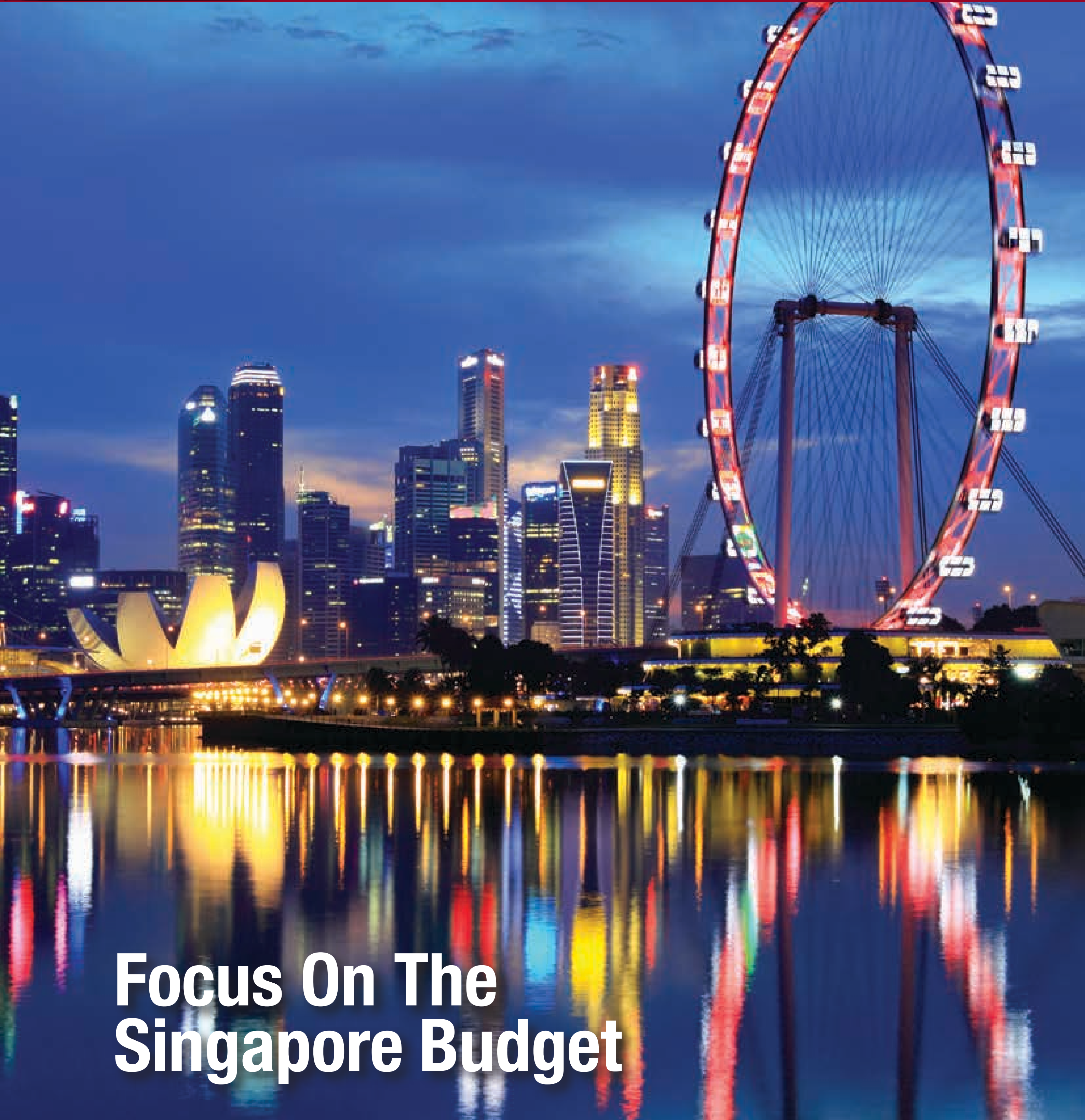
The Directors' BULLETIN

ISSUE 2 • 2013

The Official Newsletter of Singapore Institute of Directors

MICA (P) 001/02/2012



Focus On The Singapore Budget

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

SID GOVERNING COUNCIL 5

UPCOMING TALKS/COURSES 6

EVENTS COVERAGE

Members' Networking Event 7

Decoding the Revised Code of Corporate Governance — Remuneration Matters 9

Debt Financing And Restructuring 11

Wading Through Muddy Waters 13

COVER STORY

Oh. Do Behave. 15

FEATURES

Boards Should Be Concerned With Tax Risk Management 17

Cleaning Up The Tax And Grants Closet In The Boardroom 19

Attracting Holding Companies: Enabling Interest Deductions 23

Board of Directors Oversight Of Leadership Risk 25

Regulation Burden Weighing Directors Down 34

Tackling Toxic Bosses 36

Listed Company Governance In 2013 39

Changes To Employment Act 42

WELCOME ABOARD (New Members) 45

FROM THE EDITOR

Warm Greetings to one and all! The Institute is pleased to present the Second Issue of the Directors' Bulletin to you.

Before I get into the focus of this Second Issue, I would like to highlight a quick change in the format of presenting our articles. We have moved forward to the earlier pages an overview of the Institute's recent activities. We felt that it was important to highlight the many continuing education programmes that the Institute organises for your benefit. With director training constantly being stressed upon by regulators and shareholders alike, you will see that the Institute has grown from strength to strength in its menu and quality of training activities. Many of the sessions adopt a "by directors for directors" approach to ensure relevance and practicality for all members. These sessions also provide superb opportunities for sharing and exchanges of real issues, and well just for business networking generally too. Do let us have your thoughts on what you think about the new approach.

Let me also take this opportunity up-front to welcome our new Executive Director, Penelope Phoon, to the Institute. Penelope needs no introduction having been in the industry for a very long time. She brings with her excellent organisational skills, an in-depth understanding of the needs of corporations and hence directors, and the panacea to suitably link the right people and events at the right time in the right place. The Institute has many ambitious plans, all aimed at serving you better. No doubt Penelope will see to it that we do. Please do join me in warmly welcoming her on-board and feel free to reach out to her.

Moving on to substantive articles, the Second issue focuses on the recent Singapore Budget 2013. We start off with a slightly different style of presenting the key updates from Budget 2013. Written by David Sandison, he takes the view that this is a less technical budget and yet by far the most exciting for all the other things the Budget brought with it. The next article by Anuj Kagawala takes a slightly more strict approach and reminds that Boards should be concerned with tax risk management. This is absolutely important - directors need to appreciate that their duties go beyond simply setting the strategy and broad oversight responsibilities.

Other than the various Budget and tax related articles, we have included several articles on the importance of risk management for directors. Directors work and operate in an increasingly complex business environment. The issues that directors have to face are multifarious and cross many disciplines. They are also caught in having to quickly come up to speed on new regulations, but more importantly multiple laws, regulations and rules as business operations cross borders. Only a proper and effective risk management process can aid in mitigating against possible losses.

Yet, it is a recognised fact that many a director do feel weighed down by the many regulations that abound - the majority of which are finance and accounts related. The article by Andrew Jennings addresses some issues in this regard. All said, however, there are no easy answers and anyone seeking a position as a director must be alert to the demands of the role.

As a penultimate note, a further note on our 4th Directors Conference to be held on 11 September 2013. You will find more information on this in our Save the Date Flyer on page 4. In keeping with the theme, we are calling for interested parties to provide articles that deal with value creation for the next few issues of our Bulletin. Do feel free to forward your articles or ideas to the secretariat.

Finally, a note of thanks and gratitude to all our contributors to this issue of the Bulletin. Our next issue will focus on investments in emerging markets. If you have an article that you believe would fit the theme, do send that in to us.

Wishing all well till the next issue of our Bulletin!

Kind regards,

Kala Anandarajah
Editor

CHAIRMAN'S MESSAGE

Dear fellow members,

Results of quarter one's economic performance for Singapore have just been released and, although a slowdown had been expected, the decline of 0.6% in GDP was still a surprise for many. The decline was the result of a 6.5% slide in the manufacturing sector, in particular, the electronic sector.

Notwithstanding this slump, the official full year forecast of a 1-3% growth remains unchanged as the economy is expected to see a gradual improvement for the rest of the year on the back of some recovery in external demand. Although inflation has also slowed down, GDP growth for the full year is still expected to come in below the inflation rate. With the constraints on labour, particularly in the services and construction sectors, 2013 is likely to be a challenging year for many of us and our companies. As I have stated several times in recent months in this bulletin, directors and management will do well to pay particular attention to management of their business risks, even as they review and revise their business strategies to cope with the current economic slow down while continuing to focus on longer term value creation. I am pleased to note that despite the short term squeeze on profits our director training courses have continued to receive strong support.

I am also pleased to inform you that our Institute has two major events coming up in the next few months. The first is our annual golf tournament to be held on 9 June 2013 at Sentosa Golf Club. This year Mr Lawrence Wong, Acting Minister for Culture, Community & Youth and Senior Minister of State, Ministry of Communications and Information will be the Guest of Honour for our golf tournament. As in past years this event has been strongly supported by our local corporate community and all available flights have been fully taken up.

The other upcoming event is our annual conference, the 4th in our series of annual Directors' Conference. This year the theme is "Corporate Governance: From Form to Value Creation". While directors and boards have seen the form of corporate governance improved considerably over the past decade, has this improvement translated into value creation for stakeholders? This conference will see practising directors and professionals share their views and thoughts on this all important subject. Speakers and panelists are being lined up and more details will be announced to members soon. The conference will be held on 11 September 2013 at Marina Bay Sands. I hope members will sign up for the conference and look forward to meeting many of you at the event.

Other upcoming events include the Best Managed Board Award (BMBA) and the Best CEO Award, both of which are co-organised by us and form part of the awards held under the auspices of the Singapore Corporate Awards. This year's award winners are likely to be announced in late July and the Institute is currently in the midst of conducting the necessary research and analysis of candidates. The BMBA is co-organised with Aon Hewitt while the Best CEO Award is co-organised with Egon Zehnder.

As many of you are already aware, in early April we had a change of leadership at the secretariat. A new Executive Director, Ms Penelope Phoon, was appointed to replace Mr Sovann Giang who had been with us for three years. Penelope was formerly the Country Head of ACCA Singapore and prior to that head of Singapore Environment Council. On behalf of the Council and the secretariat, I warmly welcome Penelope to SID and also thank Sovann for his contributions to the Institute, and all the best in his future endeavours.

Warm regards and best wishes,

John KM Lim
Chairman

SAVE THE DATE!!!

Corporate Governance: From Form to Value Creation

Panel 1
Value Creation:
From Processes to Outcomes

SID DIRECTORS CONFERENCE 2013

Wednesday, 11 September
9am to 5.30pm

Marina Bay Sands
Singapore

Panel 2
The CEO:
Reconciling Compensation,
Values and Value Creation

Panel 3
The Shareholders:
From Asking to Participating
in Value Creation

SID Governing Council 2012/2013

Chairman	: Mr John Lim Kok Min	
First Vice-Chairman	: Mr Willie Cheng	
Second Vice-Chairman	: Mr Adrian Chan Pengee	
Treasurer	: Mr Soh Gim Teik	
Council Members	: Mrs Yvonne Goh	Mr Daniel Ee
	Mr Basil Chan	Mr Andy Tan Chye Guan
	Mr Yeoh Oon Jin	Mr Kevin Kwok
	Ms Yeo Lian Sim	Mr David Conner
	Ms Kala Anandarajah	Mrs Elaine Lim
	Dr Ahmad Mohd Magad	Mr Lim Chin Hu
	Mr Chaly Mah	Mr Kee Teck Koon
	Ms Tan Yen Yen	Mr Robert Chew

Upcoming Talks/ Courses

Upcoming Events

MAY 2013

Friday, 17 May	EBL Module 2 *The Board & Fund Raising*
Tuesday, 28 May	LCD Director Programme Module 1 *Listed Company Director Essentials: Understanding The Regulatory Environment In Singapore: What Every Director Ought To Know*
Thursday, 30 May	EBL Module 3 *Enterprise Risk Management*

JUNE 2013

Friday, 21 June	EBL Module 4 *Financial Literacy & Governance*
Thursday & Friday, 27 June & 28 June	LCD Mandarin Programme in Beijing, China

JULY 2013

Tuesday, 9 July	LCD Director Programme Module 1 *Listed Company Director Essentials: Understanding The Regulatory Environment In Singapore: What Every Director Ought To Know*
Wednesday, 10 July	LCD Director Programme Module 2 (Morning Session) *Audit Committee Essentials* LCD Director Programme Module 3 (Afternoon Session) *Risk Committee Essentials*
Thursday, 11 July	LCD Director Programme Module 4 (Morning Session) *Nominating Committee Essentials* LCD Director Programme Module 5 (Afternoon Session) *Remuneration Committee Essentials*
Wednesday, 24 July	EBL Module 5 *Investor & Media Relations*

SID-SMU Executive Certificate in Directorship

Modules	Programme Dates
Module 1: The Role of Directors: Duties Responsibilities and Legal Obligations (3 days)	Wednesday, 5 June 2013, Thursday, 6 June 2013, Friday, 7 June 2013
Module 2: Assessing Strategic Performance: The Board Level View (3 days)	Monday, 15 July 2013, Tuesday, 16 July 2013, Wednesday, 17 July 2013
Module 3: Finance for Directors (3 days)	Monday, 20 May 2013, Tuesday, 21 May 2013, Wednesday, 22 May 2013
Module 6: Effective Succession Planning and Compensation Decisions (2 days)	Tuesday, 18 June 2013, Wednesday, 19 June 2013

Course schedule is subject to changes. Please refer to SID website at www.sid.org.sg for the latest dates.

Members' Networking Event

Dr Dinesh Nair & Dr Charles Tsang

The Institute held another Members' Networking Event on 1 March 2013 at UBS Business University, Asia Pacific – the historic Command House. About 30 members were given informative insights as medical experts, Dr Dinesh Nair and Dr Charles Tsang, from Parkway Health discussed advancements in the prevention and treatment of cardiovascular disease and colorectal cancer.

Shortly after the buffet dinner, Mr Tan Chin Keong from UBS Wealth Management shared his views on What the Year of the Snake bode for the Singapore Equity and Property Market.

It was an enriching evening of health and wealth. SID thanks Parkway Heart and Vascular Centre and UBS Business University for sponsoring the event. ■

Insights

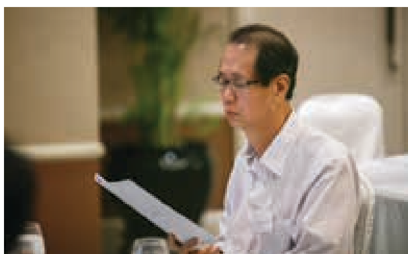
Decoding the Revised Code of Corporate Governance — Remuneration Matters

Mr Kevin Goh, Director, and Ms Xu Wei Wei, Consultant, both from Executive Rewards, Hay Group Singapore, gave an insightful lunchtime presentation on the Code of COrporate Governance ("Code") on Friday, 8 March 2013 at Marina Mandarin Singapore. They took participants through their checklist that had been designed for companies to determine the degree of compliance with the new requirements under the revised Code. In addition, they also revealed their latest findings on the Non-executive Director remuneration for listed companies in Singapore which was based on the data analysis of 249 companies.

The event was attended by 25 participants. ■

Debt Financing And Restructuring

On 21 March 2013 at Marina Mandarin Singapore, Mr David Chew, Executive Director at Ernst and Young Solutions LLP gave an introductory presentation to about 20 participants on debt financing and the full debt spectrum – from debt raising and refinancing to debt restructuring. He also spoke about the processes, key concepts and structuring issues in relation to non-traditional and/or alternative debt financing solutions pertaining to issuer and investor perspectives. He then went into more details about how some debt restructuring strategies could assist companies in identifying the early warning signs about covenant breaches and defaults. ■



EXIT

Wading Through Muddy Waters

On 8 April 2013 at Marina Mandarin Singapore, the Institute held a breakfast panel session on a high profile case on a company under siege. The panel, moderated by Mr Adrian Chan, SID Vice-Chairman, was made up of Mr Perry Yuen, Partner and Head of Corporate and Securities Law, KhattarWong LLP, Mr Shariq Barmarky, Partner, Assurance and Advisory, Deloitte and Touche LLP, Singapore, Mr Roger Tan, CEO of SIAS Research and Mr Michael Dee, Former Senior Managing Director of Morgan Stanley and Temasek Holdings.

More than 40 participants were given detailed insights as to how boards can learn from the recent Olam incident from the panel of investment, legal and accounting experts and analysts.

The issues discussed included:

- What aspects of Olam led Muddy Waters to mount its short attack and what could have been done to prevent it?
- Should corporations have their debt rated if there is widespread individual ownership and a lack of credit analyst coverage? What role should directors take in the level of transparency adopted by their company?
- How can trust be shored up with investors in the face of such attacks and how can trust be regained?
- How does having key substantial shareholders exercising control of the company affect the role of independent directors?
- Should short selling be banned and is there sufficient disclosure of short positions?
- What legal recourse does a company under attack have under such circumstances?
- What are the central lessons for directors and regulators in the Olam case?

It was a well-received and interactive session enjoyed by all who attended and participated.

Roger Tan
Adrian Chan

Oh. Do Behave.

By David Sandison
Partner, Corporate Tax
PricewaterhouseCoopers LLP

An Exciting Budget!

Although the 2013 Budget contained less technical content than any I can remember (and there have been some pretty unexciting ones for a tax consultant like myself), it was by far the most exciting for all the other things it brought with it and for the things going on around it at the time.

Population White Paper

Obviously, the population white paper caused a stir in January, primarily because everyone focused on the expected population of 6.9 million by 2030 (of whom 2.5 million foreigners), largely out of context. But the question of poulation of course is not a stand-alone issue. It is one that is inextricably linked with the question of foreign workers. This in turn is inextricably linked with enhancing productivity, which is then inextricably linked with the sustainability of the economy which is dependent on.... the population. So on the one side you had the "general electorate" who wanted to keep the population down, and the people who employed them, who wanted to keep it up (except to the extent they were part of the general electorate). The government had a difficult balancing act to deal with therefore.

Though scant, the content of the Budget certainly did little to put a lid on the general debate. The continued assault on the dependency ratio ceilings was surprising in the context of calls by the Small and Medium Enterprise (SME) community that it was too much, too fast. But it demonstrated the government's resolve to keep the pressure on quality and productivity, while at the same time assuaging the "not-so-pro" immigration segment of the community.

The real question though is whether the measures that were announced will actually have an impact on what the government is really getting at – changing behaviour and imposing a productivity mind-set on businesses. Let's take a look then at some of the main components from that perspective.

Productivity And Innovation Credit

The first one is enhancements to the Productivity and innovation credit ("PIC"). In fact let's not look at the enhancements just yet. Let's go straight to the concept itself.

The PIC was introduced in 2010 to encourage investment in six areas, all aimed at improving the productivity of businesses that invested in them. Without going into too much detail, the two categories that have proven most popular have been automation equipment (incuding but not limited to a spider lift, a ride-on power float machine and a semi-auto egg tart forming machine) – basically anything you can plug in or ride around on - and training. And as I said, it has been popular. But has it targeted the right businesses and has it changed behaviour or inculcated a productivity "uber alles" mindset?

Well, our general experience of the "incentive" is that it is unlikely to have influenced behaviour in relation to productivity. Typically what we see is that, while the PIC may have had some influence on the timing of relevant expenditure, by bringing it forward, it has done little to change the nature of that expenditure. The normal process is for our clients to look back over the last year and see what has qualified out of what they have spent, rather than looking forward at what they should be spending and what could make them more productive.

Another comment I would make is that some of the qualifying equipment is relatively run-of-the-mill back-office electronics (such as fax machines – which are almost obsolete as a communication tool these days – "data processing and information technology equipment" – i.e. pcs and laptops "information technology software including office system software and software used in connection with provision of any office automation service" MS Word, Excel etc in other words. Hardly cutting-edge stuff and not likely to induce a productive adrenaline surge. In fact it took me 30 minutes the other day just to print an envelope properly when in the good old days it would have taken me just 30 seconds to scribble it out by hand...

With that introduction, enter the PIC enhancement in Budget 2013. This is known as the PIC bonus and its aim is to supplement the basic PIC allowance. What it does is effectively give a cash hand-out of up to $15,000 for annual minimum qualifying PIC expenditure of $5,000 for years of assessment (YAs) 2013 to 2015. A business that incurs qualifying expenditure up to the cap of $15,000 in the first year of assessment however (i.e. YA 2013) can receive the entire PIC bonus payout in that year.

"But wait a minute, you ask, "doesn't YA 2013 refer to my accounts for the year to 31 December 2012?" "Yes". "So my behaviour change is retrospective then?" "Looks like it has to be". When you add to this that the fact that the grant is taxable, it might start to dawn on you that, even if you haven't yet spent the money, it is not going to influence your strategic decisions in any big way. But it certainly is a nice to have and could help provide funding to smaller businesses who may be facing going to the wall in the absence of access to foreign labour (or labour in general).

Wage Credit Scheme

The other interesting Budget proposal is the Wage Credit Scheme or WCS. Under this scheme, the Government will co-fund 40% of wage increases, between 2013 and 2015, given to Singaporean employees earning a gross monthly wage of up to $4,000. So where the wage increase in 2013 is, say, $200, then the employer will be given $80 for 2013, and assuming the increase stays in place, $80 for each of 2014 and 2015 as well.

Readers should note that the WCS is not applicable to wages paid to directors who are also shareholders of companies. But it is available to all businesses, including sole proprietorships and partnerships. It has been clarified, unfortunately, that the WCS is taxable though, which is hardly surprising given that it reverses out tax deductible salary costs. The neat thing about the scheme is that the employer has to do very little. The CPF Board will have records of wage increases paid to Singaporeans (as the $4,000 ceiling is below the CPF monthly threshold) and will administer accordingly.

Whether the scheme will cause employers to pay Singaporeans more than they would otherwise is debatable. In addition, if you pay your Singaporean staff more, then presumably that has to apply across the board to foreign staff (and PRs) as well, otherwise you start to get into dangerous territory; and if you play the good Samaritan and try to share the handout with staff, then again that presumably means sharing with all staff. Otherwise you risk driving a wedge between the salaries paid to foreign workers or staff and to Singaporeans and it is not clear what sort of problems that could cause. Watch this space.

Corporate Tax Rebate

Finally, a corporate tax rebate was introduced of up to $30,000. This will be welcome for businesses who need support to fend off rising business costs, but is of little comfort if you are losing money and about to go out of business.

But there have been changes that will affect behaviour. Clearly anyone contemplating buying a car now in the wake of the ARF increases and the borrowing restrictions should be viewed with some suspicion (call a psychiatrist); and the cost of sitting on empty properties (of which there are many in Singapore), may be causing a number of landlords to be thinking again about their investment options in the light of the property tax changes. But with swingeing stamp duty costs all around, selling may not be a commercial option, or even possibility.

Conclusion

The overall verdict though is that, while the Budget introduced some useful help to defray business costs, it did not really hit the spot, in my view, in terms of encouraging behavioural change or targeting those that really need it – the SME's who are struggling to access the labour they need to grow, nay, survive. ■

Boards Should Be Concerned With Tax Risk Management

By Anuj Kagalwala, Partner, and
Stephen Banfield, Senior Manager
PricewaterhouseCoopers Services LLP

Overview

In recent years, tax risk management has emerged as an important issue for boards of local and multinational companies alike. Identifying tax risk requires directors and senior executives to develop an understanding of complex legislative regimes. Boards must then exercise judgement in determining whether a perceived tax risk is acceptable or not; carefully weighing an increase in after tax returns against the downside risk of a protracted dispute with authorities.

Tax Concessions To Reduce Tax Risks

Singapore's targeted tax concessions offer an alternative. They are a pragmatic way of reducing structural tax risk for businesses wishing to establish a presence here. Concessions providing for a reduced rate generally require express approval from the authorities. These incentives therefore have a legitimacy that is difficult to develop in alternative structures where a rigorous process of approval is not required. An example of this is in the area of tax planning for wealthy individuals and families, where one of Singapore's incentives can now be used by boards of family offices and business to provide certainty.

Tax Risk Management

Historically tax risk management has not been seriously considered by boards, and very often has only been indirectly addressed as part of a broader finance function. This appears to be changing as the landscape for tax planning has become a lot more hostile. Corporate groups such as Apple, Google and Starbucks have been recently named in the media as undertaking aggressive tax planning. Scrutiny has also been brought to bear on private wealth planning structures which traditionally involve the use of offshore jurisdictions.

Journalists in the popular press have tended to apply the crude methodology of comparing economic scale to net revenue contribution. If a taxpayer appears to be wealthy, they should pay a lot of tax.

Regulators in a variety of developed jurisdictions are happy to respond to this populist sentiment. Extracting additional revenue from multinational corporations and the wealthy is relatively easy given the perception that there is a greater capacity – and moral obligation – to pay. This can be achieved by revenue authorities undertaking more intensive audit activity or through technical changes to the legislation.

The Governance Challenge

The changing dynamic for tax planning presents a challenge from a corporate governance perspective. On one hand, a director is under a fiduciary obligation to maximise shareholder returns. This would invariably involve consideration of structures which yield the highest after tax returns. On the other hand, the reputational damage and financial costs associated with a structure that is unwound by revenue authorities can be significant. Many jurisdictions have now implemented general anti-avoidance rules which can be used where a structure may have technical merit but is perceived as being abusive.

In amongst the range of structuring options, Singapore stands as an effective tax planning jurisdiction. It has a limited tax base and low corporate rate which is currently only 17%. Structures using Singapore can be supported by establishing a local office, with staff and genuine economic substance.

There are a number of targeted schemes built into the legislation which provide certainty as to tax outcomes where a taxpayer undertakes activities which are considered to benefit Singapore's economy. These incentives offer low rates of taxation (sometimes even 0% on certain income), though generally require a commitment to increasing headcount or local spending. The quid pro quo for a reduced rate of taxation is an assurance that contributions will be made to Singapore's economy as an employer, a pioneer in a particular industry, or a consumer of locally provided goods and services. For the board of a company, what this means is that a structure through Singapore can be legitimised by reference to the terms of the scheme itself; rather than requiring an interpretative position to be effective.

> Historically tax risk management has not been seriously considered by boards, and very often has only been indirectly addressed as part of a broader finance function. This appears to be changing as the landscape for tax planning has become a lot more hostile. Corporate groups such as Apple, Google and Starbucks have been recently named in the media as undertaking aggressive tax planning.

The Family Office Example

A good example of the legitimising role of Singapore's prescriptive tax exemptions is in the context of family office planning. Many existing private wealth structures are established in offshore jurisdictions such as the Cayman Islands, or the British Virgin Islands and require careful management to be effective from a tax perspective. A typical concern is ensuring that an offshore company or trust does not become a tax resident, or derive income, in a higher taxing jurisdiction where a wealthy family or individual may be based. It is not uncommon for orchestrated governance procedures to be put in place which require directors and family members to only take certain decisions in certain locations.

It may be possible to use Singapore's tax concessions to hold the wealth of a family or individual as an alternative to an offshore structure. A Singapore fund is formed which can then be owned by a discretionary trust for succession planning and asset protection purposes. Both the income of the fund and of the holding trust can potentially be protected from Singapore tax even though the structure is designed to be controlled and managed from Singapore. This concession is very attractive in its application but it comes with a number of prescriptive terms and conditions.

From a corporate governance perspective, the directors of a family office structured in Singapore can be confident that after tax investment returns have been maximised. Tax risk has also been mitigated by the approval of the fund by the authorities. Provided that the approval conditions continue to be satisfied, it is not necessary to consider changes in tax administration or interpretation, or the lurking threat of a general anti-avoidance rule. The approval of the structure and economic substance provides legitimacy and a reputational buffer which is difficult to replicate using a structure based around offshore entities.

Conclusion

Tax risk management is an emerging issue that is only going to increase in importance. Singapore's tax concessions can be used to mitigate tax risk on structures where a bona fide presence is to be established or expanded. The costs of implementing a Singapore structure will generally be greater than using a traditional tax planning jurisdiction where a similar level of economic substance may not be required. These costs can be more than offset by the mitigation of tax risks that would be inherent in alternative structures, and should be regarded as an investment in certainty. ■

Cleaning Up The Tax And Grants Closet In The Boardroom

By Lennon Lee
Tax Partner
PricewaterhouseCoopers Services LLP

Overview

For the business community, the Budget 2013 announced by Deputy Prime Minister and Minister for Finance, Mr Tharman Shanmugaratnam, on 25 February 2013 was labelled as a "quality growth" budget.

The Finance Minister is resolved to intensify economic restructuring of Singapore and to press on with the continued drive for productivity growth through skills upgrading and business transformation. He will be providing significant government support with a 3-year transition support package to help businesses through this period of restructuring.

The Finance Minister in his 2013 Budget Speech recognised that economic restructuring "… will unfortunately lead to some businesses being winnowed out, but the end result must be a vibrant and sustainable local SME sector". He also added that "the structure of some of our industries will inevitably have to change, given our tight labour market. Consolidation is part and parcel of restructuring. While efficient enterprises and those who develop stronger brands will grow, others may eventually downsize, switch to new business lines or move parts of their operations abroad…"

The underlying message from the Finance Minister suggests that he will give reasonable time (i.e. 3 years) for businesses, in particular those industries with low productivity, which have been identified to be the Construction, Marine and Services industries, to shape up or otherwise suffer the consequences of being made redundant if they remain uncompetitive.

With the tone set by the Singapore Government in the recent 2013 Budget coupled with an increased expectation on the roles and responsibilities of a director following a series of corporate failures, there is an expectation from the investing public that a director must be prepared to raise tough questions and make hard decisions on how the company intends to react to the economic restructuring in Singapore and whether the company has taken full benefit of grants and incentives made available by the Singapore Government.

With much at stake for companies and businesses in Singapore to restructure and transform themselves in this economic transition phase and with the

Singapore Government indicating that it will provide the relevant assistance to help the local businesses, it is perhaps an opportune time for directors to take a more active role to pursue business transformation and to clean up the tax and grants closets in the Boardroom. This article seeks to provide some of the incentives and grants that are available as businesses and companies restructure so as to create a more vibrant local business scene.

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Managing Increase In Labour Costs

Higher levies on foreign workers will be raised across the board in July 2014 and July 2015.

There will also be cut in the Dependency Ratio Ceiling ("DRC") in the marine and service sectors. The DRC refers to the maximum permitted ratio of foreign workers to the total workforce that a company in the stipulated sector is allowed to hire. With a cut in the DRC, this means that to continue to keep the same number of foreign workers (i.e. S Pass and work permit holders), a company would need to hire more Singaporean workers who are likely to be more costly.

Whichever way you look at the measures to tighten foreign workers, it translates to a significant higher operation cost for many businesses, in particular those in the Construction and F&B industries, which are labour intensive and have been relying heavily on foreign labour.

Wage Credit Scheme

A bright spot in this year's Budget is the three year wage credit scheme (WCS). Under the WCS, the Government will co-fund 40% of wage increases, from years 2013 to 2015, to Singaporean employees earning a gross monthly wage of up to S$4,000.

The objective of the WCS is to encourage businesses to share the fruits of increased productivity by raising the wages of their Singaporean employees. While wage increase of Singaporean employees may also help to retain these employees and at the same time help the Company to keep within the DRC in a tight labour market, it is by no means an incentive to defray the overall increase in staff costs of these businesses as any wage increase needs to be sustained after 2015 when the WCS expires.

Business Restructuring

For businesses that are adversely affected by the tightening of foreign labour and are unable to attract local workers and/or suffer increased wage bills and rental and operating costs, tough decisions would need to be made in the boardroom on how the business needs to restructure.

Directors can add value by making an assessment on whether the management's approach in tackling the tight labour market and increased costs would create a more sustainable business model. It is equally important for the directors as well as the management to be kept abreast on some of the incentives and grants that are available for businesses undergoing restructuring.

Some businesses may consider relocating part of their labour intensive and low productivity operations to a location that offers low rental costs or land prices, a good supply of labour pool that is cheaper relative to the labour pool in Singapore and access to certain tax incentives.

With close proximity to Singapore and an area three times the size of Singapore plus the attraction of lower costs of operations, Iskandar Malaysia has attracted many Singapore companies and businesses to set up operations there.

Regardless where the labour intensive and low productivity operations are to be located, there are a number of incentives and grants that companies here can take advantage of, subject to conditions.

Market Readiness Assistance Grant/SME Market Access Programme

To help local companies venture into new market ventures, International Enterprise (IE) Singapore will launch a Market Readiness Assistance (MRA) Grant to provide quick assistance to SMEs.

IE Singapore will co-fund up to 50% of the eligible third party costs for eligible services including market assessment, market entry and Business Restructuring through Internationalisation. It will be

for one application per company per year, capped at S$20,000.

SPRING Singapore also provides grant support up to 50% for all eligible third party costs for market access. However, the amount of grant is capped to S$10,000 per company per project.

Double Tax Deduction For Internationalisation

As companies mull over the decision to move their operations, there is an automatic tax deduction of 200 per cent for qualifying expenditure incurred on overseas business development, investment study trips/missions up to $100,000 per year of assessment. Double deduction on qualifying internationalisation expenditure more than $100,000 would require approval.

Intellectual Property (IP) For Internationalisation

IE Singapore provides support for Singapore companies to defray some of the costs, including working with IP consultants, to help these companies protect and maximize their intellectual property in overseas markets through strategy, research, training and online resources.

Land Productivity Grant

Newly introduced in this year's Budget, the Land Productivity Grant provides financial support to companies that restructure their operations which result in land intensification or savings of at least 0.1 hectares in Singapore. The grant is aimed to co-fund the consultancy fees and /or relocation costs incurred by these companies. The application for the grant can be made through the Singapore Economic Development Board (EDB).

Integrated Investment Allowance (IIA) Scheme

Companies that shift their manufacturing operations out of Singapore as contract manufacturing, are able to make use of the IIA Scheme which allows these companies to claim enhanced writing down allowances, over and above the capital allowance, for productive equipment acquired by the Singapore companies but used by their overseas manufacturing subsidiaries for approved offshore projects.

Overseas Manpower Assistance - Young Talent Program, Staff Training For Overseas Expansion

Local companies having trouble trying to hire Singaporeans to help in building a presence overseas would be delighted that the IE Singapore has introduced a $20 million programme recently.

The programme includes Young Talent Programme where IE Singapore will co-fund scholarships for undergraduate studies at local universities for selected companies already with operations abroad. Specifically, IE Singapore will reimburse 70 percent of these companies' scholarship costs and the recipients are expected to work with these companies after graduation.

IE Singapore will also be looking to help companies to train appropriate employees with the right skills in preparation of overseas business expansion.

Climbing Up The Productivity And Skill Upgrading ladder

It is recognised that not all businesses are able to shift part of their operations overseas to manage operations costs. For businesses where the option of shifting their operations is not viable, they would have to transform themselves through having greater level of automation, developing and enhancing branding, embracing innovation and training multi-skilled employees.

Productivity And Innovation Credit (PIC) & PIC Bonus

The PIC scheme was first introduced in Budget 2010. Thus, it is not new to many. Under the PIC scheme, businesses can claim PIC on qualifying expenditure incurred on six qualifying categories:

- Acquisition or leasing of PIC automation equipment
- Training of employees
- Acquisition of intellectual property (IP) rights
- Registration of IP rights
- Research and development (R&D)
- Approved design projects.

Businesses can claim PIC tax deductions of up to S$400,000 for each PIC qualifying activity for each YA from YAs 2011 to 2015. A cash payout option of 60% is also available on up to S$100,000 of qualifying PIC expenditure incurred in YAs 2013 to 2015.

A new PIC bonus was introduced in Budget 2013, where businesses that spend a minimum of S$5,000 in qualifying PIC expenditure in a YA will receive a dollar-for-dollar matching cash bonus, subject to certain conditions.

Innovation And Capability Voucher (ICV)

Small and medium enterprises that seek to build capability in their businesses can apply for the ICV. Each SME can be awarded up to two ICV of $5,000 each of the four areas:

- Innovation
  - Technical feasibility studies
  - IP business and legal diagnostic
  - Business design thinking etc
- Productivity
  - ISO 9001 and HACCP
  - Productivity diagnosis and benchmarking
  - Management of business and service excellence
- Human Resource Development
  - Manpower planning
  - Recruitment and selection

- Compensation and benefits
- Learning and development

- Financial Management
  - Planning and budgeting
  - Cashflow and working capital management
  - Financial and business assessment for growth
  - Financial management advisory

The service for the four areas would need to be procured only from participating service providers registered with and approved by SPRING Singapore.

Financial Assistance Schemes

One of the common reasons that companies are not willing to spend on automation is the high capital outlay which will put pressure on operating cash flow.

The following are some of the financial assistance schemes administered by SPRING Singapore that a company in Singapore can consider applying for, whether or not the capital expenditure causes a strain in the company's cash flow.

- Loan Insurance Scheme – provides insurance for short term trade financing and working capital loans
- Local Enterprise Finance Scheme – provides factory or machinery loans for business upgrading and expansion. The loan quantum can be up to S$15 million and loan tenure of up to 10 years
- Micro Loan programme – provides working capital, factory or machinery loans for micro-businesses with the maximum loan quantum of S$100,000

Training And Skill Upgrading Grants

Based on a government website, there are more than 50 training grants covering most, if not all, the sectors on upgrading the skills of employees and PMETs (Professionals, Managers, Executives and Technicians) which would directly increase the efficient and effectiveness of the operation of businesses.

ADVANTAGE! And Enhanced Training Support Scheme from the Singapore Workforce Development Agency (WDA) are some of the popular training grants and schemes that companies in Singapore applied for.

Under the Enhanced training Support Scheme, the WDA can subsidise up to 90 per cent of the course fees and the company sending the employees for the approved training is also able to claim absentee payroll.

Corporate Collaboration And Consolidation

Collaborative Industry Projects And PACT (Partnerships For Capability Transformation) Scheme

As part to the initiative for industry-wide collaboration to enable best practices to be replicated within selected industries, the 2013 Budget has included a Collaborative Industry Projects, where a consortia of firms will develop solutions to enhance the productivity level for these industries.

There will be government assistance for small and medium enterprises to work with large enterprises to enable co-innovation, capacity upgrading and sharing of best practices within the supply chain.

Merger And Acquisition (M&A) Scheme

The M&A scheme is available to acquiring companies in Singapore on acquisitions made between 1 April 2010 to 31 March 2015.

Under the Scheme, an allowance for 5% of the value of the acquisition capped to S$100 million per year of assessment. The M&A allowance is to be written down over 5 years.

Where it involves the transfer of Singapore shares, stamp duty relief capped to S$200,000 per financial year is also available for qualified M&A transaction.

The M&A Scheme which reduces the transaction costs on go a long way for relieving companies to merge and consolidate when by itself would not have the economies of scale and resources to stay competitive.

Conclusion

As the Finance Minister has highlighted in his 2013 Budget Speech, "if we do not do better in raising productivity, we will be caught in a situation where businesses lose competiveness…"

There are many examples of companies taking a bold step to transform themselves whether it is through enhancing productivity, relocating manpower-intensive activities, upgrading the skills of employees to better contribute to the effectiveness of the companies, and/or corporate collaboration or consolidation. There are many government assistance schemes, incentives and grants available to support the companies in this transformation process, to stay competitive not only in the local market but also against corporates in developed markets.

I would urge the directors to discharge their fiduciary responsibilities by taking up the challenge now to rationalise the companies' business activities and to evaluate the options for their companies to achieve "quality growth" in the future. The corporate transformation journey cannot be achieved overnight. Therefore, there is no better time for the companies to take advantage of the appropriate tax incentives, government schemes and grants before many of these expire in 2015. ■

Attracting Holding Companies: Enabling Interest Deductions

By Jonathan Stuart-Smith, Leader of the Global Tax Desks in Asia-Pacific and Daniel Dickinson Senior Manager, International Tax Services – UK Tax Desk
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Overview

Many countries throughout the world have taken the view that attracting and retaining holding company activity is beneficial, either to seek GDP benefits, additional overall tax revenues, or both. Singapore is no exception.

When assessing the relative merits of potential holding company locations, multi-national companies (MNCs) consider different commercial, practical and tax questions. Tax questions that may be considered include:

- Taxation of dividends received and capital gains on future disposals of investments
- Extent of tax treaty network
- Withholding tax regime
- Availability of local incentive arrangements
- Existence or nature of controlled foreign company provisions

When considering the above factors, Singapore often ranks amongst the most attractive regimes. In the Asia-Pacific region, Singapore often takes top spot alongside Hong Kong and Malaysia as the most competitive regimes, and also compares favorably with other attractive regimes further afield such as the Netherlands, Luxembourg, the UK and Switzerland.

However, an area where Singapore can be seen as lagging behind some territories is in the rules on tax relief for interest expense. In this regard, Singapore can perhaps take a leaf from the UK's book in allowing group relief for interest expense.

Where a company borrows to acquire equity investments, no relief is available in Singapore for interest expense incurred on that borrowing as dividend income received is, in most instances, tax exempt. These rules apply equally to borrowings entirely from unconnected third party lenders.

Even where interest expense is deductible in Singapore, if it results in deficits (for tax purposes) in the holding company which has borrowed the funds, these deficits cannot be set off against taxable profits arising to connected Singapore companies under Singapore's group relief rules.

Singapore is not alone in seeking to restrict relief for interest deductions in this area. The US and Germany have had similar provisions in place for some time whilst Japan, the Netherlands and Spain have recently announced measures to tighten their rules on interest deductibility in these circumstances.

Comparison With The UK

In recent years, the UK authorities have adopted a deliberate policy to increase the UK's attractiveness for holding company activities. As part of this reform, the UK has made various changes such as introducing an exemption from corporation tax for dividends received in the UK, and significantly relaxing the UK's controlled foreign company rules.

During these reforms, the UK authorities have maintained the UK's flexible regime on relief for interest expense for UK corporation tax purposes.

Relief For Interest Expense

In many circumstances, the acquisition of non-UK investments by a UK holding company should not result in the UK holding company paying any additional future UK corporation tax because of exemptions from corporation tax for dividends and capital gains. However, that UK holding company is still entitled in principle to tax relief for interest expense incurred on loans taken up to fund the acquisition(s).

That is not to say that UK holding companies are entitled carte blanche to tax relief on any amount of interest expense incurred. The approach the UK authorities have taken is to allow relief for interest expense on acquisitions subject to various anti-avoidance provisions.

These provisions include so-called "thin capitalisation" provisions where UK companies must be comfortable that amounts borrowed, and the terms of that borrowing, are "arm's length". In other words would an unconnected third party lender have made the same loan on the same terms to the UK company in question?

A further set of rules is the so-called "worldwide debt cap" provisions. These are mechanically complex but in concept seek to prevent a UK taxpaying group of companies from disproportionately bearing the "worldwide" group's borrowings and interest costs.

> In the Asia-Pacific region, Singapore often takes top spot alongside Hong Kong and Malaysia as the most competitive regimes, and also compares favorably with other attractive regimes further afield such as the Netherlands, Luxembourg, the UK and Switzerland.

Both of these anti-avoidance provisions are far less likely to apply where a UK company borrows directly from a third party. For example, it is generally difficult for the thin capitalisation rules to restrict an interest deduction where funds have been borrowed from a third party in a commercial transaction. In Singapore, even with direct borrowing from a third party, interest relief can still be restricted where the borrowing funds the acquisition of equity investments.

Group Relief

Where a UK holding company does borrow to fund an acquisition and the anti-avoidance provisions do not apply, it may well result in a loss for that company for UK corporation tax purposes because there may not be sufficient UK taxable profits against which to offset the deficit.

In those circumstances, the UK's flexible "group relief" system can allow relief for this deficit to be taken. On a current year basis, companies generating losses on interest can "surrender" those deficits to other UK companies making up their "group". A group includes all UK companies who are 75%-owned, directly or indirectly, by the same parent company. That parent company can be UK or non-UK resident.

The other UK companies in the group can offset these losses against other sources of taxable profits, such as from trading activities, interest income or taxable capital gains.

Conclusion

We consider that the inability of Singaporean holding companies to "surrender" interest expense or deficits to other Singapore resident companies under the existing group relief rules artificially forces groups to combine holding activities with trading activities in the same legal entity in order to provide some relief for the interest expense.

This puts Singapore at a disadvantage to other territories as MNCs often prefer to keep these activities separate, for example to facilitate efficient deployment of capital or future disposals of investments.

The recent Singapore Budget 2013 did not include any proposals to introduce group relief for interest expense. Is it too much to hope that, if interest expense is inherently "deductible" for one Singapore company, it can be available for relief against the profits of related Singapore entities? Let's keep our fingers crossed.

The views reflected in this article are the views of the authors and do not necessarily reflect the views of the global Ernst & Young organization or its member firms.

FEATURE

Board of Directors Oversight Of Leadership Risk

By Patrick R. Dailey, Founder, Board Quest LCC and
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Overview

The practice of Enterprise Risk Management ("ERM") was born as a consequence of the Enron collapse in 2001. Regulatory safeguards were enacted with the passage of Sarbanes-Oxley legislation in 2002. More recently, the U.S. financial sector meltdown beginning in 2008 which triggered global recession and yet more U.S. legislation, including the 2011 Dodd-Frank legislation, also safeguards the interests of share holders. And more recently in the face of the sovereign debt crisis which continues to grip the European Union along with "fiscal" negotiations occurring in the U.S., risk management is a matter of growing global importance to an increasingly interconnected world.

Leadership Is An Organisation's Most Central Risk

Rarely is leadership elevated to the level of a risk "hot topic" in the minds of Boards or their primary committees. Figure 1, Risk Hot Spots, adapted from KPMG presents the broad scope of risk factors which most every enterprise faces today. It is a well-conceived, comprehensive taxonomy of risk. Yet, we have added leadership as the centerpiece of the model because every strategic and tactical decision formulated and implemented within the enterprise relies on leaders who recognize opportunity or threat and mitigate strategic and implementation risks. We suggest that leadership dwarfs all other factors in determining organizational performance and long-term survivability. It is decisive in creating a market leader or market laggard. And, it is a clearly a topic which has largely been overlooked by Boards.

Regrettably, leadership and talent management matters never quite rise to the top of the issue list as do audit, strategy, and compliance matters. While Boards do focus on CEO selection and succession events, they often cede oversight responsibility for the bulk of talent management and renewal processes to management teams or the organization's human resource function.

Then operating problems emerge— a strategy runs out of gas, the enterprise is "leap frogged" or a business investment disappoints. And the spotlight is

reactively fixated on executive leadership capability or depth. In retrospect, the proper steps to understand leadership depth and capabilities were not considered by the Board; a mitigation plan was never enacted, and the organization falls into to full-scale reactive mode. Boards then conclude "We have a leadership problem!"

We argue that leadership risk assessment and mitigation should be a primary matter of a Board's oversight. And, we offer diagnostics and tactics of mitigation for leadership risk.

A Board's oversight of leadership risk should begin with the simple question:

"Do we have the leadership to create our strategic agenda and successfully implement it?"

An accurate response to the question is challenging. Leadership excellence and a robust leadership pipeline requires candid organizational assessment, sound renewal processes, and dogged oversight from Boards coupled with consistent implementation from executive management downward through middle management. It is necessary to ensure a "talent focused" mindset is solidly in place, rewarded and the metrics of talent management are tracked in an uncompromising manner.

We acknowledge that this article is an outlier in ERM literature as financial and operational matters tend to dominate attention. Leadership topics have clearly been "back burner". Yet the payoff from superb leadership and a strong leadership pipeline is truly compelling.

The ongoing Harvard study on the Profit Impact of Marketing Strategy [PIMS] reported by Gary Loveman[2] offers convincing evidence of the central importance of the Leadership factor to a company's performance record. With these data, it is easy to encourage Boards to be more vigilant in monitoring the leadership and talent programs of the companies they serve.

Figure 1

The Figure 2 below presents a top line summary of the results of the study as it relates to differing qualitative levels of organizational leadership. Clearly, top tier leadership delivers significant value creation; in contrast, weak leadership destroys value. The percentage swing approaches a 45 point differential—this substantial differential is simply not a risk most Boards would feel comfortable leaving unmonitored and unmitigated.

Succession planning processes are commonly used by executive management in most large companies to plan and orchestrate leadership development objectives. But a report in the Wall Street Journal by Jay Conger and Doug Ready[3] reveals a discouraging picture about the outcome of this work done by companies. Conger and Ready report that:

- 97% of organizations engage in formal succession planning processes, however, only
- 7% of C-Level executives feel that processes were working effectively to produce the talent needed for the future.

This gap is a clear indicator of significant deficiency in the leadership development processes of these companies.

When the performance gap between top tier versus weak leadership teams is considered, along with deficiencies in process, leadership risk easily ranks as one of the more critical matters which a Board should seek to understand, more actively monitor, influence and mitigate the associated risks.

How does a Board gauge leadership risk? Certainly Boards do measure performance outcomes, but the assessment of risk regarding senior leadership is new ground. We suggest process-based risk factors, which Boards should monitor and mitigate. We argue that attention to these risk factors mitigate leadership risk and offers the promise of elevating the leadership competency to a competitive advantage.

We have identified seven leadership risks. These are:

- Loose accountability
- Inept Assessment
- Misalignment of executive compensation
- Inadequate bench-strength
- Playing it too safe with development
- 'Once a year' mind-set, and
- Settling for ' just good enough'

About good and bad questions.

Level of Leadership	Common term	% Profit Growth	Outcome
Top Tier Competency	Game Changers Pace Setters	+37%	Value Creators
Market Performer	Technical Leaders Journeyman	+4%	Keep pace with competitors
Low Competency	'By-Standers' Spectators	-7.5%	Value Destroyers

Figure 2

Throughout the article, we offer questions for Directors to pose to senior leadership about leadership and talent matters. We believe questions are vital "tools" for Directors to use to monitor leadership processes. We believe there are good questions and there are bad ones. Good questions are targeted inquiries, which constructively challenge prevailing perspective and lead to reconsidered or changed opinions and onward to prudent decisions. Good questions always teach wisdom. They open doors that lead to fuller insight. On the other hand, badquestions are wandering around queries which fail to expand issues or advance a topic. These are too often fishing expeditions by ill-prepared, but perhaps well intentioned directors wishing to lead management teams and staff to invest substantial energy with, at best, dubious returns. Answers may benefit the ill-prepared inquirer with facts or historical information but issues are not expanded or advanced. These question/ answer episodes typically end with a brief "thank you" and not much more.

We feel the questions we pose are good tools for discovery and robust board-management discussion of leadership.

1. Loose Accountability

One of the most unforgivable sins an operating executive can commit is underestimating the future leadership needs for his/her business or function—either in terms of quantity or quality. The consequence is allowing the organization's downstream talent pipeline to go dry and not able to fund their unit's growth needs with "ready now" leadership. This oversight traditionally goes unmentioned in annual reports and not questioned during analysts' meetings. Yet, this oversight will surely compromise an organization's competitive future.

Historically, the scope of a typical Board's oversight of talent matters rarely has extended beyond CEO succession. But the confluence of research identifying leadership talent as a prime differentiator between leading companies and laggards plus opinions of seasoned corporate leaders in conjunction with experts such as Jack Welch, Ram Charan, Jeff Sonnenfeld, David Nadler and others is now a force for broadening the scope of a Board's oversight of leadership and talent. The matter is moving from back burner to front. For Boards, there is too much at stake to neglect its stewardship of leadership and talent management matters. Arguably, leadership matters sit at the same level of importance as strategy, capital structure, compliance, and operational performance[4].

Questions that lead Directors toward a fuller understanding of the impact of loose accountability include:

- Is leadership talent acquisition and development a high personal priority of executive management or is it delegated to staff groups such as Human Resources?
- Do we hold our operating executives accountable for their candor about talent and the accuracy of their promotability assessments? Does this impact their compensation?
- Are metrics annually tracked for judging the effectiveness of the talent management processes and pipeline depth/readiness?

Tactics To Mitigate The Risk Of Loose Accountability

Score the organization's talent management process. We offer the outline of an measurement system which Boards may adapt for fulfilling their oversight role of talent management. Boards should request the operating organization evaluate leadership and talent management processes across five primary factors:

- Leadership at the top….i.e., senior leadership competency and effectiveness
- Talent throughout the organization…from the top down, does the organization out perform its competitors
- Bench strength…depth and readiness of talent that can step up especially in pivotal positions
- Compensation alignment…measuring the prudent allocation of rewards for short and long term contribution.
- Effective renewal processes…programs and activities which continuously elevates competency and serves to keep the leadership pipeline operating to produce the talent required to meet the strategic agenda.

Measurement sends strong signals, which are heard deep inside the organization regarding the importance of leadership and talent development. Ultimately, those leaders better at talent management should be rewarded; those leaders not willing or able to build the pipeline should be recognized with negative discretion.

Bring attention to brewing talent management problems. There is a short list of leadership problems which the board has line of sight. These include key performer attrition, high potential talent reporting to a mediocre leader, compliance issues, stagnation of promotable talent in jobs for too long, and concerns about executive values and ethics. Taking time to spotlight these matters and provide corrective oversight sends messages throughout the organization about the Board's attention to talent management matters.

2. Inept Assessment

Each day, leaders throughout the organization make judgments, or "calls," to select talent for more challenging and complex jobs. When these decision-makers fail to make astute talent assessments and predictions, a little bit of a company's future is chipped away. Most organizations will have some great talent "judges". While laudatory to be able to cite those leaders who make solid calls, the goal is to have in place a disciplined, consistent enterprise wide process that delivers talent consistently. The best performing companies have a rigorous process and demand excellence in this essential area.

The stakes are high. Boards and Wall Street don't often have the patience for the uncertain adventure of evolving good teams into great ones when the individual talent does not measure up to winning. Better to start with great in the process of building high-performance teams. And the starting point is having competent and highly skilled leaders making those important calls.

Questions that enable Boards to gauge the ability and motivation of senior leadership to differentiate top tier talent from "false positives" and cultural misfits:

- Can our operating executives articulate the differences between top tier talent, the game-changers, versus market performers?

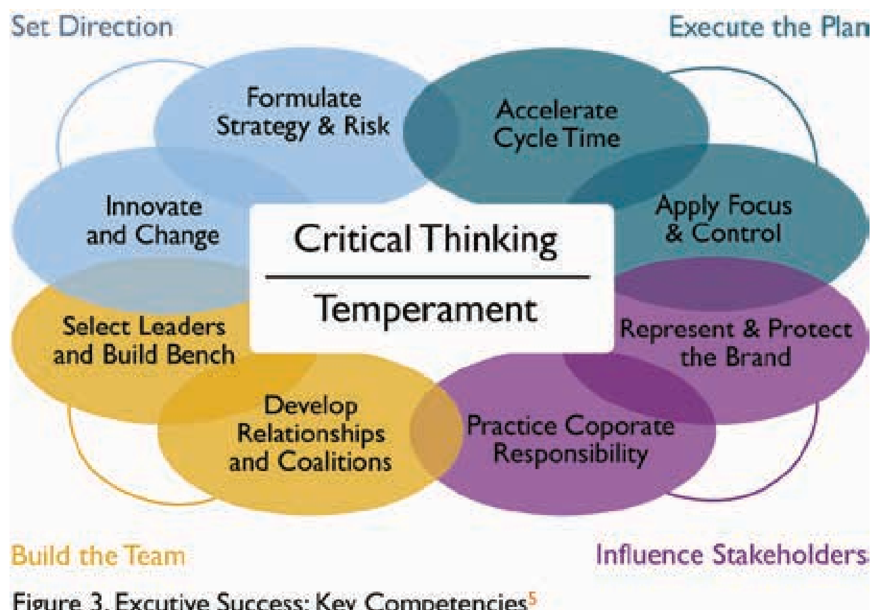

Figure 3. Excutive Success: Key Competencies[5]

- Is there consistency among executives in the use of a behavioral competency model for the assessment and development of talent?
- Are our senior executives good judges of talent? What's their batting average?

Tactics To Mitigate The Risk Of Inept Assessment

Adopt a common competency model for senior level talent assessment. The adoption of a competency model among the Board and senior executives for the assessment of senior executive leadership competency is a major step in improving a company's talent management IQ. A well-constructed model assures consistent and comprehensive coverage of those skills and abilities, which are pivotal to the success of an executive. A common model introduces consistent talent management language and standards for assessing executive capability and development needs. The model aids in the differentiation of talent with game changing potential, market performer potential, or laggard potential.

The model can be fully "home grown" or adapted from professionally developed competency models. The model presented below, Executive Success: Key Competencies, is a leading competency model.

Coach senior officers to sharpen their assessment standards. The ability to size up talent is a critical skill for an executive. Certainly, these talent "calls" largely determine any leader's fate and often their legacy. All senior executives must master this skill and ensure other leaders in decision-making roles conform to high standards. As a Board member, taking a personal interest with a senior executive who might not have a good track record in talent assessment signals your interest and importance in this area.

Demand candor and open dialogue from senior executives during talent discussions. During confidential talent review sessions, candor and open dialogue is an essential ground rule. Candor is a quality control factor necessary for improving the accuracy of assessment of each emerging leader. Open dialogue creates a categorically different atmosphere than a formal one-way talent presentation from one executive to the board. Candor in these settings helps the silent voices to be heard and to wipe out pocket vetoes.[6] The quality of the assessment is dramatically enhanced with an open dialogue.

Use high quality assessment tests to supplement your decisions. There are many assessment tools and tests in the

marketplace—something approaching 35,000. Many are poor predictors of executive success and are regrettably used by untrained, unqualified practitioners. The few and better tools do improve prediction—often in the range of 35-40% better "hit rates" than without the use of an assessment tool. The better tools are used by the better practitioners.

We highlight three tools for Board consideration: the Hogan Assessment personality test[7]; a tailored in-depth behavioral interview; and a conversational-based assessment technique, called the Human Asset Inventory®[8]. In the broad field of assessment, we feel these are distinctive tools and improve prediction.

- The Hogan Inventories (Hogan Assessment Systems) are a suite of well-validated personality focused tests for predicting job performance.
- Behavioral interviews are constructed to elicit data within each factor of a competency model.
- The Human Asset Inventory® is a discussion based approach, and uses an expert facilitator to draw competency information about an individual from a panel. This information provides a comprehensive view of a company's bench-strength.

3. Misalignment Of Executive Compensation

Executive compensation has earned its place as one of the more crucial areas of enterprise risk due to a small number of highly publicized abuses that have occurred over the last decade.

Concerns by shareholders, regulations, advisory groups and compensation experts are that compensation plans were, and still are, poorly aligned with the interest of long-term shareholders. In too many cases, there are concerns that compensation plans are simply too rich, that plans induce executives to pursue high-risk, short term business strategies that—if unsuccessful—can lead to catastrophic shortfalls in operational and financial and performance, threaten the company's viability and result in major damage to the company's reputation, that payout guarantees or "sandbagged" incentive targets are ever present. Shareholders are perplexed that executives often earn astonishing payouts as a consequence of disappointing business results and executive failures and removals.

It is also the case that executive compensation plans are complex and difficult to decipher unless one is a compensation expert or experienced executive or director. So, the opportunity for confusion and suspicion is large and is fueled by media and activists motivated by something other than pay for performance ideals.

Questions to avert misaligned and controversial compensation plans and payouts include:

- Are targeted [and aspirational] compensation payouts affordable?
- Is executive compensation clearly aligned and risk adjusted against the achievement of business goals and long-term strategic objectives?
- Is 'negative discretion' demonstrated by the Compensation Committee in formulating bonus payout decisions?

Tactics To Mitigate Misaligned Executive Compensation

Operate an independent Compensation Committee supported by an independent compensation consultant.

Independence allows the Committee to formulate compensation policy and pay plans which are unbiased by the interests of management. Effective compensation policy and plans motivate management to set and achieve goals that are in the interest of long-term shareholders and plans which remove short-term incentives for management to "game the system' for short-term gain.

Avoid single metric measures for long-term incentive compensation. Build senior executive compensation plans with a balanced blend of internal and externally-gauged metrics with payouts contingent, in part, upon peer company benchmarks and comparisons.

Preview executive compensation philosophy and plans with key shareholders and shareholders advisory firms [such as ISS, and etc.] This work is largely preemptive. Its intent is to solicit feedback and ultimately acceptance. Boards should proactively share their compensation philosophy and plans with board advisory firms and key shareholders to eliminate confusion or confront disputes with them regarding the design parameters of compensation plans. With the growing clout advisory firms have with major investors, it is wise to market your compensation philosophy and plans to advisory firms and major investors to avoid unfavorable opinions which tend to alarm shareholders.

4. Inadequate Bench-Strength

Adequate bench strength is a Board's most effective antidote against leadership shortfall.

An adequate bench protects the organization against defection and failure by current incumbents. Perhaps, the bench may even motivate current incumbents to behave and perform at higher levels with the understanding that great talent awaits on the bench if performance disappoints. Bottom line: risk is averted or mitigated and the business doesn't miss a beat. This resource availability means that the organization's development and renewal systems have worked effectively to build a designated successor or a pool of ready now talent that can smoothly step in to replace executives exiting for any reason.

Additionally, an adequate bench funds leadership needs during organic or inorganic growth events. Organizations can more confidently contemplate growth opportunities with knowledge that their bench can be deployed in opportunistic ways. Referring back to the Risk Hot Spots schematic, a strong bench averts or mitigates many of the risks portrayed there.

A strong bench is characterized by talent that is most likely better prepared and differently skilled than current incumbents—these 'new model" leaders are equipped with and tested for future-focused skills, insights and instincts, and sound values during their development and ascendancy. A strong bench also reflects an organization's preference for promotion from within, but not a prohibition from recruiting "best in class" talent from other sources.

A Board often applies three tiers of focus to matters of bench strength:

- CEO succession. The Board typically takes full responsibility for a replacement plan for the CEO which considers a "normal" service duration for the top executive plus an emergency plan for mitigating crisis events including death, termination for cause, or defection. This is often a matter of high importance.
- Named Executive Officers and Section 16 Officers. The Board may oversee and monitor the performance, promotability readiness, and defection risk of its more senior officers—these may be direct reports to Named Executive Officers or further down the organization chart. Skill, judgment, integrity, stretch, and cultural fit are the frames of reference Boards find helpful in assessing the promotability of officers and their backups. This is typically a matter of moderate importance.
- Succession Processes. Boards are wise to understand and monitor the discipline and resources devoted by senior management to renewing and replenishing an adequate and ready bench. Admittedly, financials are the language of global business; however, they are lagging indicators. On the other hand, talent management metrics are highly predictive leading indicators, important, but too rarely tracked on corporate dashboards and other reporting systems. This is a matter most often left to the responsibility of senior management with little board oversight. We feel that this 'hands-off' approach is a mistake.

Questions to gauge if your company has an adequate and ready bench:

- Where does promotion from within occur? When and where does the organization regularly recruit for outside "take your breath away" senior talent?
- Does the Board know and have confidence in Section 16 talent and their ability to step in and step up??
- Are there realistic back up plans which allow operating units and functions capable to quickly respond to leadership replacement needs? Or, are the back up plans just a "paperwork exercise"?
- Does every senior executive leader have a 'ready now' back-up that board members feel quite positive about?

"A Board would be prudent to insist that the company have a process in place to identify and develop leadership talent for the future."

Tactics To Mitigate Inadequate Bench-Strength

The full Board designates a committee, most likely Nominations or Compensation with lead responsibility for talent and succession planning work.

Their responsibilities should be incorporated into a committee's charter. A Board would be prudent to insist that the company have a process in place to identify and develop leadership talent for the future. Their tasks include challenging the criteria for selection, providing collective opinions and views on key insiders, and developmental suggestions. The Board can expect Human Resources to design the process for talent management with executive management taking the lead to operate the processes. And the Board can monitor both process excellence measures and outcomes.

Devote Board time to review the Section 16 succession planning and its bench. Directors may have planned interactions with high potential leadership a couple of levels down in the organization annually. This type of contact provides "feel" for the talent proposed on the Section 16 'bench'; however, there must be a planned review of the suggested successors to those key positions. This combination of periodic contact and the review should provide a collective confirmation or concern about the Section 16 talent pool. The Board's wisdom about talent provides a unique "lens" that offers significant value.

Review the list of leaders most vulnerable for defection. Understand management's mitigation plan. If your organization has a solid reputation in developing leaders a sure bet is that those individuals are well known by the executive search community and receive feelers about their interest in moving to another company; many times a competitor. The mitigation plan is a step, not a guarantee, which a surprise loss of great talent should not happen. The Board should request that management consider vulnerability of defection throughout the Section 16 officer cadre and perhaps lower in the organization. Human Resources staff has a good feel for this issue at the ground level.

5. Playing It Too Safe With Development

Inadequate leaders are readily noticed: their teams consistently fail to achieve expected goals; organization culture is not tuned to high performance; outsiders must intervene to solve problems and clean up messes; great emerging leadership talent seeks a way out and no one from other units wants in. At one time, these "failed' leaders may have been highly valued high potentials. But, what happened when these high potentials were asked to step up or step in to positions of larger scope and challenge? Why do they fail? Many times the answer stems back to their development agenda—it was too safe, too protected, and too guaranteed. The organization failed to stretch, test and ultimately develop the competency to perform at expected levels. Meaningful lessons of experience were not learned. And when the call came for them to lead and perform, they did not have the mettle to do so. The organization most likely reacted with surprise at this failure. Bottom line: development was too safe and the development "bars" never placed high enough. The organization has unwittingly set the individuals up for failure.

Better leaders are challenged early and often at various levels, learn the lessons of experience and incrementally build the perspective and skills to achieve. If the organization's developmental activities are inadequate, its leaders will be inadequate.

Questions to understand if development is too easy and fails to deliver executive values, instincts and competencies are:

- Can and do high potentials 'fail' development? Is the organization's safety net too safe?
- In which operating units and functions do our organization's best emerging leaders 'get lost' or leave?
- Are we designing our learning and development programs that build leadership competencies for the future within a changing world of customers, suppliers, governments, and employees?

Tactics To Mitigate Playing It Too Safe With Development

Adapt philosophy and practices from best in class talent development companies. Study companies such as GE and PepsiCo to learn what they are doing with leadership and talent management. Gauge your company's commitment and activity.9 Assure that you are appropriately developing people. For example, GE uses the Organization and Personnel Committee to bridge the gap between line management and the Board. The Management Development and Compensation Committee (MDCC) members are given a thorough review of the company's leadership each June and a board-abbreviated version is given each December.

Review results for officer-candidate action-learning projects. Action-learning assignments test individual's learning ability, often their team leadership skill, and expose them to the bigger picture issues. These assignments provide those involved with insights, perspectives and tools and involve a variety of venues. What is unique about these assignments is that the participants are tasked with solving a real business problem. Board members should interact with these emerging leaders to learn about the company's future opportunities and challenges as well its emerging talent.

Assure that the 'best' talent gets the most challenging jobs. Everyone gets developed—but the best jobs should go to the best talent. It is a well-known fact that the richest experience and the best developmental experiences are to be found in the most challenging environments. Regularly ask four talent management questions of senior management[10]:

- Is the practice that our best emerging leaders be assigned to the most challenging business conditions?
- Which of our leaders are most underleveraged?
- Is it time to move up some of our highly promotable talent?
- Do we understand why we lose highly prized talent?

6. A Once a Year Mindset

It is generally accepted that there are three elements of a successful strategy implementation:

- The What: Strategy formulation; defining the future direction;
- The How: Business Planning; developing how the organization will resource, align, track/measure and fund its direction, and
- The Who: Talent planning; assuring that the organization has the human resources to implement its direction today and renewal capacity to sustain itself over time.

Corporate strategy and business plans are set and then there is constant attention to their execution; they are the focus of everyday conversations and analytics; however, in the 'people area' this is not the case. Thus, that critical link between corporate strategy and the talent base is rarely made. If that lack of attention cascades down to the operating units no wonder we have so many failures because of people issues.

Why does this occur? Because the linkage of strategy with people is not made at the organization's highest levels.

Our view is that this occurs because of the "once a year mindset" common in too many organizations. During the talent planning and review sessions, which is common within operating

organizations, the SOP is for leaders to 'present their people'. The expectation is that the audience; peers, their boss and the leaders' boss, will offer input and discussion about individuals reviewed. Candor should be the order of the day. But the candor and interaction is missing on many occasions. There is an unwritten rule of, "let's all be civil and polite here and not embarrass each other with penetrating questions". The session becomes a Kabuki event. And as a consequence, solid data and confidence to support planned personal moves is not developed. These sessions are perhaps interesting but lack insight and impact. Regrettably, line managers leave these types of sessions proclaiming, 'let's get back to the real world'[10].

So crucial personnel decisions are sadly too often built upon faulty data which are not stress tested by senior management.

Questions that help bring leadership and talent management into the regular ongoing discussion between boards and senior management are:

- How is the operating unit's talent plan directly connected to the strategic plan?
- Is 'talent' on the Board's agenda for every meeting?
- Is information available to quickly answer talent management questions posed by the Board? Or, does every question require a staff member to study the question and report back?

Tactics To Mitigate The Risk Of 'Once A Year Mind-set'

Insist on a dashboard of leadership talent information. After talent review processes are held, the traditional problem of follow-up emerges. Advanced technology touts leadership dashboards as being 'the' solution. Most human resource IT applications in the talent and succession planning space are costly and focused on the transactional and operational aspects of people, but woefully short on the strategic and predictive information required to support talent optimization. Most fail to connect talent capabilities with operational decisions and then to financial outcomes. Certainly, boards and senior executives would be prudent to adopt dashboards that provide strategic and predictive information to drive the talent issue and affect the financial bottom line. The Leadership Pipeline® Dashboard[11] is the leading tool for strategic insight into the talent of an organization.

Place four talent agendas on the standing board calendar each year:

- Senior Leadership development and assignment options: performance and retention
- Pipeline analysis: business unit, functional and geographical depth and readiness
- Developmental programming: successes, derailments, and future plans
- Compensation planning and alignment: affordability and shareholder agreement

7. Settling for Just Good Enough

Organizations can lose their fitness edge when not challenging themselves to attain market share or functional excellence. In the early stages of decline, signs of "organizational dry rot"[12] can be detected when just good enough leaders are appointed to key roles and steer their operating units toward incremental improvements and are expected to deliver strong results.

These just good enough leaders work harder and manage to win—for a period of time. Often, they have chosen to keep score using internal measures of success and performance— year-to-year metrics, for example, as opposed to external metrics that score against best-in-class performance comparisons. But soon, as competitive tactics change and innovation occurs, these leaders are over their heads—overworked, overwhelmed and they simply run out of gas. Their reputation slips, and emerging great talent becomes difficult to attract and retain. Predictably, the competition begins to win.

Questions to gauge if your leadership team is leading or lagging its sector:

- Does this organization regularly outwit and out-maneuver the competition? What are the results of competitive benchmarking in the area of talent?
- Does the operating organization have more than their fair share of 'game-changers'?
- Does the organization deal decisively with derailed and underperforming talent?

Tactics To Mitigate Settling For Just Good Enough

Assure that there is recruitment of more than your fair share of "game-changers." Great talent attracts great talent. Companies that manage to acquire more than their fair share of great talent will have the edge in the war for talent. To win this war, managers must be able to recruit, develop, deploy, and retain great talent, continuously top-grading from good to great.

Insist that the cost of leadership failure be monitored and reported. Many 'just good enough' appointments might fill the present job, but just do not have much more in their tank to help an organization get to its future. And, too many fail. Review the metrics and their predictive validity.

Review the effectiveness of on-boarding and newly- appointed executive assimilation. Great talent can get lost in organizations and never have a shot at actualizing their potential. Reportedly, the failure rate of newly-appointed executives is higher

than 40 percent for both insider and outside appointments. A factor in their eventual failure is an ineffective on-boarding or assimilation process. Relationships, expectations, and trade routes for information collection and problem solving are forged during these first 100 days or so of assimilation. It is the period of time that outsiders have the opportunity to become insiders to the organization. Boards want well-connected leaders to forge strong team bonds as a consequence of properly joining up.

"Leadership-rich organizations never believe their talent-management process and activities are discretionary duties."

Summary And Conclusions

Leadership is often about delegation. Effective talent management is not. We have discussed the serious and personal work that Board members and members of the senior team must perform in order to build talent and send signals to the organization about the value of building a deep and ready bench, and the standards by which the process must be executed.

Leadership-rich organizations never believe their talent-management process and activities are discretionary duties. They understand the process as an essential core competency that can't be duplicated, that largely can't be delegated, and must not be neglected.

There is nothing altruistic about these values. It is about building the capacity to perform and win. Great leadership is the foundation for sustained performance through both evolutionary and revolutionary phases of any company's life span. Without a Board and senior leadership putting their personal stamp on this process and investing personal time to know and grow the pipeline, the process is doomed for credenza-land and the enterprise is destined to be an earn only market performer or laggard status among its peers.

At the end of the day, the central question for any Board is: "Is our leadership clearly a competitive advantage"? ■

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Regulation Burden Weighing Directors Down

By Andrew Jennings
Former Senior Journalist
Lawyers Weekly

Overview

Company directors are facing an identity crises due to increased legal and regulatory burdens, according to a major survey of corporate heavyweights by King & Wood Mallesons ("KWM").

The firm recently released the results of its Directions 2013 report, which featured the responses of directors representing more than 180 organisations across a wide range of industries in Australia.

The report showed that these burdens are feeding the expectation gap between what directors think they should do, and what other stakeholders think they should do.

It highlighted that directors are finding it increasingly difficult to focus on strategic business issues when snowed under by governance issues and red tape.

"Directors are feeling hemmed in and need to be given space to take some brave decisions," said one director surveyed.

The report pointed to government policy making the task for Australian directors and company boards harder in what is already a tough business environment.

The chief reasons given for the identity crises are increased compliance burdens, inability to devote sufficient time to providing strategic direction and guidance, and excessive bureaucracy and regulation.

The surveyed showed close to 40 per cent of respondents had spent more than 30 hours on just their top regulatory issue of focus in 2012.

KWM partner Nicola Charlston, a co-author of the report, believes these issues

The chief reasons given for the identity crises are increased compliance burdens, inability to devote sufficient time to providing strategic direction and guidance, and excessive bureaucracy and regulation.

“A more sophisticated approach is required to proactively engage with key stakeholders to ease tensions, and to ensure that there is a good understanding of the approaches being taken by boards on business and governance issues, and the concerns being raised - a stand-off is not helpful for anyone,” said Paynter.

are “making it difficult for directors to focus on their key role - steering the strategic direction of the company”.

Fellow co-author and KWM partner Meredith Paynter (pictured) added that a circuit breaker is needed to break this vicious cycle, which is causing the increasing focus on compliance and risk issues.

“Otherwise there will be a perpetuation of the current discord between directors and their stakeholders - that is disruptive to governance and adverse to business and growth prospects,” said Paynter.

The report said a contentious aspect of stakeholder engagement is the role and use of proxy advisors, with concerns being raised about their level of influence over institutional investors’ voting decisions.

“A more sophisticated approach is required to proactively engage with key stakeholders to ease tensions, and to ensure that there is a good understanding of the approaches being taken by boards on business and governance issues, and the concerns being raised - a stand-off is not helpful for anyone,” said Paynter.

Meanwhile, more than half of the survey respondents expected M&A activity to rise in 2013, signalling the potential return of a level of investor confidence.

Survey responses also revealed directors are hoping for some relief this year from the turbulent political environment that has been negatively impacting Australian companies and boards.

“Hopes are high that there will be some respite from the uncertain, and at times volatile, political environment after the federal election,” said Charlston.

Diverse Priorities

In relation to diversity, 13 per cent of respondents to the survey considered it to be a key priority when considering board appointments during the past 12 months.

This result was down significantly compared to the findings in Directions 2011 report, where almost 63 per cent of survey respondents reported that gender or other diversity attributes were key priorities for board appointments.

“The decrease in diversity as a priority may be explained by the fact that an increased proportion of directors feel that companies have adequately addressed their diversity requirements at the board level,” said the report. ■

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Tackling Toxic Bosses

By Michelle McQuaid
Director, The Reach Foundation and Play For Life

Overview

As a member of several boards, I was shocked to recently learn the cost of "toxic bosses" on organisational productivity and profitability. It occurred to me that not once in all my board briefing papers had I ever seen a single indicator about the quality of relationships between bosses and employees.

Current estimates suggest poor relationships between staff and their managers cost economies around AUD$360 billion each year in lost productivity. Yet, spotting bad bosses is no easy task and without anonymous measures for employees to safely share their experiences, as board members we're only likely to find out when the abuse becomes so bad the organisation – or us as directors – are sued.

How To Spot A Toxic Boss

Unfortunately, abuse doesn't have to be so extreme to turn a model employee into an organisational nightmare. The Harvard Business Review reports that researchers have found even basic incivility and rudeness is enough to cause employees to deliberately decrease the quality of their work and negatively affect their performance. All it takes is an encounter like one of these:

- "My boss asked me to prepare an analysis. This was my first project and I was not given any instructions or examples. He told me the assignment was crap."
- "My boss said: 'If I wanted to know what you thought, I'd ask you.'"
- "My boss saw me remove a paper clip from some documents and drop it in my wastebasket. In front of my 12 subordinates, he rebuked me for being wasteful and required me to retrieve it."

In retaliation to rude or mean-spirited bosses, employees have been found to turn "negative and unproductive", gossiping rather than working, stealing, backstabbing and taking longer breaks. They are also three times less likely to make suggestions or go out of their way to fix workplace problems.

So how as board members do we spot toxic bosses?

I believe every organisation should offer

employees an anonymous means of rating their boss's performance to bring transparency to what's happening day after day in the organisations we govern. Further, to ensure accountability for their actions, the results should be openly published in a leadership league table tied to eligibility for promotion or bonuses.

Sound extreme? You may feel differently after you take a look at the costs of toxic bosses.

> Current estimates suggest poor relationships between staff and their managers cost economies around $360 billion each year in lost productivity. Yet, spotting bad bosses is no easy task and without anonymous measures for employees to safely share their experiences, as board members we're only likely to find out when the abuse becomes so bad the organisation – or us as directors – are sued.

The Hidden Costs Of A Toxic Boss

Three out of every four people report their boss is the most stressful part of their job. Given most employees endure a difficult boss for around 22 months, that's plenty of employees and plenty of time to allow the costs to add up.

At a personal level, the constant levels of stress and negativity that result from working for a bad boss can undermine employees' performance, damage their health, destroy their relationships and leave them feeling depressed and anxious. No wonder unhappy employees take more sick days, staying home an average of 1.25 more days a month, or 15 extra sick days a year.

At an organisational level, one company decided to deduct from a boss's salary the financial costs incurred by his bad behaviour such as: anger-management classes, legal fees to adjudicate complaints, time spent by senior management and HR professionals fretting over his misdeeds and the cost of hiring and training a series of people who worked under him. The total in one year? Some $160,000!

Surely all directors should want to see a "Good Boss Rating" on every company score card to highlight the health of leadership within the organisations they are governing.

> I believe every organisation should offer employees an anonymous means of rating their boss's performance to bring transparency to what's happening day after day in the organisations we govern. Further, to ensure accountability for their actions, the results should be openly published in a leadership league table tied to eligibility for promotion or bonuses.

Proven Ways To Improve Toxic Bosses

The good news is that most bad bosses are good people doing a bad job because they lack the mindset, skills and experience to bring out the best in their teams. New studies in positive psychology have found that while there is no one magic formula for being a great boss, there are five proven, practical approaches anyone can be taught:

- Boost positivity: Research has found if people are having fun, they're going to work harder, stay longer, maintain their composure in a crisis and take better care of the organisation. Simple interventions like starting meetings with "what's going well?" and taking the time to personally thank people for their efforts can shift the mood of a team.
- Engage their strengths: Employees who have the opportunity to use their strengths – the things they enjoy and are good at – are six times as likely to be engaged in their jobs and more than three times as likely to report having an excellent quality of life. It takes only 20 minutes to use a free tool like the VIA Survey (www.viame.org) to find out when your team is at their best.
- Cultivate good relationships: Socially connected teams enjoy lower absenteeism and turnover rates and increased employee motivation and engagement. Taking the time to respond actively and constructively to people's good news and investing in casual social opportunities during office hours helps people to feel safer within a team.
- Encourage a sense of purpose: Workers who have a clear sense of purpose about their roles and feel connected to something larger than themselves gain greater happiness and satisfaction from their job. Helping managers understand the need to provide role clarity and a sense of meaning for employees enables them to perform with greater dedication and better results.

- Recognise and celebrate accomplishments: For all of us, pleasure comes as much from making progress towards a goal as it does from achieving them. Teaching managers to provide specific, deliberate and immediate recognition around big and small accomplishments can be even more motivating than money.

As a director, is your board doing enough to provide your bosses with proven knowledge, skills and training to help them perform better?

When A Toxic Boss Takes It To Extremes

Unfortunately, there is a very small group of bosses, about five out of every 100, who may be suffering from a psychological disorder that causes long-lasting, uncontrollable emotional disregulation. People who are diagnosed as psychopaths or borderline personalities – to name just a few of the disorders – suffer from inflexible and pervasive patterns of thinking, which impairs their abilities and causes them serious problems. The symptoms of each disorder vary, but the common element appears to be the diminished ability to empathise with others – to feel what another person is feeling – which enables them to perpetrate their acts of cruelty.

The biggest challenge with these disorders is often the boss involved has not been diagnosed. Unaware of the neurological and psychological challenges they're facing, they receive no support or medication (if appropriate) to manage their thought patterns. While many of these disorders are permanent and incurable, most can also now be managed with varying degrees of success provided their bosses are aware they have a neurological condition they need to monitor.

Three out of every four people report their boss is the most stressful part of their job. Given most employees endure a difficult boss for around 22 months, that's plenty of employees and plenty of time to allow the costs to add up.

At a personal level, the constant levels of stress and negativity that result from working for a bad boss can undermine employees' performance, damage their health, destroy their relationships and leave them feeling depressed and anxious. No wonder unhappy employees take more sick days, staying home an average of 1.25 more days a month, or 15 extra sick days a year.

Even for these extremely toxic bosses, however, it would be difficult as a director, without formal complaints from courageous employees, to spot these leaders without an anonymous employee rating system for managers in place. Bosses with a psychological disorder will consistently rate poorly no matter what support is provided because of the biological challenges they face.

If you suspect one of your managers is significantly low in empathy and high in erratic behaviours then they may be in real need of medical help, so be sure to consult an organisational psychologist on how to move forward.

Why It Pays To Have Good Bosses

People don't quit organisations, they quit bad bosses. Perhaps of even greater concern, however, is that before they quit, 56 per cent of people with crummy bosses report they are "checked-out" and "sleepwalking through their days", while the most bitter 18 per cent who are actively disengaged undermine their co-workers' accomplishments.

Smart companies have cottoned on to the fact that cultivating, recognising and rewarding good bosses is good for business.

For example, when the Gallup Research Organisation asked 10 million employees around the world if they could agree or disagree with the following statement: "My supervisor, or someone at work, seems to care about me as a person," those who agreed were found to be more productive, contributed more to profits and were significantly more likely to stay with their company long term.

Other studies have found that employees with strong ties to their bosses bring in more money than those with only weak ties – beating the company average by $588 of revenue each month.

Isn't it our duty as directors to request our organisations establish the most basic of measures around the performance of bosses? Shouldn't we show we care? ■

*Michelle McQuaid is a positive psychology expert and author of 5 Reasons to Tell Your Boss to go F**k Themselves: How Positive Psychology Can Help You Get What You Want. She is also a director of The Reach Foundation and Play For Life.*

This article first appeared in Company Director, October 2012, Volume 28 Issue 9, the monthly magazine of the Australian Institute of Company Directors, and is reproduced with permission.

Listed Company Governance In 2013

By Pru Bennett
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Overview

Proxy season is always an intensive period for everyone involved. BlackRock, for instance, votes at around 250 listed company meetings between September and December. We have extensive dialogue with our investee companies during this period in line with our policy of engaging with companies when considering voting against any proposal. I have listed our thoughts on five key corporate governance issues stemming from dialogue with boards and executives below.

1. Engagement With Major Shareholders

We urge chairmen and independent directors to engage companies and proxy advisers well before proxy season kicks off. Doing so enables boards to get a first-hand account of investors' top-of-mind issues before they become contentious.

Initiating engagement, however, is not a one-way requirement. Institutional investors have an equal obligation to reach out to companies if they are contemplating voting against proposals.

A spirit of trust and openness should define relationships between major shareholders and investee companies.

We have a mutual obligation to a "no surprises" philosophy. Constructive engagement is the best way of living by this.

There is little point in an institutional investor writing to a company chairman explaining why it voted against a particular proposal at the AGM, which was held three months prior.

2. More Remuneration Report Improvements Needed

Encouragingly, there have been improvements in remuneration reporting, as shown by BlackRock's recently concluded research comparing remuneration reports between 2005 and 2011.

Especially notable was significantly better disclosure of the details of executive long-term incentive (LTI) plans such as performance measures and vesting conditions.

Our praise, though, comes with caveats. Advances made shine a spotlight on how much more needs to be done.

There is a requirement for better disclosure of performance benchmarks associated with executives' short-term incentive (STI) payments.

A persistent lack of transparency is frustrating, as we still see large STI payments that seem hard to justify when measured against company performance.

A recent example involved a company disclosing that its executives' STI was EBIT-based. The reality, however, was different.

Advice was given to a proxy adviser, but not shareholders, that "underlying EBIT" was actually the basis of STI. This was a difference of substance, not semantics.

Not disclosing underlying EBIT as the performance measure, in this case, was contrary to theCorporations Act 2001.

It raised questions about the rigour of auditing given that the remuneration report is scrutinised as part of the financial statements.

3. Dealing With First Strikes

Around 78 per cent of first strikes related to companies outside ASX 300. Closer examination, however, revealed remuneration was probably not the issue that led to the first strike. Rather, destabilising boards seemed to be the motive behind first strikes.

On the other hand, the boards of the 23 ASX 300 companies that suffered a first strike took matters very seriously. Behaviour changed and they engaged shareholders to an unprecedented degree in each instance.

We also saw increased engagement from companies that did not get a first strike. This was a positive consequence of the "two strikes" legislation.

Maybe the two strikes law is working for ASX 300 companies, but not for those outside this key index.

We urge chairmen and independent directors to engage companies and proxy advisers well before proxy season kicks off. Doing so enables boards to get a first-hand account of investors' top-of-mind issues before they become contentious.

Initiating engagement, however, is not a one-way requirement. Institutional investors have an equal obligation to reach out to companies if they are contemplating voting against proposals.

4. Board Structures And Representation

When assessing boards, our focus is on the numbers and calibre of independent directors.

We expect to see at least one independent director with core industry skills related to the company's business and a mix of skills among other independent directors.

We also expect independent directors to be able to devote sufficient time to properly fulfil their duties.

A spirit of trust and openness should define relationships between major shareholders and investee companies.

We have a mutual obligation to a "no surprises" philosophy. Constructive engagement is the best way of living by this.

While numbers are decreasing, there are still over-committed directors, in our view.

An example is a director who is chairman of an ASX 50 and 200 company, chairman of another small company and a non-executive director (NED) of two other listed companies. It is difficult to see how even the most capable, energetic and conscientious director could cover so much ground adequately.

NEDs must be able to commit an appropriate amount of time to board and committee matters.

Given the nature of the NEDs' roles, it is important that they have spare capacity for a major event such as a hostile takeover. Demands on NEDs rise sharply in such situations and they need to be able to raise their commitment to fulfil their duties to shareholders.

In BlackRock's view, it is the responsibility of the chairman, through formal evaluations, to ensure all directors are able and participating actively and contributing to the workload of the board.

Another concerning issue is that of former CEOs remaining or re-joining the board soon after stepping down from their executive roles.

Their presence could inhibit the successor CEO.

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A recent example involved a company disclosing that its executives' STI was EBIT-based. The reality, however, was different.

New CEOs must possess the authority in fact and in perception terms to fundamentally change strategy or alter the management team. This is more likely to eventuate when they are not encountering their predecessors at board meetings.

We do not question the value a former CEO can bring to a board and to his or her successor. Nevertheless, we would prefer to see such experience imparted through a consultancy arrangement and not a board seat.

The appointment of partners of advisory firms as directors of publicly listed companies is also problematic in our view.

All board members must be able to address issues that come before them with fierce independence.

Human nature suggests a person wearing two hats (board member as well as adviser) may feel constrained when discussing his or her firm's work for the company.

Likewise, fellow directors may be inclined to pull their punches.

Finally, we have qualms as to whether the skills of the director who is a partner of an advisory firm may be deployed in the most effective manner.

5. Changing Constitutions To Limit Board Size

In 2011, we saw a number of companies asking shareholders to approve a maximum limit on board size. The Corporations Act sets a minimum number of three for a board of a listed company.

While BlackRock believes the board is generally best placed to determine its size, we expect it to reflect the size and complexity of the company.

We do, however, believe a minimum board size of five is necessary for an ASX 200 company to ensure a good mix of skills and diversity among the independent directors.

BlackRock also believes shareholders or other external candidates should have the ability to nominate for the board and, should they receive a majority of votes, be able to take their position on the board.

BlackRock, therefore, does not support changes to constitutions that are likely to restrict the ability of shareholders or other external candidates to nominate for, or to be elected to, the board. ■

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This article first appeared in Company Director, Dec 2013 – Jan 2013, Volume 28, Issue 11, the monthly magazine of the Australian Institute of Company Directors, and is reproduced with permission.

Changes To Employment Act

By Kala Anandarajah
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Council Member, Singapore Institute
of Directors

Introduction

On 17 April 2012, the Ministry of Manpower ('MOM') announced that it would be reviewing the Employment Act (Cap 91, 2009 Rev Ed) ('EA'), the first major review of the EA since 2008. Given the scope of the review and the complexity of issues, it was announced that the review would be conducted in two phases:

- Phase 1 would cover issues which include extending the coverage of the EA, improving employment standards and benefits for employees, and reducing rigidity and augmenting flexibility for employers.
- Phase 2 would cover issues relating to employer-employee dispute resolution mechanisms, as well as non-traditional work arrangements such as contract workers, freelancers and self-employed persons.

A public consultation on the proposed changes to the EA pursuant to Phase 1 was held between 19 November 2012 and 11 January 2013. Following the public consultation, the Acting Minister for Manpower, Mr Tan Chuan-Jin, announced on 14 March 2013 that Phase 1 of the review had been completed and the EA would consequently be amended. These changes will be tabled in Parliament in the second half of 2013 and are expected to come into force in the first half of 2014. As for Phase 2 of the review, the Acting Minister stated that it will begin in the second half of 2013.

This update provides you with a snapshot of the development and perhaps to have you thinking about planning ahead insofar as your human resource issues are concerned.

Better Protection Under The EA For More Workers

The changes here relate to two categories of workers: junior Professionals, Managers and Executives ('PME') who earn up to S$4,500 a month, and non-workmen who currently earn between S$2,000 and S$2,500 a month. Both these categories of workers will enjoy more benefits with the changes to be made.

Currently, PMEs only enjoy a limited protection relating to their salary. Other provisions such as those provided under Part X of the EA relating to paid holidays would not apply to such PMEs as they would not satisfy the definition of being an employee under the EA.

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The proposed changes will expand the scope of the EA by making certain general provisions applicable to junior PMEs earning a gross monthly salary of S$4,500 or less. Such provisions include sick leave benefits and protection against unfair dismissal. To this end, junior PMEs must have been employed with the company for a period of at least one year to be eligible to seek redress against unfair dismissal. Further, where the employment contract is silent, employers are required to grant junior PMEs a half-day off in-lieu if such junior PMEs are required to work on public holidays. This is in recognition of the nature of PME work, which tends to be outcome-based and often have flexible work arrangements incorporated into their employment terms. What remains unclear is whether the entire Part IV of the EA, for example, will be extended to the PMEs. It appears not.

Currently, Part IV of the EA sets out certain conditions relating to rest days and hours of work. However, these only apply to non-workmen whose salary does not exceed S$2,000 a month. The proposed changes clearly provide that the applicable salary threshold will be raised to S$2,500, thereby bringing more employees under the scope of the benefits contained in the provisions under Part IV of the EA.

However, to ensure that employers do not suffer too great a burden from the increase in the applicable salary threshold, there will be a cap of S$2,250 on the overtime rates payable to non-workmen. This affects only the calculation of overtime pay due to non-workmen.

General Changes

Aside from expanding the scope of employees who benefit from the EA, there are a suite of proposed changes aimed at increasing flexibility for employers as well as raising employment standards.

Limiting Employer's Liability For Sick Leave And Medical Examinations

One of the proposed changes is that employers will not be required to grant paid sick leave or bear the medical

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examination expenses for employees who undergo cosmetic consultations and procedures that are not medically necessary. This reduces the burden on employers and ensures that the employees do not take advantage of duties imposed on employers under the EA.

Keeping Mandatory Payslips And Employment Records

Presently, employers are not required to provide their employees with payslips or to maintain a detailed record of their employees. Only employers of workmen are required to keep salary records. Under the proposed changes, employers will have to provide written, itemised payslips as well as maintain detailed employment records, including employee salary. This will be beneficial for both employees and employers, as it not only affords protection to employees but also helps employers in the event of a salary dispute.

Imposing A Cap On Deductions From Employee Salaries

Currently, the EA provides for certain authorised purposes for which an employer may deduct from an employee's salary. The total amount of deductions may not exceed 50% of salary. Under the proposed changes, a 25% sub-cap will be imposed for deductions for the purposes of accommodation, amenity and services to prevent excessive deductions. This sub-cap will operate within the existing 50% total cap.

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Transfer Of Employees

Finally, in the event of a restructuring and employees are transferred to another company, the employment terms of the employees so affected are protected by their pre-existing collective agreement. The proposed changes will expand this protection through ensuring that the terms under the pre-existing collective agreement will be protected for at least 18 months, even if the agreement is expected to expire at an earlier date.

Concluding Words

The proposed changes to the EA are significant and businesses would be well-advised to take them into account as they prepare for the work year ahead. Given that the changes will not come into effect until 2014, businesses should consider adopting pre-emptive measures and proactively prepare their employment agreements and human resource management programs to comply with the new laws. ■

The views and opinions expressed in this article are those of the writer and not necessarily those of SID.

Welcome Aboard

March 2013

Ang	Boon Chee	Liew	Yoke Pheng Joseph
Chan	Boon Hui	Lu	Ling Ling
Chan	Huang Chay	Nair	Dileep
Chew	Loy Cheow	Onitiri	Babatunde
Delatte	Stephane	Pho	Robin
Gaines	Alison	Sng	Choon Haw
Goh	Chiang Huat Michael	Teo	Bee Chiong
Hope	David	Tyebally	Moiz
Kow	Cassandra	Verhoeven	Michiel
Kwek	Andrew	Yip	Cho Fai Daniel
Lee	Gan Ping	Yong	Yu Ming Alvin

April 2013

Aw	Syee Chia	Manchanda	Anil Rana
Chan	Kwan Ling Desmond	Neo	Kah Kiat
Chong	Yoon Chou	Ong	Chan Hwa
Chua	Chun Guan Christopher	Peh	Adrian
Couzner	Scott Matthew	Poh	Churn Ning
David	Richard	Soh-Toh	Sock Yien Wendy
Forrest	Philip	Tan	Juay Miang
Ju	Jia	Tan	Kuok Keong
Kesselman	George	Teo	Chong Chai
Koh	Joo Kok Joseph	Teo	Poh Jin Kim
Kwa	Wee Keng	Wee	Hiang Bing Terry
Lee	Pauline	Wilson	Robyn
Liew	Siow Gian Patrick	Xie	Andy
Lim	Sian Choo	Xie	Gary
Lim	Poh Seng	Yuen	Wai Mun Cedric
Mamadou Blanco	Daniel Philippe		

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

Personal D&O Insurance

Allianz Insurance Company of Singapore Pte Ltd and Aon Singapore Pte Ltd in collaboration with the Singapore Institute of Directors (SID) have recently launched a Personal D&O Insurance program exclusive to SID members, protecting them against liability arising from their responsibilities as a director, of up to $1 million. The first group of policies has already been issued on the 15th October 2011.

Personal D&O Insurance provides similar protection as traditional D&O Insurance policies, but is taken out in the name of an individual director or officer rather than as an entire board of directors. Cover can be provided for up to three separate directorships.

Why Is It Necessary?

Personal D&O Insurance provides directors and officers with an individual, portable policy for their exclusive benefit. Such cover is relevant to all directors, and is of particular importance to the following:

- Directors of companies that do not purchase D&O Insurance.
- Directors of companies that purchase inadequate insurance, whether in terms of breadth of cover or policy limit.
- Independent directors.
- Directors who are resigning or retiring from their positions, and who seek run-off protection.
- Professionals who assume positions on client company boards.

"Independent directors are uniquely exposed to liability arising from the companies whose boards they sit, while lacking the ability to directly assure that the company purchases relevant insurance coverage to respond to these exposures," said Mr James Amberson, Regional Manager of Financial Lines for Allianz Insurance Company of Singapore. He added that the insurance program developed in collaboration with Aon and SID is a proactive response to this issue and provides directors with the opportunity to mitigate this risk for themselves.

"We are delighted to partner with Allianz and the SID in providing this innovative protection to directors in Singapore. Personal D&O Insurance provides the opportunity for directors to control the breadth and level of protection available to them," said Mr Michael Griffiths, Director of Professional Services at Aon Singapore.

Exclusive to SID Members

Personal D&O Insurance cover is available exclusively to SID members.

A $1 million Personal D&O Insurance policy covering up to three separate directorships will cost S$1,000 plus GST.

For further details please refer to the SID Website,
or call Gladys Ng at Aon Singapore on 6239 8880 or email gladys.ng@aon.com.