Director's Quarterly *update*

Deloitte Singapore
Issue 3, December 2015

Through the eyes of the board

Deloitte.

Contents

The Director's Quarterly is an e-publication aimed at exploring the challenges of practicing corporate oversight and governance in a world of change, and helping directors increase their relevance of the role they play and the work they do to ensure that their companies continue to create value for their stakeholders. There are no easy answers, but through this e-publication we hope to promote a dialogue in the critical areas of corporate governance among industry bodies, companies and their boards of directors.

Welcome

Seah Gek Choo
Deloitte Singapore Centre for Corporate Governance
Co-Leader & Talent Partner

In this issue, we look at why boards need to ensure that their organisation develops new approaches to managing talent that more closely integrate its human resource strategies with its workplace and business strategies to compete in this "new world of work".

We also look at why companies should increase their focus on stakeholder engagement strategies, which is an opportunity both to inform and educate key shareholders as well as to get feedback from them. Good engagement practices provide the board with valuable feedback about shareholders' priorities and concerns.

Next, we explore tax policy issues that may concern the newly appointed Finance Minister Heng Swee Keat who will chair "The Future Economy" committee which is timely in the face of a weakened global economy and a review of the policy measures instituted since 2010.

We round things off with our views on the impact that digital technologies have on businesses in two areas – customer service and delivery of products and services. These perspectives can equip boards with a better understanding of how their organisation's technology strategy is integrated into the overall business strategy.

We hope that these thought-provoking pieces can help you find better ways to successfully navigate the complexity of today's business environment. For more information on Deloitte's Centre of Corporate Governance, please click **here.**

We welcome your thoughts on any of the pieces or suggestions on future topics at **enquiries@deloitte.com.**

Kind regards,

Gek Choo

Managing talent in the new world of work

"As the rate of technological advancement increases, coupled with ever increasing competition in the marketplace and a rapidly evolving workforce, the role of human resources has never been more important. Boards need to place a focus on monitoring the organisation's human resource strategy and HR's shift from being an administrator to a business advisor. Transforming HR away from its traditional focus to a more strategic role will be challenging but this also means there are more growth opportunities for CHROs and HR to pursue."

Seah Gek Choo, Deloitte Singapore Centre for Corporate Governance Co-Leader & Talent Partner

Technology, globalisation and demographic shifts are rapidly and significantly changing the nature of work – and the requirements of the workforce itself.

To compete in this "new world of work," boards need to ensure that the organisation develops new approaches to managing talent that more closely integrate its human resource strategies with its workplace and business strategies.

Just as digital technologies are disrupting long-standing business models and transforming industries virtually overnight, they are beginning to have an equally big impact on the workplace. Information technology and robotics have already started replacing people in many jobs, and some studies suggest they may replace 80 percent of current jobs over the next two decades, which would be the greatest transformation of the labor market since the industrial revolution[1]. In addition, new jobs are fast emerging – already, some of today's most in-demand jobs are ones that were virtually unknown just five years ago, such as cyber security specialists, chief innovation officers, data scientists, big data architects, social media managers, and cloud service specialists.

Technology is also transforming the way people work. Mobile technologies have freed many employees from the need to come into the physical workplace to perform their jobs, in many instances creating a win for both workers and their employers. Workers appreciate the flexibility of working when and where they want, in many cases avoiding the necessity of commuting. Organisations benefit from a more engaged and productive workforce and, with fewer people coming into the workplace, they are also able to reduce their real estate footprints.

Globalisation has led to a variety of different service delivery models. Many organisations have growing global footprints – and increasingly multinational workforces – as they both near and offshore their operations to take advantage of increasingly skilled and affordable talent in emerging markets.

In many jurisdictions, demographic shifts are creating the most diverse workforce in history, whether measured by gender, ethnicity, age, or other characteristics. Currently, four generations are active in today's workforce – with a fifth soon to enter it – and each has its own expectations and priorities, and organisations need to manage all of them coherently and cohesively. In this complex and volatile work environment, as part of their oversight boards should be aware of these key challenges facing the organisation.

[1] "Anticipating a Luddite Revival," by Stuart W. Elliott, Issues in Science and Technology, Volume XXX Issue 3, Spring 2014.

Leadership development and succession

Succession was once viewed as an occasional event to be managed when a person – especially a CEO – retired or otherwise moved out of a role. In today's work environment, where executive tenures are becoming shorter, organisations cannot afford to have their business plans and longer-term strategic aspirations disrupted by someone unexpectedly vacating a position. Many boards, therefore, now view leadership development as both an ongoing process and one that extends below the c-suite into middle management.

Just as technology, globalisation and demographics are dramatically changing the nature of the workforce, they are also rapidly changing the mix of skills and other attributes needed to lead that workforce. To succeed today, leaders need to lead differently than their counterparts did in the past, just as the leaders of tomorrow will likely be different than those of today.

For these reasons, succession planning for CEOs and their leadership teams cannot be postponed until they are ready to leave; instead, many boards expect CEOs to begin working with the board to plan their succession the day they step into their roles. Leaders need to develop successors whose skills fit the new world; they need increased agility, greater collaboration, and a higher focus on developing talent capabilities. Some boards expect their leaders to not only help identify, develop and mentor in-house candidates to succeed them, but to also continuously monitor the outside competition so they also know the best external candidates.

In order to carry out their responsibility for managing CEO succession, boards that have not yet done so should also adjust their scope to ensure that they have a line of sight to middle management and that they regularly assess the strength of the organisation's leadership bench and the candidates in its leadership pipeline as well as the leading outside candidates.

HR transformation

In most organisations, the human resource function will need a makeover if it is to contribute effectively to managing the organisation's future talent needs. Many HR functions remain rooted in activities of the past – doing the same things in the same way that they have done for decades.

Despite technology's transformation of much of the workplace, it is slow to impact the HR functions of many organisations. Technology would automate many traditional HR activities, such as performance management and other core HR activities and make them self-serve, allowing HR to shift its focus from administering personnel to providing insights to management.

Using data analytics, HR functions could broaden their understanding of the business strategy to better prepare leaders, better understand where the organisation will find the workforce of the future, and more clearly identify the risks to that workforce, in particular retention risk.

Developing a mobile and social strategy for the HR function would also enable it to work differently and more efficiently – for example, leveraging social media to help build the organisation's brand both internally and externally.

Management needs to maintain an outside-in perspective of what might disrupt the business, its medium to long-term strategy, and its workforce. HR functions should play a leading role in helping CEOs and management understand how to solve business problems through innovative talent strategies including how jobs are being designed, the type of jobs the organisation will need in the future, and where those jobs will be located and performed.

Boards should maintain an open dialog between them and management around talent and workplace issues and see that the human resource function is playing an appropriately strategic role to ensure that the organisation has the right people to achieve its objectives today, and that it will be able to attract and retain workers with the expertise required in the future as the organisation evolves.

Many boards view leadership development as an ongoing process that extends below the C-suite.

Proactive engagement: Building stronger relationships

"When a company develops a healthy relationship with the investor community, it creates for itself increased access to capital. The community of investors looks at the company as a worthwhile investment opportunity when it gives back to its investors – not just in profits, but also in financial security and information. The conversation is by no means one-sided. Investors do have the opportunity to give back to the company and express their views."

Philip Yuen, Chief Executive Officer, Deloitte Singapore

Companies today are seeking greater engagement with their shareholders in response to increasing activism among shareholders, legislation in giving shareholders a greater voice in companies' activities.

Shareholders need information that enables them to understand an organisation's governance policies, performance, business objectives, and key risks. While some of that information is provided in a company's regulatory disclosures, those disclosures rarely satisfy most shareholders' needs. The Governance and Transparency Index (GTI) assesses the financial transparency of companies based on their annual announcements, and is published by NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) in collaboration with CPA Australia. Investors can access the GTI on the Singapore Exchange's (SGX) website, allowing them to better assess how their portfolio companies stack up in terms of governance.

Good engagement practices provide the board with valuable feedback about shareholders' priorities and concerns.

Proactively engaging shareholders to better ensure they have the information they need helps companies strengthen their relations with shareholders by building trust and credibility, which can be of significant value to the company in the event of a hostile acquisition attempt or other crisis as well as during normal business conditions.

Good engagement practices also provide the board with valuable feedback about shareholders' priorities and concerns. Traditionally, the board has been responsible for approving the company's communications and/or disclosure policy, while delegating its implementation to management. Boards should look at where management has positioned shareholder communications on a continuum between reactive or passive compliance-based communications on one end, and proactive shareholder engagement at the other. The board will want to be satisfied with where management has positioned the company's communications, and that the company's key shareholders also agree with that positioning.

Management, through the company's Investor Relations (IR) function, has traditionally provided "education" for shareholders on the company's performance, operating results, long-term strategies, principal business risks, competitive positioning, and other matters. However, the IR function might not be as well positioned to engage with shareholders on governance issues. Some companies have implemented a governance function, often through the corporate secretary or general counsel, to lead engagement on governance matters, and increasingly boards are taking a heightened role in directly engaging shareholders, especially around topics such as executive compensation and board composition.

With the responsibility for shareholder engagement shared among different groups, it is important that these groups' activities be coordinated and supportive of each other so shareholders do not receive inconsistent or contradictory information about the company. Accordingly, boards may wish to create a shareholder engagement policy that provides a framework for topics appropriate for discussion with shareholders (and those that are not), identifies who within the company should engage shareholders on a given topic, and sets out a process for addressing specific concerns.

As more companies expand their outreach to shareholders, there is some concern that investors' bandwidth may become overloaded. If so, companies will need to be increasingly innovative to ensure their messages get through. Timing and persistence is also essential for a successful engagement program.

Companies that take a reactive approach to shareholder engagement - reaching out to shareholders only when a critical shareholder proposal or other issue arises - may not be successful in engaging their shareholders when they need their support. Companies, therefore, should view shareholder engagement as a proactive, ongoing activity to be maintained particularly outside the annual meeting season so that shareholders will have more time to engage and respond to companies' requests, and there is time to build mutual trust and respect.

Timing and persistence is essential for a successful engagement program.

Boards that choose to engage directly with shareholders on governance issues may need to provide directors with additional education on corporate governance and related topics so they clearly understand the company's position and can speak knowledgeably about it. Directors may also need public speaking training and be sure they understand legal concerns that are designed to prohibit the selective disclosure of material information.

Tax considerations for Singapore’s future economy

By Low Hwee Chua, Head of Tax Services, Daniel Ho, Tax Partner & Chua Kong Ping, Tax Senior Manager

“The tax law changes resulting from the OECD’s work will introduce a host of new issues and challenges for business. With new regulatory rules being introduced more or less simultaneously across many jurisdictions the volume of change puts pressure on the agility of businesses to modify their systems and processes in a timely manner and increases the risk of inadvertent non-compliance. Companies who operate decentralised business models may be particularly vulnerable to this.”

Low Hwee Chua, Head of Tax Services, Deloitte Singapore & Southeast Asia

The announcement of "The Future Economy" committee chaired by new Finance Minister Heng Swee Keat is timely in the face of a weakened global economy and the review of the policy measures instituted since 2010 can certainly help chart the direction of Singapore's economy to SG100.

So what are some of the tax policy issues that the Finance Minister and his team may be concerned about?

Fine-tuning productivity tax benefits

A central tenet of Singapore's economic restructuring is to raise the productivity of enterprises and workers so as to reduce the country's dependence on foreign labour. The accompanying fiscal policy response was the Productivity and Innovation Credit (PIC) Scheme, which provides significant tax deductions for investments in a broad range of activities along the innovation value chain.

To-date, indicators on the efficacy of the PIC scheme in promoting productivity and innovation are not encouraging. Figures from the Department of Statistics show productivity gains sliding into negative territory in 2012, 2014 and in the first half of 2015, following a promising 2.3% year-on-year growth in labour productivity in 2011.

Likewise, only 1 per cent of PIC claims in year of assessment 2014 relate to initiatives that are largely research and development (R&D) in nature, although the amount of R&D spending claimed makes up 17% of the total PIC expenditure[1]. The majority of PIC claims (97% of all claims and 77% of total expenditure) relate to acquisition and leasing of automated equipment such as computers and servers, as well as staff training.

Given its high price tag (approximately $9.1 billion over eight years), one area of focus for the committee may be to examine the effectiveness of PIC in promoting productivity and innovation. The committee may also wish to mull over whether future productivity enhancement incentives should include some measure of accountability on the part of businesses to actually achieve productivity growth; after all, buying a new laptop does not necessarily make one more productive.

Furthermore, companies that claim PIC on R&D spending have come under intense scrutiny from the Inland Revenue Authority of Singapore (IRAS) and often have to prove whether the project constitutes R&D as opposed to routine or cosmetic modifications. It is an "all or nothing" approach.

[1] Reply issued on 12 Feb 2015 by Senior Minister of State for Transport and Finance Josephine Teo in response to a parliamentary question raised on the utilisation of Productivity and Innovation Schemes by Businesses.

Perhaps a separate category of PIC deductions (with lower benefits) could be introduced for spending on non-routine upgrading of products or processes using available technology but resulting in improved functionalities or productivity. This could encourage companies to actively engage in continuous upgrading while minimising claim costs.

Goods and Services Tax (GST)

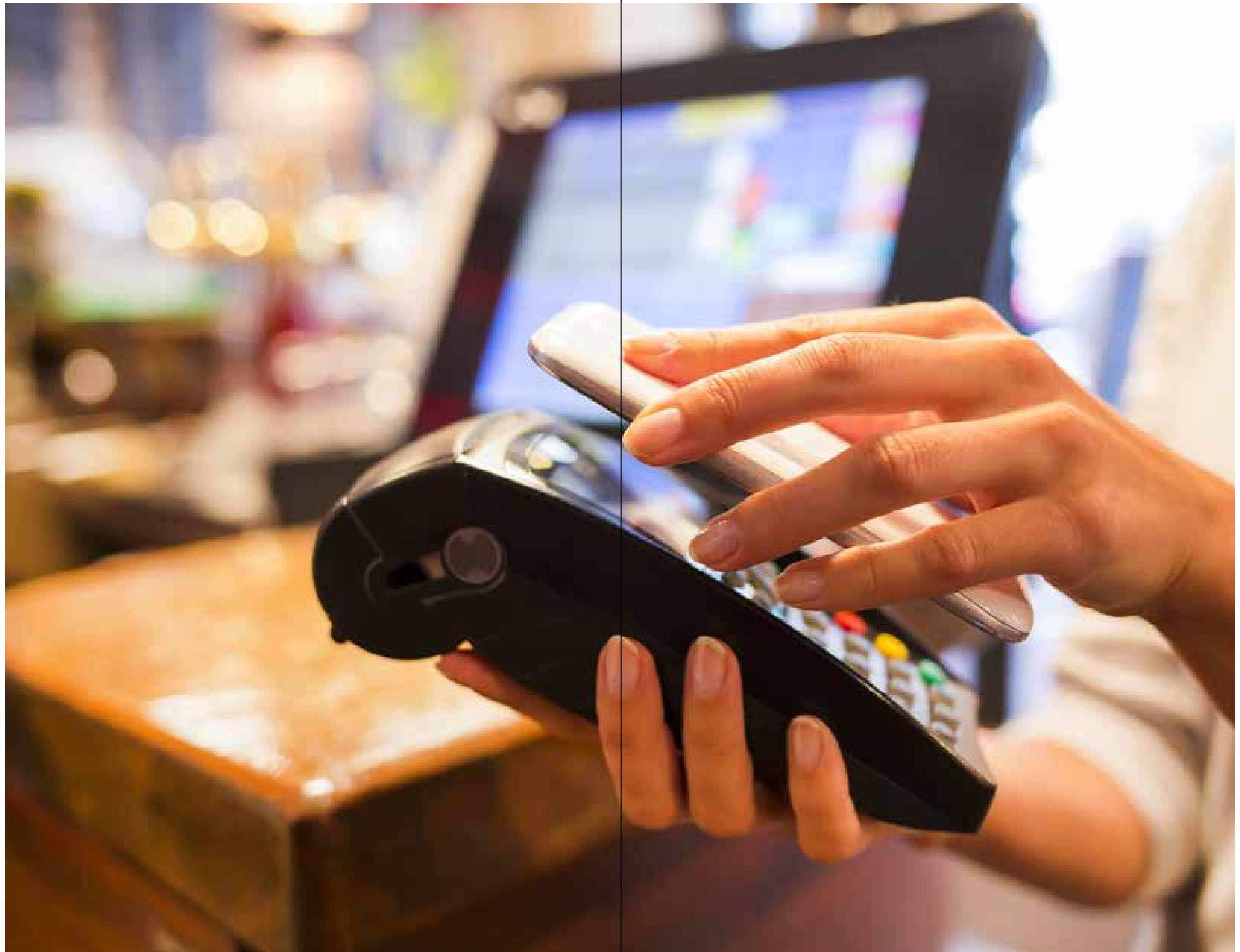
For most Singaporeans, the golden question is whether the GST rate will increase. As GST collection is now almost a quarter of our total tax collection, the Government may perceive a lesser need for a GST rate increase in the short term. In the longer term, as with many other countries, the Government will need to balance fiscal spending against sources of revenue in which case the Finance Minister will probably review the GST rate and make an appropriate decision.

A less eye-catching but equally important issue is whether the scope of GST would be broadened due to, amongst others, the pervasiveness of the digital economy. Presently, paying a fee to an overseas vendor to stream movies online would not attract GST in Singapore. However, paying for a Blu-ray disc or going to the cinema to enjoy the same movie would attract GST. Following recent discussions by the Organisation for Economic Co-operation and Development (OECD) on levelling the playing field between resident and non-resident vendors as well as to plug potential GST 'leakages', countries in the region are moving or have already moved to impose GST on such digital supplies. This is an area that may well be on the new Finance Minister's to-do list.

International tax developments

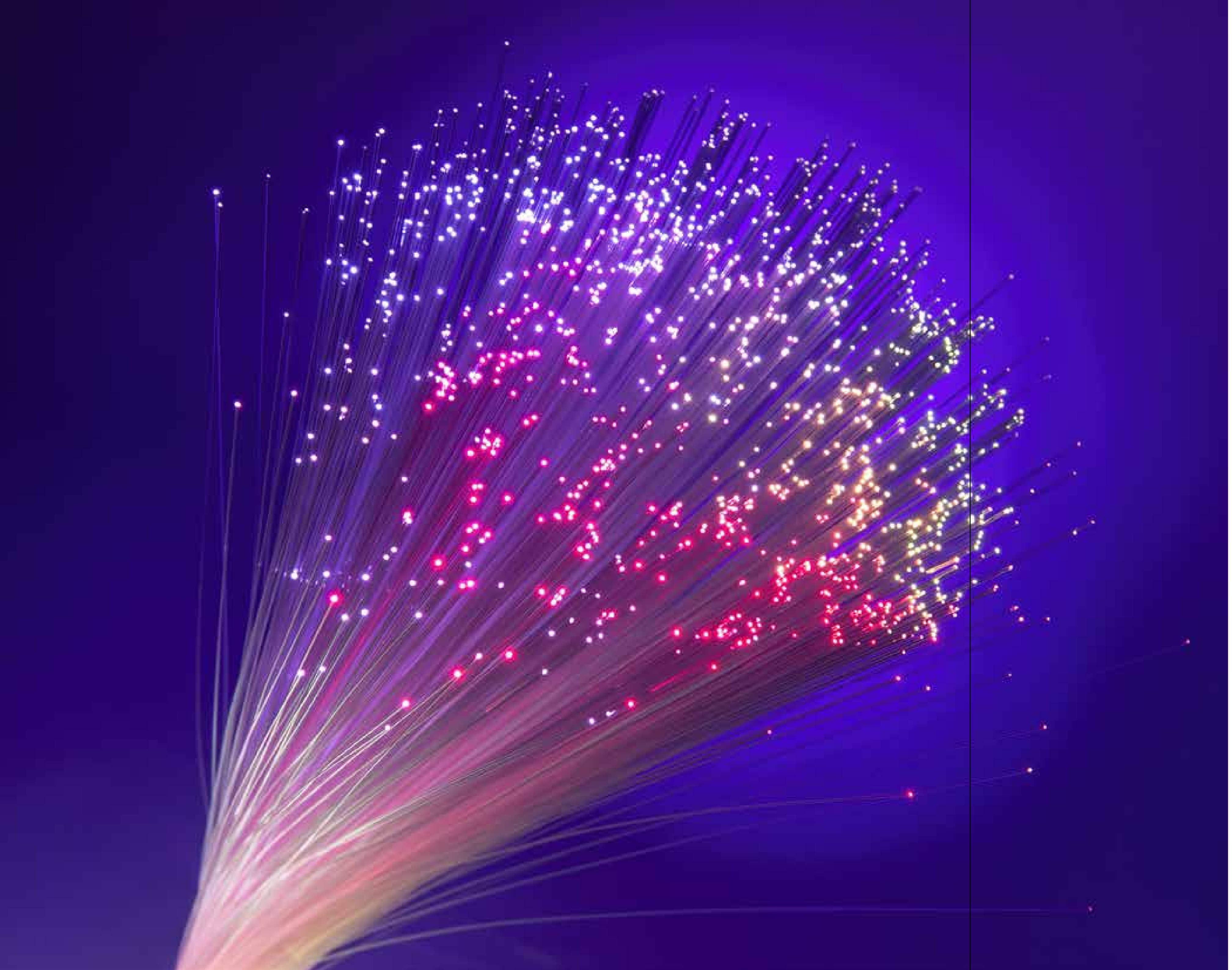
The committee's report containing key recommendations would be issued in the midst of an international drive to combat tax avoidance under the auspices of the Base Erosion and Profit Shifting (BEPS) project established by the OECD. Fundamentally, the BEPS project is about ensuring profits are taxed where substantive economic activities generating the profits are performed and where value is created. This is in direct response to tax planning techniques and structures used by multi-national corporations to reduce or avoid, albeit legitimately, taxes on their cross-border investments or transactions.

One key priority for the committee may be to look at how Singapore can remain an attractive destination for foreign investments in a BEPS environment. This entails close monitoring of developments in the OECD's BEPS project and adopting proposals that are in Singapore's interests and economic priorities, but at the same time, ensuring Singapore does not become an outlier. Specifically, Singapore's incentive and holding company regimes may need to be reviewed for their relevance and acceptance in the post BEPS world.



Impact of fiscal policies on economic growth

The Government has a proven record of identifying changing economic and social objectives and steering fiscal policies towards such purposes. A case in point is the internationalisation of Singapore companies. Tax policies such as the merger and acquisition tax allowance, double tax deductions for overseas marketing and investment development spending, exemption of certain foreign sourced income and the International Growth Scheme – which offers approved companies a reduced 10% tax rate on qualifying overseas income – have been implemented to grow Singapore's "external economy". We are confident that the "The Future Economy" committee is well placed to recommend the necessary reforms to our tax regime whilst watching out for possible headwinds amidst a global drive spearheaded by developed countries to shore up tax revenue.



Digital disruption: What directors need to know

"Technology can either disrupt or enhance an organisation's business. Organisations that focus on what creates value for the business, its customers, employees, and business partners, and the costs the organisation incurs to deliver its services or products to the market will have a good framework for assessing the impact, opportunities, and risks technology may have on the organisation."

Philip Chong, Executive Director, Enterprise Risk Services, Deloitte Southeast Asia

Around the globe, organisations of all types and in all industries are seeing their long-standing business models becoming digitally disrupted. While the digital revolution affects almost every aspect of business, digital technologies are having their greatest impact in two areas.

First, technologies are transforming the customer experience. Increasingly, organisations are being enabled to tailor the products or services they offer to the unique preferences of each customer. Second, they are transforming the way organisations deliver their products or services, allowing customers to obtain products and services when and where they want them.

Because of the speed at which business models can be disrupted by new technologies, business-model risk has become a major strategic risk. Research by Deloitte has found that consumers and investors are rewarding organisations at the forefront of the digital revolution[1]. Many traditional companies, however, have yet to fully determine how best to utilise digital technologies such as cloud, analytics, social media, and mobile.

[1] "Embracing Digital: Why Boards That Don't Could Put Companies at Risk", Deloitte U.S., September 2014

Responding to the challenges created by new technologies can be difficult for organisations that have taken years to develop their current business processes. Transforming them digitally at high speed to keep pace with outside developments is not an easy task. Making the wrong choices may even leave a company in worse shape than if it had not taken any action at all - a perfect recipe for risk inertia.

While digital technologies can create opportunities in many areas, the benefits may come at the expense of its traditional business. Enabling customers to interact with the organisation online, for example, may result in fewer customers visiting the company's brick-and-mortar outlets. Creating a seamless customer experience across both virtual and real worlds has been difficult for many organisations, and while technologies can erase distance and other communication barriers, automated processes may struggle to deal with unexpected scenarios. Despite these challenges, however, Deloitte research has found that every organisation that does capitalise on digital technologies has the potential to improve shareholder value and long-term performance.

Coming to grips with today's new technologies and figuring out how to optimise their use in the organisation may be difficult for directors and c-suite members who are of a generation for whom social media and other such advances have only a minimal impact on their personal lives. Organisations that involve everyone at all levels in reviewing processes to identify ways to benefit from new technologies may succeed in digitally enhancing their businesses from the bottom up. In this scenario, the role of the board and C-suite is one of risk oversight and setting strategies to ensure that technologies are used appropriately.

While understanding the future impact of technologies is management's responsibility, boards should ask management for their perspectives on how the organisation is handling the strategic risks related to technology and digital disruption today. In particular, boards should inquire about the organisation's technology strategy and how it is integrated into the overall business strategy, with a focus on what creates value for the organisation and how that could become either disrupted or enhanced by technological developments.

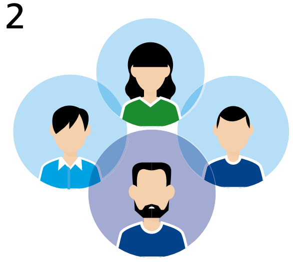
Moving the company ahead does not necessarily depend on discovering a new game-changing technology; using existing ones to make small enhancements to optimise things that are important to the business, its customers, employees, and business partners can, collectively, make a significant difference.

Questions for directors to ask

1

- How knowledgeable are we, as a board, about digital technologies? Are we personally comfortable using today's technologies, such as social media?
- Do we feel we understand the trends and impact that technologies are having on our industry and our organisation?

2



- Does the board need a better understanding of digital disruption? If so, how should we enhance our knowledge: through education sessions or retreats; engaging outside advisors or experts to review the organisation's business model and identify areas of opportunity or risk; recruiting new directors who have digital expertise?

3

- When we review and approve the organisation's plans and business strategies, do we give enough consideration to the impact of technology? Should we ask the CIO to discuss the organisation's technology strategies and activities with the board?

4

- What use does our organisation make of data analytics? Do we have people in the organisation with the capability of turning data into insights which, in turn, lead to actionable management decisions?

5

- What is happening with our competitors and supply chain partners?
- Are their operations being impacted - either positively or negatively - by digital technologies, and if so, what lessons can we learn from their experiences?

Issue 2: In our second issue, we shone a spotlight on Singapore achievements as we celebrated 50 years of nation-building. As we looked back at the remarkable accomplishments of Singapore, it was important to spend some time examining our roles as business leaders in creating the country's future for the next 50 years and beyond. We also explored the role of good governance in the Singapore brand – while images of skyscrapers and clean streets come to mind, its security and ethical business practices were also key pillars of the Singapore success story. If you would like to view our second issue, please click **here** to download the publication.