Board Matters Quarterly

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EY

Building a better working world

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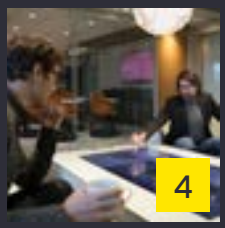
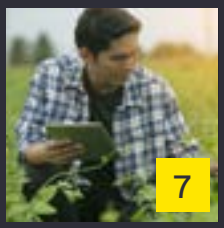
Board Matters Quarterly offers thought-provoking perspectives and insights into leadership and governance issues for boards and audit committees, supporting them to navigate the increasingly complex business environment.

The business landscape is changing unceasingly on all fronts. Read more to keep updated on the latest investor and stakeholder issues that will impact board strategies.

1 How corporate leaders can show leadership on global issues



4 How "co-opetition" can drive transformation



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How corporate leaders can show leadership on global issues

Boards must steer corporate leaders to harness their influence and create long-term value for their business and a better working world.

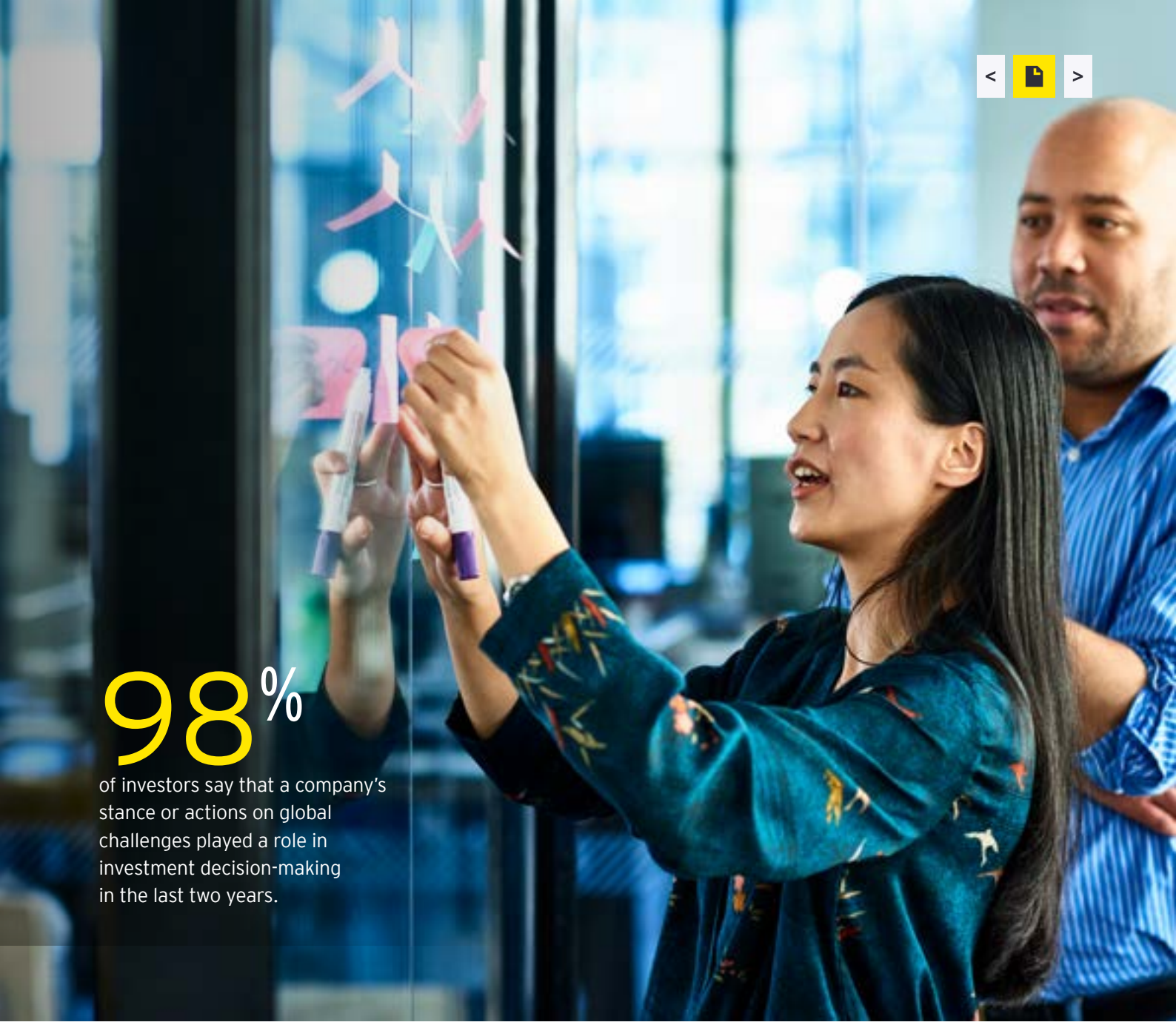
By Max Loh

Global issues are increasingly posing direct risks to long-term economic and business growth. In *EY CEO Imperative Study 2019*, national and corporate cybersecurity, technology-induced job loss, income inequality and social safety nets, ethics of artificial intelligence and climate change have been identified as the top five global issues.

Other than the government, corporations have the financial muscle and influence to address these issues, led by the boards and CEOs. Senior leaders can be meaningful actors and proactively enable their employees and other stakeholders, such as the community and suppliers, to make a difference.

Opportunities arising from challenges

The view that institutional investors typically pursue only short-term returns is changing. In the abovementioned study, 98% of investors say that a company's stance or actions on global challenges played a role in investment decision-making in the last two years. This is in line with the Embankment Project for Inclusive Capitalism by EY and the Coalition for Inclusive Capitalism, where with the support of some of the world's largest asset owners and managers, new metrics have been identified and created to measure and demonstrate long-term value to financial markets.



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of investors say that a company's stance or actions on global challenges played a role in investment decision-making in the last two years.

As corporations grow more powerful, employees, customers and other stakeholders expect CEOs to lead the way in addressing growing global challenges. The study further reveals that 71% of employees globally believe it is critically important for their CEO to respond to the challenges, with 76% of the general population agreeing that they want CEOs to take the lead on change instead of waiting for governments to act.

With every major corporate action, there are both opportunities and risks. Making progress to solve global challenges lays the foundation for long-term sustainable growth and offers the opportunity to deepen relationships with customers, employees and other important stakeholders. Yet, it exposes the business to scrutiny, risks and changes that require extensive stakeholder alignment and buy-in.

Today's leaders are called upon to go further than ever before in demonstrating leadership for taking public positions on politically charged issues. By taking proactive actions, companies are better able to take ownership and calibrate their responses to tell a positive brand story. This can help to improve their competitive position and attract new or different types of investors. Companies that demonstrate a genuine intent to make the world a better place tend to attract the best talent and thereby improve their performance in the longer term.

The board-CEO alignment

Global challenges cannot be solved by any single country or group of stakeholders. Progress in public-private partnerships, reporting standards and cross-industry collaboration is needed to address these issues successfully. Becoming stakeholder-centric, rather than shareholder-centric, benefits both the business and the community where it operates, with companies taking action first having an edge over their peers. With support and endorsement from the board and investors, CEOs can be empowered to proactively tackle the issues with agility.

CEOs must lead their teams to concurrently address global challenges and drive revenue growth by identifying new business models and transforming the entire market and value system in which they operate. As a first step, boards and the management need to reframe the global challenges as new market opportunities, then work to create a road map for funding innovation and the new capabilities required. This is followed by integrating a plan on global challenges with the corporate strategy, and linking internal governance, performance measurement and rewards to corporate objectives.

Today's CEOs need to be agile in their approach to overcome silos and hierarchical structures left by their predecessors. Deeper engagement with the board and stakeholders, as well as cross-disciplinary collaborations within and outside the firm will put them in good stead for the opportunities ahead.

The questions that boards can ask of the companies they serve include the following:

1. What are the global challenges and impact to the business?
2. What are the opportunities and risks in action or inaction on global challenges?
3. How must the C-suite capabilities evolve to respond to these challenges?
4. How can the board support the CEO in aligning investors and stakeholders on the action plan?
5. What metrics and narratives will help to communicate the action plan to stakeholders, and guide the execution of the strategy? BMQ

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How "co-opetition" can drive transformation

Disruption can be an opportunity for differentiation as the line between competition and collaboration blurs in today's ecosystem economy.

By Liew Nam Soon

Digital innovators are revolutionizing the business landscape. The emergence of Big Tech companies spells a shift in the appreciation of value from products to services and from tangibles to intangibles such as intellectual property, network reach and accessibility.

By virtue of their extensive scale and ownership of proprietary platforms, Big Tech companies are able to iteratively test new innovations with willing users for their own benefit and that of their customers. Big Tech companies not only set trends by anticipating user needs more efficiently and at a lower cost; they also shape user behaviors through their disruptive business models and creation of proprietary ecosystems.

A unique trait of Big Tech companies is that the ecosystems they create span conventionally defined industries, with strategic areas for participation by partner companies. While Big Tech companies are fellow business players, many are also channel platforms that may be leveraged and partnered with for deeper insights and stronger products.

Agile businesses increasingly recognize the upsides of doing business today in the ecosystem economy, viewing disruption as an opportunity for differentiation as much as an existential threat. Given the scale of Big Tech companies, "co-opetition" (cooperation with competition) with them is in many instances, a more sensible and strategic way forward, rather than competing directly.

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Collaboration as the new innovation

As part of their business strategy, business leaders can plan for partnerships and alliances as strategic maneuvers to be part of the Big Tech game. Doing so helps the business to improve its speed to market by building on its existing strengths and harnessing those of others in complementing their weaknesses.

For example, in collaborating with highly networked transportation companies, food and retail players leverage the logistics connectivity of these companies and focus on increasing their online presence, product improvement, efficiency of warehousing and customer service.

According to research on disruption conducted by the Economist Intelligence Unit (EIU) and supported by EY, nearly a quarter of organizations surveyed have used M&A and JVs as avenues to address or drive disruption. Yet, rapid changes in the business landscape are also compelling companies to explore more fluid and agile alliances.

The same report found that nearly one-third of the firms surveyed have formed a strategic alliance with a company in their industry, and one-quarter have partnered with a player in a different industry. In the financial services sector, nearly a third of the organizations have formed strategic alliances with their counterparts to address disruptive forces. Many also view collaborations with FinTech firms as a way to drive digital innovation.

Having said the above, the most suitable partner may not always be the biggest technology player, and the greatest strategic opportunities may not require the latest technology. Growth opportunities will still need to be assessed based on business fundamentals. For any partnerships proposed, boards need to challenge management to critically assess what exactly is the addressable market.

Companies that undergo transformation through partnerships need to also be mindful not to alienate existing customers, while looking at the untapped market opportunities. The fundamentals of building customer trust, as well as addressing consumers' data, privacy and security concerns should remain core to any collaboration within ecosystems.

Shape the playing field

Whether rightly or not, Big Tech companies are commonly perceived as businesses that discourage competition, play unfairly by manipulating data and the media, and require stricter regulations for data governance, cybersecurity and the digital economy.

Public policy is changing to keep pace with the digital marketplace, but may not always be fast enough. This means that opportunities are present in the ecosystem economy for further improvement. Corporate leaders who are strategic about their roles can get involved with governments, industry associations, or even Big Tech companies themselves, to shape the playing field.

Questions for boards to consider:

1. Does the board bring to bear the necessary experience and mindset toward disruptive and ecosystem thinking?
2. Does the company have a strategic roadmap for business transformation and digital innovation?
3. Do you know of non-competitive companies with objectives or a purpose aligned to yours?
4. Can the company acquire new capabilities from partnerships that add value?
5. What is the addressable market size and potential profit pools that can be strategically monetized with the right partners? BMQ

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Why corporate reporting needs to transform

With increased investor focus on financial and nonfinancial information, using data and technology to articulate long-term value is key.

By Ronald Wong

The rising sophistication of investors is compelling organizations to increasingly move beyond reporting on historical financial results to include nonfinancial insights for more informed decision-making. Too often, traditional reporting fails to provide transparency in communicating the company's value-creation story to investors. To push the transparency agenda, a wider shift in attitude is required, which necessitates changes not only to reporting frameworks and practices but also to mindset and culture.

How organizations deliver on such value-driven reporting, underpinned by exploiting financial and nonfinancial data to provide a more holistic narrative of the business, can determine the level of confidence and trust that investors and stakeholders have in the organization.

Data can help unlock value

With technology, businesses are generating greater data volumes than before. In the fifth EY *Global Corporate Reporting Survey*, 68% of Singapore CFOs said that they spent more time gathering data than analyzing it.

Clearly, a greater emphasis on the latter is needed. With the capabilities afforded by the exponential growth in computer processing power, connectivity and cloud capabilities in today's digital age, organizations can build competitive advantage by translating their wealth of data into strategic assets, to serve the organization's strategic objectives.

How boards challenge management to review the current corporate reporting system and explore the use of advanced technology such as blockchain, robotic process automation (RPA) and artificial intelligence to streamline and enhance reporting processes, will be key.

In the implementation of these new reporting technologies, data security is one of the biggest risks. This is where boards need to critically examine the approach to technology implementation: how should management carefully manage innovation in the use of data without compromising regulatory standards and trust, and create a compelling, yet practical, roadmap of how the finance function needs to transform to leverage technology? Key stakeholders will need to agree on and implement an effective risk management framework to address the risks arising from the deployment of these technologies.

Transforming the finance function

For successful value-driven reporting, organizations must embrace their data with confidence. This not only requires changes to technologies and processes, but also their teams' mindsets, skills and governance.

When incorporating advanced technology into corporate reporting processes, boards and management need to be mindful of employees' readiness for the multitude of changes within an entrenched culture. In the same survey mentioned above, respondents called out resistance and cultural barriers in finance teams as impediments to digital innovation.

The shift towards nonfinancial reporting and the use of technology means that the skills and capabilities required by the finance function need to be redefined, and finance teams need to fully embrace the interdependence between financial and nonfinancial information. This can be accelerated by rebooting the finance function's talent profile by injecting new capabilities, such as data science and advanced statistics, beyond traditional finance and accounting skills.

Having said that, organizations need to balance between recruiting new talent that offers sought-after capabilities versus upskilling existing teams. A dynamic and iterative approach to learning is necessary given that skill sets have a shorter shelf life in the digital world. Organizations need to move away from traditional recruitment and development practices to re-examine what constitutes finance capabilities that truly add value to the business.

With the growing emphasis on nonfinancial information, stakeholders will increasingly challenge the current corporate reporting model. Consequently, nonfinancial information must be managed with the same rigor and assurance as traditional corporate reporting, in order to drive trust from internal and external stakeholders and meet the requirements of regulators.

How boards play the role in providing insights and direction to the business to support and communicate its long-term value creation will be increasingly vital.

Some questions for boards to consider:

1. What is the mix of financial and nonfinancial insights in your current corporate reports and are you clear about the metrics to track and report?
2. How are you capturing and harnessing data to derive value-added insights for reporting?
3. How will you manage data security and privacy risks that come with the increasing use of data and technology?
4. Are there entrenched hiring practices, and how should the talent strategy evolve to meet new skills demand?
5. Is your organization culture fit for purpose in this new reporting paradigm? BMQ

> For successful value-driven reporting, organizations must embrace their data with confidence. This not only requires changes to technologies and processes, but also their teams' mindsets, skills and governance.

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How boards can accelerate progress in gender parity

Enhancing transparency through measurement and building the right culture can help entrench workforce diversity and inclusion for better business performance.

By Max Loh

Given the well-documented business case that organizations with diverse workforces are more innovative, resilient and profitable, more companies today face the question of how – rather than whether – to embrace diversity. Unfortunately, this is where many organizations face a significant challenge.

The World Economic Forum's *Global Gender Gap Report 2018* revealed that in Singapore, only 68.7% of females were participating in the labor force compared with 83.5% of males, and a gender gap exists in wage equality for similar work.

Further, as of June 2019, the Council for Board Diversity in Singapore reported that only 134 (or 15.7%) of 854 board seats in the top 100 listed companies on the Singapore Exchange were filled by women. Clearly, female board candidates at the top must have experienced a progression path. If gender parity is not addressed at the broader employee level, the issue of a lack of female representation becomes more acute as they move through the corporate leadership funnel.

Measure for transparency

As management expert Peter Drucker said, "What gets measured gets done." One of the barriers to tackling the gender parity issue is that at the organizational level, companies do not have concrete gender parity targets and the necessary systems and technologies to measure progress.

Most businesses still use superficial metrics, such as simply measuring the proportion of female

employees in the company. Instead, organizations should seek to answer questions like the below that offer more insights:

- When and why do women leave?
- How does the company culture support diversity and inclusion?
- How effective have investments in talent programs been in addressing diversity and inclusion?

While it can be challenging to collect, manage and interpret data on these areas in a meaningful way, data analytics could help businesses to measure the effectiveness of their initiatives, providing valuable input to diversity and inclusion strategies. Data analytics tools can also be applied to identify and address the unconscious bias that may exist in talent policies, as well as forecast possible attrition patterns.

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To effect change in the issues identified by such tools, the board and management need to develop and operationalize a talent strategy attuned to driving diversity and inclusion. Beyond that, the board must empower the management to define, embrace and report on diversity and inclusion – including gender parity – as well as align these to the business purpose and strategy.

Boards also need to hold management teams accountable for their performance in driving the above, so as to sustain a critical level of transparency that exposes non-inclusive practices. To that end, boards will do well to institute a rolling dashboard of diversity metrics relating to recruitment, training, progression and pay. This can be further scaled to include analytical insights on patterns, trends and discrepancies between how male and female employees are treated in terms of progression, pay and opportunities.

Focus on cultural change

While metrics are useful, organizations should not be overly preoccupied with chasing gender parity targets, as the true value of a diverse workforce can only be unlocked after building a culture of belonging and inclusiveness.

Cultural transformation and behavioral change will be disruptive and will require leaders across the organization to set the tone at the top by building a workplace based on trust, respect and freedom of expression. As a start, board members can regularly evaluate how the CEO and other senior executives are modeling behaviors and communicating the desired culture.

As with any cultural transformation process, building an inclusive culture will be a unique journey for each organization. Therefore, companies need to be flexible and transparent in executing their diversity and inclusion initiatives. In Asia for example, it may not be socially conventional for women to nominate themselves into the leadership. Rather than challenging this unconscious bias, companies can consider sponsorship programs and support women through executive training programs to address gender parity gaps in the leadership succession pipeline.

Boards too will need to challenge their composition, dynamics and culture to send a clear message to management, investors and other key stakeholders, that they are walking the talk on diversity and inclusion.

Questions for boards:

1. How does the organization promote and support diversity and inclusion?
2. How is the management accountable and benchmarked for its contribution to diversity and inclusion?
3. Is the organization investing in training and development to build inclusion competence in its workforce?
4. How is the organization identifying qualified women early in their career for sponsorship, mentoring and advancement?
5. Does the board have sufficient diversity of experience and perspectives to inform better decision-making? BMQ

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Why intergenerational success needs board governance

How can boards steer family businesses in engaging the next generation for succession, as well as proper wealth and family governance?

By Goh Siow Hui and Sheryl Tan

In the next 30 years, US$6t will be shifted from one generation to the next in family businesses. According to *The Financial Times*, around 35% of Asia-Pacific's wealth will change hands in the next five to seven years. The ease and success of transitioning the business and wealth from one generation to the next depends on how well-prepared family members are for succession.

At the core of successful multigenerational family businesses are their common values and a shared responsibility to continue their legacy and keep the next generation engaged. Yet, even as existing business leaders recognize that the future of their business lies in the hands of the next generation, they may still struggle to choose a successor – an issue that clearly deserves urgent board-level attention.

Engaging the next generation

No doubt, succession planning comes with its set of challenges. Who will lead or own the business, the family values and governance structure that will guide the succession process, as well as plans for sharing wealth within the family must be carefully considered. Complicated family dynamics and emotional connections with the business can make addressing succession a highly sensitive and protracted process.

The interests of family members may also not align with those of the business, making it difficult to find a capable candidate as the successor. For many of the next-generation family members, working and leading the family business is no longer the only option available. Often, they may desire venturing

out, sometimes with great success, especially if their innovative and unconventional ideas for the business are met with skepticism and resistance from other family members.

Family businesses need to create an environment that supports entrepreneurial and innovative ventures for progression of the family business. According to a 2018 EY global study, *Is adaptation or disruption the secret to longevity*, successful large family businesses create cultures that are agile, foster innovation and reward fresh thinking. Many of those surveyed recognized the role of the next generation in identifying disruptive trends in the marketplace, which is especially pertinent, given the technological disruption, geopolitical issues and regulatory changes that are continually reshaping the business environment.

As such, a framework that adequately nurtures and rewards next-generation family members for their entrepreneurial and innovative efforts will serve to attract talents from within or outside the family who can bring the business to new heights. Similar with public companies, family business leaders can also consider other options, such as grooming current managers or hiring external talents, as they seek to identify future business leaders.

Strengthening governance

As families and their businesses grow, they will need a proper wealth and family governance structure to successfully transfer their wealth and business from one generation to the next. The increased complexity in family assets has resulted in a need for family businesses to create a clear separation between the

management of family and business wealth – and many look to professionalization of their private wealth management by setting up a family office.

According to *The Asian Family Office – Key to Intergenerational Planning*, a 2019 report by EY and DBS Private Bank, family offices are gaining popularity in Asia. Their setups focus on matters such as managing and maintaining family assets, investing the family's wealth, family governance and succession planning.

Embarking on such a journey involves extensive planning on issues such as deciding the family members that who will head the family office, engagement of professional managers, establishment of legal and tax infrastructures, and the cost of regulatory and compliance reporting.

Board stewardship is key

Multigenerational stewardship is a journey that requires time and effort to manage conflict and ensure alignment of the family's vision and long-term goals with the business.

As a family business grows, establishing a well-represented board that can provide external perspectives and professional guidance on incorporating systems and structures into the business, as well as advising on global expansion and hiring of talents with skill sets beyond those of family members, will become increasingly important.

Boards that are stewards of family businesses need to be attuned to their unique nature and guide family members, who exercise significant influence over the business.

Questions for boards:

1. Does the vision of the business align with the family's vision and values?
2. Does the family business have a clear succession plan for the next-generation of family members?
3. Is there a robust framework that adequately nurtures and rewards next generation or external talents to ride the wave of business disruption?
4. Will it be more beneficial to use a family office to manage certain family assets held by the family business?
5. Is the current board structure and composition fit for purpose in providing the governance that the family business needs? BMQ

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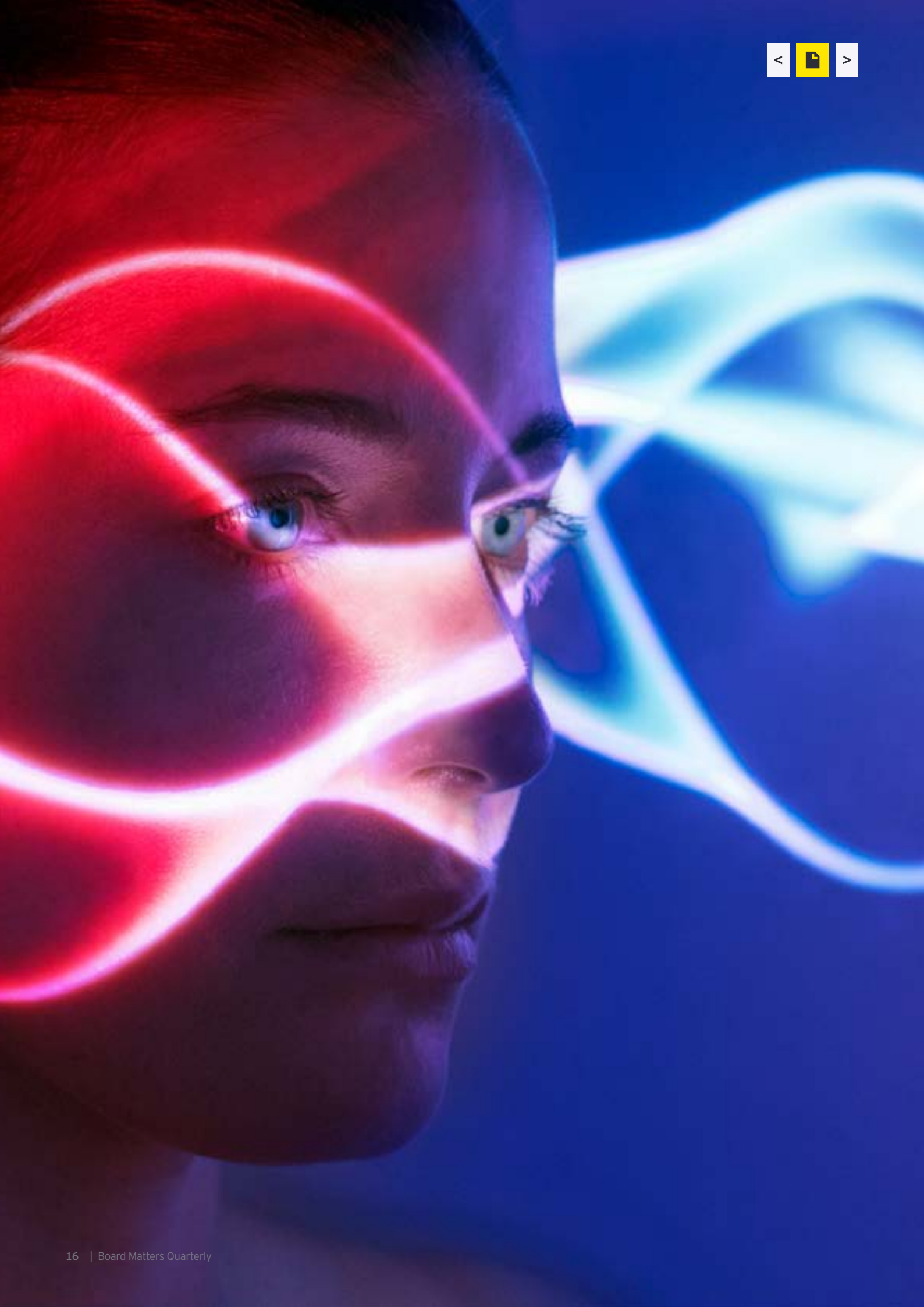

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Building a better working world

In the Transformative Age, do you compete or collaborate?

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The better the question. The better the answer.
The better the world works.