

**SINGAPORE INSTITUTE OF DIRECTORS**  
**STATEMENT OF GOOD PRACTICE**  
**DIRECTORS' PROFESSIONAL DEVELOPMENT**

*This Statement has been superseded by the Nominating Committee Guide.*

### **Introduction**

Directors play a key role in the corporate governance of a company. They act as advisors to companies and safeguard shareholders' interests. These are critical responsibilities, and as such, it is important that those who are charged with such responsibilities be sufficiently knowledgeable, experienced and well-trained.

Directors are frequently selected for their expertise in specialist areas. They will not be effective directors, however, if their knowledge is limited to only such areas. To perform his/her duties effectively, a director should possess a good understanding of the company's operations and its environment, as well as sufficient knowledge of areas such as finance, law, and risk management that will allow him to form a broad perspective that is required from a strategic advisor. In particular, he must understand his legal responsibilities as a director before he can seek to discharge these responsibilities effectively. If he does not have the requisite knowledge, it will benefit the company to train him so that he will be able to perform his duties and contribute more effectively to the company.

Directors also have a personal interest to ensure that they are well-trained. The rising incidence of corporate failures have focused attention on directors' responsibilities to shareholders. Directors may increasingly find themselves being held responsible and sometimes be made personally liable for these corporate failures. If a director does not have the requisite knowledge and ability to perform his duties effectively, he may find himself unable to discharge his duties to shareholders when such a need arises.

Besides increased knowledge and skills, training may lead to other benefits for both the director and the company. The director will acquire additional skill, knowledge and qualification, and this may increase his motivation and commitment to the company. The director will also be more confident in carrying out his duties, and thereby experience greater satisfaction from his director's role.

The benefits of effective training have been recognised in the Code of Corporate Governance, which requires that:

*"Every director should receive appropriate training (including his or her duties as a director and how to discharge those duties) when he is first appointed to the Board. This should include an orientation program to ensure that incoming directors are familiar with the company's business and governance practices. It is equally important that directors should receive further relevant training, particularly on relevant new laws, regulations and changing commercial risks, from time to time."*

### **Training considerations**

This Statement of Good Practice does not impose a minimum level of compulsory training. This is not

practical given that skills and experiences vary widely between directors, and different companies will also have varying training requirements.

The Board, headed by the Chairman, should assume primary responsibility for ensuring that all its directors are provided with adequate training to enable them to carry out their directors' duties effectively. Given the critical role that directors play in the success of a company, the Board should allocate sufficient funds towards training its directors.

Every Board should encourage its directors to assume personal responsibility for their development. Directors should keep track of the training that he has received and highlight areas where further training is required.

Companies may conduct training internally, enroll directors in external courses, or supply directors with information and materials to keep them updated. The appropriate form of training will depend on the objective. For example, an orientation to familiarize directors with company operations will most likely be conducted internally, whereas a course on directors' legal responsibilities is best conducted by external experts. If companies make use of external courses, they should ensure that the courses are conducted by qualified and reputable training organisations. Companies may also wish to select courses that offer opportunities to network with directors and senior management from other companies.

In establishing the training program, companies should balance each director's training needs with the time and resources that he has available. While training needs should not be left unmet, companies should also avoid "training overload". This can be achieved by identifying a director's specific training requirements, for example, via a training needs analysis, then focusing training to meet those requirements. Training needs analysis programs are available from commercial organizations. Training needs may also be identified during performance evaluation, which should be performed at least annually.

Companies should consider providing additional training to assist directors who have specific responsibilities on the Board. More consideration should be given to the training needs of the CEO and the Chairman, as they are key members of the Board. The CEO has ultimate responsibility for all aspects of the company, hence he must understand the operational, financial, legal and other issues affecting the company. In addition, he should keep up to date on industry developments, be able to understand the company's financial reports, and may wish to have an understanding of subjects pertaining to human resource management, organizational behaviour, management accounting, financial management, etc.

The Chairman, as head of the Board, has the following responsibilities amongst others: maximising Board effectiveness, ensuring effective communication with shareholders, encouraging constructive relations between directors and ensuring high standards of corporate governance. To fulfill these responsibilities, he will require "soft" skills training on areas such as effective communication, conflict resolution and team leadership. He will also require regular updates on developments in corporate governance.

Similarly, the members of the Audit Committee, the Nominating Committee, the Remuneration Committee and other committees should be given training in their respective areas of responsibility. For example, it would be recommended to provide Audit Committee members with training on risk management and internal controls, and Remuneration Committee members with training on remuneration structures.

## Orientation

An orientation program should be developed for all directors who have been newly-appointed to the Board. This should occur as soon as possible after appointment, and it may take up to a few weeks. Such training should provide new directors with an understanding of the following areas:-

### Company

- Operations of the company, including:
  - the company's products;
  - principal markets in which the company operates;
  - location and size of company's plants and facilities. New directors may be given a tour of the company's plants, divisions and subsidiaries. One practical way to do this will be to hold Board meetings in various locations;
  - risks that may affect the operations of the company.
- Legal environment of the company, including:
  - laws applicable to the company;
  - legal issues affecting the company.
- Company's immediate, mid-term and long-term strategies and activities
- Challenges faced by the company
- Company policy on share-buybacks, dividends, and other capital transactions that affect shareholders
- The following information may be provided in a fact file:
  - Company's vision
  - Company's history
  - Group structure (if company is part of a group)
  - Company's financials for at least the past three years
  - Contact details of the company's external advisors
  - A copy of the company's constitution
  - Principal shareholders
  - Financing structure

### Board

- Board structure and composition
- Board responsibilities
- Details relating to meetings, such as date, time, venue, meeting procedures.
- Board philosophy, vision, mission and values
- Brief biographies and contact details of directors
- Liability insurance schemes for directors and officers

- Board rules, such as
  - Performance evaluation procedures for directors
  - Minimum attendance at meetings
  - Code of conduct
  - Conflict of interest rule
  - Insider trading
  - Access to professional advice

### Subject training

- Companies should take this opportunity to conduct an initial training needs analysis, if such a program is adopted. An action plan can be developed to address any training needs identified.
- Companies should ensure that new directors have detailed knowledge of their fiduciary and statutory duties and responsibilities. Otherwise, companies should provide directors with the necessary training during orientation.

### **Continuing Development**

Subjects that can be covered as part of directors' continuing development include:

- Financial reporting and financial statement analysis. It is becoming a widespread belief that competence in this area is growing in importance for all directors. All directors, including those with non-executive positions, should have a basic and fundamental understanding of the key financial ratios and indices applicable to the industry in which the company operates, a working knowledge of the company's budgetary control system and the forecasting processes adopted by the company.
- Business law
- Organisational behaviour
- Corporate finance and the capital markets
- Corporate governance issues and ethics. In particular, directors should be made aware of changes in directors' responsibilities as soon as such changes occur. These changes may occur as a result of changes to the Code of Corporate Governance, listing requirements, Companies Act, new court rulings, etc.
- Risk management and internal controls. This subject is particularly relevant to board members who serve on the Audit Committee.
- Strategic management
- Soft skills, such as conflict resolution, effective communication, sound decision-making, boardroom dynamics, team building, time management, stress management, negotiation, presentation (e.g. to shareholders and stakeholders), information processing techniques, etc.

- Stock options, share issue plans and other remuneration structures. The Remuneration Committee of the company should be kept abreast of trends and developments in this increasingly sophisticated area.

These courses are provided by the Singapore Institute of Directors, reputable accounting and legal firms, the various Singapore universities, various professional bodies (e.g. ICPAS), as well as various commercial training organizations.

In addition, companies should provide directors with industry and business publications on a timely basis. Directors should maintain awareness of financial and economic issues through the business sections of local daily newspapers.

---

*This Statement of Good Practice is issued by the Singapore Institute of Directors (the "SID") purely as a guide for its members and with a view to raising standards of corporate governance. The SID takes no responsibility for the accuracy or completeness of this Statement and the reader should obtain independent professional advice regarding any specific set of facts or issues. No part of this Statement may be reproduced (with or without any alterations or modifications) without the prior written consent.*