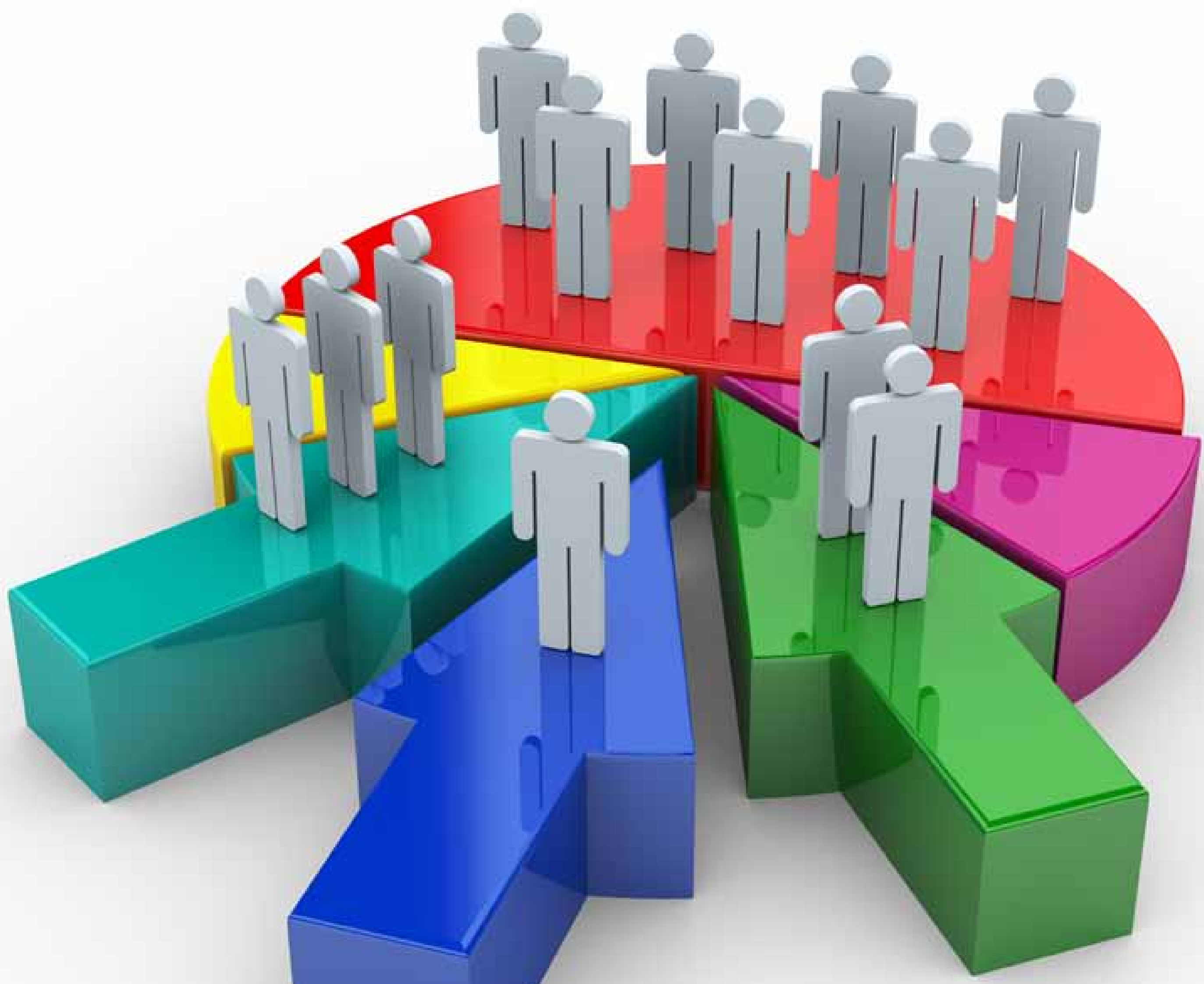
SID
Singapore Institute of Directors

The Directors' BULLETIN

ISSUE 5 • 2013

The Official Newsletter of Singapore Institute of Directors

MCI (P) 008/05/2013



Corporate Governance and Value Creation

Singapore Institute of Directors

Mission

To foster good governance and ethics in corporate leadership.

Vision

To be the national association advancing the highest level of ethical values, governance, and professional development of directors.

Formation

Since its formation in 1998, SID has continued to play a crucial role in the development of good corporate governance practices and as a hub for the professional training and education of directors.

Membership

With more than 1,800 members today, SID is well regarded as the national professional body for company directors serving the local corporate community. Its membership comprises prominent individuals from listed companies, corporate leaders, lawyers and accountants. Adding to the Institute's influence and strength is the growing number of corporations which have joined the Institute as corporate members.

Governing Council

The affairs of SID are managed by a Governing Council, comprising members elected from the general membership, and supported by a Secretariat. The 20-member Governing Council of reputable business leaders and professionals plays a pro-active role by working closely with regulators (ACRA, MAS, SGX), professional bodies, academia and others to foster forward-looking board practices, directors' competence and independence; and respect for all stakeholders' rights.

Research And Thought Leadership

The Institute has provided thought leadership on corporate governance and directorship issues in Singapore. It played a key role in drafting the Code of Corporate Governance in 2001 and made substantial contributions to the revised code in 2012.

To encourage best board practices, it was also responsible for launching the first Singapore Best Managed Board Award and later the Best CEO Award, which are now presented at the annual Singapore Corporate Awards organised by the Business Times.

Apart from The Bulletin which it publishes regularly to keep directors abreast of current issues, the Institute also researches and issues Statements of Good Practice to guide and inform directors of best practices in areas such as appointing new directors, the role of the audit committee, addressing conflicts of interest and related matters.

The Institute conducts regular surveys on board practices of Singapore-listed companies. The "Singapore Board of Directors" survey will be available in late 2013.

Professional Development

SID conducts a series of training programmes for the development of its members and to increase the pool of individuals qualified to serve as directors in listed companies.

SID's foundational courses include the 5-module Effective Board Leadership Programme and the 5-module Listed Company Director Programme, and the 6-module SID-SMU Directorship Certification Programme.

In addition, SID holds seminars and forums on a range of subjects relevant to directors. It will soon be launching a "Chairmen's Conversation" series for board and committee chairmen.

SID's flagship seminar is the annual SID Directors Conference featuring renowned international and local speakers on trends and issues impacting directors and governance.

Other Programmes

SID regularly organises members' networking events including an annual golf tournament.

SID's Board Appointment Service seeks to help companies search for suitable director candidates from SID's database of members.

A directory on SID website seeks to provide one-stop information for companies looking for professional advice on governance related matters.

For more information, please visit www.sid.org.sg or contact the Secretariat at (65) 6422 1188

CONTENTS

PUBLICATION & WEBSITE COMMITTEE

Chairman

Yeoh Oon Jin
PricewaterhouseCoopers LLP

Members

Kala Anandarajah
Rajah & Tann LLP

Adrian Chan
Lee & Lee

Robert Chew
Director, Pteris Global

Terence Foo
Newgate Communications

Mike Gray
Independent Director

Elaine Lim
Citigate Dewe Rogerson

Victor Yeo
Nanyang Technological University

Annabelle Yip
Wong Partnership LLP

PUBLISHER

Singapore Institute of Directors
168 Robinson Road
#09-06/07 Capital Tower
Singapore 068912
Tel: 65 6422 1188
Fax: 65 6422 1199
Email: secretariat@sid.org.sg
Website: www.sid.org.sg

EDITOR

Kala Anandarajah

DESIGN

Wini Tenorio

PRINTER

Entraco Printing Pte Ltd

Page

FROM THE EDITOR 2

SID GOVERNING COUNCIL 2

CHAIRMAN'S MESSAGE 3

ADDING VALUE TO YOUR MEMBERSHIP 4

SID'S COURSE AND EVENTS CALENDAR 2013/2014 5

EVENTS COVERAGE

The Essentials Of Corporate Governance, Yangon, Myanmar 7

What Directors Need To Know About Securing Electronic Records For Evidence Act 9

How Should Board Directors Respond To Shareholder Activism 11

FEATURES

Interview With Willie Cheng, Chairman Of SID 13

The Fourth Annual SID Directors' Conference – From Processes to Outcomes 16

- An Expose On Panel 1: Value Creation – From Processes To Outcomes 19
- An Expose On Panel 2: The CEO: Reconciling Compensation, Values And Value Creation 21
- An Expose On Panel 3: The Shareholders: From Asking To Participating In Value Creation 23

Directors' Conference Photo Gallery 26

What Makes For A High-Performing Board? 30

Good Governance, Risk And Controls 34

Rethinking Long-Term Incentive Schemes: Beyond Stock Options 37

Guidance Note: Cyber Risk 40

WELCOME ABOARD (New Members) 44

Good tidings to all as you receive this 5th and final issue of the Director's Bulletin for 2013.

This issue has its main focus the proceedings of the recently concluded 4th Directors' Conference. Themed "Corporate Governance: From Form to Value Creation", we steered away from hard core traditional discussion topics such as the board's roles, duties and responsibilities, independent directors, and protecting minority shareholders to what is value creation, how can value be created and who can contribute towards value creation. Shareholders were not spared in this regard, and one panel focused very much on the shareholders' role in value creation.

A clear message that came across from the conference was that the basic characteristics of finding the right people to do the right tasks in the right way remains a truism but a difficult one to fulfill. Another key point that flowed through was the fact that value creation is important, but is different to different stakeholders and different depending on the time zone that one looks at the issue, i.e. long or short term.

The Conference was well attended and provided the usual food for thought and much banter, and if I may, was a good one. A mark of a good conference is whether participants walk away saying "I did not really agree with that perspective because …". This always starts a discussion and allows for further perspectives to be put forth. The Conference achieved this. This was made possible only through the eloquent and different Address by Guest of Honour, Senior Minister of State, Mrs Josephine Teo's and the prolific high powered panelists. To each one of them, I personally say thank you again. I also say thank you to the participants from the respective MBA programmes of NUS and NTU who took time out to attend and write about the panels. We were not able due to space constraints use all of the articles, but very much appreciate the efforts put in.

It is also apt and only proper to recognise the unsung heroes behind the Conference, namely the Secretariat of the Institute, who laboured tirelessly to ensure that the event was a success.

Do mark your calendars for the 5th Directors' Conference scheduled for 3 September 2014.

Following in the theme of the Conference, we have a handful of other articles that discuss issues relating to compensation and revisiting what makes for a high performing board. Both articles provide useful insights and are must reads. There are also articles on risk control, issues which remain evergreen. To each of our contributors, thank you very much.

Other than the Conference, the Institute continues in its education and advocacy drive in Singapore and further afield. To this end, the institute organised a Corporate Governance seminar in Yangon, Myanmar, which also saw the Singapore Exchange participating. It was a very well received programme and more are likely to follow.

Given the importance of governance concerns and the importance of understanding the essence of roles and responsibilities in the boardroom and also by management, the Institute will be introducing mandatory Continuing Professional Development Requirements. Details are set out at page 4 of this Bulletin.

I end by thanking all of our contributors to this issue of the Bulletin. Till 2014, wishing all Happy Holidays, Merry Christmas and a Very Happy New 2014!

Kind regards,

Kala Anandarajah
Editor

SID Governing Council 2013

Chairman : Mr Willie Cheng

Treasurer : Mr Soh Gim Teik

First Vice-Chairman : Mr Adrian Chan Pengee

Immediate Past-Chairman : Mr John Lim Kok Min

Second Vice-Chairman : Mrs Yvonne Goh

Council Members : Ms Kala Anandarajah, Mr Basil Chan, Mr Robert Chew, Mr David Conner, Mr Daniel Ee, Mr Kee Teck Koon, Mr Kevin Kwok, Mr Lim Chin Hu, Mrs Elaine Lim, Dr Ahmad Mohd Magad, Mr Chaly Mah, Mr Andy Tan Chye Guan, Ms Tan Yen Yen, Ms Yeo Lian Sim, Mr Yeoh Oon Jin

CHAIRMAN'S MESSAGE

Dear fellow members

As you receive this final issue of the SID Bulletin for the year, we are preparing to take stock of the year's progress and to hold our Annual General Meeting (AGM).

The progress of the Institute during a year of transition will be covered in the SID Annual Report 2013 which you should have received.

For now, I would like to focus this message on the AGM which is scheduled for 20 November 2013 and, in particular, the nomination process and candidates for election.

Nearly a year ago, in order to be a leading example in our own practice of corporate governance, the Institute made several changes to our Articles on Governing Council composition and tenures. Among the changes were:

- Maximum of 20 Council members, of which 16 are elected and four are co-opted.
- Members may not be co-opted for more than two years.
- Maximum tenure of nine years for all Council members, six years for Chairman and Vice-Chairmen, and three years for Treasurer.
- Three year transition for the new limits.

At the 2012 AGM, several long-serving Council members stepped down. The present 20-person Council now has seven new members.

At the 2013 AGM, another four elected Council members will be stepping down as part of the ongoing leadership renewal process.

That said, the Articles setting out the nomination process for candidates had not been changed and this formal process had been, in my view, less than satisfactory. Let me explain why.

The formal nomination process begins at least 30 days before the AGM. Those interested in joining the Council simply need to obtain the support of six other members for their nominations before they then stand for election at the AGM.

The drawback of this process is that many candidates do not necessarily have a good understanding of the roles, responsibilities and expectations of being on the Council. At the same time, the small numbers of members voting at an AGM have limited, if any, knowledge of many of the candidates to make a properly informed decision. From the Council's standpoint, this somewhat random selection of candidates does not always produce a balanced and diverse Council.

With only a limited number of Council positions available, we should find ways to invite the candidates that would best be able to contribute the time, expertise and knowledge for effective governance while adding to a balanced Council.

We have, therefore, enhanced the nomination process this year. In mid-August, more than two months before the formal nomination process began, we invited members who were interested in serving on the Council and/or the Committees to come forth.

The response was surprisingly overwhelming. Thirty-five members raised their hands. Each of them was then invited to meet with an existing Council member who explained aspects of the Institute and the expectations of working on the Council and Committees. Each candidate was then invited to discuss how he or she could best serve the Institute.

In the event, we asked most of the candidates to join one of the many Council Committees and many have accepted. We did so in the belief that working on Committees is a useful path for mutual understanding and learning prior to potentially joining the Council. We hope that this approach will provide a more suitable way forward.

I hope this clarifies the process we are taking to ensure a more effective Council to serve you. See you at the AGM.

Here's wishing you a good holiday season and the best for the New Year.

Warm regards,

Willie Cheng
Chairman

Adding Value To Your Membership

Introducing Continuing Professional Development (CPD)

To help Ordinary Members and Fellows develop and maintain their skills and competencies to enable them to perform their directorial responsibilities effectively, SID will be introducing mandatory CPD from 1 January 2014.

Here, on this page, are the details on our CPD Policy. In a nutshell, members will need to maintain 60 CPD hours over a rolling three-year period. All current affected members will have three years to accumulate these hours starting from 1 January 2014. For a start, members will take personal responsibility for managing their CPD requirement.

Definition

CPD refers to learning activities that develop and maintain skills and capabilities to enable members to perform their directorial responsibilities competently.

The objectives of CPD are:

- To ensure that SID members maintain adequate level of professional knowledge and skills to enable them to perform their duties competently and professionally;
- To help SID members respond to new technological developments, changing responsibilities and economic conditions; and
- To demonstrate to investors and other stakeholders of corporations the SID's concern for the public interest by ensuring that directors acquire adequate knowledge and skills to be able to properly and fully discharge their directorial responsibilities

Mandatory Requirements

The CPD programme is mandatory for all SID Ordinary Members and Fellows. It does not apply to Associate Members, Honorary Fellows or Corporate Members.

As an SID member, you must attain at least 60 CPD hours over a 3 year period, of which at least 24 hours are verifiable (structured) CPD hours over the 3 year period.

A CPD year is each calendar year (i.e. from 1 January to 31 December). It will commence for a member from 1 January 2014 or 1 July of the year following admission as an Ordinary Member (or a Fellow) of the SID (whichever is later).

CPD Hours

CPD hours are awarded for activities – including both formal/structured (verifiable) and informal/unstructured (non-verifiable) learning – undertaken to improve directors' skills and capabilities.

Verifiable learning refers to CPD activities that could be objectively verified by a competent source. This could include attendance either as an instructor, speaker or a participant, at formal courses or conferences or educational and training services rendered while serving on boards and committees where relevant material is prepared or reviewed by the member. SID and other bodies offer a spectrum of courses and forums on corporate governance and related topics that would qualify as verifiable CPD learning. SID would periodically identify training and activities conducted by SID and its partners as available for CPD and the number of hours associated with it.

Non-verifiable learning refers to CPD activities where it is difficult to provide clear evidence to corroborate the hours to be claimed. This could include non-formal activities such as self-study, research, the reading of technical, professional, financial or business literature such as "*The Directors' Bulletin*". The activities should be current and will contribute to increase the member's skills and capability.

Recording CPD Hours

It is the responsibility of members to maintain their CPD records.

Certificates or letters of attendance are issued to members who attend courses, seminars, workshops or conferences organised by the SID. For relevant courses which are not organised by the SID, evidence can be in the form of certificates, receipts, attendance lists, letters from the organisers or corporate secretaries.

Implementation Timeline

The formal CPD programme will begin 1 January 2014.

Current Ordinary Members and Fellows will have until 31 December 2016 to meet the requirement to attain the initial 60 CPD hours.

Therefore, from 1 January 2017, existing Ordinary Members and Fellows will be required to confirm that they have completed their requisite CPD hours. Failure to do so means that SID may either terminate or suspend the membership of the individual.

The three-year cycle for new Ordinary Members and Fellows will begin in the year following their admission. For example, a new Ordinary Member admitted in, say, June 2014, will be required to attain 60 CPD hours in the period 1 January 2015 to 31 December 2017.

Ordinary Members who are subsequently admitted as Fellows will follow their existing three-year cycle (as if they had not been admitted as Fellows). ■

SID's Course And Events Calendar 2013/2014

Courses/Events	Course Dates	Time	Venue
SID Annual General Meeting	20 November 2013	1100 – 1230	Pan Pacific Singapore
2 Day Listed Company Director – Essential Programme (Mandarin) in Beijing, China	21 – 22 November 2013	0830 – 1730	Kerry Hotel Beijing
Board Chairmen's Conversation	22 November 2013	1215 – 1345	The Lighthouse Restaurant
SID Breakfast Roundtable Discussion with Ambassador Yang	28 November 2013	0830 – 1000	Mandarin Marina Singapore
SID – PwC: How Effectively is your Company Managing Bribery and Corruption Risk?	4 December 2013	11300 – 1300	Mandarin Marina Singapore
Audit Committee Chairmen's Conversation	9 December 2013	0830 – 1100	To be advised
LCD Module 1: Listed Company Directors Essentials	16 January 2014	0830 – 1700	To be advised
SID – SMU Executive Skills for Board Member Module 3: Finance for Directors	19 – 21 February 2014	0900 – 1700	SMU Campus
Members' Networking Event	19 February 2014	1700 – 1930	To be advised
Audit Committee Chairmen's Conversation	5 March 2014	0830 – 1100	To be advised
LCD Module 1: Listed Company Directors Essentials	6 March 2014	0830 – 1700	To be advised
SID Lunch Presentation on Social Media	14 March 2014	0830 – 1230	To be advised
LCD Module 2: Audit Committee Essentials	20 March 2014	0830 – 1230	To be advised
LCD Module 3: Risk Management Essentials	28 March 2014	0830 – 1230	To be advised
LCD Module 4: Nominating Committee Essentials	3 April 2014	0830 – 1230	To be advised
SID – SMU Executive Skills for Board Member Module 1: The Role of Directors – Duties Responsibilities & Legal Obligations	14 – 16 April 2014	0900 – 1700	SMU Campus
LCD Module 5: Remuneration Committee Essentials	16 April 2014	0830 – 1230	To be advised
EBL Module 1: Effective Board	24 April 2014	0830 – 1230	To be advised
Members Networking Event	25 April 2014	1700 – 1930	To be advised
Board Chairmen's Conversation	30 April 2014	1215 – 1345	To be advised
EBL Module 2: The Board & Fund Raising	15 May 2014	0830 – 1230	To be advised
EBL Module 3: Enterprise Risk Management	22 May 2014	0830 – 1230	To be advised
LCD Module 1: Listed Company Directors Essentials	28 May 2014	0830 – 1230	To be advised
EBL Module 4: Financial Literacy & Governance	29 May 2014	0830 – 1230	To be advised
SID – SMU Executive Skills for Board Member Module 2: Assessing Strategic Performance – The Board Level	23 – 25 June 2014	0900 – 1700	SMU Campus
SID Golf Tournament 2014	27 June 2014	1130 – 2100	To be advised

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

SID Directors' Conference 2014

Towards The New

Capitalism

The annual one-day must-attend conference for directors and business leaders.

By Singapore Institute of Directors
Wednesday, 3 September 2014
9.00 am to 5.30 pm

The 5th Directors' Conference will look at where capitalism is today and tomorrow, and what the implications and actions are for corporations and boards.

A new and more compassionate form of capitalism is increasingly being espoused and already upon us in many ways. Through initiatives such as the sustainability agenda, integrated reporting, shared values and impact investing, companies are facing pressures to transcend narrow self-interests and operate for a greater common good.

This conference will examine the trends and scale of this "New Capitalism" and how much focus it should have on a board's agenda. For the first time, a Social Enterprise Marketplace will allow for the showcasing of some of the hybrid organisations that are emerging in this new world of social-business convergence.

Before wrapping up for the day, the hot and hard issues of today's capitalism as it affects boards will be discussed.

Mark your Calendar now!

For more details, please contact the Secretariat at (65) 6422 1188.

The Essentials Of Corporate Governance, Yangon, Myanmar

The Institute organised its first seminar in Myanmar on 4 October 2013 at the Traders Hotel in Yangon. This programme was designed to provide attendees with a broad understanding of compliance, regulatory and corporate governance matters as well as to better understand the roles and responsibilities of a listed company director.

This interactive programme included SGX regulations, Singapore Code of Corporate Governance, Audit Committee and Risk Management.

Mr Ng Cheong Yew from IE Singapore gave an opening speech to all the attendees. The speakers were Mr David Toh from the PricewaterhouseCoopers LLP, Mr Howard Cheam from Rajah & Tann LLP and Mr Simon Lim from the Singapore Exchange.

The event was attended by 60 participants. ■

RVi INSTITUTE presents...
SGX
SID
Singapore Institute of Directors

SID
SGX

SID
SGX

SID
SGX

SID
SGX

What Directors Need To Know About Securing Electronic Records For Evidence Act

On 30 September 2013 at Marina Mandarin Singapore, Mr Rajesh Sreenivasan, Head, Technology, Media and Telecoms of Rajah & Tann LLP and Mr Chan Hiang Tiak, Risk Assurance Partner of PricewaterhouseCoopers LLP gave an enlightening presentation to 24 participants on the recent amendment to the Evidence Act.

At the session, the speakers discussed the issues that organisations have faced and the pre-emptive measures that others have taken. Several case studies were also used for illustration. ■

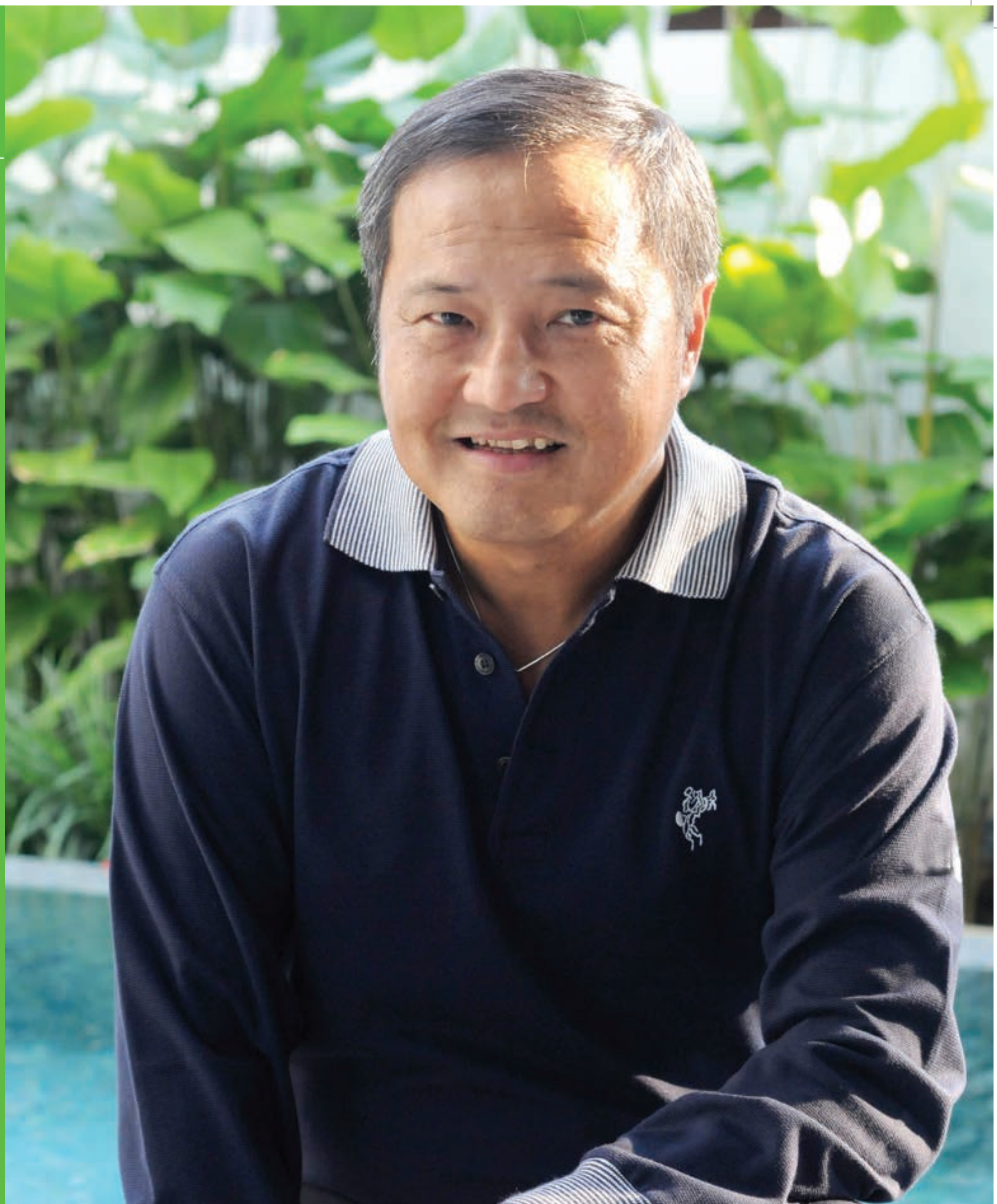
Yearly Section
116A(1) Report

How Should Board Directors Respond To Shareholder Activism

With increasing shareholder activism, it is crucial for board directors to learn the art to respond to shareholders.

On 27 September 2013 at Marina Mandarin Singapore, Mr Lawrence Wong, Co-Head, Corporate and Securities of RHTLaw Taylor Wessing LLP, Mr Lee Bagshaw, Foreign Lawyer, Corporate and Securities of RHTLaw Taylor Wessing LLP and Mr Lex Lee, Director, Enterprise Risk Services of Deloitte & Touche LLP gave an insightful presentation to more than 20 participants on the recent trends in shareholder activism with recent cases in Singapore as well as the perspectives on the practical implications of rising shareholder activism on companies in Southeast Asia and the preparation companies could undertake for the potential impact of shareholder activism. ■

Interview With Willie Cheng, Chairman Of SID



Willie Cheng, former managing partner of Accenture Singapore and a Fellow of the Institute, joined the SID Council in 2010. He took over as Chairman from John Lim in July 2013. The Editorial Team of *The Directors' Bulletin* caught up with the new Chairman for his take on the direction SID will be taking.

Now that you are chairman, what are your plans for SID?

I've been getting that question a fair bit since taking over from John.

First, I don't function by myself. We have a fairly large team here: the Governing Council and its Committees, and the Secretariat. We plan and move forward together.

Secondly, some broad plans had been made at the Council retreat initiated by John a year before he stepped down. We are executing many of these now.

In brief, though, our focus in SID is twofold: externally, to be relevant to our constituents, and internally, to organise ourselves to be effective.

Right, let's explore these two thrusts then. How does SID plan to be relevant to its stakeholders?

Well, we say we are the national association of directors in Singapore. That means we represent directors and their interests, help them do their jobs, and be their voice when needed. Beyond directors, we need to reach out to regulators, investors and the management of companies.

And how would SID represent and serve directors better?

First, we need to have a larger proportion of the directors' population with us. We currently have slightly more than 1,700 individual members. There are already more than 4,000 directors among the 780 listed entities on SGX alone. We are seeking to increase our membership to bring on board these directors and their corporations.

We are also developing a stronger research and advocacy program. You will be hearing more of SID's views and

> In brief, though, our focus in SID is twofold: externally, to be relevant to our constituents, and internally, to organise ourselves to be effective.

positions on matters impacting boards and directorship.

Professional development has been our hallmark and will continue to be so. We have three good foundational courses for directors: the Listed Company Director Programme, Effective Board Leadership, and the SID-SMU Executive Certificate in Directorship.

We are nevertheless reviewing these courses to develop a more comprehensive and integrated curriculum that caters to the full spectrum of directors' needs: courses that provide for new directors, to the more experienced and international directors, and then to those who are chairmen of boards and board committees.

At the same time, we will soon be rolling out a Continuing Professional Development Programme to help our members stay current with matters related to corporate governance and being effective in the boardroom.

And other stakeholders?

As a membership-based organisation, members are naturally our first priority.

But there is an entire ecosystem for corporate governance beyond the directors: regulators, company management, investors, and other associations and institutions that promote various aspects of governance and directorship.

We need to continue building relationships with all these bodies and to collaborate effectively. Some of these efforts will be formal organisational ties. In other cases, we will work and cooperate more closely with our partners through our Council and Committees in a more informal manner, but at all times making sure that our partnerships count.

And through our advocacy and research programs, our publications and other communications, and our awards, we seek to influence all stakeholders in matters that are important to directors and directorship.

Let's move to the internal. What changes are planned for the organisation?

Internally, it is about organising the Governing Council, the Committees and the Secretariat to be more effective.

I suppose, for the Council, this means adopting best practices in corporate governance, for example, adhering to the recently revised Code of Corporate Governance?

Yes and no.

Yes, as the institution that champions directorship and good corporate governance, SID needs to observe, and be seen to be observing, the highest standards in governance.

But, no, it is not blindly following the latest in commercial corporate governance practices.

You see, SID is a fairly unique institution in that we are a nonprofit organisation that focuses largely on the corporate governance of commercial organisations. How nonprofit and commercial entities are governed is similar, yet different in other ways.

So, we have developed an SID Code of Governance which draws and blends in elements from the MAS's revised Code of Corporate Governance and the Charity Code of Governance.

What are some of the key differences between a nonprofit board and a commercial board, and how do you reconcile the two?

There are several differences, but let me highlight just two major ones.

First, nonprofit boards' directors are generally not paid, nor do they receive other financial benefits.

We are volunteers, we are here to serve. As a result, there are usually stricter rules for nonprofit boards that revolve around conflict of interest situations and non-receipt of financial benefits.

Secondly, the involvement of directors on a nonprofit board is usually far greater.

This is because the nature of nonprofits creates under-resourced staffing. There is, depending on the nonprofit organisation, a greater or lesser reliance on volunteers. Or free labour, if you like.

And board members are volunteers, part of that free labour. So board members are expected to do some of the work, otherwise it may never get done. This actually makes the separation of governance and management more difficult for a nonprofit organisation. And getting nonprofit board members to understand the difference in their roles

> Well, we say we are the national association of directors in Singapore. That means we represent directors and their interests, help them do their jobs, and be their voice when needed. Beyond directors, we need to reach out to regulators, investors and the management of companies.

Professional development has been our hallmark and will continue to be so. We have three good foundational courses for directors: the Listed Company Director Programme, Effective Board Leadership, and the SID-SMU Executive Certificate in Directorship.

as governors versus that as volunteers is not easy.

Coming back to the Council and its Committees, what else is happening beyond the SID Code of Governance?

As in any organisation, the crucial factor to organizational performance is the right people.

With John's help, we started this year with a pretty strong and diverse Council. We are continuing the leadership renewal at the coming AGM and have introduced an enhanced nomination process to draw in good candidates not just for the Council, but also the Committees.

Given the number of new initiatives, we have also expanded the number of Committees and their membership. Currently, there are 17 Committees with a total of 28 Committee members in addition to the 20 Council members. That's a lot of help we are getting to move matters along.

With so many Committees and Council and Committee members, that must be a real challenge for the Secretariat of seven full time executives. How do they manage?

True. Having so many Council and Committee members can be a challenge as well as being a help.

But our new Executive Director, Penelope Phoon, is a veteran at managing up as well as down. She helmed three other associations and came out of retirement to help SID through this next stage of our journey.

And she has brought in fresh blood to strengthen the secretariat. Half the team is new, but we have continuity of stalwarts like Gabriel Teh, Chew Seok Hwee, Florence Lum and Jane Tan.

It's probably a good thing that we have just moved to new premises at Capital Towers. We were able to do a lot of spring-cleaning while taking the opportunity to set up new IT and office infrastructure.

With the help of several Committees, Penelope is also putting in place more formal policies, a Human Resource Manual as well as a Finance Manual. This should help institutionalise many of our existing processes as well as improve them.

Great, it looks like SID has quite a bit on its plate. What else are you or SID planning to do?

Well, we have a year-end Council planning retreat coming up. However, vision and plans, as you know, are just the first step. It's the execution that counts.

Wish us well. ■

As a membership-based organisation, members are naturally our first priority.

But there is an entire ecosystem for corporate governance beyond the directors: regulators, company management, investors, and other associations and institutions that promote various aspects of governance and directorship.

FEATURE

The Fourth Annual SID Directors' Conference – From Processes to Outcomes

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

Overview

The Institute hosted the 4th Annual Directors' Conference on 11 September 2013 at the Marina Bay Sands. For the second year running, the Conference was attended by over 500 participants from the corporate governance arena in Singapore.

As noted by SID Chairman, Mr Willie Cheng in his Welcome Address, the theme for the Conference came about as follows:

"Several months ago, when we were planning for this year's conference, John Lim who was then-chairman of SID, Kala, the chair of the conference organising committee and I felt that we should perhaps take a step back from the traditional emphasis on regulatory conformance and ask ourselves: what does a board and corporation exist for?

"Surely, the primary purpose of companies and boards is not to conform to any set of rules and regulations. Rather, companies exist primarily to create value, and the role of boards therefore must be to ensure that the companies they govern can and do create value, albeit within the context of the regulatory environment they operate in.

"We therefore felt that we should refocus this year's conference on performance rather than conformance. Hence, the theme: Corporate Governance: From Form To Value Creation, so that we can move from directors looking at corporate governance as more boxes to be checked off, to looking at how directors and other stakeholders can help companies create value."

We were honoured this year to have Mrs Josephine Teo, Senior Minister Of State For Finance And Transport, grace the occasion as our Guest of Honour. Minister Teo had also graciously been our guest of honour for our 3rd Conference in 2012, thus bringing a certain continuity to the proceedings. Her speech this year was different, raising unique points and providing many with much fodder to think about.

Purpose Of The Company

Minister Teo began her speech talking about taking care of employees and amongst several provided two contrasting illustrations of a company that took care of its employees and one

that did not. On the first, she cited the example of Wing Tai, which in its early days of operations "introduced baby crèches in their factories" and also "made real efforts to help its workers through the transition" as it exited the garment manufacturing business. On the second, she noted that "[t]here was also the company whose CEO took no interest in the safety and well-being of his staff. The factory floor was dilapidated, the machinery out-dated and the orders becoming irregular. The workers had no proper resting place and the pay was often overdue. And yet in the company's driveway, the CEO's brand new sports car sat shining in the sun."

From this Minister Teo went on to question:

"These contrasting examples provide much food for thought. What is a company? For what purpose does it exist? To whom does it owe a responsibility besides its shareholders? To what extent is it a part of community? Of what value is it to the community? Can it help to advance society? How? Should it help to advance society? Why? Why not?"

In responding to these questions, Minister Teo essentially reminded corporations that value creation was not simply about wealth creation (although she did not use those words) or "acting

in the service of your shareholders…". She indicated that she hoped that corporations would be "willing to steer your companies in service of society. Robert Greenleaf, who wrote about "Servant Leadership", challenged all leaders to think more deeply about the impact of our actions on those we are supposed to serve. He asked "…Do those served grow as persons? Do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society? Will they benefit or at least not be further deprived?"

Whilst the thoughts put forth appear radical, the reality is that companies do have a duty to their employees, although the laws may not have fleshed these out in absolutely clear terms. The duty manifest itself in the Companies Act in a general manner which allows directors to have regard to the interests of the company's employees generally in exercising their powers. Yet, at the end of the day, it is a balance that directors need to seek to achieve – directors do need to ensure that the company achieves the corporate aims which it was incorporated for, and within this, one facet is taking care of its employees, whilst another would also include acting socially responsibly towards society at large.

This is not to put a greater onus on directors as they go about ensuring that they exercise their duties in the best interest of the company with due skill and care and with transparency. Rather, it is merely a reminder of what directors always had to do.

Creating Value Is About Culture, Behaviour And Trust

As our Keynote Speaker, we had Ambassador Linda Tsao Yang, Chairperson, Asian Corporate Governance Association, Hong Kong. A very engaging speaker, she raised numerous insightful alternative thoughts to value creation from that raised by Minister Teo, thus paving the way for myriad discussion during the various panels. Specifically, Ambassador Tsao reminded all that for value creation, there had to be the right culture and behaviour and trust over the long term. Ambassador Tsao believed that value creation was one to be viewed over the longer term and not one which manifests itself immediately.

Sharing a similar view was Mr Piyush Gupta, CEO, DBS Group Holdings, who was a panellist on Panel 1, which focussed on Value Creation: From Processes To Outcomes. Mr Gupta queried and then indicated

the importance of the need for clear time frames for value creation. He recognised that there could be short term perspectives; but ultimately a longer term view had to be taken. On this, he also stressed that it is only the board which can focus and work on the long term strategy. This is not something which shareholders could do.

Other elements that came up from the discussion in Panel 1 which also included Mr Dan Konigsburg, Managing Director & Global Leader, Deloitte Centre for Corporate Governance and Mr Lim How Teck, Chairman, Certis CISCO, was the key to ensuring the right balance in value creation came down to the board, which had to comprise the right persons. These had to be persons "who could thread even when the skies are cloudy".

Compensation In Value Creation

The 2nd Panel which discussed The CEO: Reconciling Compensation, Values and Value Creation, explored issues such as whether compensation was to be used as an end tool or just as a mechanism. This also saw discussions on "what drives the individual" when he takes on a board role; what are his motivations?

Panel 2 which had Mr Gautam Banerjee, Chairman, Blackstone Singapore; Former Executive Chairman, PricewaterhouseCoopers Singapore, as the moderator, included senior members of the corporate world, such as Ms Wong Su-Yen, Managing Director, ASEAN, Mercer; Chairman, Singapore, Marsh & McLennan Companies, Mr Venky Krishnakuman, Chairman, Oracle Financial Services Software Pte Ltd (Singapore), Mr Liew Mun Leong, Founding President & CEO , CapitaLand Group; Chairman, Changi Airport Group and Mr Colin Low, President & CEO, Singapore Investment Development Corporation. Indeed a high powered panel that saw much banter over what and how should a director be compensated. A highly charged topic, suffice to say that there was no obvious conclusions reached.

Shareholders Value Creating

In the provocative approach of the conference, the final panel of the day focussed on The Shareholders: From Asking to Participating in Value Creation. The aim was to study how the different factions of shareholders could be effectively rallied to contribute towards effective value creation?

Mrs Elaine Lim, Managing Director, Citigate Dewe Rogerson, i.MAGE moderated this panel effectively following a thought provoking speech by Mr Hugh Young, Managing Director, Aberdeen Asset Management Asia. Other members of the panel included Mr Vincent Chen, Former Chairman, SIAS Corporate Governance Committee, Mr Richard Eu, Group CEO, Eu Yan Sang and Mr Ron Sim, Founder & CEO, OSIM International.

A key message that came out from this panel was that it was critical, to say the least, for shareholders to understand the visions and goal of the company. With that, they could arm themselves effectively, even as a small shareholder to raise issues and point out matters that the board should be thinking about and reviewing. Change will not occur overnight, but they have to bring about change the means over time.

Conclusion

The feedback that the Institute received was positive. It was a Conference which raised issues and provided fodder for further discussion.

It remains for me to express the Institute's and my personal gratitude and thanks to the Guest of Honour, our Keynote Speaker, and each and every panellist who made the Conference a success. Thank you also to all participants for sharing from the floor and staying till the end. ■

An Expose On Panel 1: Value Creation – From Processes To Outcomes

By Ng Xinyao, Nguyen Truong Giang and Reynard Praharsa Atmadi, Nanyang MBA participants, Nanyang Business School, Nanyang Technological University

The Value Facet To Corporate Governance

To whom, do we owe (duties), and for what, do we stand for?

Corporate governance is not just about prevention and risk minimisation, it extends to capitalisation of human capital and risk management to create value beyond dollars and cents. After all, deterrence is only one side of the coin. Optimisation fills the other side.

We know the basic principles of corporate governance well, which seemingly is to prioritise substance over form. We are also alert that the devil is always in the details. However, what exactly is the direction we should be working towards?

Placing Service To The Community Before Corporate

Senior Minister of State for the Ministries of Finance and Transport, Mrs Josephine Teo in her Opening Address as Guest of Honour emphasised that the best welfare that a nation can provide its people is jobs and employment. Drawing parallels, she felt that corporations could do more for its employees as well. She cited examples of the roles which companies could play in achieving this vision. The message that came across was that corporate governance requires companies to reflect very precisely on its existence and its contribution to the community, touching on at least:

- Specifically, what is a company?
- For whom or what does it exist?
- How does it advance society? Why and why not?

Ambassador Linda Tsao Yang, Chair of the Asian Corporate Governance

Association then elaborated on various factors to strive towards to achieve value enhancement - finance, reputation, brand value, ability to attract and retain talent, and the contribution to the community and society at large, conditional upon that the factors are consistent in withstanding the test of time. She drove home the point that the value of corporate governance has to be defined concisely, honestly, and upfront in order for organisations to harness long term value.

Taking The Long Term Approach

Ambassador Tsao further called for directors and stakeholders alike to take a long term view in allocating consistent efforts in capital investing. This helps build the corporate's capacity and competency that allows value to be harvested over an extended period of time. This in her view is more important than short-run concerns like financial downtimes.

How Corporate Influencers Fit Into The Picture?

In Ambassador Tsao's words, the top management is responsible for creating a culture that in turn drives behaviour, which then drives productivity. Essentially, directors are responsible for the stewardship of the company. This role, in her view, needs to be balanced against giving feedback to regulators, who ideally should in turn take such feedback on board as they fine tune policies and laws.

Mr Dan Konigsburg, Managing Director & Global leader, Deloitte Center for Corporate Governance, reinforced the above by stating his beliefs that societal values and innovation play a big part in the way that business is conducted today where both the government and investors share the responsibility in creating the vision.

Another panellist, Mr Piyush Gupta, CEO of DBS Group Holding, then took it forward by proposing the 50/50 rule when setting short term versus long term objectives via the Balanced Scorecard Approach.

Leading By Example

Just what does it take to be on a Board? What responsibilities comes with it? Who should you invite to be on the team, and on what merit?

Mr Lim How Teck, Chairman of Certis CISCO, opined that the Board must be exemplary in their conduct vis-à-vis employee welfare. They must be courageous in offering an alternative voice for whom they represent, and be open-minded in taking on board staff feedback such that employees feel able to speak their minds with no expected repercussions.

Another point raised by Ambassador Tsao in this regard was identifying suitable directors based on strategic time mapping of the company's need. For example, by choosing directors based on the direction that the company is heading in say, five years' time. She also stressed the importance of both the personal and professional reputation of candidates.

Afterthought

A series of thought-provoking questions were generated that leave plenty to ponder.

The one which left the most significant impression on the authors is: To whom do we owe (duties), and for what do we stand for?

While the question is a good one for us all to think about as we take stock of the relevance and impact of our actions, its significance is amplified for stewards, i.e. those in positions of influence and power. At the end of the day, value creation is about outcomes reflective of our society's aspirations and beliefs that are consistently reflected and fed into the corporate culture as well. Hence, we hope you will join us in reflecting, defining and refining our thoughts and actions for value creation. ■

An Expose On Panel 2: The CEO: Reconciling Compensation, Values And Value Creation

By Boon Leong Lim and Lucy Liu, Nanyang MBA Participants, Nanyang Business School, Nanyang Technological University

Overview

CEOs play an important role in any company's success. Given the huge responsibility and critical role of CEOs, one would expect that they receive fair compensation for their work. Ms Wong Su-Yen, chairman for Marsh & McLennan Companies (Singapore) began the discussion on the topic of "The CEO: Reconciling Compensation, Values and Value Creation" by highlighting how some well-known CEOs were highly paid by their companies. She opined that overall increase of executive pay was due to the focus on succession and leadership development in corporations. She also compared the relative weight of base pay, short-term incentives and long-term incentives in CEO compensation packages with those of other managers and made the observation that weight of basic pay was less in CEO pay packages while short-term incentives comprised a significant portion followed by long-term incentives.

Executive Remuneration And Performance

What is the right level and mix of CEO compensation? The compensation ratio between CEOs of S&P 500 index companies and those of general workers in these companies has sky-rocketed from 201 times in 1992 to 350 times in 2012, causing CEOs to be viewed as being overpaid. Singapore is also experiencing a widening income gap between top executives and general employees. How then, does one justify this disparity in compensation and set appropriate levels of remuneration for top executives?

One suggestion is to focus on the extent to which CEOs target sustainable growth of the company, rather than on whether the CEO is able to keep the company running smoothly. Founding President and CEO of CapitaLand Group, Mr Liew Mun Leong, shared at length how his company leveraged on the Economic Value Added (EVA) system over the past 15 years to redistribute company profits between various stakeholders. Mr Liew emphasized that such profit

redistribution was dependent on the value created by the person, of which 70% and 30% are attributed to short- and long-term realisations respectively. He added that the procedure had to be transparent, approved by independent directors appointed by the board and discussed in the Annual General Meeting (AGM) to ensure fairness.

Similarly, Chairman of Oracle Financial Services Software Pte Ltd (Singapore), Mr Venky Krishnakumar, shared on the matrix he used to determine pay packages. There were objective measures to assess both the past results and future performance of a CEO. This, in turn, would determine the CEO's total remuneration package comprising base pay and short-term / long-term incentives. Additionally, there were subjective or discretionary measures of their performance, such as growth of brand value of the company, cohesion of employees, etc. He mentioned that it was much easier for shareholders to focus on the first criterion of objective measures of past results when assessing the fairness of a CEO's compensation. He emphasized, however, the importance of establishing objective measures of future performance in overall grading of CEO performance and linking this to compensation. This would facilitate the driving of sustainable growth for the company and be more beneficial to shareholders in the long run.

Regulations And Disclosures

Another topic covered by the panel was the different approaches to regulation of CEO remuneration. In response to the Global Financial Crisis, the Dodd-Frank Act was passed in the US requiring the reporting of the ratio of CEO' pay to that of average workers. However, this ratio is dependent on contextual factors such as company size, location of workers and workforce composition. Companies with large numbers of workers in high cost places and those with higher percentages of high paying jobs like biotechnology and finance will have lower ratios. Thus, concerns of potentially oversized compensations may still be inadequately addressed. Australia has a "two strikes" rule which requires a company's entire board to stand for re-election (a "board spill") if 25% of its shareholders vote against a company's report on remuneration over two consecutive AGMs. This, however, may lead to unintended influence over shareholders' decisions at crunch time to avoid board spills which may potentially harm the company. Countries with laws that are too prescriptive may also end up having companies adhering more to the letter of the law than to its spirit.

President and CEO of Singapore Investment Development Corporation, Mr Colin Low, also shared some perspectives on CEO remuneration disclosures in various jurisdictions. US regulations are most open, transparent and prescriptive. In the Middle East, the Abu Dhabi Stock Exchange requires CEO salary to be declared in both annual and corporate governance reports but does not specifically define the reporting format. This results in companies reporting for the namesake of transparency that is neither standardised nor comparable. Culture also apparently plays a part. Board practices in Japan are such that many decisions are made over lunches or evening receptions. CEO salaries are not openly discussed in Germany. In contrast, boards in France are moving towards specific compensation rules comprising equal proportions of fixed salary, long term incentives, and bonus tied to very specific short term targets such as talent management and moving into areas of new businesses.

Risk Management And Sustainability

In order to manage risks in compensation design, Ms Wong highlighted that companies had implemented deferred bonuses, longer performance periods, retention periods, long-term shareholding requirements, clawbacks, etc. She also noted that one of the key elements of sustainability was to incorporate risk management into the governance framework for compensation. Options being explored include increasing the role of the risk officer in incentive plan design and input of performance evaluation.

Amidst the active discussions with the audience, several key issues were raised. Ms Wong believed that CEO tenures which are generally less than 5 years would affect one's frame of mind and behaviour. While boards may strive to moderate CEO pay, Mr Liew viewed that its effectiveness depends on the CEO as one can always find reasons to justify what the CEO is being remunerated. Mr Low was of the view that the vicious cycle of rising executive compensation is due to benchmarking exercises based on industries.

While every board would strive to design or structure an appropriate CEO compensation, the journey is almost definitely fraught with challenges. Market conditions, talent pool issues, supply and demand factors, amongst others, serve to complicate this process further. Clearly, there is no 'magic bullet' solution to this. Perhaps the key lies with the values and character of the CEO. Perhaps it is a matter of principles and common sense. One thing is for sure – there will be no absolutely right or wrong answers. ■

An Expose On Panel 3: The Shareholders: From Asking To Participating In Value Creation

By Ivan Choong Yew Kwan and Kathy Chaoyan He, Nanyang Business School, Nanyang Technological University

Overview

First introduced in 2001, the Corporate Governance Code took effect from 2003 and was revised in 2012. Over the past decade, this code has contributed much to improving and enhancing governance in the local corporate environment. The code touches upon roles and rights of a shareholder and hence this was the focus of the final panel discussion "The Shareholders: From Asking to Participating in Value Creation".

The panel was moderated by the effervescent Mrs Elaine Lim, Managing Director of Citigate Dewe Rogerson, i.MAGE, who gave an engaging introduction to the topic that had potential to be the most controversial of the entire conference since shareholders and directors have been seen to hold diametric views. From epic confrontations at Annual General Meetings (AGMs), to talk of speculative investing – the relationship between shareholder and director has certainly shown itself to be a colourful one, although in essence each is highly connected and symbiotic. Mrs Lim was joined by Mr Hugh Young, Managing Director of Aberdeen Asset Management Asia as provocateur, and three distinguished panelists – Mr Vincent Chen (Former Chairman of SIAS Corporate Governance Committee), Mr Richard Eu (Group CEO of Eu Yan Sang) and Mr Ron Sim (Founder & CEO of OSIM International), individuals well positioned to represent their respective viewpoints and provide for an engaging discussion.

The Keynote

Mrs Lim began by placing the panel discussion topic in context of the recent revisions to the abovementioned Code of Corporate Governance in which

the importance of shareholder rights have been raised and emphasized. She then invited Mr Young, who represented institutional investors, to act as provocateur, to set the scene by delivering his keynote speech entitled "The Role of Shareholders in Corporate Governance and Value Creation".

Mr Young began his speech by briefly discussing three broad models of corporate governance: Anglo-American (e.g. UK/US), Saxon (e.g. continental Europe, Germany), and Asian (e.g. Korea/Japan). He challenged the audience to consider the purpose of good governance and then presented a broad perspective on investment risk, long-term performance and growing expectations to illustrate its critical importance. He provided insight on how institutional investors do take governance into consideration during their investment evaluation and selection decisions. However, at times the relationship between good corporate governance and investment selection may not necessarily be obvious or direct as good governance may not guarantee company success due to unforeseen circumstances – he provided such an example in Singapore Airlines who is known to be a very well governed corporate but who operates in a troubled industry.

From an investor's perspective, Mr Young highlighted the increasing importance of governance in the eyes of investors and the increasing interest in a corporate's governance policies by influential parties such as regulators. He shared that investors also valued the opportunities to engage with management or senior independent directors on a variety of topics – in particular difficult topics such as remuneration. In summary, he felt that there remains tension as many companies are slow to embrace governance although there is evidence of understanding that it has benefits for directors, employees, shareholders and in fact all stakeholders.

From Mr Young's speech, we would be able to infer that Asia's corporate governance scorecard today has generally improved but enforcement does appear weak and hence this raises the question "Is management running the company in the interests of all shareholders?"

The Panel

It was now over to the panel and Mrs Lim invited Mr Vincent Chen, a shareholder activist and an experienced independent director himself to share his views.

He began by speaking from experience on how he has personally witnessed improvements, particularly in how AGMs are conducted through the years. He however felt that shareholders and directors do not always have complimentary views of each other and this can result in tension. For retail investors like himself, shareholder meetings are extremely important as it may be the single main avenue of interaction with management hence he felt that this presented a true golden opportunity for building better relationship - on this, his thoughts

centered on the theme of improving communication particularly in the context of an AGM meeting.

Firstly, he felt that management could do more particularly in managing communication on the company's performance. Secondly, he felt that shareholders should be given the appropriate respect by management during queries and comments although they certainly would not have the same level of access to information. Hence, here lies an opportunity for management to communicate the rationale behind their decisions. Thirdly, he felt that there should be increased informal engagement between management and investors, particularly post the official agenda. In summary, Mr Chen felt that on most issues, shareholder and management would be aligned – except perhaps in areas such as expansion plans, dividends or earnings retained and remuneration – but for the most part, both parties desire company success.

Mr Richard Eu then participated in the discussion from a management and majority family shareholder perspective. He started by highlighting the contractual nature between investors and management and how management responsibility is governed by regulation. As a majority family shareholder himself, he felt that his view differed from short sellers in spite of prevailing rules as he had long-term personal investment in the company. Here he believes there is potential for conflict, as certain retail shareholders look for short-term returns although he agreed that some do indeed have serious questions about the complexities of running the company. He very much believed in the alignment of interest between family and smaller shareholders and that they should not be on different sides of the fence or be treated differently. In fact all stakeholders – shareholders, suppliers, employees, customers, regulators – deserve fair treatment.

Mr Eu brought up an interesting point on how management actions can sometimes be seen to be in contention with shareholder opinion. For example, when the company engages in charitable acts through Corporate Social Responsibility (CSR) – while he may personally feel that it is part of the company mission, would all shareholders see this as fair? Hence Mr Eu believes it is important that shareholders understand the motivation of management. He also highlighted the importance of independent directors who help manage expectations and interests of all shareholders while keeping the overall objective of the company in view.

In closing, Mr Eu felt that good alignment between shareholder and management is in the overall interest of the company and long-term value creation is definitely possible. Additionally, constructive feedback and engagement with retail investors is certainly of utmost value.

It was then over to Mr Ron Sim to participate in the discussion from a management and majority shareholder perspective, and he started by showing support for non discrimination of all types of shareholders. He chose to speak from a different perspective, as management evaluating for investment, listing the following five questions according to priority – Does the business work? Is the management team capable? Who are the majority shareholders as they drive significant company behavior? Who are on the board of directors? Only after evaluating the potential investee company on the basis of these questions would the company's financial statements be evaluated. While he believed that there is great benefit in understanding and analyzing financial statements, he questioned the possibility of an over emphasis on regulation which may have the undesired effect of increasing risk adversity. He left the audience with an end thought of whether auditing in Singapore, due to its very different local nature and environment, may indeed require a multi-tiered instead of a one-size-fits-all policy approach.

The Floor

Before turning to the floor for questions, Mrs Lim asked the panel to comment on the possible alignment of the immediate return versus long-term growth approach that some shareholders may take, for value creation in a company. To this there was panel consensus that alignment is possible, in spite of potential challenges, and that engagement and communication were essential to achieving it.

An interesting question regarding the role of independent directors was raised from the floor, on whether it would be appropriate for them to respond to private shareholder meetings without the presence of management. The panel again was in agreement that this would certainly be beneficial but that care must be taken to maintain confidentiality on undisclosed information.

In Summary

In our view the discussion certainly lived up to its controversial expectation and was highly engaging in part due its topic but most certainly significantly due to a very well chosen panel. It can certainly be acknowledged that shareholders and management have their individual motivations and opinions, and at times they may not be in agreement. However, the conclusion is clear that alignment between these two critical stakeholders would not just determine a company's ability to create value, but also its ability to succeed. ■

Directors' Conference Photo Gallery

The Institute Says THANK YOU to

- Our Guest of Honour – Mrs Josephine Teo, Senior Minister of State, Ministry of Finance & Ministry of Transport
- Our Keynote Speaker – Ambassador Linda Tsao Yang, Chair, Asian Corporate Governance Association, Hong Kong
- **All Panellists**

Panel 1

- Mr Frank Lavin, CEO & Founder, Export Now
- Mr Piyush Gupta, CEO, DBS Group Holdings
- Mr Dan Konigsburg, Managing Director & Global Leader, Deloitte Centre for Corporate Governance
- Mr Lim How Teck, Chairman, Certis CISCO

Panel 2

- Mr Gautam Banerjee, Chairman, Blackstone Singapore; Former Executive Chairman, PricewaterhouseCoopers Singapore
- Ms Wong Su-Yen, Managing Director, ASEAN, Mercer; Chairman, Singapore, Marsh & McLennan Companies
- Mr Venky Krishnakumar, Chairman, Oracle Financial Services Software Pte Ltd (Singapore)
- Mr Liew Mun Leong, Founding President & CEO, CapitaLand Group; Chairman, Changi Airport Group
- Mr Colin Low, President & CEO, Singapore Investment Development Corporation

Panel 3

- Mrs Elaine Lim, Managing Director, Citigate Dewe Rogerson, i.MAGE
- Mr Hugh Young, Managing Director, Aberdeen Asset Management Asia
- Mr Vincent Chen, Former Chairman, SIAS Corporate Governance Committee
- Mr Richard Eu, Group CEO, Eu Yan Sang
- Mr Ron Sim, Founder & CEO, OSIM International

- **All Sponsors**

Platinum

- Keppel Corporation

Gold

- BoardVantage
- CapitaLand
- DBS
- Deloitte
- Ernst & Young
- KPMG
- Mercer
- NTUC Fairprice Co-operative
- PricewaterhouseCoopers
- RHTLaw Taylor Wessing
- RSM Ethos
- Singapore Exchange
- Starhub

Silver

- Allen & Gledhill
- Certis CISCO
- City Spring Infrastructure
- Egon Zehnder
- OCBC
- OSIM
- Rajah & Tann
- Singapore Press Holdings
- Stamford Law Corporation
- Thomson Reuters
- TrustedBoard
- WongPartnership
- Yoma Strategic Holdings

- All Supporting Organisations – ACRA & SAC
- All guests and participants
- NTU and NUS who identified students to write articles on each of the panels

All who contributed in one way or another and graced the 4th Annual Directors' Conference.
Each and everyone of you was valuable to making the conference a resounding success.
Thank you.

Please mark your calendars to our 5th annual conference to be held on 3 September 2014.

FEATURE

What Makes For A High-Performing Board?

By Luke Meynell, Managing Director and Co-leader, European Board Services Practice at Russell Reynolds Associates and Rae Sedel, Managing Director and Member, Russell Reynolds Associates' Board of Directors

The Forces At Work

As the UK Combined Code of Corporate Governance 2003 states: "Every company should be headed by an effective board, which is collectively responsible for the success of the company."

The scrutiny placed upon public company boards continues to intensify. Stakeholders—from regulators to shareholders to corporate social responsibility advocates—have become more vocal, more sophisticated and less forgiving, while the business environment has become more complicated and more competitive. In particular, three forces have combined to increase the pressure on boards:

- **Shareholders:** Both short-term and long-term investors are expecting boards to play a greater role in ensuring that shareholder value is maximised, and shareholders are quicker to issue challenges when they are displeased. The recent expansion of private equity to the acquisition and management of large companies has made this more acute, forcing boards to measure their own performance and decision making against that of a theoretical (or sometimes very real) private equity purchaser.
- **Global business environment:** Increased globalisation, the accelerated pace of change and competition, the impact of technologies and the ever-increasing focus on costs (both across the supply chain and through operational productivity) are all increasing risks and opportunities, heightening the importance of the board's oversight function. It is also placing a greater emphasis on board composition, given the value that can be added by board members with strategically critical skills and experience.
- **Chief Executive Officers (CEOs):** It is no secret that boards have become more demanding of CEOs in recent years, as the declining average tenure of CEOs clearly shows. At the same time, however, CEOs are becoming more demanding of their board members—particularly of their non-executive directors (NEDs), who are looked to for their independent judgment and perspective on both short-term and long-term strategic issues. CEOs are demanding that boards fulfil their governance duties efficiently, while

The scrutiny placed upon public company boards continues to intensify. Stakeholders—from regulators to shareholders to corporate social responsibility advocates—have become more vocal, more sophisticated and less forgiving, while the business environment has become more complicated and more competitive.

supporting the building of the senior executive team and guiding succession planning. Indeed, we find that CEOs are often setting higher standards in this regard than their non-executive chairmen, and some are frustrated by the perceived quality of their NEDs.

Diagnostic Questions

There is no set definition of what constitutes a high-performing board; indeed, there may be too many variables for a comprehensive description. At the same time, however, there is a set of diagnostic questions that CEOs, chairmen and corporate secretaries can ask to help frame the issues:

- What do the various stakeholders (investors, regulators, the management team, banks, communities where the company has operations, etc.) expect from the company as an institution and from the board in its oversight role?
- What does the CEO need and expect from the board in terms of functional expertise, senior team building and succession planning, strategic guidance, etc.?
- How do the chairman and CEO define quality participation and contribution? Are those expectations clearly communicated through an effective induction process and measured through a regular individual and collective board evaluation process?
- Are the board's policies and practices as rigorous and effective as they should be? Beyond the mere meeting of regulatory requirements, does the board use its experience and expertise to help drive company performance?
- How does the Nominations Committee assess the competencies and skills needed for the board given the company's particular opportunities and challenges, and how does it identify potential board members in a way that goes beyond the "usual suspects"?
- Are there well-defined boundaries between the board and the executive team so that oversight does not encroach upon operations?
- Does the board have the strength and depth to steer the company through a financial crisis, a reputation- damaging event or sudden CEO resignation?

Elements Of High Performance

While each company will answer these questions differently, our experience in working with boards suggests that high-performing boards focus on a common set of tasks, which include the following:

- Responding to executive strategy and contributing to rigorous debate. (The board brings fresh perspectives; it does not originate strategy.)
- Monitoring the implementation of the strategy through the operational plans.
- Overseeing the quality of leadership and management, ensuring that individuals are developed and that effective succession plans are in place.
- Maintaining a governance framework that adds value to the business.
- Safeguarding the company's values and reputation.

Characteristics Of The High-Performing Board

What do boards need to be able to successfully accomplish these tasks and meet the expectations of their various stakeholders? We find that the best boards have four common characteristics:

- **Clarity regarding role and focus:** High-performing boards begin with a clear understanding of their role, scope of responsibilities and expected contribution to the long-term success of the company. Some boards have a formal charter that covers these points and which can serve as a touchstone to ensure continuity and common understanding.
- **An effective chairman:** The chairman sets the board's tone and direction as well as its performance culture. He or she creates the appropriate environment for full engagement by all members of the board, drawing out opinions and shaping discussions of sensitive issues. Beyond the board and committee meetings, the most effective chairmen spend time with their NEDs individually—as frequently as once a quarter—to ensure that issues are discussed, performance is assessed, and timely and effective contributions are encouraged. The chairman manages the process of integrating NEDs and executives into a cohesive team in which all parties are aware of their responsibilities and boundaries. Finally, effective chairmen have established an open and honest relationship with their CEO based on mutual trust and understanding.
- **A balanced board team:** A board is only as good as its members—particularly the NEDs, who bring the

It is no secret that boards have become more demanding of CEOs in recent years, as the declining average tenure of CEOs clearly shows. At the same time, however, CEOs are becoming more demanding of their board members—particularly of their non-executive directors (NEDs), who are looked to for their independent judgment and perspective on both short-term and long-term strategic issues. CEOs are demanding that boards fulfil their governance duties efficiently, while supporting the building of the senior executive team and guiding succession planning.

outside perspective and judgment on which the board's oversight function is predicated. And like many things in business, recruiting the right NEDs is something that is easy to talk about but hard to execute. A high-performing board includes NEDs who can provide broad strategic perspective while also bringing their specific experience and expertise to bear on boardroom issues ranging from the environment and climate change to globalisation. And high-performing boards are balanced not just with respect to expertise but to temperament as well, mixing analytical thinkers with visionaries, conciliators with challengers. Once the team is built, the chairmen of high-performing boards spend considerable effort integrating their NEDs and executive members: holding committee meetings the day before the board meeting, blending social interaction with substantive discussion at board dinners and, as ever, encouraging participation. Indeed, the conversation between the CEO and the board should be fluid and ongoing. The CEO needs to be comfortable with using the group as a sounding board for ideas in their formative stage, so that he or she can get the full benefit of the board's expertise.

- **A culture of trust and respect:** A board is not a collection of individuals and talents but a team. For it to function as such, effective chemistry, candid communication and mutual respect are critical. This ensures that probing questioning, constructive criticism and challenging debate can take place between the NEDs and the executive team. It is through what one chairman calls "the bit of thrust", that the company truly reaps the benefits of an engaged board.

Quality Control Through Practices And Processes

In the past, many companies relied on the chairman's force of personality to determine and enforce the board's standards and practices. The increasing scrutiny of board performance, however, is placing an emphasis on the establishment of certain key processes that provide a framework for consistency and excellence. These processes include the following:

- **An agenda:** A transparent rolling board agenda that includes financial, strategic, governance, operational and human capital issues provides the structural framework for the board's oversight. Agendas should be flexible enough to recognise that issues evolve in real time rather than neatly fitting the board's calendar and should allow for board members to bring forth unscheduled topics. A good chairman is also continually assessing the board's preparedness for the unexpected, introducing discussion of hypothetical scenarios (a hostile takeover, a financial markets crisis and so on) at appropriate points. The board agenda should both inform and be aligned with the Executive Committee agenda and should be accompanied by the appropriate documentation and data to allow for informed discussion.
- **An annual calendar:** This document ensures that certain big-picture items, including long-term planning, strategy, operational plans and performance, succession planning, crisis management and human capital, are discussed by the board on a regular basis.
- **Communications and reporting:** The responsibilities of board committees and their reporting processes must be clear and supported by effective communications among the board, the company secretary and the Executive Committee.
- **Structured engagement:** In order for non-executive directors to make informed contributions, they need to get out of the boardroom and into the business, spending time with executives below the board level. Forward-thinking chairmen have NEDs accompany senior and middle management to meetings and conferences and link together NED management pairs on regular tours out in the field. Asking NEDs to give a short report at each board meeting regarding their engagement activities and learning adds an effective element of accountability and peer pressure to the process.

- **Performance measurement and management:** Measuring individual and collective performance is critical. Individual measurement begins with a formal induction and is sustained through regular appraisal processes. The performance of individuals and the board as a team should be validated by benchmarking and verified by independent external specialists.

Conclusion

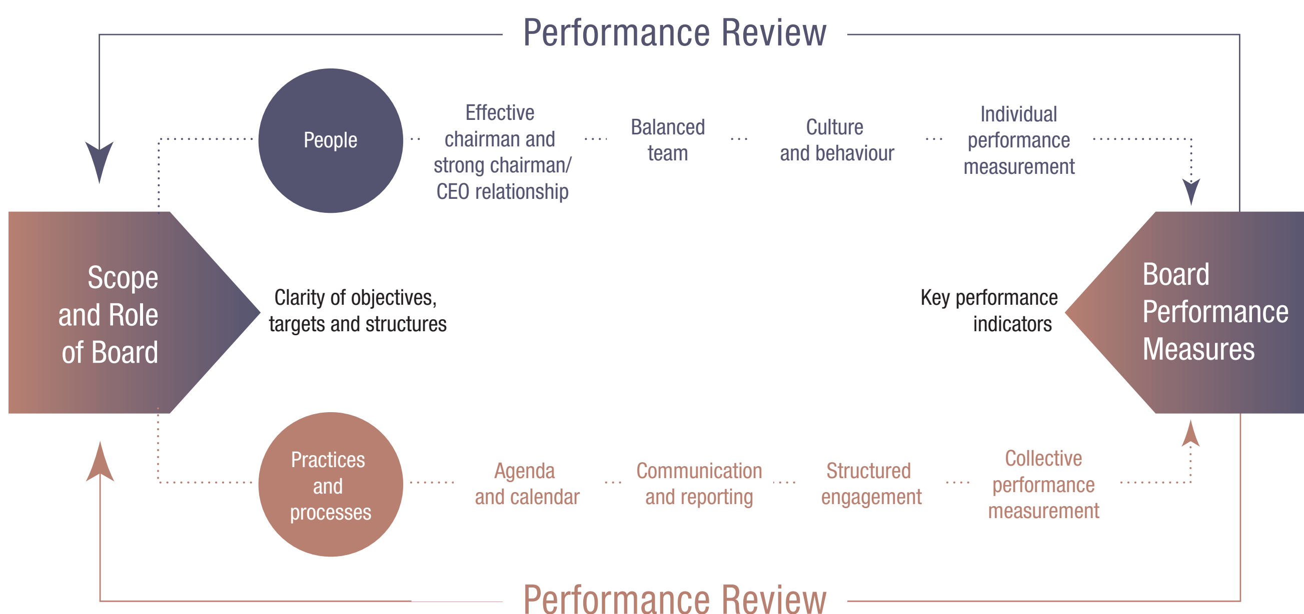
There is no one recipe for having a high-performing board. Our observations suggest, however, that it requires a combination of "hard" components (including robust structures, clear roles and responsibilities, and rigorous processes and administration) and "soft" components (including directors with the right competencies to address the company's short-term and long-term issues and a strong chairman who has a healthy relationship with the CEO and who can establish a culture of vigorous discussion and effective decision making for the entire board).

Both areas require continuous focus and commitment to improve, particularly from the chairman, to ensure that the board's performance bar is raised. In reality, however, too few boards address both components with the necessary sustained rigour. Many either fail to identify and address areas for improvement or fail to commit the energy and resources necessary for real growth. We suspect that some chairmen may still be caught in a comfort zone, insulating themselves from either internal or external pressure to change.

In the current competitive environment, however, those pressures will continue to build—more and more boards are responding by taking a close look at their performance in order to avoid undermining investor confidence, inviting regulatory scrutiny or depriving management of the benefits of quality oversight.

Companies are finding that a formal third-party board assessment and performance benchmarking exercise can provide a helpful first step in moving chairmen and boards outside of their comfort zones and in identifying opportunities for strengthening corporate governance and overall board performance.

We will continue to investigate these corporate governance and board performance issues and share our findings. In so doing, we aim to prompt discussion and, more importantly, action through the adoption of best practices tailored to the unique circumstances of individual companies and their boards. ■



Published by kind permission of Russell Reynolds Associates

©2013 Russell Reynolds Associates, Inc. Russell Reynolds is a trademark of Russell Reynolds Associates, Inc.

Good Governance, Risk And Controls

By David Chew, Executive Director,
Enterprises Risk Services Practice,
Deloitte Singapore

More than a year has come to pass since the introduction of the SGX Listing Rule on the adequacy of internal controls and the 2012 Code of Corporate Governance. A straw poll suggests that most companies did not have difficulties in opining on the adequacy of internal controls over the prescribed risk categories and having a risk governance structure in place. Two common tools that organisations use to facilitate compliance with the risk management and internal control requirements are the enterprise risk management ("ERM") to identify and prioritise risks, and the Control Self-Assessment ("CSA") programme which comprises a bottoms-up controls documentation and assessment, followed by a top-down review and "sign-off".

The traditional ERM as many would call it, presents risks as separate events from a two dimensional points of view. This has been criticised to be overly simplistic given the complexity and the interrelationship of various events. The other criticism is that the process tend to focus on the downside risks, with insufficient consideration on how one could leverage or exploit the upside risks.

CSA approaches range from non-interactive processes, such as the completion of generic control questionnaires by management and staff, through to highly interactive facilitated workshops. CSA programs are widely used to provide continuous assessment of the state of the organisation's internal controls from the effectiveness and compliance perspectives. There are various methodologies to assess control points at the functional or process level and aggregating the CSA results at an enterprise level. There was, however, no common methodology to assess the overall adequacy of internal controls.

The peculiarity about the stock market is that everyone has the same information but interprets the information differently. Likewise, the concept of risk means different things to different people. Without an anchor, discussions around risk could swing from the mundane day-to-day occurrences to the abstract, leaving both the board and management none the wiser.

This paper discusses some techniques to improve the ERM and CSA processes.

"If a tree falls in a forest and no one is around to hear it, does it make a sound?"

The peculiarity about the stock market is that everyone has the same information but interprets the information differently. Likewise, the concept of risk means different things to different people. Without an anchor, discussions around risk could swing from the mundane day-to-day occurrences to the abstract, leaving both the board and management none the wiser.

Losses usually result from a complex confluence of events, which makes it difficult to predict or model. Most risk management processes adopt a taxonomy-based approach. This is a structured and methodological way to get the risk identification and assessment process started. However, rule-based risk management is not able to contemplate the full spectrum of the outcomes of the risk event (or a combination thereof), nor reduce the impact or likelihood of major disasters.

In order to fully understand the risk so as to treat it effectively, it is crucial to establish the context of the risk using scenario analysis. This involves uncovering and understanding the risks which are embedded within the 4P's – strategic plans, programs, projects and products. Scenario analysis based on consideration of major events and their possible outcomes is useful to assess the organisation's resiliency through a chain of events, and to evaluate the organisation's operations as an integral part of a wider eco system. A holistic picture of the organisation's risk profile could be built by careful selection, construction and analysis of scenarios unfolding over a period of time. In addition, with scenarios being articulated in the form of a storyline, there will be greater resonance with key stakeholders, as compared with discussions centred on distributions, tails and other mathematical constructs. Without proper context, one runs the risk of missing the woods for the trees.

"If you can't measure something, you can't manage it."

By attempting to measure risk using a single impact versus likelihood score, the ERM approach could not reflect the nature of uncertainty, which is better presented as a distribution of different outcomes. This approach is further constrained by our inability to visualise a scenario which we have never experienced, plus not many of us are that statistically inclined to be able to comprehend and distinguish situations with varying degrees of probability. Cognitive bias causes us to be overly confident or optimistic about positive events and underestimate the likelihood of negative ones. This very same bias also causes us to over-value evidence which is consistent with a favoured belief and discount those which are against.

Quantitative models are useful in helping to quantify risks, understand observed phenomena, explore the sources and impacts of the risk; and develop the corresponding mitigation plans. When properly used, models reduce bias and subjectivity from risk analysis. However, with the exception of a minority, not many CEOs understand how risk models work, let alone the board. In this context, one has to guard against the inclination of risk models being overly simplified to highlight limited aspects of complex combinations of exposures. Risk measurement is an applied science that makes the best use of data, the underlying assumptions, parameters and imperfections to derive a set of hard numbers. Risk management, on the other hand, is an art which requires experience and intuition to appraise these hard numbers in the context of the infinite permutations of people, process and systems related issues. Neither should be over emphasised at the expense of the other.

In order to fully understand the risk so as to treat it effectively, it is crucial to establish the context of the risk using scenario analysis. This involves uncovering and understanding the risks which are embedded within the 4P's – strategic plans, programs, projects and products.

By attempting to measure risk using a single impact versus likelihood score, the ERM approach could not reflect the nature of uncertainty, which is better presented as a distribution of different outcomes. This approach is further constrained by our inability to visualise a scenario which we have never experienced, plus not many of us are that statistically inclined to be able to comprehend and distinguish situations with varying degrees of probability.

Whither Control Deficiencies?

The original Internal Control – Integrated Framework by The Committee of Sponsoring Organisations of the Treadway Commission ("the COSO Framework") was first introduced in 1992. With the introduction of internal control certification legislation, such as the Sarbanes-Oxley Act of 2002, the COSO Framework has gained international acceptance as the standard for internal controls.

The 2013 update to the COSO Framework addresses stakeholder expectations related to accountability, governance, transparency and the prevention and detection of fraud, all of which should be issues which are close to the heart of the board of directors. The new COSO Framework articulates the management's responsibility for ensuring that each of the components and relevant principles of internal control which have be present and functioning in order to have an effective system of internal control. There is now guidance on the manner and whether major "deficiency" in a component or principle of control could be mitigated. For instance, an ineffective control environment could lead to the conclusion by the auditor that there was a "significant deficiency" or "material weakness". This approach is not new and has been in use to comply with control certification requirements. With the new COSO Framework, however, there is now an opportunity for wider adoption of the "control deficiencies" concept for assessment and mitigation purposes.

The updated framework contains more explicit guidance on the fundamental concepts that better reflect business realities that did not exist when the original framework was created. The transition period to the updated framework is up to December 2014. This would be a good timeframe for the board to set for the management to "upgrade" the CSA programs to be in line with the new framework.

A Brave New World

Major corporate decisions usually involve significant research, deliberation and due diligence. However, it is submitted that cognitive dissonance will cause the decision-makers to overlook any faults or defects relating to the decision. This is where the oversight function of the board will be best served by directors who ask the right questions. In today's volatile market, boards that ask, "What economic or environmental events could affect this initiative?" may uncover a variety of potential market and environmental risks. However, broadening the question to instead ask, "What could possibly go wrong with this initiative?" may identify a wider range of potential value-destroying risks beyond just those created by the market and environment[1].

The graveyard of former greats is littered with those whose swift fall were attributable to failing to appreciate the magnitude and velocity of the risks, compounded by an inflated sense of self-confidence. On the other end, business school case studies are also filled with those whose inactivity and risk adverseness brought about a slow and painful decline. A responsible and forward looking board would not wish for any of these outcomes to happen under their watch. ■

Quantitative models are useful in helping to quantify risks, understand observed phenomena, explore the sources and impacts of the risk; and develop the corresponding mitigation plans. When properly used, models reduce bias and subjectivity from risk analysis.

1 Directors' Alert 2013 published by the Deloitte Global Center for Corporate Governance.

Rethinking Long-Term Incentive Schemes: Beyond Stock Options

By Towers Watson

There is growing urgency for companies to rethink their long-term incentives for employees. In recent conversations with heads of several companies in South East Asia, we have heard less than encouraging comments about their long-term incentive plans.

In the last two decades, companies have tried to use long-term incentives (LTIs) primarily to achieve two objectives: to focus the work behaviour of the covered employees on the desired performance, and to assist in the retention of executives and other key employees. Historically, the long-term incentive vehicle of choice in South East Asia, including Singapore, has been stock options as there was no associated accounting expense for stock options prior to the introduction of FRS 2, accounting for share-based payments, in 2006.

But, when asked how successful their long-term incentive plans are in achieving the objectives, senior management generally conveyed non-specific or unsatisfactory outcomes. Four responses were common:

- The company's long-term incentive plan is not cost-effective. The company's expense for the long-term incentive plan is more than the employee benefit received.
- We are not sure how much our long-term incentive plan contributes to the retention of employees and/or motivating desired performance.
- Our employees do not view our scheme as "long-term" – disposing of shares when they vest – rather than holding the shares and receiving dividend payments and enjoying future stock price appreciation.
- Our shareholders are not happy with their ownership being diluted by the newly issued shares that are used to fund the long-term incentive plan.

So where do the problems lie?

The subject of LTIs has always been complex. The design, or re-design, of an appropriate and effective long-term incentive plan for an organisation involves the careful consideration of many questions, including:

- What are the appropriate LTI vehicles?
- Are we using the right performance metrics in performance share plans?
- Are we including the right people in the plan?

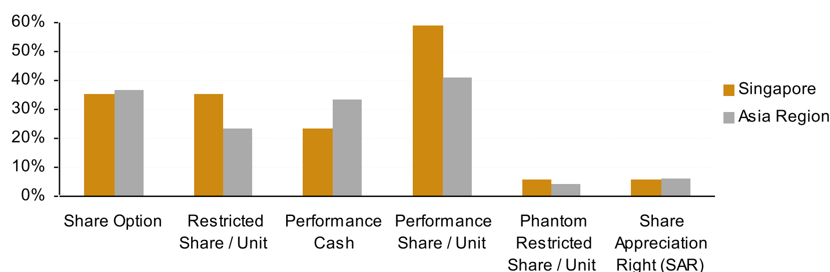
- Has the plan encouraged stock ownership? Should participants be able to simply exercise or cash-out an award without maintaining ownership?
- Have the benefits enjoyed by participants exceeded the expense incurred by the company?
- Do we have a "status quo" plan, i.e. compared to what other companies offer, does the LTI plan allow us to maintain a competitive position?

Comparing LTI Vehicles

Common forms of long-term incentive equity vehicles include stock options, performance shares and restricted share. Each vehicle has its strengths and weaknesses. The right vehicle to adopt depends on the organisation. For example, a high-growth organisation may prefer to use employee stock options plan – which gives employees the right to purchase a specific quantity of shares of the company's stock at a stated price within a set time period – to help attract and retain talent while keeping fixed costs low. A mature organisation may be better served by using performance shares to drive and reward employee performance, which can be measured against predicted performance targets. And an organization facing employee attrition may use restricted stock awards, which vest over a period of time, as a means of retention.

Since the turn of events in 2006, Asian economies, including Singapore, is moving away from stock options towards performance shares, which are generally awarded to senior managers and key employees only if certain company-wide performance criteria are met, such as total shareholder returns (TSR) and earnings per share (EPS) targets. Towers Watson research also points to increased use of restricted shares, which are granted with restrictions on the vesting period. The popularity of performance share and restricted share plans stems from the ability of such plans to motivate and reward performance, create ownership and limit dilution.

Figure 1. Long-term Incentive Plan Vehicle Prevalence*



** Data taken from Towers Watson's 2011 Asia Incentive Plan Design Survey - Singapore*

Performance Measurement

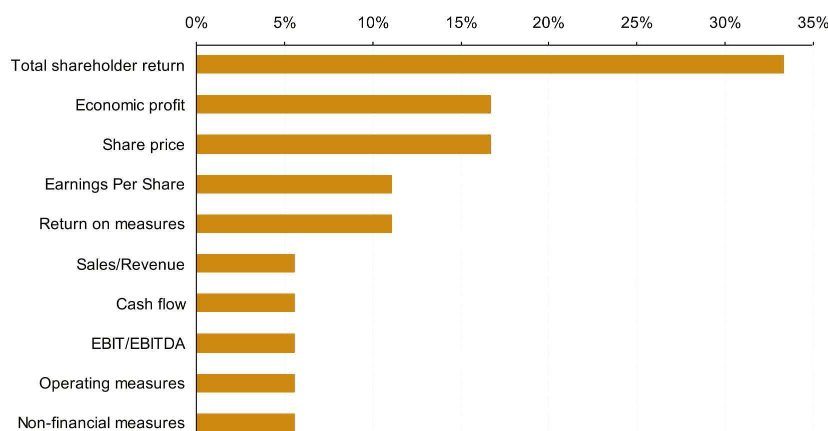
Responding to shareholder concerns about pay-for-performance, companies have continued to explore additional performance metrics. One of the most challenging tasks of a remuneration committee today is determining the performance metrics for a plan. Selected measures must be both meaningful and achievable. Performance measures that are unrealistic or not within the control of participants do little to influence desired behaviours. For example, while EPS is a common metric, some argue that it is an unstable measure. Earnings per share may rise or fall, due to uncontrollable external business factors like changes in the worldwide prices for raw materials.

An interesting insight from Towers Watson research is that in terms of compensation mix, high-performing companies place greater emphasis on long-term incentives than what is typical in the market. They also rely on at least two performance metrics in their LTI plans.

Based on Towers Watson's 2011 Asia Incentive Plan Design Survey, total shareholder return (TSR) is the most popular metric in all markets in Asia except Mainland China and South Korea where net profit and sales/revenue are most popular respectively. In the US, the prevalence of TSR as a metric in long-term performance share/cash plans has surged by about 30% in the past two years and the metric was used by more than one-third (35%) of companies in 2011. TSR is a measure of share price performance and dividends paid over a period of time to show the total return to the shareholders.

The selection of performance metrics is ultimately a matter which warrants serious consideration by the Board as metrics appropriate to one company

Figure 2. Prevalence of Performance Metrics in Long-term Incentive Plans in Singapore*



** Data taken from Towers Watson's 2011 Asia Incentive Plan Design Survey - Singapore*

In the last two decades, companies have tried to use long-term incentives (LTIs) primarily to achieve two objectives: to focus the work behaviour of the covered employees on the desired performance, and to assist in the retention of executives and other key employees. Historically, the long-term incentive vehicle of choice in South East Asia, including Singapore, has been stock options as there was no associated accounting expense for stock options prior to the introduction of FRS 2, accounting for share-based payments, in 2006.

may not be suited for another. Factors influencing choice of metrics include but are not limited to industry differences, company development stage and ownership structure.

Eligibility

The choice of participants in the long-term incentive plan is an important decision which must be carefully modelled based on the amount of equity available. Some companies, in trying to be inclusive, make the mistake of including too many people. This results in a limited number of shares being spread over a large number of people and the value of each award becomes too small to motivate or drive the right behaviours. Actually, this is an inefficient use of the company's reward dollars.

This problem is somewhat mitigated by the introduction of an accounting expense for all equity awards. As a result, more companies have focused their long-term incentive plans on a selected group of senior executives and key employees who can directly influence company performance. This is the case for Singapore where most companies would only limit the participation to Senior Management and selectively to high potential/performing employees.

Reasonable Performance Period

How long should the performance period be? The general practice and most commonly seen arrangement in Singapore when designing long-term incentive plans is to set the performance period at three years. But some CEOs argue that it is difficult to set achievable goals for a multi-year period because their businesses change too frequently. Then should the performance period be flexible, depending on industry and business strategy? For example, a shorter time period of two years may be appropriate for a start-up or a company in the high-growth stage, or an organisation undergoing radical changes such as merger and acquisition.

For other companies, setting a performance period of three to as long as five years may be necessary to ensure participants don't take a short-sighted view and will be driven to work for the long-term financial success of the organisation.

The Question Of Leavers

It is a fact that in spite of the best intentions of the company, employees do leave. How will their long-term incentives be affected when they leave? Typically, companies give "good" leavers a pro-rata benefit while "bad" leavers forfeit their future entitlements. Companies have to consider if such an approach is consistent with the objective of key employees retention.

Performance reward is a sensitive issue. Experience shows that shareholders do not mind rewarding performance but are concerned and even outraged when they perceive that poor or inconsistent performance is rewarded.

Performance share plans are becoming a key component of senior executive compensation today. In designing performance share programmes and other long-term incentives, companies need to be careful that their long-term incentive plan supports a sharp focus on performance and aligns executive behaviour with shareholder interests.

The right long-term incentive plan for an organisation is one that drives high performance and contributes to overall business goals including sustainable long-term growth. Achieving this requires thoughtful consideration and precision in the design process. ■

Figure 3. Long-term Incentive Plan Eligibility and Participation in Singapore*

	Eligibility, % of Companies	Participating, % of Companies
Group CEO/ Chairman	96%	67%
Direct reports to CEO	89%	63%
3rd tier executives (and equivalent)	74%	52%
Management	44%	30%
Non-management	19%	11%
Clerical/ Support staff	15%	7%

** Data taken from Towers Watson's 2011 Asia Incentive Plan Design Survey - Singapore*

FEATURE

Guidance Note: Cyber Risk

By The Institute of Chartered Secretaries and Administrators

Introduction

The internet provides a largely anonymous and cost-effective method for those involved in organised crime, economic espionage, and other adversaries, to damage or embarrass companies. Those engaged in cyber attacks aim to secure economic advantage by stealing financial assets, intellectual property or critical information. This can be from a single serious event or a sustained attack over a period of time, sometimes years. The impact on a company as a result of being targeted in a cyber attack, including the impact on its reputation, can be catastrophic.

Managing cyber risk is a business-critical activity, and cannot be regarded as simply an IT issue. Cyber risk is different from other types of risk because of the rapid evolution of technology and the resulting fundamental changes in the way business is conducted. Boards will need to think differently and consider taking wider advice, to ensure they fully understand the issues faced by their company in order to manage the risks appropriately.

Issues For Boards

Security breaches within UK companies, large and small, continue on an upward curve. Of those organisations that responded to a 2013 survey, 93% of large organisations and 87% of small businesses experienced a security breach in the past year, with the main reason for the increase being cyber attacks. The cost of cyber security breaches against British business has tripled in the past year and amounts to billions of pounds annually.[1]

Key cyber adversaries include:

- **organised crime** by cyber criminals engaged in fraud or obtaining money or valuable information;
- **employees** who can cause damage by accident, or by deliberate and malicious misuse;
- **competitors** or foreign intelligence

Managing cyber risk is a business-critical activity, and cannot be regarded as simply an IT issue. Cyber risk is different from other types of risk because of the rapid evolution of technology and the resulting fundamental changes in the way business is conducted. Boards will need to think differently and consider taking wider advice, to ensure they fully understand the issues faced by their company in order to manage the risks appropriately.

services that are interested in gaining economic advantage for their own companies or countries;

- **computer hackers** who enjoy the challenge of this activity; and
- **hacker activists** ('hacktivists') who wish to attack companies for political or ideological motives.

Cyber attacks are often public – but they are frequently not made public in circumstances such as where an organisation is blackmailed or defrauded. Attacks can be carried out entirely remotely, and companies may not be aware that they have been attacked for some time after the event. Some may never be aware they have been attacked. The threat of attacks from other nation states is growing rapidly as the capability of other countries to carry out cyber attacks increases.

Companies need be on the 'front foot' in terms of cyber preparedness, with the board having a firm grasp of the risks, to ensure a proportionate, business-wide, risk management-based response. The cyber threats facing businesses and their supply chains cannot be prevented through investment in technology alone. It requires comprehensive risk assessment processes to identify and prioritise the protection of critical information assets. Boards, with the assistance of the audit committee, should provide ultimate oversight of strategic and operational cyber risks, as they do other key risks.

Boards might find it helpful to focus on the following points:

- **Understand your company's cyber risk.** It is very specific to an individual organisation's situation, even within a single market sector.
- **Make an active decision** as to the balance between the risk the organisation is prepared to take, and the costs to be incurred in targeted spending, to protect the organisation from cyber attack.
- **Plan for resilience.** As threats become more sophisticated, focus on resilience to attacks that get through, rather than preventing all cyber attacks.
- **Be clear** who is responsible for owning the risk, allowing for the dynamic and sometimes targeted nature of a cyber threat. Boards may consider giving one director specific responsibility for oversight of cyber risk.

Why Cyber Risk Is Different From Other Risks

The risks associated with cyber activities are relatively new, and boards are unlikely to have a comprehensive understanding of the issues or have past experience of dealing with such risks. As a result of the growth in internet trading in recent years, companies may not be aware of their level of vulnerability. There is little sharing of information on cyber attacks between organisations and, unlike other risks, there are active enemies directing their activities towards damaging companies. As a consequence, boards may need to spend more time ensuring they are fully informed, and have a complete understanding of the cyber risks faced by the company. Boards should be aware that, if their strategy is dependent on technology, which is increasingly the case, the stability of the company's operations is at risk from cyber attack.

Without a full understanding of the risks, companies may focus their attention and spending on areas that do not reflect the greatest risks. A lack of understanding of the issues often results in an inappropriate response, such as simply increasing levels of IT security. Robust IT security needs to be combined with a properly-structured control environment.

Assessment And Management Of Cyber Risk

The business case for managing cyber risk is clear. A comprehensive, business-wide risk assessment is critical, covering both current and emerging risks. The risk profile will be different for all organisations, and risks should be assessed as both strategic and operational. The level of risk tolerance a company is prepared to accept should be set by the board and this, together with the management of cyber risks, needs to be based on full information on the vulnerability of the company, and the consequences of cyber attack. Resources can then be deployed in the most crucial areas and in the most cost-effective way. Control procedures should be monitored and reviewed regularly by the board to assess their effectiveness, and should include the appointment of key risk individuals who are ready to respond quickly to minimise the consequences of any cyber attack. Regular assessment of identified cyber attacks will show where internal controls and procedures have broken down and need to be improved.

Security breaches within UK companies, large and small, continue on an upward curve. Of those organisations that responded to a 2013 survey, 93% of large organisations and 87% of small businesses experienced a security breach in the past year, with the main reason for the increase being cyber attacks. The cost of cyber security breaches against British business has tripled in the past year and amounts to billions of pounds annually.[1]

Understanding Cyber Risk

The main challenge is that there are many types of cyber risk, and each company will have a different combination of risks associated with their specific cyber threat. Set out below are five categories of cyber business risks, which can occur separately or overlap.

- **Censure And Embarrassment**

  This impacts the company's brand through negative publicity, and can cause a major disruption to strategy. It is most relevant in highly visible industries such as retail, finance, media, or law and can be as a result of hacktivism. Regulated industries may also suffer additional negative publicity as a consequence of subsequent regulatory censure.

- **Client Loss**

  A reduction in revenue can result from customers abandoning and/or suing the company following a loss of service or confidential information. Sectors where companies store information on behalf of customers, such as IT or professional services, or any retail business, are most at risk from client loss.

- **Direct Fraud**

  Theft of money or digital content by electronic means is most relevant to financial services operations and those whose products can be copied online, such as media and software companies. Examples are the stealing of card numbers to withdraw cash, or copying music.

- **Sabotage Or Disruption Of Business Operations**

  This most commonly manifests itself as the disruption of services to customers, and sometimes involves blackmail of online businesses. There is also the possibility of cyber terrorism against industrial organisations such as energy and utilities, where control systems are connected to the internet.

- **Cyber Espionage**

  The silent copying of information for commercial purposes is most relevant to industries with high research and development costs, such as high-tech manufacturing, aerospace and software. It can also affect companies competing for high-value contracts in areas like construction or mining. Any company involved in merger and acquisition activity is vulnerable.[2] This is typically not reported directly but is common and large-scale.[3]

Assessment Of Risk

- Initial assessment of the organisation's risk profile, and whether it is particularly vulnerable to attack, is crucial. Companies may not have sufficient experience internally to gain this full understanding and find appropriate solutions, so it is often beneficial to include external advice as part of the assessment. Any reports received from external advisors should be clearly written and easily understood by all.
- Risk assessment should be carried out across the whole organisation, to assess the overall risk and identify specific areas at greatest risk. Internal functions such as HR, finance, legal and marketing may not appreciate the extent to which critical information is at risk, nor realise the potential impact of a cyber attack on their organisation.
- Risk assessments need to concentrate on the threat to the protection of information, including customer data, and focus on the potential consequences which include losses from a substantial interruption to online transactions. The potential for the destruction of corporate value should not be underestimated.
- Assessment should include the risks of using third party providers and the company's supply chain. Outsourcing can sometimes be a more secure option, but it requires thorough due diligence in advance. Service providers may hold a great deal of valuable company information, so adversaries can obtain information without the need to attack a company directly. It should be remembered that, whilst companies can outsource activities, the risks, and the consequences, remain with the company.
- Risk reports and risk registers provided to the board and audit committee should include full and comprehensive information. Reports should reflect a fuller understanding of the impact of a cyber attack, including the wider impact on future strategy. As with all information received by the board and board committees, the company secretary has a role in ensuring the

quality and quantity of information provided on cyber risk. It is essential that the risk function ensures the risks identified are communicated and understood by all areas of the organisation that could be affected by the risks, and that the board's priorities for mitigating cyber risks are communicated to all business areas.

Action For The Board And The Audit Committee

Boards need to ensure all aspects of effective governance are in place, which includes receiving full information and having clear oversight of the cyber risks faced by the company. The board should speak directly to the Chief Risk Officer, or equivalent, who should have a good understanding of the cyber attacks being experienced across all parts of the business. Day-to-day control of cyber risks should not be left to the IT department. The Board should challenge those responsible for cyber risk to satisfy itself that a thorough assessment has been carried out and that risk management procedures are robust.

When reviewing the risk assessment, the board and audit committee should focus on the consequences of a cyber attack. The key risks to the company need to be assessed and priority given to risks of strategic importance and those with implications for the company's reputation, together with risks involving contractual issues, and the possibility of exposure to regulatory breaches. However, information received needs to be considered in the context of future strategy, to obtain a clear picture of the risks to the company from cyber attack.

Boards may wish to challenge management to be able to answer the following key questions as they seek to improve their cyber security:

Protection of key information assets is critical

- How confident are we that our company's most important information is being properly managed, and is safe from cyber threats?
- Are we clear that the board's directors could be key targets?
- Do we have a full and accurate picture of:
  - the impact on our company's reputation, share price or future survival, if sensitive internal or customer information held by the company were to be lost or stolen;
  - the impact on the business if our online services were disrupted for a short or sustained period?

Exploring who might compromise our information and why it is critical

- Do we receive regular intelligence from the Chief Risk Officer (or equivalent) on who may be targeting our company, their methods and their motivations?
- Do we encourage our technical staff to enter into information-sharing exchanges with other companies in our sector and/or across the economy, in order to benchmark, learn from others and help identify emerging threats?

Pro-active management of the cyber risk is critical

Cyber risk potentially impacts share value, mergers, pricing, reputation, culture, staff, information, process control, brand, technology, and finance. Are we confident that:

- we have identified our key information, and thoroughly assessed its vulnerability to attack;
- responsibility for cyber risk has been allocated appropriately on the risk register;
- we have a written information security policy in place, which is championed by us and supported through regular staff training;
- the entire workforce understands and follows the policy?

Do we understand the consequences of failure:

- to the company's financial stability;
- to the company's brand and reputation;
- to the company's future strategy; and
- to the potential for corporate failure? ■

[1] 2013 Information Security Breaches Survey: www.gov.uk/government/publications/information-security-breaches-survey-2013-technical-report.

[2] http://bloom.bg/1axVdsb

[3] http://bit.ly/10zlPYI (Paragraphs 25 and 26)

The information given in this Guidance Note is provided in good faith with the intention of furthering the understanding of the subject matter. While we believe the information to be accurate at the time of publication, ICSA and its staff cannot, however, accept any liability for any loss or damage occasioned by any person or organisation acting or refraining from action as a result of any views expressed therein. If the reader has any specific doubts or concerns about the subject matter they are advised to seek legal advice based on the circumstances of their own situation.

Copyright © The Institute of Chartered Secretaries and Administrators, 2013

Welcome Aboard

September 2013

Asherson	Jonathan	Jin	Lu	Sim	Peck Hong, June
Chew	Chih-Lin David	Lalvani Sujan	Reshma	Tan	Jonathan Joseph
Chin	Koon Yew	Lim	Hup Seng	Tan	Steven
Chin	Wei Yao	Lim	Seng Bin	Vu	Nghia
Chong	Chow Pin	Ng	Yeau Chong	Zang	Jian Jun
Ho	Choon Hou	Pedersen	Allan		

October 2013

Chai	Chung Hoong	Lai	Chin Yee	Soponpinij	Vaewmanee
Chhabra	Vivek	Lee	Chee Yeow, Francis	Suzat	Alexis Dominique
Choi	Siu May	Lee	Gerald	Tan	Cheong Hin
Chow	Lucas	Lee	Peter	Tan	Kia Hwee
Chow	Pei Pei Cindy	Lim	Jo See	Tan	Seng Chai
DeSantis	Jean	Lim	Kok Hooi	Tan	Suee Chieh
Foley	Matthew Timothy	Ng	Lee Hoon Amy	Tan McCully	Mei Wan Genevieve
Fong	Hean Chuan	Ng	Wee Wei	Tay	Boon Hwee Ronald
Fu	Robert Qiguo	Phua	Stephen	Teng	Boon Keng
Goh	Jin Hian	Poh	Teck Heok	Teo	Karen
Goh	Wing Sun	Reynolds	Adam James	Tham	Kuo Wei
Hamilton	Travis	Saw	Kok Wei	Whitmore	Kevin
Hiew	Yoon Khong	Sim	Soon Ngee Glenndle		
Hui	Wesley	Soh	Desmond		

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

The Paperless Meeting for Boards and Leadership Teams

Meeting Center
Instant access to all meetings

Secure Briefcase
Download materials for offline viewing

Annotations
Notes and highlights, freehand or pushpins

Presenter Mode
For improved meeting flow

eSignature
Sign from your iPhone or iPad

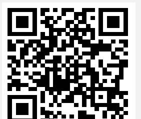
Remote Purge
In case of loss or theft of device

www.boardvantage.com

BoardVantage
4300 Bohannon Drive, Suite 110
Menlo Park, CA 94025 USA

Hong Kong
8/F, Cambridge House, Taikoo Place
979 King's Road, Island East
T +852 2293 2698 | F +852 2293 2699

Australia
Level 25, Aurora Place, 88 Phillip Street
Sydney NSW 2000
T +62 2 8211 0679 | F +61 2 8211 0555



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.