Dealing it right
Will M&A or alternative capital strategies help unlock growth?

Corporate excellence
Fostering a board-activist partnership
Innovating with data and purpose
Building trust with reporting

Sustainability matters
Closing the sustainability reporting gap
Building sustainable supply chains

Turning digital risks into opportunities
Rebalancing gender disparity in STEM
Finding security in the cloud
Southeast Asia’s digital journey

Shifting trade and industry
Ready for the future Singapore consumer?
Trade disruption – what’s next?
Rise of the industry-agnostic workforce
Welcome

Leaving nothing to chance

Short-term uncertainties are growing with economic and business norms being disrupted: trade negotiations are underway, customer and citizen expectations are evolving, and shareholder activism is on the rise.

At the core of many of these uncertainties is the issue of trust — or the lack thereof. Trust forms the bedrock of relationships, transactions and the functioning of economies, and building it requires taking a binocular view of the risks and gains behind every decision made, even when kneejerk reactions may be to rely on the familiarity and visibility afforded by past solutions and short-term gains.

Where investors demand greater transparency and engagement, how can businesses see it as an opportunity to deliver responsible and responsive corporate reporting, and drive greater rigor with data analytics and emerging technologies?

Where trade flows are disrupted, how can businesses re-engineer their supply chains for cost effectiveness and security while embedding sustainability?

Where portfolios or markets are slackening, how will businesses buy, sell or build, and question the tried-and-tested assumptions about their customers today who may not exist tomorrow?

Where digital risks are growing, how can business look to the cloud for advantages in cybersecurity services that they don’t already have?

Where innovation is the solution to challenges in every part of the organization, how can businesses stay focused on its purpose and trust its data to make the most insightful investment choices?

As businesses grapple with these challenges, so will governments as they seek to build resilient and agile ecosystems that support economic and citizen growth, including tackling a potentially widening gender gap in STEM fields and driving shifts in workforce development with the rise of industry convergence.

Arguably, building trust must be what matters most. And that doesn’t happen by chance.

Max Loh
Managing Partner, EY Asean and Singapore
Ernst & Young LLP
Dealing it right

“Deals and global trade challenges are creating complexities for companies seeking growth. Is M&A the answer or are there merits in alternative capital strategies? Vikram Chakravarty and Mah Kah Loon discuss the shifts in dealmaking and the risks of value erosion.”

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Opportunities in the rise of an industry-agnostic workforce

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Forging ahead on Southeast Asia’s digital journey

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Where will open banking thrive?

Open banking is invisible to most consumers.

Where will open banking thrive?

More creative approach to portfolio management needed

Corporate brief

New EY Global Chairman and CEO-elect

Can data use and trust go hand-in-hand?

Financial leaders are focusing on turning data into reporting insights but are challenged by how they can drive innovation without compromising standards and undermining trust.

Dr. Miles: Which of the following capital allocation and strategy issues is your company placing the greatest attention and resources today?

Improved working capital management

Investment in existing assets operations

Digital transformation

Risk and control

Digital banking

In response to changing regulations

Refunding capital to shareholders

In response to changing industry

Singapore

SA

Corporate brief

New EY Global Chairman and CEO-elect

EY has appointed a new CEO.

EY Global Chairman and CEO

EY Global Chairman and CEO

EY named a leader in innovation consulting services in The Forrester Wave™ Innovation Consulting Services Providers, Q4 2018.

Dr. Miles: In your financial services, what are the biggest barriers to implementing innovative new reporting technologies?

Concern over data security

Budget constraints

Lack of collaboration between finance and IT

Lack of relevant data within the finance function

Challenges in establishing a business case

Lack of regulatory and leadership leadership buy-in

EY wavespace™ opens in Singapore

The innovation center focuses on intelligent automation, including artificial intelligence, machine learning, blockchain and robotic process automation, to help companies innovate and transform their business.

EY acquires Adeo Digital

The move sees 170 digital and robotic process automation, to help companies innovate and transform their business.

Strategic alliance with Symantec

EY combines scale and deep experience in cybersecurity with Symantec’s Integrated Cyber Defense Platform to help organizations tackle risks in intellectual property, data and cyber.

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The convergence of global trends, unprecedented technological change, geopolitical tensions and environmental challenges, are ushering in a new era of Globalization 4.0. As the new economy transforms industries, reinvents jobs, and disrupts trade, the widespread level of disruption is fueling the public’s distrust in this new world. Left unchecked, this mistrust could lead to a rise in protectionism, technophobia and anti-immigration.

Globalization is fundamentally good for the world and citizens of the world, but that globalization – what the world is used to – needs to adapt to the changing environment. To thrive in Globalization 4.0, businesses will need to be driven by purpose rather than profits, governments will need to look beyond economic growth to build inclusive cities, citizens will need to embrace rather than resist change.

If 2019 were to mark the year of rebuilding trust, then the choice for every economy, business and individual is: will we hold on to false dichotomies or realize the growth opportunities together?

Will Globalization 4.0 deepen or deal with the crisis of trust?
Geopolitics and global trade challenges are creating complexities for companies seeking growth. Is M&A the answer or are there merits in alternative capital strategies? Vikram Chakravarty and Mah Kah Loon discuss the shifts in dealmaking and the risks of value erosion.

Geopolitics and global trade challenges have put pressure — albeit slightly — on the deal appetite in Southeast Asia. The 19th EY Global Capital Confidence Barometer found that 46% of Southeast Asian corporates were planning to acquire in the next 12 months — down from 50% six months ago. Regulation and political uncertainty are seen as the biggest risks to dealmaking and the near-term growth of their core businesses.

The decline in appetite may not seem significant, judging by statistics alone. However, EY Asean Transaction Advisory Services Leader, Vikram Chakravarty, believes that the challenges in the M&A landscape should not be underestimated.

“Companies in the region have struggled with the headwinds from the ongoing trade dispute, as well as a potential global slowdown. Dealmakers have remained resilient, underpinned by strong balance sheets and low gearing ratio, and are looking to achieve scale through M&A as the answer to slower growth,” Chakravarty said.

Not all is gloom and doom though, with private equity offering a spark of optimism. According to Mah Kah Loon, a Partner in the Asia-Pacific Transaction Advisory Services at Ernst & Young Solutions LLP, private equity is set to be a potential major player in the M&A market in the coming year.

“There are record levels of dry powder funds globally and a proportion is being earmarked for Asia-Pacific markets. That will need to be deployed. Private capital has also been a good option for unlocking value by many listed entrepreneurial businesses that have not attracted expected valuations,” he said.

Against such complexities, what makes the best capital strategy for companies that are seeking growth?
How real is the impact of geopolitics on the M&A landscape?

Vikram Chakravarty (VC): “Today, we are seeing a shift in the business and regulatory landscape, where consensus around globalization is breaking down. Traditional powerhouses such as the US and UK are adopting a more protectionist approach in a bid to boost their domestic economy. This no doubt impacts trade and business decisions.

Particularly, a great deal of geopolitics and regulatory challenges such as the Brexit and US-China trade dispute took place in the last 12 months. This inevitably affects how corporates plan their business, operations and supply chain – from where they source through to where they manufacture.

In that light, Southeast Asia may emerge as a winner. As companies look to diversify their supply chain or manufacturing bases, we can expect more investments into the region.”

Mah Kah Loon (MKL): “Geopolitics should not be overplayed. Companies are pragmatic entities. While some may take a wait-and-see approach to deals, there are others that will continue to evaluate opportunities in the landscape, as value can emerge amid uncertainty. Scenario planning and risk assessment will become even more important.”

What other factors are challenging dealmaking?

VC: “Firms are keen to drive scale and restructure their businesses to become more focused. This should lead to more consolidation and create larger and more globally competitive firms. However, having to evolve mindsets at family-owned businesses and the high valuation expectations have made this shift difficult.”

Besides M&A, what other options do companies have to achieve growth?

VC: “It often takes a long time for companies to achieve market leadership in their chosen sector or country through organic growth. It can be quicker to strategically choose existing companies in the right sector to merge with or acquire.

However, given the high valuations and fewer available targets, there is value for companies to consider alternative approaches to portfolio management. These include carve-outs, alliances, divestments and joint ventures. However, an important consideration that companies must take as they explore these alternative deals is to make sure that the target or deals fit the corporate strategy. Due diligence and strong execution of the deal will hold the key to a successful transaction.”

MKL: “Another interesting theme coming from the Barometer is that private equity is emerging as a major acquirer of assets. The rise of private capital, including private equity, super funds and corporate venture capital, has fundamentally reshaped the funding environment.

Data from research houses show that the private market has up to US$2t of dry powder to be deployed. As such, they are on the lookout for suitable assets. Traditionally, private equity firms have shown interest in the technology, consumer products and retail sectors in Southeast Asia.

With these options, companies should consider which funding source best fits with their needs now and the capital structure that is most suited for their future growth. In addition to funding, private equity can help to source for the appropriate talent with specialized skills, ideas or new perspectives, who can assist companies to build management strength to enhance the portfolio and performance of the business. Others will work with companies to develop new expertise such as technological capabilities to better navigate today’s increasingly digital landscape.

However, the most significant value that private equity firms bring to companies is access to networks and relationships, which will go a long way in helping investees reach a wider audience or new markets.”

Given the high valuations and fewer available targets, there is value for companies to consider alternative approaches to portfolio management.

Vikram Chakravarty | EY Asean Transaction Advisory Services Leader
Are such alternative approaches to growth underexploited by companies in Southeast Asia?

VC: “Findings from the latest issue of the Barometer highlighted that Southeast Asian corporates are still not investing much resources or attention to alternative approaches. This is a rather interesting finding. From our observations, companies in Southeast Asia are increasingly recognizing the benefits of ‘creative’ approaches. It is important to note that in today’s complex environment, companies need to continually review their portfolios and align their strategy and growth prospects. With regular reviews, companies can better identify the underperforming assets and operations that are at risk from technology, digital and customer disruption for carve-outs as appropriate. Those companies that balance acquisitions and divestitures generally outperform those that focus solely on either deal strategy.”

Completed deals sometimes do not deliver on the returns as envisaged. What is undermining deal value?

VC: “The completion of the deal is just the beginning of the journey. An important – but often overlooked – element of M&A is post-deal integration. Companies that spend more on the integration process outperform their pre-deal targets. Hence, companies need to start preparing for post-deal integration much earlier in the deal life cycle. Acquiring companies will capture synergies effectively only if they map these synergies out upfront and assign accountability for monitoring their progress. However, this requires experience in understanding and identifying where value can be created, what is proven to work and where the risks lie.

To secure competitive advantage, value needs to be identified early, often with limited information. Ideally, those responsible for achieving synergies should play a direct role in identifying and valuing specific synergies. Business units should help develop synergy assessments and promote buy-in very early in the process.”

MKL: “Beyond planning earlier and building the right integration teams, companies should realize that success comes with a need to invest for that success. Companies that met or exceeded their estimated synergy targets in a deal spent, on average, 8% more (as a percentage of announced synergies) than those that failed to meet their ambitions. It is also interesting that these successful integrators also targeted achieving higher synergies as a share of deal value from the onset.”

Are technology synergies a big bang or a slow burn?

VC: “Many companies that underpin their synergy targets with monetizing technology, intellectual property or customer innovation appear disappointed with the results. But, unlike top- or bottom-line synergies, these may just take longer to achieve. Companies should incorporate these potential intangible synergies at the earliest stage of the deal process. They should also be prepared to wait a little longer to realize their targets.”

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Mah Kah Loon | Partner, Asia-Pacific Transaction Advisory Services
Why successful innovation needs data and purpose

How can organizations “fail fast” and “scale fast” with innovation? Data and purpose hold the key.
ew business leaders today will deny that innovation is a business imperative. Many are investing in internal innovation hothouses or funding start-ups, which has been useful in tapping into and catalyzing new ideas. “Failing fast” has become increasingly acceptable – and even encouraged – in order to allow the spirit of experimentation to flourish.

Yet, the challenge for most innovation-seeking companies isn’t to fail fast – but to scale fast. Frankly, many succeed in idea-generation while far fewer succeed in scaling those ideas into something that makes a real impact on the business.

The paradox is that business leaders often need separate teams to give people the freedom and resources to innovate, yet they also need to integrate these efforts into the main business for deployment so as to commercialize the good ideas. Even with the most detailed business plan or strong financial backing, some innovation projects remain as innovation projects. In going back to the drawing board, many may choose to abandon their original concept and chase after new ideas.

This does not have to be the case if businesses recognize that behind each endeavor, including those that fail, lies a treasure trove of data about the customer, the market and the business model. No idea is ever perfect from the onset – it can be perfected through intentional experimentation and rigorous evaluation backed by data and analytics. At the same time, they will need to automate intelligently to realize new levels of operational efficiencies or run the risk of disintermediation.

Transforming operating models is a complex initiative that will need to be guided by data instead of the vision and intuition of the business leader alone.

### Differentiating with data

Today’s business leaders are at an advantage as technological advancements have made it possible for data-driven insights to be accessed in real time, which can then be used to continuously improve and evolve their innovative ideas from start-up to scale-up. For example, consider how organizations can tap on the borderless nature of data to assess different geographical markets’ receptivity to their offerings as they pursue market expansion opportunities.

Further, with real-time data integrated into the lives of the future consumer, customers will increasingly expect businesses to meet their needs in micro-moments and in bespoke manners. The responsiveness and agility demanded of future supply chains and operating models will catalyze a disruption throughout the entire value chain from design to production to delivery.

Data-backed intelligence that informs decisions on creating and delivering customer experiences that delight every time and all the time will become even more vital. Businesses will do well to build in technological capabilities to integrate the explosion of customer data as production inputs.

### Innovating with purpose

While data and analytics can help inform decisions and improve the success of outcomes, technology in itself cannot lead an organization. The responsibility of making the right choices, growing an organization’s potential and soliciting support from stakeholders falls squarely on the shoulders of the business leader. This includes choosing the right innovation project to invest in – or kill.

A truly innovative company is not reflected in its snazzy labs and technology gurus but rather in how it thrives on optimizing the current state through creative problem-solving.

Further, a report by the Economist Intelligence Unit and supported by EY revealed a distinct connection between purpose and innovation. A 63% majority of executives from across three global industries believed that having a sense of purpose and aspiration beyond their day-to-day commercial mission made their company more innovative and therefore more able to disrupt or respond to disruption.

However, despite acknowledging the benefits of a strong sense of purpose, many business leaders have yet to unlock its true value, simply because the purpose is not well-integrated into the organization’s ecosystem. Organizations need to consistently align their decision-making on innovation projects to their purpose. In doing so, purpose can help business leaders to focus discussions away from the emotional sensitivities involved in difficult decisions such as killing off ideas that are ingenious but unsustainable.

The current disruptive environment has made innovation more important than ever before. In our work with leading companies around the world, the most successful businesses are led by purpose and data in decision-making – and not technology. They focus on customer outcomes and improving the customer experience, continuously experiment and test, and show high levels of automation and agility.

In other words, they are not just actors in the theatre of innovation; they are builders of a better working world for others and themselves.

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Fostering a board-activist partnership

The discipline in being prepared for an activist campaign means that the board is aware of its state of governance and demonstrates that shareholder concerns in all forms are valued and taken seriously.

By Christopher Wong

Public-listed companies are under constant scrutiny to deliver strong and consistent performance. With the advent of decentralized media platforms, shareholders are increasingly able to quickly and easily vocalize their views and band together with like-minded peers to effect change in or for a company. While stewarding and holding passive investment in a company, shareholders have a legitimate interest in its governance and a legal right to hold the board accountable.

Activist shareholders build their case across a broad range of corporate issues such as strategy, financial and nonfinancial performance, asset and capital allocation, conflicts of interest and corporate governance. When they believe that a company’s management is not up to the task, they may even rally for a replacement or a major internal change. They are not all good, or all bad, depending on the circumstance. Some view them as the last line of defense for long-term value-creation and also a form of check-and-balance to protect the company from controversial practices, such as excessive executive compensation or investments that introduce conflicts of interest. It also serves as a reminder to the board to self-check and regularly reflect on corporate status quo, misguided or unsound business decisions.

Activist shareholders as stakeholders

Given the evolving and complex business landscape, boards need to see the merits of having engaged shareholders and work in hand with activist shareholders. Active shareholder engagement gives companies a better understanding of investor perspectives and access to a valuable feedback loop to inform decision-making. An amicable relationship with activist shareholders demonstrates that shareholder concerns are valued and taken seriously.

As with any stakeholder engagement, the board needs to engage and communicate to its stakeholders regularly – even when it is a business as usual – on the company’s strategy and business activities. This engagement culminates at the annual general meeting, where the board must be thoroughly prepared to stand up to business decisions made throughout the year, future plans and any missed opportunities.

At Annual General Meetings, boards must be mindful that emotions can run high. Hard questions on management decisions, financial performance, dividend payout, and increasingly, the company’s environmental, social and governance standards, may be raised.

Ample preparation to manage these potential questions means that the issues are discussed constructively, with a clear rationale on why specific decisions are made. This further provides context for plans in the next year, laying the groundwork for continued support. Importantly, the board of directors must be open and transparent, and prepare thoroughly on the details of the hot topic. The discipline is being ready in the event of an activist campaign means that the board is aware of its state of governance, and has a clear purpose to inform decision-making.

Given the evolving and complex business landscape, boards need to proactively look at the business through the lens of an activist shareholder, and ask the question: what are the shared and divergent goals of the board and activist shareholders, and how can any differences be narrowed and managed? What is the board’s strategy to deal with activism and is the company communicating consistently and transparently with its key stakeholders?

The trend towards a more direct and active engagement with shareholders is aligned with the recently revised code of corporate governance, which advocates more transparency and communication between companies and their shareholders. Businesses that view activism first and foremost as an opportunity rather than a threat stand to benefit from increased shareholder value and support from shareholders, who would otherwise be detracting value and support from shareholders, the writer is Christopher Wong, EY Singapore Head of Assurance.
Companies have leveraged corporate reporting as a form of communication with capital market stakeholders, to provide information on the organization’s past performance as well as a complete picture that includes its strategic direction and ability to create long-term value.

However, there appears to be a growing disconnect with what the corporate reports provide and what stakeholders want. As Sue Hohenleitner, Vice President of Finance, Acquisition & Divestiture Operation Johnson & Johnson said in the EY study, “How can the digital transformation of reporting build the bridge between trust and long-term value?: “I think, in some cases, the ability to communicate long-term value is missing in traditional corporate reporting because of its historical emphasis.”

Indeed, investor are increasingly focused on the big picture, and finance leaders know this. The EY study found that 72% of finance leaders globally agreed that nonfinancial information is increasingly used in investor decision-making.

Companies have made progress in their reporting of financial and nonfinancial information, and many are moving to report against key performance indicators (KPI), such as in the areas of economic, strategy, and environmental, social and governance (ESG). However, despite this progress, more should be done to challenge reporting.

For one, there is a tendency to report the wrong things: measure what is easy rather than what stakeholders want to know. This is particularly true of nonfinancial – or intangible – assets, which has taken on increasing significance.

Statistics show that in the 1970s, about 80% of Standard & Poor’s 500 market value was accounted for by tangible assets on the balance sheet; today, this figure has dropped to less than 20%. EY research bears this out: in the EY survey, 73% of finance leaders said that their performance on nonfinancial KPIs has a significant impact on intangible assets.

Leveraging or processing data?

Despite having more data than ever before to help them produce the necessary reporting that would address investor needs, the fact remains that many finance teams are overwhelmed by the volume and variety of data. As a result, many finance leaders spend more time gathering and processing data than analyzing it.

The struggle that many teams face is that they are still focused on cleaning up the data – this is especially true for organizations that have grown over time through acquisitions and yet are never fully integrated. Hence, information would remain sitting in different areas and taking varied forms.

Trust can take a lifetime to build and seconds to lose. While rebuilding that trust depends on many factors, reporting can play a vital role.

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Reporting teams should work towards exploiting the rich, multidimensional data they have access to. Using technological advances and sophisticated skills, finance teams can provide the reporting insights that are needed to give stakeholders visibility into the business and support long-term value.

For reporting to play this role, finance leaders should consider three critical actions.

First, they need to understand how their approach to reporting and transparency measures up against their peers. Finance leaders should consider how their peers approach nonfinancial assurance so external stakeholders and boards trust that information, while taking into consideration risk management and opportunities to improve supporting processes and systems.

Having comparable and dependable nonfinancial information builds greater trust in the capital system and enables more discerning choices. Assurance over this nonfinancial information will be key to the way finance functions evolve in the future with the infusion of technology such as artificial intelligence.

In that light, the next action that finance leaders need to take is to create a compelling but pragmatic vision for how the function can utilize new technologies. The EY survey identified two priorities – exploiting rapid technological advances in automation, artificial intelligence (AI) and blockchain, and building trust into data analytics – to make the most of the smart technologies in corporate reporting.

According to the respondents, AI will be the most important technology in five years’ time, followed by robotic process automation and tools based on blockchain. However, data risk remains the number one challenge facing corporate reporting teams. Indeed, finance leaders need to manage the difficult tension between mitigating data as a risk and exploiting it as an opportunity.

There is an important balance to strike between the two. Finance leaders should drive data innovation while avoiding lapses in data security and threats to customers’ privacy. This means creating the right internal culture for data, with everyone following a clear data strategy underpinned by a code of conduct and data governance framework.

Beyond traditional competencies

The organizational ability to create long-term value based on reporting transparency and embracing smart technologies are set to take center stage in the future of corporate reporting. It is important to recognize that value-driven reporting does not just demand that finance teams adopt new technology – they also require a different talent profile and skill sets.

The finance function will benefit from team members with a range of new capabilities beyond traditional finance and accounting skills, including strategic awareness of new technologies, such as AI, and knowledge in disciplines such as data science and advanced statistics. And those who can help the team understand and measure the interdependencies between nonfinancial and financial information will prove to be increasingly valuable.

While there is greater interest in long-term reporting, the quality of nonfinancial disclosures remains questionable, and could be holding back both companies and investors from advancing the sustainability agenda.

The writer is Chiang Joon-Arn, EY Asia-Pacific Financial Accounting Advisory Services Leader.
A s geopolitical tensions, rising interest rates and technological disruptions continue to weigh on markets, investors are adopting long-term perspectives to counter short-term uncertainties. The preference for companies to rebalance from short-term profits to long-term value creation has resulted in greater demand for non-financial performance reporting and disclosures.

In fact, environmental, social and governance (ESG) factors have become critical to investment decision-making for most investors. According to the EY 2018 Global Climate Change and Sustainability Services study of institutional investors (EY 2018 survey), nearly half of respondents globally compared with 78% in the 2017 survey said they conduct either an informal evaluation or a structured, methodical evaluation of a target company’s nonfinancial disclosures when deciding future investments.

Regulators also recognize that investors’ demand for nonfinancial performance information is increasing. In Singapore, the Singapore Exchange has made it mandatory for all listed companies to report on their ESG practices from financial year ended 31 December 2017. While there is greater interest in long-term reporting, the quality of nonfinancial disclosures remains questionable, and could be holding back both companies and investors from advancing the sustainability agenda. Based on the EY 2014 survey, more than half of respondents (56%) said that currently, a company’s nonfinancial disclosures are either not available or inadequate for meaningful comparison with those of other companies.

For issuers to close the gap, they need to first understand what information is required by investors and how it will be used. While there are many ESG factors, investors are looking to companies to determine and report on the material topics for their organization and their industry. To be fair, 78% of investors say that most of the companies that they follow assess ESG materiality adequately. However, it is important to keep in mind that a useful report to investors is one that identifies as well as measures specific ESG metrics, to provide them with a useful view of the risks and opportunities that drive the long-term value of a company.

It is the latter – measures of accountability – specifically information on how nonfinancial metrics are established and managed, that are currently missing. While there is a lot of disclosure about formal governance documents, policies and practices that are in place, the absence of specific metrics means investors are unable to evaluate an organization’s progress in growing its intangible value.

The biggest challenge facing organizations is a shift in mindset. They will need to widen their definition of value: beyond profits to intangible value created by other forms of capital such as social, human, intellectual and natural capital, which are critical to an organization’s long-term success. Businesses that embrace this mindset are switching from the traditional financial reporting model to explore an outcomes measurement model.

The concept of outcomes measurement is straightforward enough — it refers to the measurement of the difference that an initiative, program or organization is making. The reality is that wide-ranging stakeholder groups have developed their own set of frameworks, resulting in a plethora of different sustainability reporting tools in the market, which has made it harder for organizations to navigate this space and determine the most appropriate and credible measurement options for their needs.

As a result, many organizations are adopting a wait-and-see approach until a dominant trend toward one comparable standard emerges. Yet in this new era of rapid change, can companies afford to wait on understanding their long-term value?

While companies that proceed to trial frameworks would gain an edge over their competitors, there is still an urgent need for prescriptive nonfinancial accounting standards to allow for better comparability across all companies. More than half of investors in the EY 2018 survey said that prescriptive accounting standards for nonfinancial information would be very beneficial. Investors are of the view that national regulators are best suited to lead efforts to close the gap between investors’ demand for nonfinancial information and the information actually provided by issuers.

By Simon Yeo

The preference for companies to rebalance from short-term profits to long-term value creation has resulted in greater demand for non-financial performance reporting and disclosures.

The writer is Simon Yeo, EY Asean Climate Change & Sustainability Services Leader.
The case for sustainable supply chains beyond compliance

Companies must move away from approaching sustainability as a purely regulatory reporting requirement and start integrating sustainability within its business practices and operations.

“Dealing with shared risks, which resides deeply upstream, requires sustainable organizations to step up to influence, collaborate and drive shared agendas.”
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hese days, one would be hard pressed to find a major global company that isn’t pursuing sustainability initiatives, particularly on the impact of their supply chains on the environment and society. Amid mounting stakeholder pressure to build sustainable businesses, addressing the reputational and regulatory risks associated with non-sustainable practices has become a key business priority.

Beyond these risks, in practice, companies also need to manage other supply chain risks in areas such as security, quality of supply and litigation. It becomes tougher considering the risks in areas where they have diminished controls, such as procurement operating risk, supplier quality risk and other shared risks like resource availability. Dealing with shared risks, which resides deeply upstream, requires sustainable organizations to step up to influence, collaborate and drive shared agendas.

Supply chains are struggling to adhere to sustainability commitments when goods’ input costs are volatile, rising and difficult to hedge against unknown variables including commodities, labor, energy, water, extreme environmental disasters or the long-term erosion of natural capital. Therefore, businesses often view sustainability as a cost and fail to recognize its potential to create value for the business.

Unlocking business value

Forward-looking businesses are going beyond risk mitigation to realize the opportunities in building a sustainable supply chain. According to The state of sustainable supply chains report produced by EY in association with the UN Global Compact, improving sustainable supply chain sustainability is the way to drive revenue growth through innovation and differentiation in their products and services.

Sustainability’s other benefit, which may come as a surprise, is cost reduction. When procurement managers source for goods and services and expand their view to adopt a total lifecycle cost approach instead of focusing only on the price of raw input, they discover potential savings across the entire value chain.

Beyond generating direct cost savings and revenue, sustainability initiatives also give companies a “social license” to operate, building brand value for the business and helping it develop trusted relationships with its stakeholders such as employees, customers, investors, regulators, non-government organizations etc. To understand the importance of such influence, take for example how Gartner’s Supply Chain Top 25 companies ranking methodology now incorporates CSR performance as 10% of the overall score.

Companies must move away from approaching sustainability as a purely regulatory reporting requirement and start applying a sustainability lens to the design, development, production, packaging, logistics and marketing of their product and services in order to find strategic growth opportunities and business benefits.

An example of a company that intentionally integrated sustainability within its business practices and operations is Interface Inc., a global leader in manufacturing carpet tiles. The company realized that to achieve carbon neutrality, it had to overhaul the way it was operating. By the first year, Interface reduced average consumption of fiber by 10% per square yard; and hence reduced costs.

By Kuntha Chelvanathan and Michael Ignatiadis

By the fifth year, Interface introduced a carpet tile product made with 100% recyclable face fiber and a layer of 100% recycled vinyl material in the backing. Interface remains one of the biggest players in its industry.

Aspiring organizations would do well to stay away from the narrow risk-driven approach to sustainability and instead define a purpose-led strategy to drive long-term sustainability and focus on shared value. As realizing this strategy could entail the reinvention of their operating model, this will need the support of investment commitments to realize a resilient and responsible supply chain vision.

Challenges exist

One of the key challenges faced by organizations along their journey towards sustainability is effectively measuring, reporting and communicating on sustainability performance. As of now, many companies still struggle to identify and measure their most material supply chain impacts, whether ethical, social or environmental.

Most companies are used to short-term rather than long-term reporting, and are focused on financial results rather than accounting for intangible assets. Companies can take reference from the Embankment Project for Inclusive Capitalism report by the Coalition for Inclusive Capitalism and EY, which outlines several intangible assets and metrics to help companies communicate their ability to generate long-term value to both investors and the society.

A company that is taking sustainability reporting seriously is Singapore-based agribusiness group, Olam International, which has signed Asia’s first sustainability-linked club loan facility of US$500m. Olam will need to meet improvement targets against environmental, social and governance metrics that will be assessed by a third party, Sustainalytics.

Other leading companies are exploring natural capital accounting, and social value calculations to inform strategic decision-making and drive shared value. The Dow Chemical company, apart from reporting on its sustainability performance using Global Reporting Initiative standards, is also tracking its progress along its seven 2025 sustainability goals, including recognizing the value of nature. This is Dow Chemical’s decade-long goal to gain US$1b in business value by doing projects that are good for business and better for nature.

While there are exemplary companies that are leading the way in sustainability, building a sustainable supply chain in the emerging markets in Asia remains a challenge. The case for sustainability as a business imperative is growing but still faces resistance in this region.

For one, business leaders will need to embrace a mindset shift to recognize the long-term value of a sustainable business, beyond implementing short-term measures to mitigate immediate risks of non-compliance with environmental laws. Having said that, the advantage for Asia-based businesses is having the opportunity to get sustainability right from the outset by learning from best practices – not just in developing and implementing sustainable goals but also in building effective measurement and reporting to measure their progress.

The writers are Kuntha Chelvanathan and Michael Ignatiadis, Partner and Director from Advisory Services – Supply Chain and Operations respectively.
Retailers will be challenged to transform as the foundation of the retail industry shifts, driven by technology-empowered future consumers who demand not just personalized products and services, but also frictionless experiences.

As an EY hackathon in 2018, the purpose of which was to inspire a future world for consumers in Singapore, participants agreed that consumer are increasingly aspiring to have a more fulfilling and purposeful life and that technology will be key to empowering them to achieve that. Full consumer control will be achieved through technology and artificial intelligence. AI will automate the mundane and leverage the time that they free up towards creativity and enjoyment. Consumers will seek brands that are not just good at doing what they are good at doing, but are good at doing it with a Singapore story as global brands become more and more ubiquitous across shopping malls.

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Although consumers will still value the opportunity to own the brands they love, the shift in consumer behavior will require retailers to transform. They will also need to rethink how they interact with consumers through channels and platforms, and present products, services and experiences that are in line with the more precise appetite for local products and stories.

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Although consumers will still value the opportunity to own the brands they love, the shift in consumer behavior will require retailers to transform. They will also need to rethink how they interact with consumers through channels and platforms, and present products, services and experiences that are in line with the more precise appetite for local products and stories.
All of this has implications for the retail industry and beyond. As consumers consider optionality and personalization, companies will need to prioritize individualized user experiences to mitigate switching costs in the face of dwindling brand loyalty. Service providers that can integrate with other parties to create a seamless customer experience could outcompete independent providers.

At the same time, global platforms that match increasingly specific user needs with niche producers and service providers can gather a large loyal following. Finally, regulators will need to find a new balance between upholding fair competition and data privacy with citizens’ demands for tailored experiences.

Clearly, every consumer-facing business must recognize the need for transformation to remain relevant. Even those that are taking action now may need to be bolder and redirect or accelerate their efforts so as to move beyond protecting their current business to creating the business that they need to become.

To do so, businesses should consider these five imperatives for changes.

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**Five imperatives for change**

1. **Challenge every assumption: Shift your business model from incremental improvement to exponential change**

   Today, most companies are trying to protect a legacy of competitive advantage by leveraging their scale and finding incrementally better ways to do what they do already. But the degree of consumer change and its accelerating pace are turning heritage into baggage as trusted capabilities lose relevance.

2. **Choose your “tribe”: Focus your purpose on the stakeholders who matter to your business**

   Leaders today know that defining and articulating a sense of purpose is an essential part of engaging consumers and talent. Currently, companies anchor their purpose in a set of values that most people would agree with, like caring more for the environment or bringing families together. Future consumers will be much more aligned with their “tribes” i.e., communities of like-minded individuals, so tribal marketing that targets their niche interests and preferences will be more effective.

3. **Win every micro-moment: Compete for “superfluid” consumers every time, all the time**

   Today companies are trying to win and retain consumers by optimizing the experience they deliver at every point along the path to purchase. New technologies are turning that pathway into a longer and more winding road, crossing channels and blending physical, online and mobile.

   Tomorrow’s “superfluid” consumers will not follow a predictable pathway. They will purchase in micro-moments. Instead of being loyal to a brand, consumers will want to feel part of something they have helped to define and create. Therefore, companies must be able to shape demand by continually adapting what they offer, when they offer it and at what price.

4. **Deliver measurable outcomes: Replace brand promise with transparent impact**

   Traditionally, companies have engaged consumers by promising that their product or service will deliver a unique benefit. The extent to which the promise is delivered can be hard, or impossible, to measure. Increasingly, consumers will look for measurable outcomes. Consumer-facing companies can create new ways of generating value today by anticipating this shift from generalized brand promises to measurable, personalized outcomes.

5. **Master the ecosystem: Focus exclusively on where and how you can add value**

   New technologies and business models are disrupting the value chains that companies have relied on for decades. Consumers will expect much higher levels of control, customization and service, and it can be more difficult to meet these expectations profitably. Today, many companies are responding to disruption by implementing more agile and demand-responsive networks.

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Efficient and frictionless user experiences will become a pre-requisite and consumers will expect to have their needs met, no matter how niche.

The writer is Chandan Joshi, EY Asean and Global Emerging Markets Consumer Products & Retail Leader.
Finding security in the cloud

With the right service providers, enterprises can benefit from the cost savings, seamless and quick deployment, committed availability and on-demand scalability that cloud-based cybersecurity services can bring.

By Krishna Balakrishnan

Cloud computing services, where software and services are delivered over the internet instead of locally installed servers, are rapidly going mainstream. More consumers are storing their data online, businesses are increasing their software-as-a-service subscriptions, and the Singapore government has announced its plans to migrate most of its government IT systems to commercial cloud services within five years from 2018.

The future operating environment could well be cloud-first. Yet, the large volumes of data concentrated in cloud host servers will be highly attractive to cyber criminals. While security is a top concern among cloud users, many are also turning to the cloud to address their security challenges. Worldwide spending on cloud security solutions is growing rather than shrinking, where the total spend for 2019 is forecasted to reach US$459m, more than double of what was spent in 2017, according to a report by Gartner.

Bringing security to the masses

The rise in cloud security adoption has much to do with the growth in the maturity of cloud computing. With greater economies of scale and technological advancements in cloud services, providers are able to deliver significant cost savings, seamless and quick deployment, committed availability as well as on-demand scalability. By comparison, on-premise solutions can often be resource-intensive, slow and outdated in their cybersecurity efforts, and highly inflexible due to the fixed infrastructure.

In today's operating environment, organizations have to be prepared to simultaneously defend against multi-pronged and multi-party cyberattacks, which are evolving in sophistication, speed and accuracy. Looking back at the scale and frequency of cybersecurity breaches over the last two years, clearly, it is increasingly not viable for any individual organization to defend against all potential threats.

Cloud security providers have the potential to help address the critical gaps in cybersecurity. Closing the intelligence gap between cyber criminals and enterprises is a continual and costly endeavor, which is best rationalized through economies of scale. There is already a skills gap in cybersecurity in the labor market, and concentrating the limited cybersecurity talents in cloud security providers could help to drive the economies of scale that enterprises can then tap on.

In view of these advantages, enterprises should consider cloud solutions alongside an on-premise option to meet their cybersecurity needs. Particularly for small and medium enterprises with limited budgets and technological capabilities, subscribing to a cloud security solution may be the quickest and most cost-effective option.

Even as cloud technology is helping to realize cybersecurity inclusion, where all organizations will be able to afford and access cybersecurity services, the breadth and game-changing nature of cloud migration is also introducing new risks. To gain the end-users' trust that their data is secure, this requires organizations to shift their risk management approach to build in digital trust by design. Rather than reacting to risks when they happen, companies need to predict and address potential concerns about emerging risks. This starts with an understanding that there is no one-size-fits-all technological solution.

Getting the right fit

Enterprises will need to consider the level of data privacy and data security risk involved, given that the cloud security provider will have access to data in the organization. Not having a clear understanding of the service providers’ identity and access management policies could impede an enterprise in making an accurate assessment. Furthermore, organizations that deal with highly confidential data or operate in countries with stringent data privacy laws could face regulatory compliance risks.

Another challenge is the potential rigidity of cloud service providers’ service level agreements (SLAs). The standard one-size-fits-all cloud security solution may not suit a business’ unique needs or it may be misaligned with their long-term business objectives. A poor fit could result in significant cost increases or integration roadblocks.

The technical complexities of an SLA also make it difficult for the business to understand, and even harder to assess and negotiate. Organizations need transparency and visibility of how services are delivered from and by the cloud-based security providers. They must be prepared to do due diligence and ask key questions like: What is the cloud service provider ready to commit to in terms of service delivery, security and uptime? In the event that an SLA is breached, what are the penalties and compensation? Failure to accurately assess and strengthen the SLA could expose the enterprise to a large amount of risk that should have been shifted to the service provider.

In view of these risks and complexities, the suitability of the service provider is key to optimizing the returns from utilizing a cloud security solution. While it may be tempting to award the contract to the lowest-cost provider, enterprises should consider using an evaluation criteria that is appropriately weighted towards their business strategy and goals.

Meanwhile, service providers like the EY Cyber-as-a-Service team are adapting their cloud-based security service offerings in response to the diversity of business and industry needs as well as specific enterprise requirements, providing transparency, visibility and flexibility to clients.

As cyber threat innovations continue to outpace organizational cybersecurity efforts, this will drive enterprises to increasingly leverage the benefits of a cloud-first cybersecurity strategy as they seek partners with the ability to deliver a robust, simple and flexible cybersecurity service that will enable them to thrive in a digital world.

The writer is Krishna Balakrishnan, EY Asia-Pacific Cybersecurity-as-a-Service Leader.
Opportunities in the rise of an industry-agnostic workforce

Industry convergence may be disruptive but opens up cross-industry employment opportunities for individuals who reskill, and offers organizations a more diverse talent pool.

By Samir Bedi and Jojico Tanuwidjaja

The thriving businesses from yesteryears may be nowhere in sight, while today’s household names could belong to totally new industries. The reality is that employers today cannot guarantee that their business will survive, and neither can individuals assume that their employability is secured into the future.

Employment uncertainty in many job markets around the world has been the consequence of the disruptive forces of technology, globalization and demographics interacting to redefine, converge and blur industry boundaries that were previously distinct. In Singapore, disruptive forces are set to have a profound effect on the labor market where there is a mismatch between the jobs available, the skills required and the expectations (remuneration, job requirements etc.) of the workforce, according to the OIT Institute.

Having said this, there are upsides: a key advantage of industry convergence is cross-industry employment opportunities for Professionals, Managers, Executives and Technicians (PMETs) and other mid-career professionals that are seeking to leverage the gamut of resources and government assistance schemes available to upskill themselves and gear up for careers in potentially different industries from their current one.

To that end, a mindset shift is important. Firstly, individuals must be keen to expand their horizons to embrace different industries. Secondly, they should embrace a growth mindset and make life-long learning a habit. The Skills Framework is a practical starting point to help individuals to identify the gaps in current skills and then opt for training and certification programs. Thirdly, beyond meeting the known skills requirements, the key to thriving in an accelerating disruptive environment is to continually explore the unknown or emerging skillsets to insure their employability for tomorrow.

Seizing the upsides of diverse talent pool

As the face of the workforce changes, organizations should also be rethinking their talent management strategy. Given that employees now have greater cross-industry employment options, rather than being apprehensive about the lack of employee loyalty and attrition, organizations must take steps to proactively leverage this influx of talent from other industries that was previously not readily accessible to them.

For example, quality assurance and control specialist roles in the biopharmaceuticals manufacturing sector and in the food manufacturing sector share similar skills and competencies. Another example is how a cabin crew role in the air transport sector share many skills and competencies with a sales supervisor role in the retail sector, such as service challenges, service excellence, service innovation and service leadership.

Perhaps, even more thought-provoking are the similarities between a ship operator role in the sea transport sector and sponsorship executive in the tourism sector, where there are two critical skills and competencies in common, i.e., business data analysis and budgeting.

Organizations must make some key decisions regarding their talent management: will they build their talent through training and development of the existing workforce, or buy talent externally through a recruitment exercise, or tap into the gig economy and outsource work on a contractual basis?

While these strategies are not revolutionary, the execution has some significant changes. For example, when it comes to building talent, organizations should intentionally assess the use of government grants and schemes to offset the cost of upskilling and retraining their workforce.

In buying talent and outsourcing the work, organizations should critically question their current and emerging talent needs vis-a-vis their business strategy, and consider expanding their search beyond their conventional talent pool. Having a talent pool that is diverse and possess cross-industry expertise can give organizations a much better chance at handling the threats posed by industry convergence and even thriving as they themselves venture into new industries.

With the various national-level initiatives in progress on reshaping Singapore’s workforce for the future, the country has become a benchmark destination for creating an ecosystem that supports life-long learning for its workforce. The responsibility now falls back on each and every one of us – for employees to upskill themselves and for organizations to efficiently tap into the larger talent pool to be prepared for the future working world.

The writers are Samir Bedi and Jojico Tanuwidjaja, Partner and Manager from People Advisory Services respectively.
Rebalancing gender disparity in STEM

With the rapid rise in demand for science, technology, engineering and mathematical (STEM) skills and the impact of digital in the future economy, barriers to gender parity in STEM education and careers must be addressed with greater urgency.

Disruptive technologies are challenging entrenched notions of work, reinventing jobs and creating opportunities and demands for new skills. Will this change result in a gender-balanced workplace or could more formidable barriers emerge? The call-to-action for this year’s International Women’s Day (IWD 2019) is to push for the former, in other words, its theme #BalanceForBetter.

To begin with, a digital gender gap currently exists. The rapid speed of digital disruption coupled with unequal access to digital technologies has resulted in a growing proportion of women being digitally excluded from work and economic opportunities.

With technology being the major force that is shaping the future economy, skills and jobs related to STEM (science, technology, engineering and mathematics) are increasingly valuable and in high demand. In that light, the gender imbalance in STEM talents today across the world is concerning. According to the 2015 UNESCO report, “A Complex Formula: Girls and Women in Science, Technology, Engineering and Mathematics in Asia”, even in developed countries like Singapore, women comprise just 30% of researchers in science, technology and innovation.

Gender parity is not a matter of just filling in seats but also looking at the quality and value assigned to those seats. On this note, research by Catalyst on “Women In Science, Technology, Engineering, And Mathematics” revealed women made up just 12.2% of boards in the information technology industry in 2015 globally. In the US, women in computer, engineering, and science occupations were paid an estimated 79.2% of men’s annual median earnings in 2016.

Considering that STEM talents play a key role in creating technologies that are transforming our world, if women do not currently have a significant voice in that transformation, the impact of digital exclusion will only grow into the future.

The ramifications of such exclusion extend beyond personal missed opportunities. The costs of a gender-imbalanced world will be borne not just by women but by companies and nations as well. Organizations face the risk of creating products and services that are unsuitable for women—a major consumer segment—or missing out on innovation opportunities that are best realized in a diverse workforce. As nations race ahead to fulfill their digital ambitions, they will need all citizens, both men and women, to be equipped with STEM skills to develop and implement truly effective technological transformation projects.
Tackling the gaps in education, awareness and mindset

As with addressing any workforce gaps, organizations and governments need to look at both the current labor market barriers as well as work towards building the future pipeline. The future pipeline of STEM talents looks to be skewed towards men based on the current demographic profile of STEM graduates. This reluctance to study STEM is partly due to a widespread perception that it is challenging for females to secure a career in these fields, creating a self-perpetuating cycle of low enrolment in schools and poor women participation in companies across STEM fields.

To break the cycle, organizations will need to take a proactive approach and collaborate to address a range of socioeconomic barriers. For example, more organizations could offer scholarships and mentorships targeted at women to improve the accessibility and affordability of an education in STEM.

Organizations can also broaden their perspective when hiring talents for STEM-related roles. Beyond looking to hire within the limited pool of STEM graduates, organizations can recruit female talent with the right potential and attributes and sponsor their training. Not only will this enable them to cast their net wider, it helps to uplift and grow the overall talent pool in STEM.

Another challenge is in tackling inherent misconceptions and biases held by individuals—including women themselves—and the society at large that STEM is more suited for men only. Changing mindsets is not an easy task and raising awareness among women from a young age that a career in STEM fields is a viable option for them is important. That is why in conjunction with IWD this year, EY has launched a “Women in STEM” dialogue for its women leaders in STEM fields to share their experiences with female undergraduates, among other initiatives.

Additionally, not only are women less likely to enter technology-intensive industries, they are also more likely to leave. Attrition rates for women in STEM fields are at 53% compared with men at 31%, according to research by Catalyst. The push factors range from being excluded in a male-dominated work environment to balancing commitments both at home and work, while setting aside time to learn and keep pace with emerging technologies.

To stem the high attrition rates of women in STEM careers and attract those who do leave to re-enter the workforce, women in STEM careers will need better support. Many organizations—EY included—have begun to innovate its hiring practices. They are creating job-shares opportunities, allowing breaks for further studies, encouraging women mentors to inspire others, developing mobile gig platforms that offer short-term work opportunities, and collaborating with external advocacy organizations on back-to-work programs.

An urgent task at hand

For decades, driving gender parity at the workplace has been an enduring challenge and journey for many organizations and economies. Achieving gender parity specifically in the fields of STEM will no doubt require greater push, commitment and intervention, given incumbent barriers in mindset, education and access to digital. And with the rapid rise in prominence of STEM skills in the future economy, these barriers will need to be addressed with greater urgency.

The ongoing US-China trade dispute is increasing trade risks for businesses with cross-border operations. However, astute navigation of the complex international trade and business environment can still lead to favorable outcomes.
Taking reactive measures, risk and complexity

With the increase in US trade actions, the risk of taking reactive measures grows. Canada, Mexico, the EU, Turkey and India have already put in place retaliatory tariffs, with Russia, Indonesia and Japan considering to follow suit.

This potentially has a significant impact on the sectors that are directly affected, yet the overall economic impact from the US-China trade dispute is, however, likely to be small – around 1.6% off China’s economic growth over the first two years, according to an analysis by the International Monetary Fund. However, the unpredictability of these actions causes an increase in risk and complexity for businesses carrying out cross-border trade, with a longer-term impact on investment decisions.

The landscape gets more complex with trade liberalization measures being implemented in parallel. Between October 2017 and May 2018, members of the World Trade Organization not only implemented 75 new trade restrictive measures but also 89 new trade facilitative measures. For example, it is a less well-known fact that President Trump signed into law a bill reducing and suspending tariffs on around 1,600 products in September 2018 – the same month he unleashed the third list of punitive tariffs upon China.

Not all doom and gloom on the trade front

Offering some optimism on the trade front is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which accounts for nearly 13.5% of global gross domestic product (GDP), and was implemented on 30 December 2018. This occurs for Mexico, Singapore, Canada, Japan, Australia, New Zealand, and probably Vietnam, which have already ratified the agreement. The CPTPP looks to provide benefits such as tariff elimination of more than 98% of tariffs covering sectors such as industrial goods, seafood, horticulture and wine.

There are three aspects of the CPTPP that businesses should take note of. Firstly, Peru, Chile, Brunei and Malaysia are also part of the 11-member CPTPP, but have not completed their ratification processes. It is expected that slower ratification of the agreement for these latter countries will result in their commitments entering into force later. Secondly, being an open-access FTA, markets like Taiwan, Thailand, the UK and mainland China are studying the possibility of accession to the CPTPP. The scope and impact of the CPTPP may expand in the future.

Lastly, bilateral agreements within the CPTPP also offer business opportunities but will require identification and detailed analysis, e.g., Canadian-made motor vehicles sold in Australia and Malaysia enjoy more liberal rules of origin.

The other significant FTA in the region, the Regional Comprehensive Economic Partnership (RCEP), which accounts for 30% of global GDP, is also in the works. Substantial progress was made in 2018, with major announcements also indicated for 2019. There are, among others, outstanding differences over market access such as India’s preference for services but not goods liberalization, which is opposite to the preferences of other members. However, if these issues can be resolved, the RCEP will be the largest FTA yet, bringing huge potential for trade and market access to the region.

Unrealized trade opportunities exist

With the increasing complexity of trade measures and barriers, companies are naturally much more focused on trade risk as part of business and supply chain planning. However, many may not be fully aware of the proliferation of the FTAs and the opportunities available to them. Where companies impacted by the US-China trade dispute are considering to shift sourcing or production facilities away from China, awareness of the true business and tax costs of changing a manufacturing location can be a game-changer. Therefore, businesses need to have a strong knowledge of FTAs and corporate tax regimes, as well as government credits and incentives, to proactively plan for cost-efficiencies.

In the face of trade dispute and increased trade risk, astute navigation of the complex international trade and business environment can still lead to favourable outcomes.

The writers are Adrian Ball and Mok Sze Xin, EY Asia-Pacific Indirect Tax Leader and Associate Director respectively.
Forging ahead on Southeast Asia’s digital journey

ASEAN countries must collaborate to be digitally ready in terms of connectivity infrastructure and technology adoption across governments, businesses and citizenry, so as to realize its full economic potential.

By Sam Wong

Speaking at the Singapore Business Federation’s ASEAN Outlook Conference 2018, Singapore Senior Minister of State for Trade and Industry Dr. Koh Poh Koon said that e-commerce is a key focus area with Singapore assuming ASEAN chairmanship that year. Regional business leaders at the conference also held the view that as the digital economy in Southeast Asia grows, cross-border cooperation is key to realizing its full potential.

Indeed, to continue to thrive as one of the fastest-growing regions globally, Southeast Asia must be innovative and resilient. Digital technology will play a catalyzing role in its regional progress.
Technology enables the creation and proliferation of new ideas as countries prepare themselves to seize growth opportunities, while at the same time, work through a myriad of challenges in areas such as financial inclusion, trade facilitation or external threats such as cyber-terrorism and climate change risks.

To that end, ASEAN countries need to be digitally ready – both in terms of availability of connectivity infrastructure and adoption of technology across governments, businesses and citizenry.

While there are many success stories of homegrown start-ups and thriving digital native businesses in Southeast Asia, there is still significant room to fully leverage the benefits that digital transformation can bring to the region.

The reality is that a digital chasm remains between the developed and developing economies as a region. According to the MasterCard-Fletcher School Digital Evolution Index, there are huge gaps in digital capability and readiness between different ASEAN countries.

Much of that is invariably a result of the diversity and varying levels of maturity on different fronts in the region, such as physical and regulatory infrastructure, differing policies and consumer behaviors, and availability of skilled talent.

Having said this, the challenges are not insurmountable if member nations are committed to collaborate for the betterment of both the local economy and the region.

Review and harmonize regulations and policies

ASEAN is a target growth market, evident from the recent surge of investments from Chinese technology companies into the e-commerce sector in the region. It is estimated that Southeast Asia’s e-commerce spending will rise to almost US$99b by 2025.

Yet, there are existing barriers to entry, such as slow regulatory reforms, extensive bureaucracy and lack of government incentives and promotion in various parts of the region that could curtail the potential of e-commerce.

Developing the e-commerce potential of the region must focus on creating a seamless supply chain. To that end, it is necessary for ASEAN governments to continue to improve the quality of their local infrastructure – transportation, telecommunications, finance and trade platforms – as well as the regulations and laws that support the transaction, distribution and provision of goods and services.

To facilitate open and smooth trade processes between the member countries, governments should look to review and harmonize standards within the region for both the digital and physical space. For example, the establishment of the ASEAN Consultative Committee on Standards and Quality has harmonized national and international standards and facilitated implementation of mutual recognition arrangements between member countries for priority products and standards.

Within the AEC Blueprint 2025, the ASEAN Work Programme on Electronic Commerce 2017-2025 is a vital first step for the establishment of a comprehensive and harmonized framework to integrate ASEAN’s e-commerce industry. If disparate regulations remain, ASEAN’s economic progress will be impeded as foreign and domestic companies struggle to make financial sense in paying to play in ASEAN markets.

Build and scale digital infrastructure

A future-ready government will require digital infrastructure in place – efficient networks, hardware and software widely accessible by citizens.

Connectivity in Southeast Asia varies; Brunei’s and Malaysia’s internet penetration rates are at 86% and 71% respectively, while only 26% of the population in Laos and Myanmar have access to the internet.

From a business perspective, many businesses are increasingly reliant on technology and the internet due to its relatively lower set up cost, capabilities and reach. A lack of digital infrastructure including basic internet accessibility would mean a continual struggle for business to scale and grow, and hinders countries in accelerating value creation in the new economy.

Skill a fit-for-purpose workforce

Technology is an important enabler, but just as important is the human element – a digitally ready workforce. Governments and businesses must co-drive the investment in education and skills training to transition its population to one that is future-ready.

Currently, the level of digital literacy and competency across ASEAN countries varies greatly; even countries such as Singapore and Malaysia that are commonly considered to be ahead in education in the region still do not have the critical mass of talent that are equipped with the skills needed to fully capitalize the potential of the digital economy.

Science, technology, engineering and mathematics (STEM) education is especially pertinent given rapid technological shifts and the rise of industry automation, alongside the emphasis on infrastructure development in many emerging ASEAN economies. By bringing STEM education to the forefront of national dialogue, policymakers can encourage awareness, participation and cultural shifts.

Lead with a strategic vision

It is easy to establish a digital platform and leave it to the contractors or solution providers to manage the system. However, to encourage business innovation and make impactful changes to citizen engagement, governments should delve deeper to understand the needs of its citizens, and outline a digital roadmap where underlying issues can be addressed in different phases on the timeline.

Beyond deploying digital capabilities for the end-user, the back-end processes should be equally digitally ready to provide data for analysis. A cultural shift within government would be necessary for its people to have the digital aptitude, capacity and agility to execute digital strategies and policies for the future.

Leadership from the top is crucial in pushing through digital adoption beyond government bodies to the wider business community. For example, Thailand’s Digital Government Plan 2017-2022, done in collaboration between 20 ministries, aims to develop capabilities within all sectors of the economy to drive economic and social progress.

In Singapore, a whole-of-nation digital transformation is in play. The Smart Nation and Digital Government Office under the Prime Minister’s Office drives digital innovation in government, builds capabilities in the public sector, and promotes adoption and participation by the public and industry.

The Masterplan on ASEAN Connectivity 2025 estimates that digital technologies in ASEAN could potentially be worth up to US$625b – 8% of ASEAN’s GDP by 2030 – which may be derived from increased efficiency, new products and services, etc.

Capturing this opportunity requires the establishment of regulatory frameworks for the delivery of new digital services including data management and digital financial services; support for the sharing of best practices on open data; and equipping businesses and people with the capabilities to access these new technologies.

Building a connected and competitive ASEAN region through digital enablement will require new ways of working and collaborating among country government to deliver improved citizen engagement and business and investment experiences.

Individual countries may go it alone; but in the case of Southeast Asia’s digital transformation, the whole is certainly greater than the sum of its parts.

The writer is Sam Wong, EY ASEAN Government & Public Sector Leader.
After the “cryptopocalypse”, what’s next for blockchain?

2018 is said to be the year of the cryptopocalypse, when bitcoin prices fell dramatically to record lows and initial coin offerings traded below listing prices. As the hype surrounding cryptocurrency cools, attention is shifting to its underlying technology – blockchain. Beyond powering cryptocurrency transactions, blockchain has the potential to integrate data and processes across companies and entire business ecosystems. What is seen today may just be the tip of the iceberg. Blockchain will continue to evolve and the future of blockchain technology lies in the public networks beyond the private ones, said Paul Brody, EY Global Innovation Leader, Blockchain, at the inaugural EY Asia-Pacific Blockchain Summit held at EY wavespace™ in Singapore with 150 business leaders, analysts and university in professors attending. As the introduction of new prototypes continues to transform the blockchain ecosystem, new rules and regulations will continue to be created as the ecosystem matures. Businesses and governments across Asia are already exploring the use of blockchain ranging from financial services, supply chain and health care to improve transparency and efficiency. To support the growing demand for the industrialization of blockchain, EY is investing and expanding our capabilities in our Asia-Pacific blockchain team, according to Jimmy Ong, EY Asean Blockchain Leader.

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