Ethics at risk
When human integrity fails, can machines help build trust?

Dare to disrupt
Fighting disruption inertia
Fulfilling food: smarter and faster
SMEs: growth by digital

A future-fit finance
Towards Finance 4.0
Integration post-merger

Resilience in diversity
Power of belonging
Women empowerment in Southeast Asia

Securing Singapore’s future
A forward-looking Budget
Banking on skills
US tax reform: boon or bane
In today’s rapidly changing world, having an informed view of tomorrow is vital. That’s where we come in. *Spotlight on Business* offers you global perspectives and insights into business issues that matter to you. Knowledge that can help you take your business forward with confidence.
Welcome

Is your future fashioned on past success?

“Just because something works doesn't mean it can't be improved,” said Shuri, the younger sister of the King of Wakanda, also the innovative chief behind the nation’s technological advances in the Marvel Comics box office hit, Black Panther.

Popular cinematic culture often holds many lessons for us in reality. In the current transformative age, the greatest weakness in the pursuit of success is possibly our own inertia to disrupt and change even when the status quo looks fine.

Businesses in the food supply chain knows this best: from product sourcing to fulfilling meals on-demand, digital is helping to save costs and time while improving customer reach and experiences.

Today, going digital is not just an entitlement for the big boys. The pervasiveness of digital technology has, in some ways, lowered barriers to its own accessibility, such that small-and-medium enterprises too can harness its benefits – if they recognize the impetus for change.

More and more organizations are exploring intelligent automation to achieve new levels of efficiency and quality, for example, in building a Finance 4.0 function, managing compliance and fighting fraud. But automating intelligently goes beyond the machines; the differentiation lies in having the right people with the right mindsets and skillsets. Do you then buy or build these?

Organizations can sharpen their talent strategy through a skills-based lens to hire the right digital talent or acquire digital competencies inorganically. There is growing interest in the latter and as with any deal, ensuring proper post-merger integration, particularly in finance, is key.

Just as how digital disruption is heavily influencing boardroom conversations, it is reshaping national dialogues too. For instance, the 2018 Singapore Budget has, among others, discussed the tax and workforce repercussions of a digital economy.

Further, managing digital disruptions should not detract attention from other enduring business imperatives such as diversity and inclusion of women in opportunities and leadership, and regulatory developments such as the US tax reform.

From many perspectives, businesses today stand on shifting sands. Yesterday’s operating models that were once safe now risk slipping into the quicksand of irrelevance.

Will you let go of past glories today?

Max Loh
Managing Partner, EY Asean and Singapore
Ernst & Young LLP
When human integrity fails, can machines help build trust?

With business models and the enforcement landscape changing, compliance functions must transform to better prevent, detect and respond to data and fraud risks. Both technology and people hold the key.

Fighting disruption inertia

Being profitable does not make investing in innovation any less important. How can businesses disrupt themselves before they are disrupted?

Finance 4.0: more than just robots

Finance 4.0 goes beyond automation. The challenge for CFOs is to shift mindsets and move past the hype to determine the strategic mix of technology that adds insights and value to the business.
A Budget for the future
This multi-faceted Budget addresses the long-term challenges and lays the foundation for a sustainable future for Singapore.

Securing the future of women in Southeast Asia
Harnessing the full potential of women in the region remains a missed opportunity. There is more that governments and corporations can do collaboratively to secure equal opportunities for women.

Fulfilling food: smarter and faster
With morphing consumer demands, food service providers in Asia are looking at intelligent automation and advanced analytics to significantly accelerate the time to insight – and speed to market.

Skills at the heart of talent strategy
Both businesses and employees need to sharpen their focus on skills acquisition, development and mastery in order to stay competitive amid industry and technological shifts.

Unprepared for GDPR? You’re not alone
Regulatory pressure piles on business leaders with increasing concerns about data protection and data privacy compliance.

SMEs: growth by digital
With the expansion of opportunities that digital brings, SMEs in Southeast Asia can better harness technology for growth and innovation while tapping on support networks to overcome funding barriers.

US tax reform: boon or bane for Singapore?
While it may be too early to assess the full impact of the US tax reform, businesses should take their next steps carefully.

Finance integration: a deal necessity
While M&As are usually seen as an effective way to enter new markets, support growth and create value, evidence suggests that not all deals achieve these goals.

The power of belonging
A focus on diversity and inclusiveness has been linked to improved business performance but such efforts may fail to deliver impact if a culture of belonging is absent.
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### Banks aspire toward digital leadership

As the banking sector seek to advance its digital maturity, banks are placing emphasis on the implementation of a digital transformation program as a business priority for 2018.

Which stage of digital maturity best describes the progress made by your organization to digitally transform its strategies, processes, products and business models to date? Which stage best describes where you expect to be in 2020?

<table>
<thead>
<tr>
<th>Region</th>
<th>Maturing or a digital leader in 2018</th>
<th>Maturing or a digital leader by 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>62%</td>
<td>68%</td>
</tr>
<tr>
<td>North America</td>
<td>63%</td>
<td>66%</td>
</tr>
<tr>
<td>Europe</td>
<td>68%</td>
<td>68%</td>
</tr>
<tr>
<td>APAC</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Emerging G-SIB</td>
<td>57%</td>
<td>60%</td>
</tr>
<tr>
<td>G-SIB</td>
<td>62%</td>
<td>68%</td>
</tr>
</tbody>
</table>

### Post-merger integration matters

Companies risk underinvesting in post-merger integration. Those that successfully integrate typically invest 8 to 10% of the deal value, and form a dedicated team to drive post-merger integration activities.

What was your total investment in merger integration?

- Less than 5% of deal value: 57%
- 5-10% of deal value: 21%
- 10-15% of deal value: 8%

Top risks from sub-optimal integration:

- Unrealized synergies: 32%
- Cultural issues: 28%
- Impact on business operations: 20%
- Regulatory risks: 12%
- Employee attrition: 8%

### Divesting? Time it right.

Companies that conduct portfolio reviews annually are twice as likely to exceed performance expectations for divesting “at the right time”.

How frequently do you assess your portfolio to determine business units or brands to grow or divest?

- Annually: 55%
- Twice a year: 41%
- Every two years: 0%
- As necessary/opportunistically: 1%
- Quarterly: 3%
- Every six months: 0%
- As necessary/opportunistically: 1%

### Revenue growth tops agenda for FinTechs in Southeast Asia

FinTech firms in Southeast Asia are planning to expand their footprint beyond their current markets despite funding challenges.

**Investment across Southeast Asia Fintech (2017)**

US$366m

45% are self-funded

60% expect next funding size to be greater than US$1m

87% plan to expand beyond home or current markets

**Goals for coming 12 months**

- 61% Grow revenue
- 45% Obtain funding

70% leveraged advanced analytics to understand the true value of a non-core asset in their last divestment

47% said they held onto assets too long
Q1 2018: Strong start in global IPO market
Driven by larger transactions, global IPO activity started out with a strong increase in proceeds in what is traditionally the slowest quarter of the year, despite a decline in deal numbers.

HR leaders under pressure
Amid a multitude of issues, embracing new HR technology, need for analytics and data skills, and being a trusted advisor rank as three of the most intensifying challenges.

<table>
<thead>
<tr>
<th>Experience/Challenge (%)</th>
<th>Decreased</th>
<th>Same</th>
<th>Increased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Making difficult investment choices</td>
<td>16%</td>
<td>36%</td>
<td>48%</td>
</tr>
<tr>
<td>Working across countries/cultures</td>
<td>7%</td>
<td>51%</td>
<td>42%</td>
</tr>
<tr>
<td>Available budget</td>
<td>25%</td>
<td>31%</td>
<td>44%</td>
</tr>
<tr>
<td>Pressure to demonstrate financial impact</td>
<td>5%</td>
<td>39%</td>
<td>56%</td>
</tr>
<tr>
<td>Embrace new HR technology</td>
<td>4%</td>
<td>25%</td>
<td>71%</td>
</tr>
<tr>
<td>Need for analytic/data skills</td>
<td>3%</td>
<td>27%</td>
<td>70%</td>
</tr>
<tr>
<td>Reputation with senior team as trusted advisor</td>
<td>3%</td>
<td>26%</td>
<td>71%</td>
</tr>
<tr>
<td>My own job engagement</td>
<td>8%</td>
<td>28%</td>
<td>64%</td>
</tr>
<tr>
<td>My intention to leave</td>
<td>28%</td>
<td>47%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Q In the last 12 months, to your knowledge, has the board of directors addressed the topic of data analytics and how can it be used in managing legal, compliance and fraud risks?

57% Yes, the board has addressed this topic.
15% No, the board has not yet addressed this topic but plans to do so.
18% No, the board has not addressed this topic and there are no plans to address it.

Putting next-gen to work in family businesses
Many large family businesses recognize the role the next generation can play when it comes to identifying disruptive threats.

How much do family businesses rely on the next generation to identify potential disruption?

5% Not at all
16% A little
18% Somewhat
21% A lot
30% A great deal

Boards: can analytics help you to manage risks?
Leadership support is critical for forensic data analytics to be successfully integrated into risk management functions.

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Corporate brief
Helping to accelerate client innovation and digital transformation with collaborations
EY is blending emerging technology with business innovation to help clients solve their most complex issues as they transform into digital organizations. New alliances have recently been formed with these companies:

BlackLine, Inc.
To offer process automation capabilities and finance transformation services and help improve finance and accounting operations.

JDA
To drive supply chain efficiencies, assess current and future supply chain needs, and determine approaches to reinventing the supply chain.

Concur
To offer the first fully integrated tax and immigration solution for business travelers.

Leader in data and analytics service
Gartner, Inc., named EY a Leader in its Magic Quadrant of Data and Analytics Service Providers, Worldwide. The recognition evaluated service providers for a broad range of services across a diverse range of data and analytics needs.

Blue Prism recognition in intelligent automation
EY is the first organization to achieve the highest recognition for services and capability in assisting to implement robotic process automation at scale and speed from Blue Prism.
Countdown to energy parity

More than a billion still cannot access electricity in developing countries while energy poverty is a rising issue in many more mature markets. Closing this energy gap is critical to driving inclusive growth, yet progress has been incremental and slow – till now. The convergence of different technologies is catalyzing the radical transformation of the energy sector. By 2021, self-generation of electricity will be as affordable as on-the-grid electricity. By 2025, the price and performance of electric vehicles will be on par with petrol-fueled cars. By 2039, transporting electricity will be more expensive than generating and storing it. To make these happen, energy companies must engage with communities in new and collaborative ways, utilities should reach across sectors and join forces with more unconventional partners, and governments need to encourage innovation through policies. An opportunity awaits to finally realize energy justice and empower communities.
When human integrity fails, can machines help build trust?
A few months into 2018, against a backdrop of controversy regarding customer data breaches and the implementation of the European Union’s (EU) General Data Protection Regulation (GDPR), it is clear that data privacy, risk and protection will be one of the greatest challenges for businesses and regulators alike.

The GDPR will apply to any company that does business with residents of EU countries. Companies found to be non-compliant could face fines of up to 4% of their global turnover. The legislation also includes “the right to be forgotten”, which entitles any individual to request a company to erase their personal data.

Yet, according to the 15th EY Global Fraud Survey, there is a significant gap in awareness of GDPR for countries both inside and outside of the EU. To ensure effective compliance with GDPR, companies will need to consider the required organizational changes and not just the introduction of more “paper policies”.

Increased global connectivity means that anyone with access to company data, anywhere in the world, can exploit weaknesses in data security. Companies’ critical digital and physical assets are therefore at greater risk of theft, damage and manipulation by insiders than ever before.

Beyond the abuse of data, broader fraudulent practices continue to prevail despite governments across the world introducing and enforcing corporate criminal liability laws.

Despite over US$11b in fines being issued globally under the FCPA by the US Department of Justice and the SEC, and the UK Serious Fraud Office since 2012, 38% of global executives still believe bribery and corrupt practices remain prevalent in business.

“Businesses remain vulnerable to significant financial and reputational harm as a result of fraud. Compliance programs need to keep pace with rapid technological advancements and an increasingly complex risk environment for business operations. More robust risk management is a strategic means of improving business performance,” said Belinda Tan, Partner, Fraud Investigation & Dispute Services at Ernst & Young Advisory Pte. Ltd.

“The good news is that with today’s advances in forensic data analytics, companies can leverage new technologies to increase the effectiveness and efficiency of their risk management efforts as they seek to improve investigation and compliance outcomes,” added Reuben Khoo, EY Asia-Pacific Forensic Technology & Discovery Services Leader.
What is the outlook for compliance and enforcement in data protection and the fight against fraud?

Reuben Khoo (RK): “Companies have been on a journey when it comes to managing fraud and data risks. But it has been tough coping with the impact of technology, which has expanded the universe of fraud and cyber risks phenomenally and enabled perpetrators to be smarter than before. Regulators are also working hard to ensure that law and enforcement is keeping pace. Regulators are expected to take significant actions in 2018 to step up enforcement of new laws and regulations, particularly around areas such as cybersecurity, data privacy, anti-money laundering and anti-competition. At the same time, regulators will continue to ramp up cross-border cooperation, which will likely lead to an increase in multi-jurisdictional investigations.

For instance, the General Data Protection Regulation (GDPR) in Europe and the China Cybersecurity Law will give more power to global and regional enforcement agencies to penalize companies that do not protect their data, whether from internal or external threats. In the case of GDPR, the penalties can be up to 4% of their global revenues.”

Belinda Tan (BT): “Anti-money laundering and sanctions compliance will also continue to be top priorities for regulators and law enforcement agencies across Asia-Pacific. Traditionally, financial institutions have focused on know your customer, customer due diligence and transaction monitoring, where the processes are largely manual. Moving forward, the focus will shift to the further adoption and application of automated processes and advanced technologies to identify ultimate beneficiary owners in the client onboarding and sanctions look-back analysis. Companies outside of the financial services sector may also face the prospect of billion-dollar fines and criminal persecutions, with a focus on sanction risks in export and trade compliance controls.”

How can advanced technologies help companies in their compliance efforts?

RK: “Technology will continue to play an integral part in organizations’ compliance programs to enhance the monitoring of unethical behaviors. The increased use of technologies helps to make compliance more efficient and sustainable for companies. For example, advanced technologies such as forensics data analytics can be a powerful tool in GDPR compliance efforts.

In an environment where businesses are cost-conscious and resource-constrained, we expect to see more companies leverage advanced technologies, such as robotics and forensic data analytics to review ever-increasing volumes of transactions. This will give existing teams more time to focus on high-risk findings.

Technology is also enabling teams to be more innovative. More and more companies are using advanced analytics technologies for continuous monitoring. Advances in the predictive capabilities of ‘big data’ means that analytics can be used to make real-time decisions, helping to identify and prevent fraud and providing management with more effective oversight. Leading companies are also using artificial intelligence technology to replace classroom and web-based training with individualized risk-based communications in real time.

However, utilizing advanced technologies does not mean replacing humans. Companies still need the human element, their domain knowledge and investigation experiences to bring technologies to life and translate findings from data into actionable insights.”
“Companies still need the human element, and their domain knowledge and investigation experiences to bring technologies to life and translate findings from data into actionable insights.”
“Ensuring that integrity intentions match actual behaviors is important. Boards and management need to execute upon the ‘Integrity Agenda’ to close this gap.”
How effective are ISO certifications in nipping misconduct in the bud?

BT: “The process of getting certified helps organizations to implement an anti-bribery management system, or enhance their existing controls. To that end, it helps to mitigate bribery risks and also demonstrates to stakeholders that the organization is serious about ethical conduct.

In Singapore, companies may look to adopt the Singapore Standard, SS ISO 37001:2016 Anti-Bribery Management Systems, but the fight against fraud, bribery and corruption does not stop there. Standards certification alone is not enough to ensure an ethical and compliant organization.

Companies should also keep in mind that being certified does not mean regulators and enforcement authorities will accept that anti-bribery standards have been met. Neither does it provide an auto-defense to punishment should a bribery or corruption incident occurs, even though authorities will usually consider the anti-fraud controls in place when determining the penalty or prosecution.

The effectiveness of such certification standards depends predominantly on the commitment of the company management to establish the right tone at the top, an ethical culture and clear anti-bribery policies that are enforced through a governing body and compliance function, and supported by adequate training and investments in proactive monitoring tools.”

How should boards and management responding to the mounting pressure on compliance then?

RK: “The pressing challenge for board and management is to build a robust culture of integrity and compliance in which employees do the right thing because it is the right thing to do, and not just because a company code of conduct says they should.

There is some work to be done on this front, judging by how only 22% of the respondents to the 15th EY Global Fraud Survey feel that individuals should take primary responsibility for their organization behaving with integrity, while 41% say it is management’s primary responsibility.

We found that many businesses have reached a certain level of maturity in their compliance programs, with the vast majority of executives interviewed being aware of anti-corruption policies, procedures and intent from management.

Yet, there may also be some level of disillusionment among companies with regards to their ability to ‘walk the talk’ when it comes to managing misconduct. The survey showed that 78% respondents believe their organizations have the clear intent of penalizing misconduct, but only 57% are aware of people having actually been penalized.”

BT: “Ensuring that integrity intentions match actual behaviors is important. Boards and management need to execute upon the ‘Integrity Agenda’ to close this gap. By that, we mean building a culture where the concept of employees taking individual responsibility for the integrity of their own actions is ingrained.

Aligning an individual’s actions with an organization’s objectives and influencing behavior over diverse and dispersed employees and third parties amid intense competitive pressures and rapid technological change will no doubt be challenging.

However, it will make good commercial sense and be a source of competitive advantage. This will be most evident where companies are competing to service multinational and public service organizations, who are increasingly looking to safeguard their supply chain and engage service providers with demonstrably robust compliance programs.”
Even as the May 2018 deadline of the European Union's General Data Protection Regulation (GDPR) closes in, only 10% of Singapore organizations have a compliance plan in place.

Globally, only 33% of respondents have a plan in place to comply with the EU legislation, while the average response of those in Europe was more positive at 60%. In other markets such as Africa and the Middle East (27%), the Americas (13%), Asia-Pacific (12%), there is more to be done with GDPR compliance as well.

This is according to the third biennial EY Global Forensic Data Analytics Survey, which examined the responses of 745 executives from 19 countries (including 40 from Singapore). The survey analyzed the legal, compliance and fraud risks that global companies face and the use of forensic data analytics (FDA) to manage them.

Reuben Khoo, EY Asia-Pacific Forensic Technology & Discovery Services Leader, believed that the pace of regulatory change will continue to accelerate and the introduction of data protection and data privacy laws, such as GDPR, are major compliance challenges for global organizations.

“While organizations in Singapore show growing concerns on data privacy compliance, many may not be aware of the immense extraterritorial reach of GDPR, its requirements and implications for data breach,” he said.

“Many organizations are still not compelled to take proactive measures to mitigate such risks. Organizations should adopt FDA as a key tool in its GDPR compliance efforts and assess opportunities to integrate them into their compliance programs,” he added.

Respondents to the survey expressed a strong belief in the value of FDA and its benefits for an organization’s governance program, evidenced by a 67% increase (global 51%) in average annual spend per respondent compared with 2016.

Companies had significantly developed beyond relying on the basic FDA tools of the last decade, with 13% of Singapore respondents (global 14%) stating that they were already using robotic process automation (RPA) to manage legal, compliance and fraud risks.

A further 51% of Singapore respondents (global 38%) said they were likely to adopt artificial intelligence within the next 12 months, followed by RPA at 43% (global 39%).

The survey found that 48% of Singapore respondents (global 42%) believed that data protection and data privacy regulations have a significant impact on the design or use of FDA.

Yet, just 11% of Singapore respondents (global 13%) indicated that they currently use FDA to achieve GDPR compliance, with 33% (global 52%) currently in the process of analyzing exactly which FDA tools to use to assist them with achieving compliance.

According to Khoo, businesses that adopt FDA technologies can achieve significant advantages, benefitting from more effective risk management and increased business transparency across all of their operations.

He said: “With better adoption of advanced FDA technologies, companies are also using more structured and unstructured data sources compared to a couple of years ago.”

**Investment in people and skills needed**

FDA is not just about technology, but about the people who manage that technology and how they use it to manage risks. The increased adoption of, and spending on advanced FDA technologies, needs to be matched with greater investment in skilled resources.

Yet, only a fraction of respondents believed that their organization has the right technical skills in FDA (Singapore 8%, global 13%), and the right data analytics or data science skills (Singapore 8%, global 12%).

Khoo added: “While it’s encouraging to see that investment in advanced FDA is increasing, companies need to match greater adoption of FDA with greater investment in skilled resources that have a combination of technical skills, domain knowledge and data analytics expertise in order to be successful in managing their risk profile.”
Are you affected by the General Data Protection Regulation (GDPR)?

The GDPR attempts to unify data protection laws across the European Union (EU). It applies to all companies, regardless of location, that process the personal data of people living in the EU. It, therefore, has immense extraterritorial reach. The GDPR includes “privacy by default” and “privacy by design” and requires notification within 72 hours in the event of a data breach. Violators can be fined up to 4% of annual global turnover or €20m, whichever is greater. The GDPR comes into force on 25 May 2018.

GDPR compliance readiness – by country and region

Base: US (65), the rest of the locations (40 each)

% of companies that have a plan to comply with the GDPR in 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas average</td>
<td>13%</td>
</tr>
<tr>
<td>Europe average</td>
<td>60%</td>
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<tr>
<td>Europe average</td>
<td>60%</td>
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<tr>
<td>South Africa, UAE and</td>
<td>27%</td>
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<tr>
<td>Saudi Arabia average</td>
<td></td>
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<tr>
<td>Asia-Pacific average</td>
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<td>Brazil</td>
<td>0%</td>
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<tr>
<td>Canada</td>
<td>10%</td>
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How (if at all) are you using FDA tools to assist in your GDPR compliance efforts?

- We are not currently using any FDA tools to support GDPR compliance.
- We are in the process of analyzing what FDA tools can assist us with achieving compliance.
- We have data monitoring and reporting tools in place that will allow us to be in compliance with the GDPR.

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Fighting disruption inertia

by Cheang Wai Keat

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Convincing businesses on the need to disrupt — to plug into new trends, to listen for weak signals in their ecosystems and to bring the outside in — is not the hard part. The real challenge is obtaining buy-in that change must take place, right now, even though the current business is profitable.

Industry incumbents, in particular, often suffer from disruption inertia. As the saying goes, if it’s not broken, why fix it?

In our recent report, The CEO imperative: disrupt or be disrupted, where we surveyed CEOs from the largest global companies from 26 countries and 16 industry sectors, the majority expressed little urgency relating to disruption. For this group, 60% were focusing on optimizing their current business model revenues, and just 20% were working on generating new revenue sources.

Despite their inaction, these companies gave themselves the highest overall scores in disruption-readiness. This dichotomy between self-perception and reality is being driven by a lack of understanding on what is real innovation.

Strive for innovation, not improvement

Today, improvement initiatives in organizations are often incremental and restricted to the customer experience. Not to say that enhancements to the customer experience is unimportant, but many organizations are missing out on some of the biggest innovation opportunities in operations, for example, using blockchain for smart-contracting to automatically track and execute agreements, artificial intelligence to improve forecasting, and robotics to automate order management.
Signs of disruption inertia

60% of companies were focusing on optimizing their current business model revenues

20% of companies were working on generating new revenue sources

Beyond these examples, the entire value chain could be upended by digital technology. To discover these possibilities, organizations need to understand this: being digital is not about IT, but rather a mindset that is fluid and focused on innovation.

With this appreciation, organizations will realize that they can become disruptors without heavy capital investments in technology or large IT teams. Instead, organizations need to focus on developing leadership, culture, innovation practices and external awareness.

The starting point – and the biggest roadblock – to disruptive innovation is leadership. Until leaders “walk the talk”, the rest of the organization will hesitate to take the risk of initiating change. And only when disruptive projects are celebrated by leaders will the workforce be motivated to set aside time away from business-as-usual activities to generate ideas.

The question is: are CEOs willing – and ready – to own the disruption agenda?

The reality is that monetizing ideas is highly risky and implementing innovative ideas can be disruptive, which will impact employees directly. As such, leaders will need the entire organization’s support to sustain innovation.

Organizations and leaders will need to be intentional in creating an innovative culture: by hiring for diversity of thought, background and experience – beyond the traditional notions of diversity, and by building trust and transparency in training line managers to view failure as a learning opportunity.

Even when people have developed the heart for innovation, they may struggle to develop ideas within the confines of the current organization’s structure. To remove institutional obstacles, disruption units can be set up separate from the main business, to operate under a different set of governance, goals and reporting lines.

But how will the company support these autonomous units when they could be experimenting with ideas, capabilities and technology that fall outside of the company’s, or even the industry’s expertise?

To address that, some leading organizations are making extensive use of advisory panels and alliances with third parties, who may be from outside of their industry. They are increasingly willing to partner with and invest in start-ups. These collaborations focus on starting small and building rapid prototypes to assess if the technology is the right one for them. Where it is not, they learn to embrace the notion that digital innovation is not an end state but a journey.

Focus on the journey, beyond immediate profits

Many companies today fail to understand or accept that cumulative iterations is the path to disruptive innovation, which requires a fundamental shift in their approach to performance measurement. It is important to take a step back and understand that the objectives of an organization are not necessarily altered by the digital revolution.

Businesses are still focused on providing stakeholder value through improving the customer experience and becoming more efficient in their operations. That has not changed. Therefore measures such as return on investment (ROI) and cost margins will remain the key underlying metrics to measure the success of transformation over the medium- and long-term. Applying this long-term perspective to managing expectations on a project’s ROI is key.

In the short-term, a customer-oriented approach has never been more important. Organizations will need to evaluate against the user’s experience throughout the entire digital product or service life cycle, incorporating the user’s feedback at every stage, instead of waiting till a finished product is in place. This iterative process of improvement is critical given that digital transformation programs are increasingly being delivered in shorter cycles.

Executing upon digital innovation is clearly a transformative journey for the entire organization, requiring a total rewiring of how organizations create, support and measure innovations.

Our CEO survey results reveal that many companies that consider themselves to be digital leaders today are not truly ready for disruption. Organizations, particularly incumbents, will need to fight against the halo effect of invincibility created by current success if they wish to overcome disruption inertia.
Finance 4.0: more than just robots

by Joon-Arn Chiang and Christoph Klimczak

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FOs in Southeast Asia are no strangers to change, but the complexity, speed, and scope of change brought about by the Fourth Industrial Revolution, or Industry 4.0, is unprecedented. All around, we hear of digital change and transformation.

Smart technologies of this latest industrial revolution are widely deployed on the production floors to achieve cost efficiencies, and integrated in marketing functions to improve the customer experience. With technology delivering concrete results in practically every other business function, the hype surrounding the digitization of the finance function, or Finance 4.0, is growing.

The challenge for CFOs is to move past the hype to set practical goals and decide the usage of emerging and available technologies like artificial intelligence (AI), advanced and achievable data analytics, and robotic process automation (RPA) wisely.

Start with robots
Of all these technologies, RPA is arguably the quickest win for finance function digitization as it can be easily embedded within the existing IT infrastructure to realize significant time savings in just a few weeks. It can also help to accelerate the finance team’s digital journey by addressing a key digital challenge – to process growing volumes of data within a shrinking timeline.

Faced with outsourcing and ongoing headcount reduction, a handful of RPAs or “bots” can help free the finance team – even if it is just for a few hours per week – of less meaningful and repetitive work. Resources could be made available to focus on providing better business insights.

Although bots are able to add incremental value within a short span of time, mistakes made during implementation can thwart the full potential. One of the most common pitfalls is the risk of not carefully selecting the best processes or trying too hard to automate the entire process. In the early stages of RPA implementation, it may be more efficient to retain some manual steps along the process flow.

Another risk is underestimating the skills required for a successful roll-out. Deploying RPA requires a diversity of skills, with the most important ones being those of the analyst who understands and knows how to optimize processes for RPA development, scrum masters who develop and coordinate the overall implementation effort, developers, and finally solution architects.

Even if firms are able to free up resources through the successful automation of finance processes, does this automatically mean that they have transitioned into Finance 4.0?

The right mix of technologies
It is important for CFOs to take a step back and ask: Why are they on the Finance 4.0 journey and what is the end point? A common mistake is to focus solely on technology and on implementing digital for its sake.

Contrary to popular imagination, Finance 4.0 of the future will not be manned by a robot army but will instead comprise a team of trusted advisors in the organization. New technologies are simply tools to help finance professionals extract relevant insights, from both financial and non-financial data, for fact-based decision-making. But given that CFOs are not technologists, how will the
CFO strategically select, plan and implement the appropriate mix of technologies to develop this insights-driven function? It starts with plugging their knowledge gaps about technology. 58% of finance leaders told EY in a recent global survey that they “need to build their understanding of digital, smart technologies and sophisticated data analytics” to deliver against critical strategic priorities.

Knowledge is critical for CFOs to discern the limitations and possibilities of each technology. Take RPA as an example, which is able to speed up the processing and quality of data, but on its own, not able to transform data into insights. To achieve the latter, CFOs will need to deploy other emerging technologies such as AI, analytics, cloud technologies and blockchain in the right strategic mix.

Consider the value of analytics tools in extracting insights from large amounts of data, which can be used by finance professionals to develop recommendations. When AI is used in conjunction with analytics, these technologies can recognize patterns and learn, which makes sense for large structured and unstructured data sets. This can help the company evaluate predicted outcomes to better understand the financial impact of key decisions.

New technologies can also be harnessed to better manage risks. Take for example when organizations replace outdated, fragmented and inflexible legacy systems with a connected, flexible system based on cloud technologies, they would be better positioned to address those risks.

Another technology that improves security is blockchain, which records transactions using a distributed ledger, giving every network participant a secure audit trail of all financial transactions made in near real time.

A business transformation journey

The successful adoption of new technologies is a complex process with many challenges ahead that can only be overcome when the business model itself is transformed. The capital investment needed to support some of the new technologies like blockchain could be extremely significant.

By outsourcing data processing and analysis to technology, the role of the Finance 4.0 professional of the future will shift from reporting about the past to providing insights for the future. As the CFO embarks on the Finance 4.0 journey, the adoption of new technologies will change processes, challenge traditional governance and board structures, impact resources and create risks.

This will require the CFO and the entire finance team to undergo a mindset change to embrace their new dynamic roles, which is constantly and quickly evolving. Therefore the CFO has to make sure that the right people, with the right mindset and soft skills are available both in their team and across the organization.

It is only when the finance team has a digital mindset, and when there is strong partnering with other parts of the business such as IT, that Finance 4.0 transformation becomes a journey rather than just a one-off project.

What is Finance 4.0?

As we enter the Fourth Industrial Revolution, where technology is delivering concrete results in practically every other business function, the finance function is expected to undergo its own digital transformation, Finance 4.0.
Consumers in Asia are increasingly demanding immediacy, convenience and diversity of choice from food service providers to meet their modern lifestyle needs. Instead of going to supermarkets or restaurants, time-pressed consumers are ordering groceries and meals online, which they expect to arrive within a matter of hours rather than days.

Given that such consumer purchases are frequent, high-mix and in low quantities, the existing labor-intensive processes and business models commonly seen in Asia are not sustainable. Further, the industry is challenged by rising salaries and shortages in labor, for example, in meeting demands for truck drivers across the main cities in Asia. All of these are jacking up costs while depressing bottom lines.

Automate and analyze for speed and savings

The experiences of food service providers in US and Europe have shown that deploying the right technologies is key to effective supply chain management, such as achieving timely order fulfillment and delivery.

According to research by Credit Suisse’s equity research, Global online grocery, there are significant returns in automating grocery fulfillment, where online grocers in the US that adopt automation technologies and centralized systems could double their operating profit margins compared to traditional physical store-based models.

Automation does not simply mean substituting labor for robots in the supply chain. Automation processes cannot be achieved unless the way goods are packed, stored, racked and transported are standardized in a consistent manner. Else, there is a risk of amplifying inefficiencies in the system.
When there is consistency throughout the system, the beauty of automation lies in its ability to immediately, or even concurrently, activate multiple processes from manufacturing to delivery of food products. This is critical in helping to meet narrow fulfillment windows in the food supply chain, particularly for perishable items.

Automation technologies are also highly dependent on the quality of real-time information in the supply chain network, which requires the use of track and trace technologies that combine advanced locating and sensing capabilities.

Such technologies enable food manufacturers to have granular views and pinpoint the exact location of their product as it moves from point to point. This empowers food manufacturers or service providers to call out the required information at any time for any product: For example, is the product in stock or is the menu item available? Which warehouse or restaurant is closest to the customer? Which driver is available to pick up the item and what is the estimated time of delivery?

If the information described above was analyzed and translated into insights, it would be useful for advance planning beyond improving the efficiency of processing current orders. Advanced analytics tools can be applied on historical order data and consumer trend data to forecast stock inventories, predict the number of drivers required for the launch of new products, or mitigate damages that cyclical weather conditions could have on supplies.

**Consolidate and collaborate for growth**

Having understood the business imperative of acquiring or building technological capabilities in a food service business, the challenge for many small and medium-sized enterprises such as the local mom-and-pop shop or the next-door restaurant remains: how do they afford these capital-intensive new technologies?

In the past, the food supply chain was fragmented and consisted of smaller players but in recent years, there has been a wave of consolidation among international and domestic food retailers. Further consolidation is to be expected as larger players would be best positioned financially to invest in technologies, as well as enjoy the economies of scale in maximizing the utilization of scarce labor resources.

With the accelerated entry of global food retailers, many domestic players are opting to compete on their unique strengths such as knowledge of local culture and consumer trends, as well as sharing data on best practices in food storage.

The reality is that even the largest player, with their impressive list of capabilities, cannot possess all the innovation, knowledge and relationships. Future success in the food industry will not just be based on size but on the strength and alignment of partnerships across all stakeholders. For example, if a food delivery mobile app company ran a promotion, would partner restaurants be able and willing to set aside capacity to fulfill the orders?

**Innovate to overcome barriers**

Despite the ambitious plans of global food providers to expand into Asia, progress has been held up by a key roadblock: underdeveloped infrastructure problems ranging from gridlocks in ports, lack of cold storage facilities and fragmented road networks. Ultimately, a country’s poor infrastructure will limit the potential growth of e-commerce services.

Therefore, serving emerging markets in Asia requires an innovative mindset and rigorous planning. Global companies are investing in sophisticated analytics on the variability in delivery times across markets to discover the optimal product mix that is able to serve the market’s demands even with supply-side constraints.

They are also tapping on technological innovations to utilize untapped resources for these markets. For example, in India, food delivery apps informally engage private-hire drivers on ride-hailing platforms to deliver food to customers, which allows restaurants to manage their labor costs agilely while reaching out to new customers and markets.

There will always be operational challenges navigating the fast-moving and fickle food services industry in a complex market like Asia. The question that companies need to test themselves is: how have you prepared to evolve your supply chain, business models and operational processes concurrently with customers and markets – in real time, and for a digital future?
How do you ensure you are automating intelligently?

In this Transformative Age, the opportunities that emerge from disruption are ready to be seized.

ey.com/betterworkingworld #BetterQuestions
Securing the future of women in Southeast Asia

by Mildred Tan and Dily Boey

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Women in Southeast Asia have made great progress as an economic contributor over the last 50 years. Despite the cultural and socio-economic diversity across the region, much has been achieved through public legislation and efforts by the private sector and civil society.

Yet, the degree of investment in women across the region remains disparate and there is a collective need to ensure that hard-won gains on achieving gender parity are not lost amid a fast-changing environment.

According to the Projected Gender Impact of the ASEAN Economic Community report published in 2016 by the ASEAN Secretariat, in order to reap the full benefits of trade expansion and economic integration in the region, trade and non-trade policies and programs need to avoid bias toward a particular sex or social gender.

Currently, all ASEAN countries have labor laws that prohibit gender discrimination. However, in reality, it has been challenging to enforce and ensure compliance with such laws, evidenced by persistent wage gaps and other displays of workplace discrimination. To that end, governments play an important role in working with corporates to co-own the social and business imperative of ensuring women have equal opportunities.
Depending on the stage of economic development, the emphasis of government policies will differ. Notwithstanding, according to a new EY report *Can ASEAN move forward if women are left behind?*, there are three areas that policymakers can focus on to create a more conducive labor market for women to thrive in.

**Support for maternity and childcare benefits**

First, governments can seek to mandate the minimum amount of support that women receive at the workplace, particularly in areas such as maternity leave and childcare.

Across Southeast Asia, provisions for maternity leave are generally well laid-out but further enhancements can be considered. Other than the Philippines, Myanmar and Vietnam, governments in Southeast Asia generally do not pay fully for maternity leave. Singapore and Thailand adopt a hybrid approach whereby the government pays for a portion of the maternity costs.

To motivate corporates to help female employees with more maternity benefits, governments can consider providing partial subsidies to alleviate cost pressures in the form of cash reimbursements or enhanced tax deductions, or directly to employees. Countries that enjoy high levels of female workforce participation can also consider making provisions for paternity leave to enable men to co-share child-caring at home.

Policies to improve childcare access and quality are just as critical in helping women to join, remain or re-enter the workforce after giving birth. ASEAN countries can consider providing subsidized childcare infrastructure to support mothers, which is particularly important in the developing markets where childcare options are limited, and a significant percentage of women may not be formally employed or are agricultural-based.

Another alternative is to provide subsidies or enhanced tax deductions to help companies to offset the costs of running childcare centers at the workplace. For higher-educated women, other forms of tax relief to encourage mothers to remain in the workforce, such as tax deduction on a certain percentage of childcare fees incurred or special tax rebates, will be helpful.

**Investment in targeted training**

The second area that governments can focus on is to encourage the private sector to invest in capacity-building and leadership opportunities for women through training and skills upgrading.

In Southeast Asia, incentives to encourage training are typically across the board, and not many are targeted at the needs of women across their life cycle in the labor force. In the less developed ASEAN countries where large populations of women lack basic vocational skillsets that allow them to participate actively in the labor market, governments should advocate training programs that are specific to women from the unskilled to skilled level.

Working with companies, associations or charities to heavily subsidize training and development of certification programs could be useful. Governments can also proactively invest in expanding training for females in sectors that are traditionally male-dominated. In addition, local or national women’s associations can be brought on board to raise public awareness of the available courses.
As less-educated women typically lack access to technology or resources to afford classroom fees, planners should ensure that promotional campaigns are creative and extend beyond the usual media channels while providing financial assistance to those seeking to enroll.

For the more developed ASEAN countries that already see a high level of female workforce participation, government initiatives can steer towards enabling women to take on board and leadership positions, as well as push for greater transparency on women advancement in large corporations. This is important given that in many ASEAN markets, men continue to be far more likely than women to rise to senior positions in business or politics.

Increased participation in STEM fields
With the rise of disruptive technologies, automation is impacting and eliminating roles in sectors where there is a high rate of employment of women, such as agriculture, garments and textiles (especially in the developing ASEAN countries), health care, manufacturing, services, retail, and food and beverage.

Policymakers can help to bridge this gender gap in STEM fields by bringing STEM education for women to the forefront of national dialogue, and encourage awareness, participation and mindset shifts. For example, the US has prioritized STEM education since 2009 through increased funding, with a focus on women via STEM campaigns such as Educate to Innovate.

For Southeast Asia to remain as one of the brightest growth hotspots globally, the quality of the region’s human capital is key. If we believe that harnessing the full potential of women remains a missed opportunity, then there is more that governments and corporations can do collaboratively.

By securing the future of women in Southeast Asia, we are necessarily securing the resilience of ASEAN – its communities and economies.
&As are often seen as an effective way to enter new markets, support growth and create value. However, not all deals achieve these goals. An analysis by EY of more than 2,000 deals that were completed between 2012 and 2015 showed that over 70% of these deals actually had their value eroded in the few years following the acquisition.

The success of a merger can usually be predicted based on two factors: doing the right deal and doing the deal right.

In other words, the target needs to be a good strategic fit, and the integration must be well-executed. Interestingly, while most companies have teams focusing on strategy and identifying the right deals, fewer have teams that are dedicated to integration.

In fact, a poll by EY of over 40 corporate executives that was conducted in November 2017 found that 60% of the respondents only partially integrate or do not integrate the acquired firms into the larger organization following the M&A. As a result, these companies either end up losing or delaying the realization of value.

Many reasons could account for this, including a lack of leadership, loss of momentum or inadequate resource committed throughout the integration process.

Mergers are disruptive for the acquiring company as well as the target, so companies need to clearly define what they are trying to accomplish with the integration effort and prioritize their focus on the most important issues. Based on the poll, operations, followed by sales and marketing, were identified as the two most important functional areas for integration.
Companies may be caught between the need for speed versus thoroughness in integration post-deal. With growth as the main driver of M&As, it is not surprising that companies are prioritizing operations and sales and marketing over other back-office functions for integration.

Yet, the finance team is usually one of the most heavily impacted function as a result of a merger. From an accounting perspective, integration – or at least interaction – is required to enable the production of statutory consolidated financial statement. More importantly, this consolidated view of the business is essential to drive the business and create value. In that sense, finance integration must be a prerequisite for all acquisitions.

**Focus on continuity, control and value**

To be successful, companies must focus on the three fundamental areas of ensuring business continuity, taking control, and realizing value.

First and foremost, the team looking at finance integration must ensure that business continues to operate without disruption. After the deal goes live, if the finance team is able to invoice customers and receive cash, close the books and report to external stakeholders, the integration can be considered a success.

Processes do not have to be perfect and manual workarounds can be tolerated as long as business is not disrupted. Any initiative that could pose a threat to conducting business as usual should be put on hold until the business stabilizes.

It is also important for the integration team to take control of key processes. Integration introduces new people, new processes, and new systems. It is a time of change and uncertainty. For this reason, the finance team should focus on quickly understanding the new environment and put in place the right controls for the business.

For example, who are the bank account signatories? Who can authorize payments? While we do not recommend companies to try and harmonize all the controls in the organization immediately, it is essential to take control of all the cash inflows and outflows early on. This control of treasury should help to maintain working capital efficiency and potentially allow for the investment of excess cash.

Finally, and only once business continuity is ensured, the integration team should focus on realizing the deal's synergies, and finance has a key role to play in this for two reasons.

First, integrating some of the finance back-office capabilities is usually an easy way to achieve cost synergies. Second, finance has responsibility for tracking and driving synergies, partnering with the commercial team and the board to give the visibility that is required to steer the business in the right direction. To do so, the finance team should work on integrating and improving the finance systems to enable the production of group-wide reports efficiently.

**Early planning is critical**

The good news is that while finance integration is time-consuming and complex, it is also a fairly standardized exercise. With the right approach, early planning and strong governance, the finance team can successfully support the entire organization through a seamless transition.

Integration planning should start long before the deal closes to avoid business disruption. Even when access to the target is limited before close, our experience shows that there is significant value in starting planning right after the deal is signed.

Typically, the activities that should happen prior to deal closure include identifying integration “hotspots”, i.e., risk areas for deal close and coming up with mitigating actions; starting to define the post-close finance organization structure; defining to-be operating model and service delivery model; and preparing a detailed cutover plan with all the activities, owners and deadlines.

Having a strong Integration Management Office (IMO) is another key driver of integration success.

A lot of activities need to take place during integration. Just for finance alone, an integration plan would typically comprise several hundred activities. The IMO will drive the integration effort, own the planning and the execution, and work with the finance functional teams to maintain a disciplined process and focus on value. The IMO team should also share leading practices, and drive momentum and a sense of urgency.

**Opportunity for finance transformation**

While business continuity should always be the number one focus, any merger is also a great opportunity to transform the finance function. The target may have some policies or processes that could be worth adopting. In a merger of equals, it can sometimes even make sense to design and implement a completely new operating model for both companies.

The integration is also an opportunity to improve the reporting structure by adding more granularity to drive better insights. Like any disruption, integration can be perceived as a threat. However, when carried out well, it can pave the way for future growth.
Underinvestment in post-merger integration jeopardizes deal value

Despite investing in M&A deals to secure growth, companies in Singapore are underinvesting in merger integration post-deal.

An EY poll of over 40 corporate executives in Singapore conducted in November 2017 found that 57% of the respondents invest less than 5% of the total deal value on merger integration activities. Twenty-one percent invest between 5% and 10% of the deal value in merger integration activities, and 21% invest more than 10%. More than half (60%) only partially integrate or do not integrate (i.e., leaving the companies to operate as they are) the acquired firms into the larger organization following the M&A deal.

Mr. Karambir Anand, Partner and EY Asean Leader, Strategy and Transformation, at Ernst & Young Solutions LLP shared that successful mergers hinge on early integration planning as part of due diligence when executing an M&A.

“Many M&A deals fail to generate – and many even destroy – value for shareholders as a result of a lack of consideration for robust post-merger integration coupled with low integration spend. Companies that successfully integrate typically invest 8 to 10% of the deal value, and form a dedicated team to drive post-merger integration activities. This enables them to focus on integration without compromising business as-usual. They are also careful not to impose their ‘normal’ on an acquired company and acknowledge the cultural differences that can be particularly pronounced in cross-border acquisitions,” he said.

The top risks that companies potentially face from sub-optimal integration are unrealized synergies (32%), cultural issues (28%) and impact on business operations (20%). Having learnt from past experiences, the two key areas that they would do differently were having a dedicated integration team (46%) and communicating the integration process more clearly to stakeholders (39%).

The majority (65%) of the respondents who plan to integrate post-deal aimed to do so within 6 to 12 months of the deal. Twenty-six percent targeted at fast integration (i.e., within six months post-deal), while 10% were looking at an integration time frame of one to two years. Operations, followed by sales and marketing, were identified as the two most important functional areas for integration.

Mr. Anand said: “Companies may be caught between the need for speed versus thoroughness in integration post-deal. With growth as the main driver of M&As, it is not surprising that companies are prioritizing operations and sales and marketing over other back-office functions for integration. Companies must strive for speedy execution with the aim to normalize synergy initiatives into business as-usual as soon as possible. Most synergies are realized within three years of the deal – or not at all.”
The power of belonging

by Max Loh
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Often, we read and hear of the importance of diversity and inclusiveness (D&I) in business.

Diversity is about heterogeneity where multi-dimensional attributes of individuals, such as background, education, gender, ethnicity, nationality, age, working style and skills, are reflected in the mix of a team. Inclusiveness is about harnessing these differences and creating an environment where all people feel, and are valued.

Numerous research has shown that organizations with diverse teams that are led inclusively outperform those with homogenous teams. Thus, many organizations increasingly advocate and focus on D&I. However, these aspirations may not always translate into the desired mindsets, attitudes and actions on the ground.

For one, it is a fallacy that having a diverse team naturally takes care of the positive outcomes. It does not, until the act of inclusion bring differences together in a purposeful manner. Even then, D&I efforts can still fail to deliver impact. What could have gone wrong?

Pat Wador of LinkedIn aptly summed it up in an article for the Harvard Business Review online, saying that: “D&I grabs my intellect – it’s an organizational challenge that must be addressed – but not my heart”.

Indeed, capturing the “hearts” of individuals is crucial. When we feel we belong, we are more motivated and engaged, and we perform better. Belonging is about feeling that we are part of something, and that we are seen and valued for our unique identities.

As team members and leaders, we each shape the organizational culture through what we expect, reinforce and reward, which influences whether people have positive or negative experiences. Each of us may have very different experiences, and depending on the situation, we may be more or less likely to feel like we belong.

Simply put, if diversity is the mix of the team, and inclusion is the atmosphere that you create to embrace and leverage diversity, then belonging is the feeling that you can be your authentic self within that inclusive environment based on your lived experience. The three are interrelated, interdependent and inextricably intertwined.
Ensuring that a culture of belonging exists, whether within the board itself or throughout the organization, does not happen by chance. Often, there is a reality disconnect between perceptions of belonging and how individuals actually feel.

The board’s influence
Just as how a sense of belonging may elude teams, the same can happen to boards. For boards, belonging is a tricky and complex concept.

The board is a group of individuals that operate as a collective. At the same time, good board governance comes from robust board composition and successfully harnessing the diverse perspectives of the right mix of directors that reflect the nature and priorities of the business.

Fostering a culture of belonging on boards necessarily means every director being given the voice and opportunity to contribute and raise issues in a safe environment. It is not about directors being congenial and best friends. Importantly, a sense of belonging among board members should not lead to groupthink, which contradicts the principles of diversity of thought.

The board chairperson has a crucial role to play. Among other responsibilities, the chairperson should promote a culture of openness and debate at the board, where directors can contribute authentically. Board directors should still be able to hold the diverse perspectives that led to their board appointment, but feel belonged enough to voice their differences freely.

Further, the board sets the tone at the top. Given its role in selecting the CEO and members of the leadership, it can help to steer the corporate culture and the underpinning values through discerned choices.

The board also has the prerogative, as part its oversight role, to hold the management accountable for organizational excellence, including driving team diversity and a culture of belonging so that the merits of diversity is brought to bear.

Ensuring that a culture of belonging exists, whether within the board itself or throughout the organization, does not happen by chance. Often, there is a reality disconnect between perceptions of belonging and how individuals actually feel.

Therefore, as with any change or intervention programs, boards should drive management to take a critical view of where their organization is now and where they desire it to be – and by when, as well as the enablers and actions to make it happen.

For example, does the organization’s values statement promote behaviors that create a safe environment for differences? Does it provide training to team leaders on engagement and belonging? Do the employee engagement surveys include metrics that measure sense of belonging?

Even with programs in place, organizations may not effectively measure their progress or efficacy. Just like sales or any investment projects, knowing the “return on investment” is important and boards should request management for relevant updates.

Yet, there is often also a data disconnect, where organizations struggle to articulate clear metrics for diversity in the first place, let alone culture. Where there are metrics, capturing the needed data in a usable manner for further analysis can be a challenge. Just like how HR analytics is being deployed today to correlate business and people data to generate insights for talent-related decision-making, the same analytical rigor can be applied to the context of belonging.

If we accept that organizational culture is a predictor of corporate health and success, then it ought to be managed and measured no matter how intangible it is as an asset – or a potential liability. A culture of belonging has economic value – don’t let it elude you.
Ensuring that Singaporeans have deep skills for the future and are inspired to learn throughout their lives has emerged as a key nation-building effort in recent times, following the recommendations by the Committee for the Future Economy in Singapore.
To that end, various Industry Transformation Maps (ITM), which aim to foster synergies across industries by leveraging skills adjacencies to support the provision of skilled manpower, are now set into motion.

The Skills Framework, which is an integral part of each ITM, was established to provide a common skills repository for individuals, employers and training providers, as well as support skills acquisition through training programs to enhance individual employability and career development.

While the Skills Framework is a rich resource for employers to gain insights into sector trends and skills demand, companies must contextualize and adapt it to their own business needs for the Skills Framework to be of real utility.

**Align talent and business strategy**

As technological disruption continues to change business models, organizations are realizing that the reasons that made them successful today may hold no guarantees for their future. Operating in such an environment, businesses will require a skills strategy that concurrently addresses both the need to run business-as-usual in a cost-efficient manner, and redefine their business model.

For example, in this digital age, organizations will need to identify the skills required to achieve their strategic digital goals in their workforce plan. Without this overarching architecture in mind and faced with the pressure to "go digital", businesses will find it challenging to decide between "buying" versus "building" their talent. Businesses must also be agile and ensure that their workforce plan is continually evolving in alignment with their business plans.

**Employ skills-based manpower planning**

The success of any organization lies in having the right people with the right skills at the right time and at the right price.

Manpower planning entails getting the optimal number of workforce and type of profiles required. A skills-based manpower planning is carried out by taking stock of existing competencies and abilities, and projecting the manpower needs. A gap analysis considers the required workforce strength, how job requirements will evolve over time, steps to be taken to train employees, and the types of skills and competencies needed.

Laborious as it may seem, this preparatory step is crucial in developing and implementing programs that will assist the organization in meeting its human resources needs optimally.

**Recruit for skills**

Many employers may fail to recognize that hiring today requires a breakaway from traditional practices. Recruiters should now consider using skills-based interviews – a concept that links the three parameters of knowledge, attitude and competencies. This is different from the traditional "getting to know you" type of interview.

In a skills-based interview, the core assessment is based on a candidate’s skills, experiences and fit with the organization’s culture and values. The interview process replicates the work environment as much as possible and questions would focus on assessing the candidate's strengths and weaknesses in the key competencies that they are expected to contribute.
One such technique is the behavioral event interview approach, where the candidate is asked to describe his or her behavior in past important situations, for the interviewer to map out a competency rubric based on actual events.

**Reward and Incentivize skills**

The conventional “one-size-fits-all” approach in determining fixed pay remuneration and pay progression has been criticized for not compensating based on competency. A skills-based pay addresses that gap, as the employee is rewarded with more pay for mastery of skills, knowledge and competency.

Optimizing the reward payout per employee requires organizations to accurately measure employees’ perception of rewards, and balance it with a cost-benefit analysis tied to the organization’s strategy. For example, at EY, we help our clients to make holistic and exacting decisions on their reward programs with analytics tools such as the EY Total Rewards Investment Optimizer.

Implementing a skills-based reward scheme may result in higher remuneration budgets as employees now receive more pay in the form of incentives and bonuses for acquiring new skills and competencies. However, these costs can be offset by leaner workforce models, increased productivity and new areas of work. From that perspective, the additional investment required for revamping schemes becomes self-funded.

**Invest in skills**

Organizations often question the return on investment in skills training, particularly when they face the risk of employees leaving. A mindset shift is needed where employers view training as a long-term investment, rather than a short-term cost. With training, staff are better able to add value and take up expanded job scopes to drive growth for the organization. At the same time, their personal growth helps to create an engaged workforce.

The key to reaping returns is to consistently drive the skills agenda. Many organizations struggle as budget and time constraints fluctuate with the health of the business. However, as business models transform to become more reliant on technology, organizations need to build a culture of lifelong learning and agility across the organization.

There is no magic formula for the perfect training program. Very often, learning and development programs are too quickly misunderstood as being synonymous with classroom training. Classroom training merely provides the fundamentals that form 10% of the process in skill acquisition – 70% of the learning takes place on the job, and the remaining 20% is led through a strong mentoring culture.

For organizations to embark on and sustain a skills-oriented agenda, they first need to develop greater clarity on their skill requirements. The same can be said of employees too, who will need to nurture a vested interest in their own careers – not only in the organization that they are currently employed with – but also from a lifelong employability perspective.

This article was first published on HQ Asia on 11 April 2018.
Budget 2018 has carefully laid out the plans to prepare Singapore for the next decade. This multi-faceted Budget addresses the long-term challenges and lays the foundation for a sustainable future for Singapore.

While there were lots of pre-Budget hype on raising tax revenues, the upward tax adjustments such as GST rate increase and reduction of partial tax exemption are slated for 2020 onwards. Ample advanced notice has been given to businesses and individuals to plan their finances, sending a clear signal that the Budget is forward-looking rather than reactive.

The delivery of the budget speech was striking. The Minister made commendable efforts to explain the “what”, “how” and “why”.

What are the challenges faced by our country? How do we respond? Why do we need to increase our taxes?

Preparing for the next decade
Technology, globalization and demographic shifts are the primary forces driving this current wave of disruption. They are fundamentally changing the way the world operates at an unprecedented speed.

Singapore's businesses, individuals and the government are not spared and cannot sidestep this march of disruption. It is however important to recognize that disruption brings not only challenges but also opportunities. Uschi Schreiber, EY’s Global Vice Chair – Markets said, “The era of being afraid to make mistakes...
and take risks is over. Over the next five to ten years, those who are bold and able to embrace disruption – and transform the way we all operate – will be the winners.”

The waves of technology revolution – the Internet of Things, virtual reality, artificial intelligence, robotics – have and will continue to disrupt traditional industries and displace existing jobs. Various non-tax initiatives such as Open Innovation Platform, Aviation Transformation Programme (ATP) and Maritime Transformation Programme (MTP) will help support companies’ innovation and transformation. While not all jobs will be affected and not all affected jobs will be eliminated, Singaporeans need to invest in continual learning and deepen their skillsets to stay relevant. The Tech Skills Accelerator (TeSA) and Capability Transfer Programme serve these objectives.

Globalization fuelled by technology advancement will disrupt existing businesses by creating new competitors, remodeling supply chains and lowering price points. The higher cost of doing business in Singapore is not to the advantage of Singapore businesses. Singapore businesses have to increase productivity, create added value in their product and service offerings, and collaborate by entering into partnerships to compete effectively. The ASEAN Leadership Programme, Enterprise Development Grant and double tax deduction for internationalisation (DTDI) aim to support companies in enhancing their capabilities for internationalization. At the same time, to foster pervasive innovation, the enhanced tax deductions announced for in-licensing, registration and research and development activities for intellectual properties (IP) will incentivize enterprises to buy and use new solutions as well as build their own or co-create solutions.

An unfulfilled tax wish is the ability to automatically claim writing down allowances for costs incurred in acquiring the economic ownership (and not legal ownership) of an IP. It will indeed be a boost to further promote innovative activity if this legal ownership condition is removed.

Like other developed economies, Singapore is facing an aging population. By 2030, 27% of its population will be above 65 years old, according to the United Nations’ 2017 World Population Aging report. This Budget addresses this challenge by enhancing the ElderShield insurance scheme, expanding the community network support, integrating health and social support, and strengthening the role and capabilities of social service offices. The government’s sharpened focus on companies investing in more efficient and smart solutions, including the funding support under the Productivity Solutions Grant, will also serve to improve productivity when human resources become more constrained with Singapore’s aging population.

The extension of the 250% tax deduction scheme for donations made on or before 31 December 2021 to qualifying charities will continue to help build a giving society. It will be even more welcomed if this scheme becomes a permanent feature of our tax legislation.

Fiscal prudence
Singapore has been adopting a prudent fiscal policy by managing government expenditure growth carefully and getting good value for spending. For FY2017, Singapore expects an overall Budget surplus of S$9.6b or 2.1% of GDP, as announced during Budget 2018.

Over the next decade, it is expected that recurring government expenditure will continue to increase, especially in the areas of social development (i.e., education and health care) and security. The government plans to strengthen its operating revenue in the immediate term by increasing the top marginal buyer’s stamp duty rate from 3% to 4% on the value of residential property in excess of S$1m. In the near term from 2020 onwards, adjustments will be made to the Start-up Tax Exemption (SUTE) scheme and Partial Tax Exemption (PTE) scheme, GST rate will increase from 7% to 9% and carbon taxes will be adjusted from S$5 per tonne to S$10-15 per ton of carbon emission.

GST will also be extended to cover imported services such as consultancy, marketing, digital apps and music purchased from overseas suppliers, with effect from 1 January 2020. This is consistent with recommendations provided by the Organisation of Economic Co-operation and Development and aims to level the playing field for local suppliers.


This Budget reminded Singapore businesses and individuals that disruption will bring challenges – and also new opportunities – but Singapore is ready to embrace these challenges and seize these opportunities.

Let us – the people, business, and government – come together, work together and make our aspirations a reality. 🌟
All giants grow from humble beginnings. Legend, formed in 1984 with US$3,800 is today’s Lenovo, a US$32b Chinese multinational IT organization.

Achieving such spectacular growth is not easy, particularly in today’s rapidly changing operating environment. Especially for small and medium enterprises (SMEs), which are often constrained by resources, securing growth arguably requires more agility and innovation.

Southeast Asia’s SMEs are a key driver and contributor to the region’s gross domestic product (GDP), accounting for more than 95% of all business establishments. The competitiveness of these SMEs is inextricably linked to the competitiveness of the region.

The outlook is positive: the growth potential of Southeast Asia remains well-recognized. In 2017, the GDP of Southeast Asia’s economies is expected to hit US$2.6t, surpassing that of the UK and exceeding that of Japan by 2030.

Favorable attributes such as a population of over 640 million characterized by young demographics and a burgeoning middle class makes Southeast Asia an attractive consumer market and location for foreign direct investments.

These include enhancing websites and digital marketing, creating mobile apps or engaging IT consultants and technical specialists. The reasons for doing so: to boost customer relationships and improve their digital marketing strategy.

While this is a good start, technology adoption must go deeper and broader than that – SMEs need to embrace digital innovation to do business differently. SMEs have to adapt their operating model to meet the challenges that the digital economy will bring. A digitally enabled operation ensures that SME owners can focus their energy on growing their business, gaining better insights on their customers and scaling quickly in times of expansion.

For example, SMEs can look to tap on enterprise technology solutions, which were once designed to cater predominantly to large corporates but are now becoming widely available to SMEs in a cost-effective manner.

Such enterprise technology solutions can span from accounting and customer relationship management, supply chain management through to data analytics and cybersecurity. These solutions help SMEs to increase productivity, manage business and finances, scale up operations, explore new revenue opportunities, or simplify human resources administration, among other benefits.

Further, with digitalization, SMEs can also make better use of their consumer data to improve customer experience, leading to higher satisfaction and loyalty over the long term.

Take for example DishTheFish, a fishmonger that operates both a traditional wet market stall and e-commerce platform in Singapore. The company uses UOB BizSmart,
a cloud-based system for its online portal, allowing easy tracking of inventory, identifying loyal customers, analyzing spending patterns and observing sales trends in real time.

As well, the accounting and HR software, which is part of the enterprise solution that the company uses, has made administration and HR matters more efficient. This allows the company to dedicate more time and resources into its core operations and expand into the wholesale business.

Tapping the ecosystem
Anecdotal evidence suggests that disruptive offerings such as robotics process automation, artificial intelligence and 3D printing are beginning to pique the interest of SMEs. While these new technologies may not necessarily always involve large budgets, it does require some level of investments — even as funding continues to challenge many SMEs.

Therefore, it is useful for SMEs to understand and leverage the ecosystem that they operate in more effectively. The players in the ecosystem include government agencies, business associations, trade bodies and financial institutions, who would typically offer some form of assistance or access to technology, finance or training opportunities, and beneficial tax schemes that help to enhance overall productivity and competitiveness.

SMEs could also seek out banks as business partners and tap on those that can offer value-added services such as digital marketing workshops and initiatives that guide SMEs in adopting digital technology for more cost-effective solutions in areas such as payroll automation or e-inventory management.

Stretching the home-ground advantage
According to the 2017 SME Development Survey conducted by DP Information Group in Singapore, more than half of the surveyed made fresh investments in technology and innovation in the 12 months prior, and the biggest benefit from technology is increased revenue growth through applications such as e-commerce platforms, data-mining of customers and enhanced sales functions.

Judging from the above statistics, the nexus between technology adoption and performance is clear. Leading SMEs have been playing up their strengths in local market intelligence as well as agility and responsiveness by virtue of their size and simpler structure, and holding up to competition from foreign multinationals. That, plus the courage and capital to harness the right technology for transformation, will go a long way in stretching this advantage.
US tax reform: boon or bane for Singapore?

by Wong Hsin Yee and Garrett Davidson

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22 December 2017 was a landmark date in US tax legislative history. President Trump signed into law the “Tax Cuts and Jobs Act” (H.R. 1)” – a change that represents the most comprehensive overhaul of the US tax system in more than 30 years and is expected to have an extensive impact on all US tax payers, including overseas investors and US multinationals.
There is a mixture of “carrot and stick” measures in the law. The “carrot” measures seek to attract new investments into the US in the form of people (hiring) and assets (manufacturing equipment, intellectual property, etc.). Among the main provisions are a reduction of the corporate tax rate from 35% to 21%, a new dividend exemption system for certain foreign source dividends paid to US shareholders, a special 13.125% effective tax rate on foreign derived intangible income, and 100% immediate tax deduction for qualifying capital purchases.

The “stick” measures aim to discourage corporations from eroding the tax base of their US operations through large tax deductible payments and locating people and assets outside the US, where the income from such operations might not be subject to US taxation permanently. A new base erosion and anti-abuse minimum tax (BEAT), new controlled foreign corporation rule targeting global intangible low-taxed income, and tighter interest expense limitation rules are some of the measures introduced.

Other provisions in the new law include a one-time transition tax on foreign subsidiaries’ un-repatriated earnings at 15.5% for earnings held in cash and 8% for all other earnings.

In a nutshell, the US tax reform aims to encourage retention of existing investments and jobs in, as well as bring investments and jobs (back) into the US.

US-inbound investments into Singapore

The US federal corporate tax rate of 21%, which is effective from 1 January 2018, is now lower than the corporate tax rate of some Asia-Pacific countries (for example, Japan at approximately 31%, Australia and Philippines at 30%, Indonesia at 25%, and Malaysia at 24%). The tax rate differential between the US and Singapore (17%) as well as various Asian countries, for example, Hong Kong (16.5%), Taiwan (17%), Thailand (20%), will also narrow.

Having said this, we do not anticipate that US corporations will relocate people and assets back to the US just because of corporate rate cuts. While US multinationals will factor in the new tax rules when determining whether, how, and where to make future overseas investments, tax is just one of the myriad of factors that corporations take into consideration when shaping their investment strategies.

Commercial factors such as the ease of doing business, a stable political and legal environment, educated and skilled workforce, access to growth markets, access to capital, and robust infrastructure continue to influence investment decisions for all multinational corporations, not just the ones from the US. The upside is that Singapore scores highly on these fronts and thus should remain a strong contender for foreign direct investments. Further, the Singapore government is also continually developing strategies through initiatives like the Committee on Future Economy, so as to maintain and enhance Singapore’s competitive advantages.

With developing Asian economies such as China, India, and Southeast Asia anticipated to drive global economic growth, foreign investors would still be looking to establish or expand their presence in the Asia-Pacific. Singapore, for the non-tax reasons mentioned above, is often used as the gateway for foreign (not just the US) investors to penetrate Asia-Pacific markets. Hence, we do not foresee a significant pullback of foreign investments and Singapore should still be well-poised to attract these investments. Some elements of the new tax rule could even encourage new forms of investment into Singapore.
Currently, many US businesses are highly leveraged. Given that the interest expense restriction rules (deduction is limited to 30% of adjusted taxable income, defined roughly as tax “EBITDA” through 2021, and tax EBIT thereafter) will come into effect for taxable years beginning after 31 December 2017, multinational corporations should revisit their capital structures in the US and elsewhere. This could bode well for Singapore’s financial capital market, if more financing activities are redirected out of the US.

Singapore-outbound investments into the US
Singapore corporations should review their expansion plans and determine whether they could benefit from the 100% immediate tax deduction for capital asset purchases in the US as well as the lower corporate tax rate. At the same time, it would be prudent to reevaluate their capital structures in the US and consider whether large deductible payments could subject them to the BEAT provisions.

Tax accounting and cash tax impact, as well as modeling of the new tax laws, would also need to be performed to refine investment strategies going forward and to ensure compliance with the necessary tax reporting and disclosures.

Given the short time that the US tax reform took to progress from bill to law, it is still too early to assess its full impact as businesses consider their next steps. However, given Singapore’s position as the second largest Asian investor in the US and the US’ largest trading partner in Southeast Asia, the impact of the change on Singapore businesses is not a question of “if” but rather “to what extent”.

“More than ever, Singapore’s focus on maintaining competitiveness in attracting foreign direct investments must not relent. For Singapore companies, it is opportune to now take stock of their operations and assess if this is a good time to take advantage of the reform and expand operations into the US.”

More than ever, Singapore’s focus on maintaining competitiveness in attracting foreign direct investments must not relent. For Singapore companies, it is opportune to now take stock of their operations and assess if this is a good time to take advantage of the reform and expand operations into the US.

The attractiveness of expanding operations into the US would be further enhanced (in the form of less withholding tax cost upon repatriation of profits from the US to Singapore), if Singapore and the US enter into an Agreement for the Avoidance of Double Taxation. It remains to be seen whether this is achievable in the current economic and political climate.
Technology can do many things today but starting a company takes creativity, passion, tenacity and courage – qualities that are uniquely human.

Recognizing that the companies of tomorrow will be built by individuals, EY has been honoring the achievements of Singapore’s entrepreneurs since 2002 through the EY Entrepreneur Of The Year (EOY) awards program. Many entrepreneurs fail to move beyond the starting line to grow and scale. With the EY Accelerating Entrepreneurs program, we seek to connect start-ups with business leaders, investors and other entrepreneurs, to provide opportunities to learn from one another and break through barriers.

The gender barrier alone is a formidable one, preventing high-potential women entrepreneurs from overcoming knowledge gaps and obtaining financing support. To help them stretch their potential, in 2018, 23 rising female entrepreneurs from across Asia-Pacific will be provided with executive leadership training in the EY Entrepreneurial Winning Women program. These recognition and mentorship programs serve to bolster the entrepreneurship ecosystem, helping to keep the spark of entrepreneurship alive.
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Does industry collision shatter or shape our future thinking?

In this Transformative Age, convergence is driving the reimagination of industries to create limitless opportunities.

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