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Board Renewal And Refreshing

Perspective From The Top

Mr. Stephen Lee, Chairman, Singapore Airlines Ltd Shares His Views On The Typical Role Of A Board And Keeping The Board Fresh Through Regular Renewals.

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.

CONTENTS

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	Page
FROM THE EDITOR	2
CHAIRMAN'S MESSAGE	3
COVER STORY	
Perspective From The Top – Mr. Stephen Lee, Chairman, Singapore Airlines Ltd Shares His Views On The Typical Role Of A Board And Keeping The Board Fresh Through Regular Renewals	5
FEATURES	
Directors' Duties For Companies In Financial Difficulties	7
The Exceptional And The Rule	9
Replenishing And Refreshing Boards With New Directors	13
Internal Controls – So Who Is Responsible?	16
IDs: More Than Just Monitors	18
Governance For Rapid Growth Private Companies – An Investor's Perspective	20
Leadership Risk Assessment: A Board Responsibility	24
SID Corporate Membership	26
Board Appointment Service (BAS)	27
EVENTS COVERAGE	
Annual Golf Tournament	28
SID Directors Conference 2010	31
WELCOME ABOARD (New Members)	37

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The Business Enablers

FROM THE EDITOR

This issue of the Directors' Bulletin looks once again at Board Renewal, a topic revisited from time to time in the Bulletin. Board renewal and refreshing are critical to the growth of the company, a view typically not taken by many. This is a view I put forth, because a Board not renewed or refreshed lends itself to complacency or perhaps a comfortable inaction, which could have been better spurred on through a different dynamic on the Board with new views; even when the best minds occupy the seats of the Board.

We start the series of articles on rejuvenation with an interview with Mr Stephen Lee, Chairman of Singapore Airlines Ltd. Mr Lee, a man with vast experience and a tremendous depth of wisdom on Board matters, shared his views on the typical role of a Board and how the Board ought to be kept fresh through regular renewals. His view is that typically a director "would serve an average of six years on the Board or two terms of three years each". This is good guidance as within a space of six years, an individual would have had time to understand the business of the company and provide valuable feedback and guidance on moving the entity to newer and greater pastures. For reflection, note that the UK position is to have directors sit no more than three terms of three years each. Even a small country such as Maldives advocates that directors ought not to sit for more than three terms of two years each, ie six years.

Mr Lee also discussed the process of identifying candidates to be appointed onto the Board, and noted the importance of the nominating committee in this regard. He explained that the Nominating Committee in Singapore Airlines, which made recommendations for additional directors or replacement directors, would review a range of factors, including the expertise, skills and attributes of current Board members, before embarking on who to bring onboard.

Two additional articles on Board Renewal, one by Egon Zehnder International and the other by Qualvin Advisory Pte Ltd, restate and emphasise the points made by Mr Lee with clarity. The latter article, written by Paul Zaman, in particular presents the views of ten seasoned directors who agreed to share their insights. A critical element, which I have stressed at every opportunity possible, that comes through from the views of the directors is that directors need to be numerate and understand business numbers. This does not, however, mean that the directors must be qualified accountants or have had other financial training; it simply means they need to be numerate. This translates into being able to "read numbers, see trends and understand cashflow".

Board renewal aside, the day to day actions of the Board is an area which is not easy to handle and manage. To this end, in the first ever Singapore Institute of Directors Conference 2010 titled "Getting It Right, The Challenges And Opportunities Ahead", much focus was placed on what directors could do in risk management as well as in investor management. The Conference, which saw much debate and discussion not just amongst panelist but also with participants from the floor, featured top notch speakers and panelists, including Baroness Sarah Hogg, Chairman of the Financial Reporting Council UK, Sir Richard Broadbent, the Deputy Chairman of Barclays UK, Dr Nik Ramlah MD, of the Securities Commission of Malaysia and Yeo Lian Sim, Chief Regulatory Officer, Singapore Exchange, as well as leading CEOs from many Singapore based corporations. The Conference was very well attended with over 250 participants. The Institute will certainly have more such forums and certainly similar Conferences, moving forward at which seasoned and new directors can exchange and share views with regulators as well as the business arena.

I take this opportunity to say thank you to all contributors to this issue of the Directors' Bulletin, and to ask members to please send us their views, articles and more for our Bulletins. It remains for me to wish everyone a Very Happy New 2011. Till the next issue, wishing one and all the best!

Kala Anandarajah
Editor

CHAIRMAN'S MESSAGE

Dear fellow members,

Greetings to all!

As Year 2010 draws to a close, I am glad to report that the year has been a busy and fruitful one for the Institute. During the year, we launched new training programmes, such as the Listed Company Director Programme, Growing Enterprise Management Programme and the SID-SPRING Executive Development Programme while continuing with existing training programmes and courses. At the end of the year our membership has for the first time exceeded 1,600 members.

As indicated in my Chairman's report to members in the latest AGM booklet, in mid November we held our flagship Director Conference on Corporate Governance with the theme "Getting It Right – The Challenges and Opportunities Ahead". The conference was attended by more than 250 participants. I take this opportunity to once again thank Minister Lim Hng Kiang for being the guest-of-honour at the opening ceremony, Mr JY Pillay for his closing speech, the two keynote speakers, namely Baroness Sarah Hogg and Sir Richard Broadbent, all the panelists and moderators and corporate sponsors for their contribution toward the success of the conference. I would also like to place on record my gratitude to the conference organizing committee and the staff of the Institute's secretariat for their hard work and dedication to ensure the success of the event. Last but not least, I wish to thank all the corporate leaders and regulators, many of whom are our members, for turning up to support our flagship event.

At our 12th Annual General Meeting (AGM) held in late November, Mrs Fang Ai Lian and Mr Will Hoon retired from the Governing Council and Mr Andy Tan Chye Guan was elected a new member of the Council. On behalf of the Council and the Institute, I would like to thank Mrs Fang and Mr Hoon for their invaluable contributions and extend a warm welcome to Mr Andy Tan and look forward to his active contribution to the efforts of the Institute.

As we move on to 2011, your Institute expects to have an even busier year ahead as we continue to focus our priorities on further enhancing the professional development of directors and on building the profile of the Institute. Next year we expect to increase the number of people graduating from the training programme conducted in collaboration with SMU. Members may wish to know that we have started conducting the SID-SMU programme at diploma-level since September 2010. We have enjoyed a close working relationship with SMU and these two certification programmes will form a very important foundation of our professional director development efforts.

To better equip directors with the appropriate skills and knowledge, the Institute will conduct more runs of the Listed Company Director and Growing Enterprise Management programmes. The course schedule for next year has been finalized and I hope members will avail themselves of the training opportunities. Besides these two more formal programmes, we will continue to organize talks/seminars on subjects of topical interest to directors.

In the new year, we will also be stepping up efforts to promote our Corporate Membership scheme and the Board Appointment service, both of which were launched in August. The response to date has not been totally encouraging and I hope more companies will come forward to support these two important initiatives. The Institute believes that to build up capacity and further raise corporate governance standards in Singapore, it is essential that companies should widen their search for suitably qualified and capable directors by making use of resources available at the Institute. Additionally, it is also our belief that if the Institute is to continue to be relevant and effective in meeting the needs and expectations of the director community it will be essential for us to have the active participation and inputs of not only individual members but also our many corporations here. I therefore look forward to welcoming and interacting with many more of you in 2011.

I wish each and every one of you a happy and very successful New Year.

Warm regards,

John KM Lim
Chairman

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NEW COUNCIL MEMBER

Mr Andy Tan Chye Guan

Mr Tan is a Senior Vice President at MEAG Pacific Star Asset Management responsible for building up the company. MEAG which is Munich Ergo Asset Management Gmbh, is Munich Re's asset management arm with more than Euro 180 billion of assets under management.

Prior to that, Mr Tan was Vice President, of Government of Singapore Investment Corporation (GIC) real estate arm for many years with global and diversified experience and track record across Asia, Australia and Europe in international real estate investment, asset management, business development and fund management. To-date, he has invested and managed multi-billion portfolios. The nature of these investments ranges from listed and unlisted property companies, REITs, funds and strategic alliances to direct properties.

He also holds directorships on several companies. A Singapore Government scholar, he is a member of the Singapore Institute of Directors (SID), GIC Alumni and sits on the Governing Council of SID.

Perspective From The Top

Mr. Stephen Lee, Chairman, Singapore Airlines Ltd Shares His Views On The Typical Role Of A Board And Keeping The Board Fresh Through Regular Renewals.

By Kala Anandarajah
Partner, Rajah & Tann LLP &
Editor, The Directors' Bulletin

The particular role that a board performs and its tactful interlinks with management is an issue that plagues boards all the time. Whilst there are various guidance available from consultants and academic research, it is nothing like hearing it from a practical perspective from the boards of companies themselves. And yet, there is no single approach to what the board's role ought to be nor on how the board members interact with management. Perspective From The Top offers one view here from Mr Stephen Lee, the Chairman of Singapore Airlines Ltd, truly a national icon with a global branding, to put it mildly.

The Institute was fortunate to catch Mr Lee to also share his view on board renewals, another vexed area for boards. What is the right approach to identifying suitable candidates, how long should directors be allowed to sit on boards for, what precisely is the role of the nominating committee in all this are just some of the questions that we put to Mr Lee. The insights offered show that these are in fact not difficult tasks to undertake. As Mr Lee notes, it is really about looking at the direction of the company, where it wants to head, and its current resources, and balancing that against the people with the right calibre and acumen and critically the availability to perform the tasks ahead of them. If there is anything which is a constant in board rejuvenation, this last point is.

What follows is the discussion with Mr Lee:

1. Singapore Airlines is one of Singapore's darlings and most recognisable brand name globally. What role did the Board of SIA play in its growth and transformation over the years to create this iconic Singapore giant in the airline industry?

Answer - The SIA Board's principal functions include charting the Group's strategic direction, reviewing and approving Management's plans, major acquisitions and fund-raising exercises and monitoring the Group's performance. Management is given freedom to run the Group's operations within a framework of authorisation limits so that the Board does not hamper Management by being involved in the day-to-day decisions. This enables efficiency and effectiveness in decision making

2. As a follow on to Q1, whilst the Board, for efficiency reasons, leaves matters to management within their delegated limits, when would the board deem it fit to review a management decision? Has the

Board ever had to step in to discuss issues with management which has previously been delegated? If not, does the Board have its own guidance as to when it can and will do this?

Answer - As the CEO is also a Board member, where there are certain decisions that the Management Committee (chaired by the CEO) is of the view should be surfaced to the Board, even though technically Management could make the decision under the delegation of authority limits, Management would seek the Board's approval or bring the matter(s) up for the Board's discussion / information, as appropriate. In addition, our Board members often get feedback from friends and customers who use our services. Such feedback have resulted in changes and improvements in major service areas like check-in, airport lounges, PPS services etc.

3. How were members of the SIA Board selected? What was that critical X-Factor that was looked for in new Board members when assessing potential candidates?

Answer - The Nominating Committee (NC) reviews the composition of the Board and makes recommendations for additional directors or directors to replace a vacancy as and when required. The NC's recommendations are based on a review of the range of expertise, skills and attributes of current Board members and the needs of the Board, taking into account the Company's future business direction, the tenure of service, contribution and commitment of each Board member. Board rejuvenation is a guiding principle in determining the need for new appointees to the Board. With regard to the selection of new Directors, the NC evaluates the balance of skills, knowledge and experience on the Board and, arising from such evaluation determines the role and the desirable competencies for a particular appointment to enhance the existing Board composition. The NC meets with the short-listed Board candidates to assess their suitability and availability. The NC then makes recommendations to the Board for approval.

4. Have the criteria and factors of selecting Board members evolved over the years or remained largely the same? What would the reasons for the change of approach be?

Answer - The approach, criteria and factors in the selection of new directors over the years have been largely the same.

5. Who is responsible for identifying suitable candidates?

Answer - In addition to the answer at question 2 above, the NC identifies and recommends appropriate candidates for the Board's review/approval. The NC would have its own resources to tap on, which may include referrals from their network of contacts. Only for very special cases would they obtain the services of an executive search firm.

6. Who is responsible for validating and approving the candidates identified and how rigorous is this process?

Answer - Further to the answer to Q2 above, also, all new appointments require the approval of the Special Member, the Minister for Finance (Incorporated) in accordance with SIA's Articles of Association.

7. Is the same process and criteria applied for executive, non-executive as well as independent directors?

Answer - Yes, except that for Executive Directors, the CEO plays a greater role in the selection of board candidates.

8. Is there a set frequency within which the Board is mandated to renew itself? If yes, why was this period selected? If not, then how does the Board decide when it is time for renewal?

Answer - Newly appointed Directors serve an initial term of three years, after which they are considered for re-nomination for another term(s). Their re-nominations are subject to the recommendations of the Chairman of the Board and the NC. This three-year renewal term is in tandem with the Articles of Association which provide that one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third are required to retire from office at each AGM.

9. In relation to Q8, what is typically the minimum number of years a director would serve on the SIA board? Would it be 2 terms of 3 years each or more?

Answer - Typically a Director would serve an average of six years on the Board, i.e. 2 terms of 3 years.

10. Does the Chairman and CEO renewals overlap? And if not, why not?

Answer - The three-year renewals are based on the dates of appointment of Directors, whether they are the Chairman or CEO. The three-year renewals are based on the respective dates of appointment of Directors [sic including the CEO and the Chairman] to facilitate the administrative process of review. This does not, however, prevent the NC/Board from reviewing any particular Director's term as and when they deem it appropriate to do so, even if the review date may not be due yet.

11. What lessons can we draw from the SIA Board Renewal process? What gems can all other companies learn from SIA?

Answer - We do not profess to have a model that all other companies should follow. While the SIA Board is mindful of good corporate governance practices in relation to board renewal, we are ultimately guided by our own needs when it comes to board rejuvenation.

Directors' Duties For Companies In Financial Difficulties

By Tan Chuan Thye, Director,
And Kevin Kwek, Associate,
Stamford Law Corporation

In Chee Yoh Chuang and Another (as Liquidators of Progen Engineering Pte Ltd (In Liquidation)) v Progen Holdings Ltd [2010] SGCA 31("Progen"), the Court of Appeal reiterated that when a company is insolvent or is facing financial difficulties, its directors have a fiduciary duty to take into account the interests of the company's creditors when making decisions for the company. This fiduciary duty requires directors to ensure that the company's assets are not dissipated or exploited for their own benefit to the prejudice of creditors' interests.

The rationale for such a duty is that, when a company is insolvent, the creditors' interests come to the fore as the company is effectively trading and running the company's business with the creditors' money. Because of the limited liability principle, the risks (of trading when the company is insolvent) on shareholders would be minimal as they would at worst lose only what they have already invested in the company in their capacity as shareholders. Unsecured or partially secured creditors on the other hand may never recover any monies due to them. Unlike shareholders who have the most to gain from risky ventures, unsecured creditors, in particular, have everything to lose when illegitimate risks are taken. As such, it is only right that directors ought to be accountable to creditors for the decisions they make when the company is, or perilously close to being insolvent.

While the directors have to take into account the interests of the company's creditors, this duty is owed to the company - there is no duty owed directly to creditors. In other words, individual creditors, cannot, without the assistance of the liquidators, directly recover from the directors for such breaches of duty.

In an important statement of principle, the Court stated that commercial sensible transactions made with the objective of creating or extending a lifeline to a company suffering financial difficulty should ordinarily not be questioned. The Court would not take directors

to task when they appear to have been attempting in good faith to facilitate the preservation or rehabilitation of a company, and where they had reasonable commercial grounds for believing that the transaction would benefit the company. However, payments made to related parties (for example, companies with common directors), would be viewed with a good measure of skepticism by the Court. In relation to payments made by companies in the same group with common directors, each company is a separate legal entity and the directors of each company have to discharge their duties with regards to the interests of the creditors of that company.

> In an important statement of principle, the Court stated that commercial sensible transactions made with the objective of creating or extending a lifeline to a company suffering financial difficulty should ordinarily not be questioned.

The result in Progen itself was an order that payments made by the subsidiary to its holding company which the holding company distributed to its shareholders by way of capital reduction were unfair preferences. It is pertinent to note that the Court of Appeal ordered a director of the subsidiary (who was also a director and shareholder of the holding company), who had authorised the payments to the holding company, to personally bear the legal costs and expenses of the legal proceedings.

The Exceptional And The Rule

How the best boards exceed expectations in succession planning

By George Davis and Justus O'Brien,
Partners of Egon Zehnder International

Much ink has been spilled on what the legal bulletin issued by the SEC's Division of Corporation Finance on October 27, 2009, might mean for Board of Directors. Now that companies will no longer be able to exclude from proxy statements, shareholder proposals calling for a disclosure of the board's succession planning process, boards have been inundated with advice about compliance. The truth is that no one knows exactly how it might play out – the bulletin doesn't specify how much would need to be disclosed or set standards for the succession planning process itself. Directors would be well advised to simply pass it on to the General Counsel, on whose desk it belongs, and instead devote their time to the real substance of CEO succession planning.

The best boards already have in place succession planning practices that go well beyond the vague wordings of the bulletin anyway. Their best-practices approaches include three essential steps:

- Developing the CEO specification
- Assessing internal candidates
- Acquiring an external market map of leading CEO talent

Boards that have conscientiously undertaken all three steps aren't worrying about yet another regulation. They're devoting their attention to the long-term health of the companies they oversee. When told about the regulation they're far more likely to say so what than what do we do. Companies that don't follow such practices should take their cues from these exemplary boards, adopting a proactive rather than protective posture.

Leaders And Laggards

Despite the intense spotlight that has been thrown on CEO succession planning over the past ten years, it has remained for many boards either non-existent or a perfunctory matter of having in mind an internal heir to the top job. A recent survey conducted by Egon Zehnder of 1,092 top managers in nine countries representing all industries found that only 24% believe their companies are best in class or highly successful at meeting the challenge of succession planning.[1] In the US, UK, and France, the percentage was zero.

1 "Transition – a test of leadership strength." October 2008.

Equally important, nearly one-half of the US respondents (47%) believe their companies are average at succession planning and the remaining 53% felt their companies had failed to build an effective succession plan.

Further, we find that a majority of board members are confused about who drives the process, often ceding that role to the incumbent CEO. In addition, CEOs often tend to overestimate the competency of internal candidates, especially when the process has not included the benchmarking of those candidates against the external market. As the frequent failure to benchmark suggests, many board members are also unsure about how to conduct the process.

As exemplary boards know and as our work with boards on succession planning emphasizes, it begins with the recognition that the process is unequivocally the board's responsibility. The full board should then define the urgency: whether it's an emergency CEO departure, a planned CEO departure such as retirement, or a long-term talent management initiative (Figure 1). In the case of an emergency departure, the degree of urgency is of course readily apparent, and in any case the board should be prepared with a contingency plan. In the other two cases it's easy to let the lack of immediate need become an excuse for failing to follow through on good intentions.

With a clear understanding of the degree of urgency, the Lead Director and the members of the Governance Committee should then determine the make-up of the Succession Committee that will be responsible for executing much of the process. The Succession Committee should then select the right external advisors, with the requisite competencies and proven skill at helping guide boards through the experience. For example, Egon Zehnder International's dedicated service for assisting with orderly and successful CEO transition is conducted by our most experienced consultants, who bring to the task the three essential components of a best-practices approach: expertise in shepherding the role specification process, rigorous skills in candidate assessment, and the global reach and resources required to map the external market for talent.

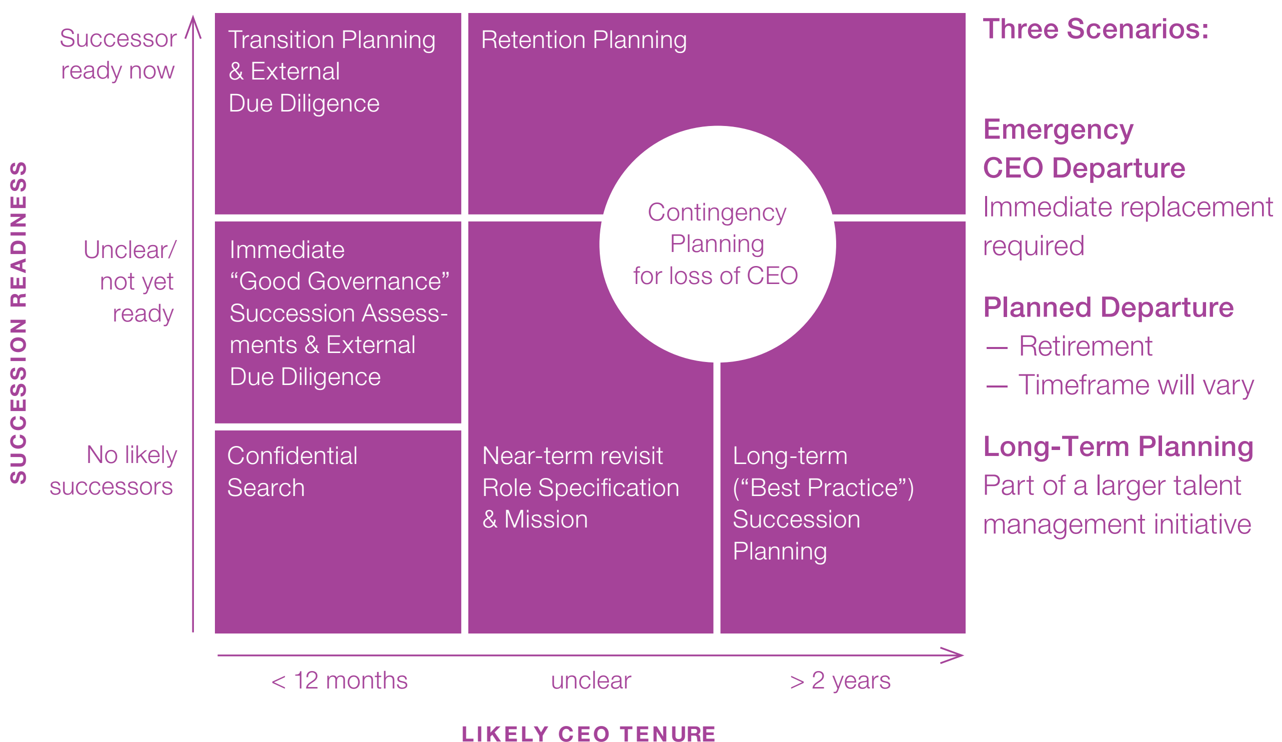
Developing The CEO Specification

Overcoming the challenges of developing a genuinely useful CEO specification requires a comprehensive approach. In our work with boards and Succession Committees on this critical task, we conduct penetrating interviews with all key stakeholders, including all of the members of the board. Our goal is to arrive at a deep understanding of the company's likely strategy and business challenges at the projected time of the CEO transition.

As we develop the specification, we include the critical experiences the next CEO should have had, the competencies that the company's strategy will require, and the personal characteristics that the CEO will need in order to succeed. Those are all distinct categories that must be kept conceptually clear and systematically developed in the specification. The aim in doing so is to

Figure 1 **Typical Succession Planning Scenarios**

The urgency of Chico's need will determine the appropriate scenario



help the board achieve all-important alignment around what the next CEO should look like. It not only assures a more orderly process but also makes it easier to reach a final decision when the time comes.

The strategy and business challenges will of course differ from industry to industry, company to company, and within a company depending on the time frame of the transition. Some companies may anticipate pursuing organic or acquisition-driven growth strategies. Others may face operational challenges or may need turning around. The needs of companies in heavily regulated industries will differ from those in unregulated environments. Strategies in sectors where innovation is paramount will differ sharply from those in sectors where asset management rules. The permutations of all of these challenges are nearly inexhaustible. That's why it is all the more important that the board reach agreement on precisely what the company's quite specific mix should be in the near, medium, and long terms.

With this highly specific view of the company's future, the board can then determine what experiences are likely to make a candidate the right person for the job and weight the relative importance of those experiences. Is international experience, such as global P&L responsibility or building markets in Asia, important? What industry sector experiences and functional experiences might be desirable in a candidate? What business challenges has the candidate handled that might be applicable? These could include many things: driving performance improvement, leading a substantial change program, pursuing a growth agenda, leading a large division or company, building organizational capability, and numerous others, again depending on the company's projected circumstances.

Experience – what some one has done – is only part of the specification. Leadership competencies – what someone is capable of doing as a leader – are equally important. Based on our experience working with senior management teams across industries and on more than 25,000 management appraisals conducted during the past five years, Egon Zehnder International has developed a comprehensive model of leadership that encompasses the core competencies of top leaders, regardless of industry. These leadership competencies include: (1) change leadership, (2) collaboration and influencing, (3) results orientation, (4) commercial orientation, and (5) strategic orientation, (6) people and organizational development, and (7) functional expertise. In our work, we then help the board determine what leadership competencies are most important for the company's needs in a leader. Just as importantly, we use a clearly defined scale for scoring those competencies so that the board can establish precisely the target level for each in a prospective CEO.

Finally, we include in the CEO specification the desirable personal characteristics of the next leader. Does the company need someone who is inspirational? Culturally sensitive? Risk-taking or risk-averse? Decisive? Collegial? Does nationality matter? Some characteristics, like integrity and energy, will be important in any leader. Others will depend on specific company needs as the board sees them, but in any case we believe this part of the process requires a subtle understanding of the interdependence of personality, performance and strategy. At the conclusion of this stage, the board and the Succession Committee has a clear, detailed, and comprehensive profile of the company's next leader.

Assessment Of Internal Candidates

With the board aligned around the desirable CEO profile, we then help the Succession Committee assess internal candidates against those specifications by measuring each candidate against competency targets, incorporating referencing as appropriate, determining each candidate's potential, and gauging the risks of each candidate through gap analysis.

Overlaying the candidate's scores in each of the seven leadership competencies on the target scores produces a competency profile of the candidate and clearly shows shortfalls and areas that need development. Similarly, we assess the candidate's experiences and personality characteristics against the CEO profile, using rigorous techniques that have been developed over decades. We also determine the risk that certain characteristics of the candidate, if carried to excess, might impede the candidate's success. For example, what is the risk of boldness turning to arrogance, skepticism to distrust, or imagination to eccentricity in the case of particular candidates? On the other hand, how might a candidate's personal characteristics counterbalance each other?

To determine potential, we assess candidates on the key criteria of drive, ambition, learning ability, and competency gaps. Such assessment should be appropriately nuanced, not a simple matter of checking boxes. For example, someone may appear to have several shortfalls in competencies. But on closer examination, it turns out that all of those shortfalls really come under a single heading, like managing people. If so, then the candidate can improve rapidly on all of those shortfalls at once, which means that the candidate has

2 "Benchmarking – The Misunderstood and Underused Key to Great CEO Succession Planning," George Davis and Justus John O'Brien, Egon Zehnder International, 2009; http://www.egonzehnder.com/us/thoughtleadership/publications/ceosuccession

more potential than it might first appear.

We employ risk gap analysis to highlight the delta between internal capability and business needs over various time frames. The shorter the time frame the more of a risk is posed by a promising candidate with development needs, because making up shortfalls in competencies takes time.

The assessment concludes not only with a recommendation regarding the candidate's likely preparedness but also development plans. For example, development plans for a someone whose shortfalls are in managing people might include taking the initiative in developing key talent on the candidate's team, working with a coach on building relationships, leading a company-wide strategic initiative, or assuming a position on the Executive Committee.

External Market Map Of Leading CEO Talent

As we have written elsewhere,[2] a basketball team, in order to understand its personnel needs, wouldn't measure the height of its own players only. It would want to know how that height stacked up against the competition, how much difference height would make given the current make-up of the league, and which individuals in the league – and far beyond – used their height to best advantage. Similarly, many companies measure many of their activities such as manufacturing or customer service against best-practice companies around the world. Yet when it comes to CEO succession planning, many companies fail to assess internal candidates against the external market for top executive talent. No board should forgo such an obvious and powerful tool.

Benchmarking external talent as part of an ongoing succession planning process does not mean conducting interviews; it means developing a confidential map of external talent and assessing it against the same CEO specifications that have been used to assess internal talent. However, the ability to develop a comprehensive external talent map requires considerable resources on the part of external advisors. Our benchmarking efforts, for example, are firmly based on global reach, a strong research capability, and consultants who spend considerable time in the market, know the talent and bring a discerning eye to its assessment. In this exercise, there is simply no substitute for such experience and, frankly, global firepower.

Rigorous benchmarking answers a number of key questions that boards might otherwise be unable to answer. A few of the most critical include:

- Does the ideal candidate exist? Because the mix of competencies, experiences, and characteristics required of the next CEO is so specific and complex, an external talent map can tell the board what reasonable expectation they might have of finding a candidate who fulfills the requirements.
- Where does internal talent fall short? Benchmarking can also uncover gaps in the competencies of the internal candidates that might otherwise have escaped close scrutiny. Like shortfalls uncovered in internal assessment, the shortfalls that show up in internal candidates as a result of external talent mapping can be used to guide development.
- Do we fully appreciate internal talent? External talent mapping might also reveal that an internal candidate is as good as, or superior to, the external talent. In that case, the board can make sure that it doesn't take a supremely talented internal candidate for granted and lose him or her to a more appreciative company.

By injecting more universal objective standards into the process the mapping of external talent can defuse some of the strong emotions that arise when succession planning is restricted to internal candidates. Board members who have reservations about an internal candidate can appeal to this wider sample of talent. And external mapping can provide the board with a means of driving the succession planning process without being contentious.

Such benchmarking also gives boards a significant head start if they find themselves suddenly confronted with an unplanned succession. They know whether there is an internal candidate who is fully prepared to take over. And if no internal candidate is ready, the board can hit the ground running on the search for a new chief executive.

An Evergreen Process – And The Next Frontier

The final piece of a best-practice succession planning process is the establishing of a framework for ongoing dialogue and annual review. Annual review ensures that succession planning is not simply something that is done once and then set aside. Using proven quantitative and qualitative methods of assessment, succession planning should be a continuous process that keeps internal and external candidates in view, reflects changes in the cast of candidates, their evolution as they develop, and the evolving needs of the company. Such a process also works against complacency about already having identified a successor.

In our work helping put in place and regularly update all three elements of succession planning – CEO specification, assessments of internal candidates, and an external market map – we have found that our clients accomplish far more than simply satisfying regulations. They consistently develop a more creative and comprehensive list of possible candidates. They identify with far more clarity the right CEO successor from this deeper pool of talent. And at the end of the day they can confidently say that they've done not just an acceptable job of CEO succession planning, but an exceptional one.

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Replenishing And Refreshing Boards With New Directors

By Paul Zaman
Chief Executive Officer, Qualvin Advisory Pte Ltd

Companies worldwide are experiencing a renaissance in good corporate governance and that includes companies in Singapore. There are many forces acting on a company, which drives the need for refreshment of directors and the replacement of retiring directors. For the SID Bulletin, the SID membership was asked to participate in research and ten seasoned directors volunteered to share insights with us.

The business forces that generate the need for new directorships include globalisation, disruptive technologies, increasing environmental, social and government risks. All of these have a big impact on increasing sales, containing expenses, managing core business critical functions and ever increasing complexity of compliance and risk management.

In this research and article it is a given assumption that the Nomination Committee will review the Board of Directors capabilities as a whole and determine the capability profile desired for a new director. Beyond this capability, we wished to get some insights into the qualities of a new director and the best process for a new director to contribute value and perform. This is especially important for candidate directors, who have not held a Board of Directors position before.

All of the seasoned directors felt that a new director needed to be numerate and so be able to understand business numbers, statistics and trends. Good directors need to know how to read numbers, see trends and understand cash flow. In terms of academic qualifications, the consensus was that industry knowledge, business track record and diversity of experience was far more important than academic qualifications at graduate or postgraduate level.

For the personality traits of a new director, there was a wide breadth of traits including: maturity, integrity and diligence in discharging responsibilities. This was expressed by a seasoned director as:

- "Its about being independent in one's views and avoiding group think and domineering individual's ideas"
- "Its about the ability to speak out and challenge assumptions"

The seasoned directors were asked what areas of commercial expertise

> The top track record area was to have cultural and commercial diversity. This could be from the same industry or unrelated industries and also offshore experience was seen as important.

and track record was needed today in the Boardroom. The top areas were the ability to formulate and choose business strategy. Strategy execution was also highly ranked and supporting this was the ability to make commercial decisions. Commercial expertise was soon as valuable of contributing to marketing & sales execution. The seasoned directors also see that the whole arena of Audit, Financial Control and Risk Management remains a critical area.

The seasoned directors were asked what areas of industry track record were needed today in the Boardroom. The top track record area was to have cultural and commercial diversity. This could be from the same industry or unrelated industries and also offshore experience was seen as important. Most of them also thought that related industry experience to the company was important – perhaps to accelerate the learning curve of understanding the company. The two industry sectors that were identified to be valuable were corporate finance and consulting – perhaps enhancing the business strategy, commercial decision making and marketing execution capability.

Naturally Audit and Legal experience was also seen as important to have on the Board. If the existing directors offered a strong Audit and Legal capability already then this would not be necessarily needed in new directors.

The seasoned directors were asked about the level of commitment and roles of a new director. Firstly, what level of time commitment was needed from a new Director?

The seasoned directors thought that as a new director had to come up the learning curve more effort was required compared to an existing director – a suggestion was perhaps double the time commitment of existing directors so a minimum of two days for each board meeting. A comment was that the learning process may take up to three years and so an accelerated process for getting new directors and the Board fully performing would be worthwhile. The time needed to get new directors and the whole Board performing is determined by the company's specific and unique circumstances. Initially time is needed to understand the company's operations and its specific problems and risks. This includes understanding the short term and long goals and associated execution strategies and plans to achieve these goals. The seasoned directors suggested that in addition to attending the regular board meetings, further interaction with the existing directors and key management was required.

For a new director joining a Board, the area of conflict of interests is important to set right at the very beginning. The requirements of the stock exchange listing manual is comprehensive, yet the seasoned directors added more pragmatic nitty-gritty to the subject. Broadly any and all possible areas of conflict should be raised and discussed with the Board. That is, anything that would create a bias in decision-making: relationships, financial interests and time commitment. If in doubt, disclose a potential conflict. The sensitive and important areas include disclosing any close family and friend relationships with other directors and key management and also any directorships on the Board's of competitors, suppliers and customers. Some directors felt that being a director of a competitor should be an automatic exclusion criteria. An additional area was declaring any financial interests and shareholding in other companies that were competitors, suppliers or customers. New directors need time to complete the learning curve and so a conflict arises if the new director has limited availability of free time and cannot make the commitment to learning about the new company.

Today, many family majority owned company's and family controlled Boards have the desire to bring on new directors. In this context we asked seasoned directors if they felt a new director to a family company gives them a mandate to test the boundary on family ownership and control issues? The large majority of the seasoned directors said "Yes" – a new director does have a mandate to test the Board, yet with common sense and diplomacy. Clearly taking a pragmatic coaching approach to bring the best out of the Board over time. A seasoned director saw the issue this way, "work with the family members on the Board and work with their strengths and weaknesses".

Should a new director fit the existing culture of the Board versus a deliberate choice to slightly irritate and shake up the Board? Broadly our research group felt that a new director should complement and fit the exiting culture and enable it to positively develop for the benefit of company performance. If there was a need for a shake up, for a thorn in the side, then, at the selection stage of the new director the necessary skills, capability and experience in tactfully creating positive culture change would be part of the selection criteria and that role tactfully discussed prior to the appointment. Independent Directors can tactfully encourage a better Board culture, however one seasoned director said "disruption can be desirable at some times yet very destructive at other times".

It is unlikely that an inexperienced new director would be expected to fulfil such a role.

Is a new director expected to ask 'dumb' questions and challenge un-stated and often forgotten assumptions? Absolutely "Yes" was the resounding feedback from our seasoned directors. In fact no question should be considered dumb, all good questions are worthy of asking. Yet it is a director's duty to have done their research, preparation and homework before asking such questions to ensure that the question is well formed. One Seasoned director suggested "Diplomatically, seeking clarification may serve better than asking direct hard questions, especially towards family owners of a family controlled company". New directors are given a grace period and so dumb questions may be ones that existing directors wanted to ask, yet did not. Well-formed fundamental questions also enable all directors to reflect upon underlying assumptions that in fact may have changed.

Is a new director expected to question the veracity and appropriateness of the current vision, strategy and execution plan? Again the broad concensus answer is "Yes" – yet in this case the director really must do their homework first and fully understand the current vision, goals and strategy plus the internal and external business issues and environment. All directors must be fully prepared. One seasoned director suggested, "Yes, otherwise complacency can occur and the discussion can bring new ideas and overcome the risk of inbred ideas based upon old business assumptions". Another seasoned director added caution, as the vision and strategy maybe formed by the Executive Chairman, CEO and management and only endorsed by the Board. Conversely another seasoned director suggested "Yes, as a Board Member it is a duty to ensure all shareholder interests are protected, therefore all strategic plans have to be carefully articulated at the Board level for approval".

Clearly a new director has a big learning curve and a lot of orientation work. So we asked the seasoned directors on how a new director could effectively be brought onto the Board and if a mentor appointed from the Board would help? Some feedback from the seasoned directors was cultural, "Unlike Western Europe, North America and Australia, the role of coach and mentor is still not widely understood or accepted in Singapore. The idea of an existing director mentoring a new director, who may be older or younger, does not fit the current senior management culture in Singapore". A formal orientation process is desirable and having a mentor is a good idea. One seasoned director suggested " Yes, it is better to listen, learn and discern the facts from a mentor, which can hasten the process of making a valuable contribution".

In conclusion, the researcher and author would like to thank, firstly Mr Basil Chan and Associate Professor Annie Koh for their initial insights on structuring this research. We also would like to thank the seasoned directors who generously shared their insights with us on this important topic of new directors replenishing and refreshing Boards.

Gratitude to the ten seasoned Directors who generously contributed their time and ideas, of which six decided to be anonymous plus Mr Nels Frets, Mr Joe Rouse, Mr Lim Ho Seng and Mr Lim Tai Toon.

The summary findings are:

- A new director needs to bring proven industry experience and a diversity of cultural and business expertise to the Board, academic postgraduate degrees are not required just a high level of numeracy.
- A new director, complements the existing Board capability and skill set, often filling gaps in key areas like commercial decision making, business strategy formulation and growth execution planning.
- If a Board has the required depth of audit, financial control and risk management, then, focus upon complimentary expertise in corporate finance, marketing and consulting could be added.
- If a Board has enough core company and industry expertise, then adding complementary expertise from unrelated industry is valuable, as long as the Director can quickly grasp the specific company and industry issues.
- Education, Coaching and Mentoring in Directorship core capabilities, skills and behaviours would accelerate the performance of a new director and the whole Board.

"Yes, as a Board Member it is a duty to ensure all shareholder interests are protected, therefore all strategic plans have to be carefully articulated at the Board level for approval".

Internal Controls - So Who Is Responsible?

The Code Of Corporate Governance Should Spell Out How Management Should Ensure An Adequate And Effective System

By Sovann Giang
Executive Director, Singapore Institute of Directors

PRINCIPLE 12 of the Code of Corporate Governance states: 'The board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.' So it is quite clear that management is responsible for maintaining the system of internal controls within the company. However, most listed companies do not disclose in their annual reports specifically how the board goes about ensuring that management has done it, although some companies state that its board requires that senior management make a negative assurance statement. In most annual reports, we do not see any explicit statements about or by management as to how it goes about 'maintaining a sound system of internal controls'.

Most audit committees or boards say that they rely on the assistance of their internal auditors and external auditors to report on the adequacy and effectiveness of the systems of internal controls. The only time when management is 'involved' is when certain weaknesses have been reported and management is required to take corrective actions. It, therefore, appears that management is a passive bystander in the process. The audit committee and the board appear more accountable for internal controls than management.

The Guidebook for Audit Committees in Singapore (issued by the Audit Committee Guidance Committee) provides - under sub-sections 1.2.6 to 1.2.10 of section I: Internal controls - best practice guidance to audit committees on the design and operating effectiveness of internal controls by management. Sub-Section 1.2.6 states: 'To enhance accountability, the (audit committee) could arrange for the CEO and the CFO to sign an undertaking confirming their awareness and respective responsibilities for internal controls, that they have designed internal controls that are appropriate for the business and that these internal controls are operating effectively. In addition, the (audit committee) could

discuss with management significant deficiencies in the design or operation of internal controls and changes in internal control systems. Depending on the complexity of the business, some (audit committees) extend this discipline to other selected management executives of the group.' SingTel, for example, in its annual report for the financial year ended March 31, 2010 disclosed that its group CEO and group CFO have provided assurance to its board on the integrity of SingTel's financial statements and on SingTel's risk management, compliance and internal control systems.

The Code does not specifically require that management 'account' to the board how it has maintained a sound system of internal controls. Since management has a key role to play in good corporate governance, the Code should therefore clearly spell out the duties and responsibilities of management in ensuring adequate and effective systems of internal controls. The Code should also require that management report to the board regularly on changes in the company's processes and how it has ensured that there is an adequate system of internal controls.

Guideline 12.1 states: 'The (audit committee) should review the adequacy of the company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the management (collectively 'internal controls'). The (audit committee) should ensure that a review of the effectiveness of the company's internal controls is conducted at least annually.'

Audit Constraints

Most listed companies say that their internal auditors, either insourced or outsourced, perform periodic or annual reviews of the effectiveness of material internal controls. In reality, most outsourced internal audit services were on agreed-upon-procedure basis in order to contain costs. A large majority of these specific agreed-upon-procedures select only two or three business processes in a year for review. However, most listed companies do not explicitly explain this limitation in the review of effectiveness and also do not disclose the procedure and frequency of their review of the adequacy of internal controls. Most state that their external auditors carry out a review of their company's material or key internal controls only to the extent required by statutory audit.

Since management has a key role to play in good corporate governance, the Code should therefore clearly spell out the duties and responsibilities of management in ensuring adequate and effective systems of internal controls.

Companies also state that both internal auditors and external auditors adopt a risk-based approach in formulating their annual audit plan, focusing on key or material internal control systems. However, there is no clear or explicit definition of what constitutes key or material systems. Usually, the determination of key or material systems is based on monetary values of recorded transactions. As a result, processes that do not generate a normal flow of goods or services or cash flow (for example, forex contracts), or processes that have low cash flow or cost implications (for example, donations, coupons and vouchers) but may be high in potential intangible consequences (such as loss of reputation) may not get reviewed at all.

One way to ensure that hidden risks do not become a major issue is for management to prepare a 'reverse risk analysis' for the board. That is, besides the review and reports done by internal auditors and external auditors on the so-called key or material processes, this reverse risk analysis should describe the company's internal controls over processes that have financial implications but were not reviewed during the year by either the internal auditors or the external auditors. This reverse risk analysis complements the reports by internal and external auditors and provides the audit committee and the board with a basis to conduct a more comprehensive assessment of the adequacy of internal controls and identify potential high risks or sensitive areas. The audit committee can use this report in its discussion with internal auditors and external auditors in planning for future audits.

Guideline 12.2 states: 'The board should comment on the adequacy of the internal controls, including financial, operational and compliance controls, and risk management systems in the company's annual report'.

Reasonable Assurance

Most listed companies comment that, based on work performed and reports submitted by their internal auditors and external auditors, their board is of the opinion that the company has adequate internal controls. Most companies also state that the system of internal controls provide reasonable but not absolute assurance against material financial misstatements or loss.

Although the audit committee and the board may rely on the work of internal auditors and external auditors to assess the adequacy of internal controls, given the inherent limitation of these audit work, management, which is ultimately responsible for implementing and maintaining a sound system of internal controls, should provide the audit committee and the board with the necessary information for the board to draw a proper and informed conclusion. Perhaps, it is time to clearly set out this requirement in the Code of Corporate Governance so that it is clear who is really responsible for internal controls.

This article forms part of a series of articles contributed by the Institute to The Business Times.

IDs: More Than Just Monitors

Independent Directors Are Also Expected To Play A Role In Providing Collective Leadership For The Success Of The Company

By Victor Yeo
Associate Professor at Nanyang Business School, Nanyang Technological University

MANY see independent directors (IDs) primarily fulfilling a monitoring function and facilitating accountability of management to shareholders. But is that all?

As a starting point, Principle 2 of the Singapore Code of Corporate Governance recommends that a company should have directors who are 'independent', particularly from management.

As an example, we see that the Code emphasises the role of independent directors in monitoring key aspects of decision-making. These revolve around circumstances where executive directors, as part of management, may face conflicts of interest such as in board appointments and assessment, executive remuneration and audit of the company's operations (as reflected in the recommended composition and functions of the three board committees - the nomination, remuneration and audit committees - as highlighted by the Code).

The question, however, is whether this is all that should be expected of independent directors.

Unfortunately, the emphasis by the Code on the monitoring functions which independent directors need to fulfil has resulted in many companies confining the role of independent directors to just the functions specifically mentioned in the Code.

Independent directors are often left out of the communication loop in relation to matters of corporate policy and strategy. This reduces the contributions which they can and should make, as equal board members, in providing collective leadership for the success of the company - a primary role expected of the entire board.

In this regard, it is pertinent to note that the recently amended UK Corporate Governance Code 2010 reclassified a statement relating to the role of non-executive directors.

In the previous versions of the UK Code, the recommendation for non-executive directors to constructively challenge and help develop proposals on strategy was classified as a 'supporting principle' in support of the principle governing the general role of the board in providing leadership for the company, a recommendation which we adopted as guideline 2.5 of our Code in 2005.

Under the new UK Code, however, this recommendation has been restated as a 'main principle' specifically targeted

at non-executive directors (including independent directors).

It is suggested therefore that a company should not and cannot afford to limit its independent directors to just a monitoring role and to leave them as bystanders in the development of corporate policies and strategies.

What then should be done to get more out of our independent directors in relation to the provision of leadership for the company in this regard?

There are three critical areas which should be looked into. First and most obvious (but sometimes not foremost in the minds of companies and boards) is to get committed, conscientious and competent persons to serve as independent directors.

Even in the context of the monitoring function of independent directors, it is not the directors' independence that makes a significant impact, but their commitment to the role, their availability and willingness to take on the duties and responsibilities associated with the post and the directors' use of their abilities and expertise to actually fulfil these responsibilities with integrity and impartiality. The same is also true in relation to the fulfilment of independent directors' role as part of the company's leadership.

Granted, there are challenges in assessing and measuring the commitment, competence and contributions of independent directors. This is where members of the nominating committee can make a difference, earn their keep and demonstrate their worth to the company.

Secondly, as alluded to above, there needs to be a shift in how companies and their independent directors perceive the independent directors' role. While the monitoring function is a very important one in providing some level of assurance of strong governance, it should not be seen as the sole function of independent directors.

Even if one were to accept the proposition that the main benefit of having independent directors is for the purposes of providing enhanced monitoring of management and accountability, the proper fulfilling of such a role in itself requires the independent directors to have a firm understanding of corporate policies and the strategic goals of the company.

> Independent directors are often left out of the communication loop in relation to matters of corporate policy and strategy. This reduces the contributions which they can and should make, as equal board members, in providing collective leadership for the success of the company - a primary role expected of the entire board.

For example, the remuneration committee will need to align compensation with performance, the measures of which should be in line with the company's strategic goals. Internal controls can only be properly assessed by the audit committee if they are familiar with the company's operational policies.

It is also important for nomination committees to recommend new appointments based on leadership criteria which should correspond to the strategic direction which the company intends to take. The involvement of independent directors in examining and providing input to corporate strategy would therefore enhance their ability to fulfil their monitoring function.

Thirdly, there should be a strong culture of communication between the company and its independent directors on matters relating to and affecting the company's policies and corporate strategies.

This should start from having a good induction programme for new directors to bring them up to speed and should continue throughout the directors' tenures of appointment.

I have come across a board where it was common for board members to circulate information via email about developments in the relevant industry and suggestions about opportunities and threats arising from such developments. Some members provided updates of the latest in best practices in general management such as those involving human capital. Both the chairman and the chief executive led by example.

Such a culture of encouraging and facilitating active discourse on important issues affecting the company assists in the development, and enhances the quality of corporate strategies and corporate policies. In addition, it also provides an added avenue for assessing the value of contributions made by independent directors.

Singapore has based its Code on the Cadbury Report, which is widely regarded as one of the main documents which brought the monitoring role of independent directors to the fore of corporate governance.

However, an overemphasis on the monitoring function of independent directors was a key concern which the authors of the report had and a consequence which they sought to avoid.

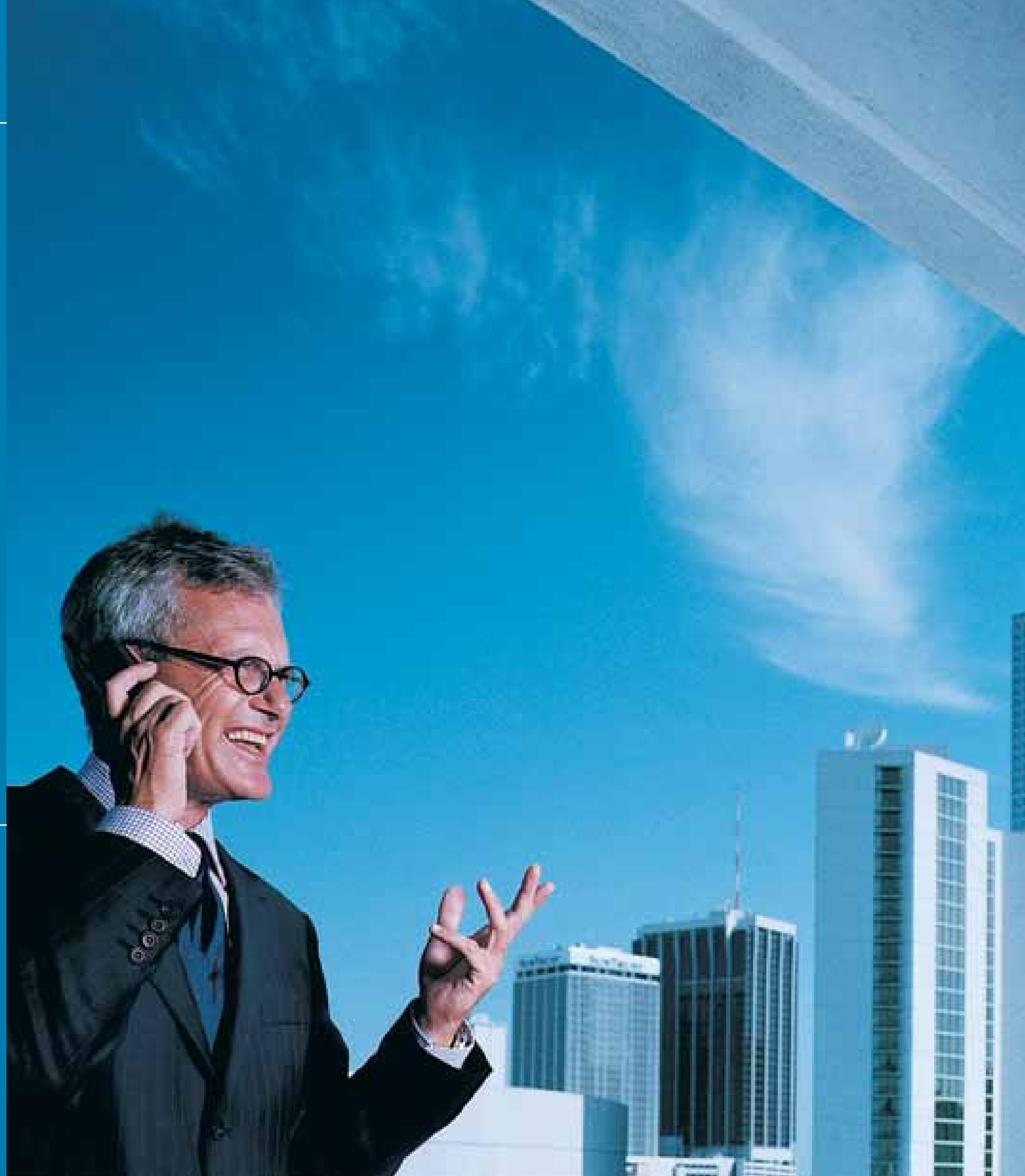
As stated in the report, 'the emphasis in this report on the control function of non-executive directors is a consequence of our remit and should not in any way detract from the primary and positive contribution which they are expected to make, as equal board members, to the leadership of the company'.

Clearly, independent directors should be far more than just monitors.

This article forms part of a series of articles contributed by the Institute to The Business Times.

Governance For Rapid Growth Private Companies-
An Investor's Perspective

By Joe Rouse
Principal, Rouse & Associates



As the Singapore business community and government seek to create or facilitate the creation of the wealth required to sustain the country's high standard of living, one logically looks to private companies as a source of new potential shareholder wealth. Through the CATALIST stock exchange, we have a regulated and transparent on-ramp for initial public offerings (IPO's) and other liquidity events that create such wealth from the technology and other rapid growth sectors. Private venture funds, assisted by government pump-priming, are hard at work, nurturing the requisite funnel of such companies. A high degree of professional governance is a necessary keystone to provide shareholders, institutional and retail investors, as well as regulators, with the confidence and comfort required for positive outcomes and sustainable wealth creation.

As an operating executive in venture-backed companies and as a general partner in the venture fund business over the past fifteen years in North America and Australasia, it has been my good fortune to have reported to high-quality boards, and to have participated as a board member. A common trait I have seen is that private companies that most successfully make the transition to public status and beyond start acting like public companies well in advance of their initial public offering. That may be obvious to many, but as is the case with Hollywood, there is good and bad acting, and only a few performances are worthy of the Oscar. Great actors are made, not born, in the world of corporate governance at least.

When Is It Best To Set Up A Board At A Private Company?

This leads to the question "When is 'best' to set up a board of directors?" From the investor perspective, and arguable that of the sophisticated chief

executive officer (CEO), it's never too early-provided the board can add value to the company's operational planning and, by association, its execution. Chief executives, especially first-timers who are highly-entrepreneurial, are wary of the changes, especially challenges to their authority and their 'freedom to operate', as well as the impact on the company culture they have sought to create. This wariness can lead to suboptimal choices- 'old boys' who either don't effectively engage with or -worse- serve as yes-men to the CEO. Informal advisors and mentors may be able to help preclude this situation.

Where best to start? Ideally, when management is ready to commit, one should seek to recruit board members who have been associated with the transition to public status and can advise on how best to act in advance of the requirements of public status, such as financial reporting and other investor relations, rather than after the fact. Alternatively or in tandem, good advice and guidance may be secured from experienced legal counsel and accounting firms. It's been my observation that the implementation of well-accepted financial controls, along with at least two financially experienced or 'sophisticated' board members, makes for successful incorporation to the company culture. That at least one such board member be independent is also desirable, for practical and optical reasons. Independence becomes increasingly important, and it may make sense to nominate an independent chair sooner than later to set the tone.

Throughout every investment stage, the board's primary objective should be to ensure that management has the best chance of successfully executing the business plan and by association, optimizing the company's investment case. This means supporting the CEO in raising capital, from preparation of the investment materials through sourcing and making introductions to prospective investors, as well as managing the expectations of current investors to ensure support and alignment. Preparing and presenting the investment case is arguably the biggest test of the board's business nous. This requires that board members possess hard and soft ('people') skills of considerable scope and depth. It has been my experience that the soft skills are more important, assuming company leadership is mature and coachable, and board members are familiar with the requirements of professional investment and securities legislation.

The Board Changes To Anticipate A Company's Evolving Needs

At the start-up or seed (first investment) stage, the board should be set up in conjunction with the completion of the associated capital raise. From here through the first year or two of operation, a good board size is typically three or five people. Two members of the management team, including the CEO and another founder, are typically present. An independent member is encouraged, perhaps in the role of board chair.

> Ideally, when management is ready to commit, one should seek to recruit board members who have been associated with the transition to public status and can advise on how best to act in advance of the requirements of public status, such as financial reporting and other investor relations, rather than after the fact.

Especially for companies led by a first-time or younger CEO, the most effective early stage board members are those with operating experience, that can help management define their roles as well as outline strategic direction. Most early stage companies are highly-tactical by tendency and, to an extent, by necessity. However, professional investors align with experienced management on the notion that a young company rarely goes out of business doing too few things well. Usually it's the opposite, especially if the founder/CEO is a technologist or scientist first and foremost. Razor sharp focus is required for effective strategy and execution, especially for companies with a geographic disadvantage to their target markets, such as young Singaporean companies selling into the US or Europe.

At early commercialization, i.e. where a company is successfully shipping a commercial product and closing its first venture investment round, the board may be expanded, with new seats typically required by venture and strategic (corporate) investors. At this stage of growth, there is an increased emphasis on external issues-securing customers and strategic partners, and generating revenues and in time, profits. An independent chair should be put in place, who has both experience managing a board as well as carrying out the 'heavy-lifting' that early stage boards carry out, coaching the management team at the operational level. The board may strike committees to add the requisite degree of sophistication, such as Audit or FRM committees, to ensure compliance is credibly and efficiently managed.

Some investors may only require observer status with information rights, reflecting the fact that the investment, while important, is not yet sufficiently so to require the commitment of a director (Some corporate investors may also not take up a board seat for policy reasons, such as liability). This does not mean that such investor-observers

> It is important to recognize that each class of professional investor- angel investor, venture capitalist or corporate investors- has his/her own criteria and expectations of management and of the board itself.

should not be involved actively in the company's growth. On the contrary, the relative independence of observer status can free up such representatives to more actively solicit business on behalf of the company, from a position of less conflict of interest than board members that must exercise their voting rights on behalf of their own investors, as well as their fiduciary responsibilities to the broader shareholder base.

At the expansion stage, typically two or three years into a company's life, the venture investors' strategic interest moves to liquidity opportunities such as an initial public offering of company stock (IPO) or a trade sale, to secure an exit and thus a return for its own investors. Management focuses on scaling the operation to help maximize that outcome by meeting market demand for its products. Independent board members, who may remain on the board post-IPO, become more active in governance leadership, taking on roles at the committee level, including one that considers acquisition offers or helps management select the right syndicate of investment bankers for the IPO.

Governance And The Liquidity Journey

It is important to recognize that each class of professional investor- angel investor, venture capitalist or corporate investors- has his/her own criteria and expectations of management and of the board itself. Individual 'angel' investors look for financial upside, but often have personal objectives that are not purely financial, such as a desire to mentor young teams and leaders, or help a particular industry flourish. Venture capitalists, beholden to their limited partner investors, focus on financial returns, in the broader context of their current portfolio and the stage of the current investment fund. Strategic investors, such as large corporate or MNC's with investment arms, have technology and market considerations that are strategic, as well as financial: a desire to see their investees contribute to the success of their overall ecosystem. Intel Capital is one such corporate investor, Adobe Ventures another. As mentioned earlier, for portfolio resourcing as well as liability and other reasons, such investors may defer a board seat, taking an observer role instead. This can be a boon to the company, as the corporate observer may be in a position to be more active on the exit front.

An IPO is really another capital raise- and it is not an end in itself. Rather, it's a watershed and transition to public status. This does mean that management has a whole new aspect of the business to consider and resource- that of its disclosure and other public duties. These take time away from customers, strategic partners and the internal team itself: From a third to a half of their time for many CEO's and their CFO's. Firms can effectively prepare for this by acting like a public company at least a year in advance of listing, especially in terms of financial reporting and investors relations but also in terms of board member selection.

The board has a critical leadership role to play at this stage, especially if members have gone through an IPO or trade sale before. Externalities that are not controllable by the company, such as the state of the capital markets, the industry sector or the macro economy, can delay or cancel an IPO or trade sale. Management and the board must thus contain the associated activities, preventing them from impacting the rest of the operation.

As a result of progressing along the liquidity journey, the expectations & requirements of governance will change. For incumbent board members, the culture of the board will change with addition of new personalities with potentially greater experience and different agendas, not always of their own making. Everyone adapts to change in their own manner, but governance must not suffer do to personalities. A benefit to current board members is the addition of new players who can assist with current initiatives as well as lead the new ones that rapid growth companies require. This includes the application of networks, assisting with customers, partners and non-equity capital sources.

For management, things typically speed up and go deeper with the addition of experienced venture investor and strategic investors. The good news is that such investors bring new skills and networks that extend the company's reach and enhance its positioning. Processes can become streamlined and the board can thus become more outward-facing, supporting management with external requirements.

Incumbent, earlier-stage investors must continue to remain engaged, adding value as they may have to date, in support of the investment case via their networks and relevant experience. Service providers, such as lawyers and accountants, need to be more proactive and strategic in their counsel, especially if there is an entrée into a new market with different accounting and legal requirements.

What Investors Want To See In A Private Company's Board

So turning it around, here's what many professional investors look for in a rapid growth company's board:

- Past experience working with professional investors, in operating or governance roles. Common experience tends to lead to common ground;
- Strategic orientation and focus, with tactical experience in reserve;
- Past experience with trade sales or listings-both are challenging processes for management and board;
- Customer and partner contacts, and a willingness to follow through on them on behalf of the company;
- Domain expertise-overall, a credible level of understanding of the business, the competitive set, and the like;
- Financial literacy is expected of a board. But applied financial literacy is most important. Being able to apply your smarts to the company's business model, competitive set and broader market helps ensure the company can best achieve regulatory compliance as well as commercial traction;
- What venture investors look for in individual board members include 'soft' skills, termed as the Five I's by Paul Brountas:
  - Independence;
  - Integrity;
  - Informed;
  - Involved; and
  - Initiative.

Key attributes of a board member that possess these skills and mindset include:

- An external orientation: 'Outward facing' I.e. customers, partners, investors
- Trusting and trustworthy: a safe pair of hands
- Effective in an environment where there is a high level of ambiguity, just like a rapid growth company
- An ability to work well in a collegial environment, checking his/her ego at the door
- Being a good speaker, but a better listener: being articulate with customers, partners, media is essential. But effective listening is necessary to ensure board members truly understand those audiences.
- Demonstrable honesty, integrity and candor, as well as evidence of respect for other board members' achievements, contributions and their right to dissent are highly-important for true independence;
- Experience with or appreciation of cross-cultural business, such as the directness of North Americans or the face-saving imperative amongst Asian cultures. While these behaviors are not limited to any single culture, understanding the relative importance of each in a given market can make or break a deal

What Investors Don't Want To See

Venture investors don't want to see an overly internal focus: It suggests the wrong people are in place. They also don't want to see a lack of strategic orientation, via micro-managing implementation. This may lead to management dissent, departure or paralysis. An absence of alignment amongst board members is a significant red flag: New investors don't want to sort out factions.

Other red flags include the board having no demonstrable relationship with shareholders: This can lead to big problems when a new round is required, or an exit is being considered. Others include:

- No record of delivery against assigned tasks: Where were you when the company most needed you?
- Complacency, conflict avoidance, and divisiveness: It's desirable to have a healthy level of constructive dissatisfaction, focused on the business at hand.
- Paralysis over liability issues-a board member should know their risk profile and limits before them get involved with a rapid growth company.
- Director compensation in cash: High growth companies are typically cash-poor. Directors should take a significant portion, if not all, of their compensation in stock options to ensure alignment with management and investors, as well as demonstrate a similar appetite for rapid growth risk/ return.

The best private company boards also make provisions for member succession. In such dynamic environments, additions and changeover must be anticipated from Day One, as the company progresses through the various rapid growth phases. The institution and maintenance of true independent representation early on can help address this. Board appointment services such as that offered by the Singapore Institute of Directors can help a company identify and select candidates with the desired combination of attributes.

In summary, to successfully build and nurture the board of a rapid growth company, board members must have a combination of hard and soft skills that enable management to be more effective, while at the same time ensuring that the company can successfully transition to public status and beyond. The human element is critical, independence is increasingly important, and teamness across the board is essential.

Joe Rouse is a member of the Singapore Institute of Directors and the Institute of Directors of New Zealand. A past General Partner of two venture funds as well as a member of the team at several successful venture-backed companies that transitioned to public status or through acquisition, he currently works with expansion- stage companies as a board member and advisor. An active angel investor, Joe also advises NUS Enterprise and its incubator companies. Joe can be reached at jwsrouse@gmail.com

Leadership Risk Assessment:

A Board Responsibility

By Pratap Nambiar
Partner, Leadership Consulting APAC,
Heidrick & Struggles

Two seemingly unrelated events last month has helped me crystallize a concept that I have been mulling over for some time now.

The first was the Singapore Institute of Directors conference 2010 aptly titled "Getting it right, the challenges and opportunities ahead." There were several speakers and one of the key questions raised by Baroness Sarah Hogg Chairman of the Financial Reporting Council UK, related to the sustainability of corporate performance without sacrificing good corporate governance. Her message was clearly that one should not transfer shareholder's rights to regulators. The regulators job is to protect the rights of the shareholders and not to usurp them.

Sir Richard Broadbent the Deputy Chairman of Barclays had a view that public regulation alone was unlikely to prevent the kind of financial crisis we have seen from recurring. We also have to look at private regulation ie. Effective Boards implementing good corporate governance to ensure that managements would not fail in the execution of their responsibilities.

Both Dr. Nik Ramlah MD of the Securities Commission of Malaysia and Yeo Lian Sim Chief Regulatory Officer Singapore Exchange stressed on the need to institutionalize good governance in organizations to build a culture with appropriate behaviors that inculcate self discipline with full knowledge of the consequences of slipping up.

Piyush Gupta the CEO of DBS Bank has an interesting take which questioned the ability of Boards and Management to provide the solution. He felt that the very nature of shareholders and their short term values was the cause of much of the consequent behavior of Boards and Management. If the pressure to deliver results quarter after quarter and the ensuing stock price was the major

It is the duty of a truly effective Board to ensure that people in leadership positions are being periodically assessed by independent firms who know how to evaluate risk based on analyzing attitudes and behaviors and the culture of the organization with specific reference to good governance.

criteria for performance evaluation, it would eventually lead to bad judgment calls to match what competition was doing. As his ex boss Chuck Prince once said "when the music is playing and your competitors are on the dance floor, you have to get up and dance as well." So it really was the social, political aspects rather than finance alone that had to create a social contract which would allow for appropriate corporate behaviors from time to time. Central banks have a major role to play in this process.

This brings me to the question of the leadership risk. Leaders are the ones who are setting direction and driving performance. It is their mindset (attitude to risk in particular) their values and self beliefs that shapes their own behavior and the behaviors of those they influence. If they are able to say no, or not get influenced by the compromising behaviors of their peers (inside and outside the organization) then they will produce a culture that is built on discipline and control of risk. If they really value customers, they will not sell them something that they know will ultimately cause them harm. This value is always tested when there is pressure on sales targets and bonus times are nearing. This is what creates a values driven organization that upholds enriching values like integrity, discipline, relationships etc and does not succumb to selfish values like greed, status, power etc. The key question to ask of the leader is "what would you and by inference your organization not be prepared to do in the name of profit?"

It is the duty of a truly effective Board to ensure that people in leadership positions are being periodically assessed by independent firms who know how to evaluate risk based on analyzing attitudes and behaviors and the culture of the organization with specific reference to good governance. This of course will also include assessing the possibility of losing top performers which in itself exposes the organization to risk because bringing in people from other organizations could seriously dilute your own culture and introduce bad habits that could eventually do serious harm. Many banks who are aggressively driving growth and make a habit of routinely poaching teams of people from competing banks may realize that they are increasing their risk as many sub cultures get formed in the organization.

The second event I referred to was a news item related to a British singer James Blunt who in 1999 was a cavalry officer in the British army heading Nato troops in Kosovo. He was commanded by a US General to overpower 200 Russian soldiers who had arrived at an airfield before them. Various words were used that seemed unusual, and James did not want to risk a major conflict with Russia. "There are things that you do along the way that you know are right, and those that you absolutely feel are wrong" he said. "That sense of moral judgment is drilled into us as soldiers in the British army".

This is the very essence of good corporate governance. A truly effective Board will ensure that leadership in their organization is drilled to develop a sense of moral judgment that will not allow them to succumb to the temptations of greed and competitive pressure. Yes I agree with Piyush Gupta that we also need to build the same value based culture through social contract which will ensure that Boards who assess leadership risk will empower management to sit out a dance that they felt was not in the long term interest of their clients or their shareholders.

A truly effective Board will ensure that leadership in their organization is drilled to develop a sense of moral judgment that will not allow them to succumb to the temptations of greed and competitive pressure.

SID Corporate Membership

SID Corporate Membership was launched on 5 August 2010 with the support of Singapore Exchange.

SID Corporate Membership is introduced with a view to encouraging and enhancing support from companies in Singapore in our national efforts to improve corporate governance practices here through involvement in SID's activities and uses of SID's one stop corporate governance resource centre.

Corporate Members will be provided with various benefits, including complimentary Board Appoint Service, complimentary invite to SID Directors Conference, the professional training of directors and senior management at concessionary rates, and much more. For a nominal annual fee of $2,400 the total annual benefits can add up to more than double the fee. More Board services are being developed by SID with a number of professional partners who will accord special rates to SID Corporate Members.

There is no better way to demonstrate your commitment to good corporate governance than being a SID Corporate Member.

For further information, please contact SID Secretariat at (65) 62272838 or go to www.sid.org.sg.

Board Appointment Service (BAS)

The SID Board Appointment Service (BAS) was officially launched on August 5, 2010 with the support of Singapore Exchange. This service provides companies with access to search for suitable candidates from SID's database of members who are willing to serve as independent directors.

For Companies

1. Introduction Service

SID will assist the company to determine its requirement(s) and complete the BAS questionnaire to indicate the company's preferred candidate profile and search criteria. SID will run a search through our individual members' computerized database to identify the best matching candidates. Upon concurrence of the selected members, the list of the candidates and their profiles will be forwarded to the company for consideration.

SID will also provide a sample Director's Appointment Letter.

The fee for this service is $1,500 for each request for an independent director introduction, payable in advance. However, if the company decides to abort the request or the company has not appointed a director from among the candidates introduced by SID within six (6) months from the date of the request, SID will refund $500 to the company upon request.

This service is complimentary for our corporate members for one appointment per year.

Please call the SID Secretariat at (65) 62272838 or go to www.sid.org.sg to down load the form.

2. Enhanced Services

SID also offers the following enhanced services:

- Candidate interview & evaluation
- Board composition & collective skills review
- Board fees

Additional fees will apply for these services.

For SID Individual Members

This service provides individual members the opportunity to be selected by requesting companies for interview and consideration as a board director. Individual members who are interested in this program should furnish their personal profile by completing an online form. Since the matching process is computerized, it is transparent and provides all participating members with an equitable opportunity to be selected. All participating members shall be required to update their profiles annually to remain in the program.

Please go to www.sid.org.sg to sign up online.

Annual Golf Tournament

There was no mistaking the shot gun tee off at 1.30pm on 22 August 2010. This marked the start of 34 flights of the SID Annual Golf Tournament 2010 at the Tanjong Course, Senotsa Golf Club, an event graced by Mr Lim Boon Heng, Minister, Prime Minister's Office.

From stories and banter heard during the course of as well as post the day's events, it was evident that the 136 present did have a fun-filled time. Special thanks go out to all sponsors and participants for making the event a success. Congratulations to all the winners too!

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- A Mercedes-Benz E-Class E200 CGI BlueEFFICIENCY (Elegance)
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- 1 Set of S-Yard Golf Clubs
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- Sentosa Golf Club
- Singapore Exchange Limited
- Singapore Pools (Private) Ltd
- StarHub Limited
- The Hour Glass Limited
- Transview Holdings Limited
- Wing Tai Holdings Limited
- World of Golf

Results of SID Annual Golf Tournament

Overall Winner

- Goh Hee Kuang

"A" Division

- Winner: Paul Graham
- 1st Runner-up: Joseph Ng
- 2nd Runner-up: Adrian Tan
- 3rd Runner-up: Nigel Ooi

"B" Division

- Winner: Fong Heng Boo
- 1st Runner-up: Koh Soo Keong
- 2nd Runner-up: Lee Ek Tieng
- 3rd Runner-up: Tan Kian Chew

Best Lady Golfer

- Margaret Lui

SID Directors Conference 2010

SID held its inaugural Directors Conference 2010 on 15 November 2010 at Marina Bay Sands. The Conference theme was "Getting It Right – The Challenges and Opportunities Ahead". The Conference was very well attended and well received by participants. Taking the approach of panel discussions, the Conference encouraged discussions from all around.

Minister Lim Hng Kiang

The opening address was delivered by the Guest-of-Honour, Mr Lim Hng Kiang, Minister for Trade & Industry and Deputy Chairman, Monetary Authority of Singapore. Prior to the opening address, Mr John Lim Kok Min, Chairman SID, welcomed the participants to the one-day event.

The Institute was fortunate to have two highly acclaimed keynote speakers, namely, Baroness Sarah Hogg, Chairman of Financial Reporting Council, UK and Sir Richard Broadbent, Deputy Chairman of Barclays plc. Following the keynote speeches, there were 3 panel

Baroness Sarah Hogg

sessions, discussing the following topics:

- The Rights & The Wrongs – The Way Ahead
- The Director's Role In Investor Management
- The Director's Role In Risk Management

Apart from the two keynote speakers, the Conference saw a top notch line up of businessmen and professionals including panelists / moderators: Mr Willie Cheng, Mr Piyush Gupta, Dr Nik Ramlah Mahmood, Mr Lucien Wong, Ms Yeo Lian Sim, Mr Vikram Khanna, Mr John Gollifer, Mr Peter Taylor, Mr Thomas Thomas, Mr Adrian Chan, Mr Choo Chiau Beng, Mr Reggie Thein, Dr Piotr Bednarczuk, Mr Pek Hak Bin and Mr Keith Stephenson. Drawing the discussions of the Conference together was master of ceremony, Ms Kala Anandarajah.

The closing speech was delivered by Mr JY Pillay, Chairman of Singapore Exchange.

SID thanks Minister Lim Hng Kiang, Mr JY Pillay, the keynote speakers and panelists, the corporate sponsors and all the guests and participants for their kind contributions and presence.

Sir Richard Broadbent

SID Chairman John Lim

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Deputy Chairman:
- Ms Kala Anandarajah

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- Ms Mita Natarajan
- Mr Keith Stephenson

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- Mr John KM Lim
  SID Chairman

SID Secretariat:
- Mr Sovann Giang
  Executive Director

Closing address by JY Pillay

Conference participants

Panel 2 Discussion
From left to right: Thomas Thomas, Peter Taylor, John Gollifer and Vikram Khanna

Panel 3 Discussion
From left to right: Piotr Bednarczuk, Pek Hak Bin, Reggie Thein, Choo Chiau Beng, Keith Stephenson and Adrian Chan

Panel 1 Group Photo
From left to right: Sir Richard Broadbent, Lucien Wong, Baroness Sarah Hogg, Yeo Lian Sim, Nik Ramlah Mahmood, Piyush Gupta and Willie Cheng

In the VIP holding room

September 2010

Surname	Name
Chai	Chon Fatt
Chan	Wai Leong
Chen	Biqing
Chong	Joon Meng Edwin
Dickins	Cynthia
Diong	Tai Pew
Ee	Keng Boon Donald
Fernandez	Patrick Charles
Gwee	Raymond
Heng	Tze Hou
Ho	Sin Yam Patrick
How	Yan Chin Eddie
Kay	Ren Jim
Klaver	Nicholaas Johannes
Koh	Choon Joo Edbert
Koh	Aaron
Kong	Chee Min
Lee	Yong Chuan Edwin
Lim	Jit Siew
Loh	Chui Mei Margaret
Maneesh	Tripathi
Ng	Chi Hou Terence
Perrett	Pierre
Ramsundersingh	Shantilall Aatmanand
Shankha	Sen
Tan	Ser Ko
Teo	Woon Keng John
Teo	Choon Chye Marc
Wong	King Yoong
Wong	Hein Jee Lester

October 2010

Surname	Name
Chu	Swee Yeok
Chua	Chung San
Chua	Soon Kian Andrew
Foo	Toon Ee Eddie
Foo	Shiang Ping
Gwee	Sze Chuan
Han	Eng Juan
Hong	Tean Hye Clifton
Lee	Chee Yuen Jonathan
Lim	Ghim Yew Terence
Lim	Kern
Lo	Kim Seng
Metzger	Kurt
Mirchandani	Sandip Arjan
Ong	Kheng Chye
Poh	Boon Nee
Singh	Devendra
Tan	Lye Teck
Tan	Yong Chin Angela
Tan	Jing Hee
Tan	Teik Seng
Tan	Chee Meng William
Tan	See Hai Michael
Teo	Kheng Lin
Tomlin	Monica Villegas
Wong	Chee Meng Lawrence
Yap	Lian Seng
Yeoh	Kar Choo Sharon
Yeoh	Peter

November 2010

Surname	Name
Chai	Kang Wei Samuel
Chopra	Vijay Brijendra
Cook	Ian
Gan	Nga Kok Jacob
Koh	Eng Hwa
Ong	Tun Kwok John
Ramachandra	Rameshwari
Thuy	Le Thi Thu
Wong	Sing Sing
Yeh	Yong Hua
Yeoh	Lian Chuan Nigel

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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