attributes and then we'll try to match the needs of the companies," said Lim.

The services include giving companies tips on how they can structure their board and how they should write their Letter of Appointment. SID will also tie up with at least two search firms to provide evaluation services of the candidates.

"We will have their template, their qualifications, their experiences, including specific industry experience... And when companies look for directors, we'll ask what sort of skills they are looking for, any specific attributes and then we'll try to match the needs of the companies..."

Lim, SID Chairman

The service is developed in view of the growing calls to professionalise and raise the standards of independent directors, and growing concerns that not enough efforts have been made to search out the right candidates.

"On My Own Merit"

The panel also touched on the diversity of board representation. Some European countries, like France, have put in place legislation stipulating a minimum quota of seats on the board that can only be taken by members of the fairer sex. While Singapore is nowhere down that line, many companies, on their own, are appointing female directors so as to widen the talent pool and increase the diversity. Nevertheless, the number of women directors is still far few and between, and according to the panellists, gender discrimination has nothing to do with it.

Teo relates the story of how a lady director stepped down to spend more time with the family, and the company encountered great difficulties in finding a replacement. "And when we finally found a particular person, we were told that she has too many directorships," said Teo. He attributes the shortage of supply of lady directors to the fact that they have not come up to offer themselves – and not an issue of capability. Lim thinks likewise. Out of 28 graduates from the recently graduated SID-SMU programme, there are only five women.

Ong, who is also the Head of Financial Services at Allen & Gledhill, thinks that lack of prominence may play a part in the scarcity of lady directors on the board. She observes that there are many untapped people – not just women – out there. "We see a lot of board movement of directorships but (we see) the same faces. If they leave one board, they would have gone to another board. And you wonder if there is any other person available out there," she said. While the experience does count, she feels that fresh blood should be welcomed too. "And not just young blood – but female blood – as well," she quipped.

Lee feels the same. "If you are looking for a well-known name, then of course there is a shortage," she said. But if you are looking for people who are able and conscientious who knows what is involved, there should not be any lack.

However, at the end of the day, this is a job that is more than just about the directors' fees that shareholders approve during each annual general meeting – it is also a duty, a legal and moral responsibility that rewards in non-tangible ways.

While panellists agree that there are not enough women directors, none endorse the idea of regulating the number of women on the board. As Lee puts it: "I would want to be there on my own merit." ■

This article is contributed by Knowledge@SMU

"Does Good Corporate Governance Translate Into Higher Valuation?- A Research Finding From SMU"

15th April 2010
Marina Mandarin Singapore

The Institute and Sim Kee Boon Institute (Singapore Management University) jointly organized a luncheon talk for directors "Does Good Corporate Governance Translate into Higher Valuation?- A research finding from SMU". The talk was held on 15th April 2010 at Marina Mandarin Singapore. It was well attended by members and non-members.

A/P Jeremy Goh, Director (Academic), Sim Kee Boon Institute for Financial Economics, Centre for Corporate and Investor Responsibility (CCIR), Developer of the Singapore Corporate Governance Index, Singapore Management University presented the findings of the research .

The study finds that higher price-to-book value in firms ranked tops in governance score. Investors are willing to pay a premium for companies with good corporate governance confirmed in a study made by the Singapore Management University.

The research scrutinized the annual reports of listed companies on the Singapore Mainboard, to look at the various corporate governance factors based on OECD principles.

"How well companies score is found to be correlated with their price-to-asset value (Tobin's Q)", said Associate Professsor Jeremy Goh of the SKBI for Financial Economics at SMU.

Government linked companies (GLCs) are found to have higher price-to-asset values and return on assets (ROA) than non-GLCs, a trend which is attributable to the fact that most GLCs are large corporations with resources to adopt a comprehensive CG framework.

According to A/P Goh, there is an increasing correlation between the trading multiple and state ownership of companies.

Companies with board members with political linkages are also found to have slight higher trading multiples and ROA than those companies without on average.

Generally, transport companies fare well in corporate governance and they are trailed by agriculture, multi industry and finance companies.

The Institute thanks Sim Kee Boon Institute (SMU) for its collaboration in making this talk possible as well as all members and guests for their presence.

An article on "Does Good Corporate Governance Translate Into Higher Firm Valuation?" contributed by A/P Jeremy Goh will be published in the next issue of The Directors' Bulletin.

Directors' Responsibilities For Business Continuity Management

9th April 2010
Marina Mandarin Singapore

Do you realize that BCM (Business Continuity Management) is a key part of the ERM (Enterprise Risk Management) process? The Code of Corporate Governance requires Audit Committee to review adequacy of risk management policies. Is your board placing appropriate priority and allocating adequate resources to BCM?

"Is your company BCM ready?" your customers will be asking you. What are the benefits to your business? We will show you how to become BCM ready and build a competitive advantage over your competitors.

How does one become BCM certified and receive financial grants from Spring Singapore?

The luncheon talk was organized by Singapore Institute of Directors and Singapore Business Federation. It was held on 9th April, 2010 at the Marina Mandarin Singapore.

The event was well attended by members and non-members including corporate professionals who were interested to get further insights on how to become a BCM certified and BCM Ready Enterprise.

Mr See Hong Pek, Partner, PwC shared valuable insights with the attendees as to how an organization is BCM ready, the responsibilities of directors relating

to BCM as well as how to set up BCM and to deploy a business continuity plan within an organization.

Mr Touw June Wah, Deputy Director, Capacity Building Division, Singapore Business Federation has enlightened the attendees with a detailed account of the National Business Continuity Programme in Singapore, and the benefits of being BCM ready as well as the financial incentives which local qualifying corporates could obtain from Spring Singapore.

The Institute would like to thank our valued partners, Singapore Business Federation (SBF) and PricewaterhouseCoopers Singapore (PwC) for making this luncheon event possible and all attendees for their presence.

April 2010

Barreto	Allwyn Zephirius	Lee	Chong Pheng Dennis	Siaw	Agnes
Besserer	Marc	Lee	Yen Kee Ruby	Siaw	Samuel
Boo	Hian Yong Elfred	Lee	Yih Neng	Singh	Kaka
Cheadle	Abigail	Leng	Yew Chee Philip	Soh	Kok Leong
Chia	Wei Ho	Ling	Roy	Soh	Peck Lin
Chong	Yoke Sin	Lo	Swee Wen	Song	Ying Meng
Curtis	Richard	Mah	Yeok Fun	Tan	Jenny
Greaves	Mark Christopher	Mahe	Eric	Tan	Le Leng
Guliani	Sunil Kumar	Ng	Hung Seng	Tan	Siak Hee
Honegger	Mona	Ng	Kim Tean	Tay	Eng Hock
Kapoor	Vivek	Ong	Shwu Fen Marie	Tay	Woon Teck
Khoo	Kay Hoay	Ong	Yong Beng	Teah	Kok Siong
Koh	Kah Hock	Pang	Alan	Teo	Cheng Hiang Richard
Lai	Chung Yin	Raymond	Bo	Teo	Lai Wah Timothy
Lamb	David Anthony	Rupawalla	Mahesh	Teo-Yong	Magdalene
Lau	Wing Tat	Seow	Kim Swee Clifford	Tong	Yew Heng

May 2010

Ang	Meng Huat Anthony	D'Souza	M. Clarence	Owen	Raymond
Carrington	Toby	Foong	Jasmine	Porter	Felicity Anne
Chao	Glenn	Heng	Yeow Teck	Tan	Eng Kwee
Chew	Gek Hiang	Ng	Chee Weng	Teo	Geok Har Nancy
Chua	Zi Jian Eugene	Ng	Wai Kong	Wu	Qing Xuan Jessica
Chua	Hoe Sing	Oh	Teik Khim	Yap	Xi Ming

Call for articles, thoughts, snippets, etc.

The institute would like to hear from you. Send us aricles, 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

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