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SPEECH BY MR HENG SWEE KEAT, MINISTER FOR EDUCATION, AT THE HARVARD CLUB OF SINGAPORE'S 42ND ANNUAL DINNER ON FRIDAY, 23 MARCH 2012, 7.30PM, AT THE FULLERTON HOTEL

TOPIC: GOVERNANCE, LEADERSHIP AND SOCIAL CAPITAL IN TIMES OF GREAT UNCERTAINTY AND OPPORTUNITY

President of the Harvard Club of Singapore, Dr Irene Lee,

Harvard Club Alumni,

Ladies and Gentlemen,

(I) Introduction

1. Thank you for inviting me to your Annual Dinner, and for giving me this opportunity to speak to you.

2. Exactly 32 years ago, the Harvard Club of Singapore, at its annual alumni dinner, did something for me that gave me confidence to embark on a different course. For that, I am very grateful. Let me explain. As a student, I had a strong interest in science and mathematics, and like many of my classmates, I wanted to study Engineering in university. I applied for a PSC scholarship, but PSC would offer me a scholarship only if I studied economics. While I liked economics in school, I was unsure if I'd enjoy and excel in this subject at the university. While I was pondering over this, the Harvard Club presented me a book prize in economics, for my performance in this subject at the A-level. That evening, I met many distinguished Harvard alumni – they were very encouraging, and gave me much confidence to take chances and literally change course. I ended up accepting the scholarship, met my wife in the university and have been in public service since. So to Harvard Club members and the committee who made this decision, thank you very much. I hope we continue to encourage and inspire young people around us.

3. This evening, allow me to share my thoughts on governance in a rapidly changing world, and what Singapore can do.

(II) These are times of great uncertainty but also great opportunity

4. We live in a time of constant and rapid change. Technological advances have and will continue to shape industries fundamentally. The invention of the transistor in 1947 has been followed by many advances in the field of electronics. Information and Communications Technology, or ICT for short, has and will continue to pervade all sectors of the economy and our society. We are now in the midst of a digital revolution in which the outcomes are still unknown – all we know is that the changes will not be incremental, but transformational.

5. With the increasing pace of automation, computers and machines are doing tasks that were once thought to be beyond their reach. We are in a perpetual “Race Against the Machine”, as described by MIT researchers Brynjolfsson and McAfee in their 2011 book by the same name. Workers in routine cognitive jobs may find it increasingly difficult to keep up the race.

6. With globalisation, these technological advances and innovations spread across nations, and their impacts are multiplied manifold. Cross-border trade flows benefit billions of consumers, but also exacerbate competition for firms and workers. With many emerging economies joining the global market, the global economic landscape is changing rapidly. The higher volume of economic activity benefits many, but also puts a greater demand on the world’s limited natural resources. At the same time, many developed economies are also experiencing ageing population, which will put an increasing strain on their fiscal positions.

7. We are entering a period of accelerating change. This brings greater uncertainty. But it also presents many more opportunities. The critical questions are: How will nation states, companies and individuals succeed in such a world? What qualities will be needed to thrive in such an environment?

8. The answers to these questions are complex. This evening, allow me address briefly the role of governance in navigating change.

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(III) Financial Crisis and Governance Deficit

9. At the height of the financial crisis, when I was at the Monetary Authority of Singapore, a fellow central banker lamented to me that his country was unable to deal effectively with both the short-term and long-term issues. He observed that they had a large governance deficit at the political level. I was struck by how, in many other dialogues with other international colleagues and analysts, and in public debates in the media, the same theme came up.

10. There was a clear sense of a failure of governance, if one was very critical, or at least a sense of a deficit of governance, at multiple levels – institutional, national and global. So we failed to prevent the crisis. Nor did we respond effectively to address the underlying causes decisively; instead, we are still muddling along, and kicking the can down the road.

11. At the corporate level, weak governance and oversight by Boards allowed management teams in financial institutions to take excessive risks to maximise short term returns. Regulatory agencies were seen to have failed in developing the capabilities to keep up with the changes in financial markets, or worse, of being captured by the firms they were supposed to supervise.

12. At the national level, many countries in Europe, including France, Spain, Italy, and Portugal, had their ratings downgraded as confidence in the ability of sovereign governments to deal with the debt problems fell. The partisan gridlock between the US Congress and the White House resulted in the US debt impasse last year. In downgrading the credit rating of the largest economy in the world, Standard and Poor noted that the downgrade reflected their view “*that the effectiveness, stability, and predictability of political institutions have weakened at a time of ongoing fiscal and economic challenges*”. Regional governance structure in the Eurozone also failed to address the deeper problems of the European sovereign debt crisis. At the global level, there was also much debate on the reform of governance.

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13. These debates remind us how during the Asian Financial Crisis in 1997/1998, the causes were attributed to cronyism, corruption and nepotism. The policy prescription then was based on a set of doctrines in economic governance dubbed the Washington Consensus. So during the recent crisis, you would not be surprised to hear that many of my Asian colleagues were amused, even upset, that the Washington Consensus was not consistently applied in dealing with the current set of problems.

14. Please do not get me wrong – my examples are not to show that Asian policy makers have done better, or that governments dealing with the debt problems today should have done what the IMF prescribed in 1998. We should seek to understand, rather than to criticise. As a former colleague put it, if we do not learn the right lessons, the crisis, which has brought some much pain, would have been wasted.

15. For me, there are many lessons. Allow me to share a few. First, the fact that we had two major financial crises within a space of ten years – in 1997 and then 2007, shows just how importance good governance is. Second, it also shows that there is no simple doctrine that applies at all times. Third, I find that the discussion on good governance often focuses narrowly on formal rules and structures, and institutional checks and balances. Neither Sarbans Oxley provisions nor the robust debates in parliaments and Congress in these places prevented the problem. In fact, quite the opposite happened. Certainly, rules are institutional checks that are important and necessary, but insufficient. Let me venture that good governance, whether at the institutional, national or global level, requires at least three other critical ingredients.

(IV) Firstly, appreciate that the reality is complex and multi-faceted

16. First, good governance requires an appreciation that reality is complex, multi-faceted and constantly changing. At Harvard, we are exposed to theories of good management and governance, which seek to distil key principles from messy reality. While these are useful in organising our thinking, all of you here who are key leaders of your organisations know that translating ideas into practice is an art, not a science. It is not a matter of checking the boxes of to-do lists.

17. Nor are there evergreen rules of managing a company that guarantee success. One of the most influential management book, "Good to Great" by James Collins profiled several "great" companies which have since failed - Fannie Mae was embroiled in the home mortgage scandal, Wells Fargo had to receive \$25 billion of TARP funding, and Circuit City Stores went bankrupt in 2009.

18. Similarly, in public policy, there are no simple short cuts to good policy making and good governance. Capitalism was seen as the model of economic governance after the breakup of the Soviet Union. But the recent financial crisis has been so deep and so prolonged that the Financial Times has been running a series on the crisis of capitalism.

19. While pithy labels are useful to help us grasp complex reality, the fact remains that reality is complex. And circumstances and conditions change. What was right the last time is not necessarily right now. What is right for one company or one country may not be right for another.

20. I recall years ago when I was at the Ministry of Trade and Industry, a young officer was rather distressed that he could not find the detailed history behind a particular decision. His boss told him, "Young man, this is a dynamic ministry, dealing with rapidly changing situations. Learn to analyse from first principles, and don't be stuck with the wrong mould."

21. Indeed, there is no substitute for going back to fundamentals all the time. We need to be open to appreciate the full complexity, and be humble that we do not know everything. For any society, the historical, cultural and social dimensions interact with the economic and political dimensions. We need to evolve and adapt our approach of governance to fit our own context and circumstance. This is especially so in a time of rapid changes.

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(V) Secondly, encourage values-based “adaptive” leadership

22. Second, good governance and good leadership are inseparable. Again, members of the audience here are leading your teams and organisations. We work with other leaders, and know how our bosses and colleagues can make a difference. We know, sometimes from our own shortcomings, that exercising good leadership is not easy.

23. Change is always disconcerting, and in times of rapid change, exercising leadership is even more difficult. Professor Ronald Heifetz at the Kennedy School makes a useful distinction between technical and adaptive problems. Technical problems can be solved by good analysis and having the right resources. But adaptive problems require us to change the way we think and interact with others, and to clarify our own values and those around us

24. With the world experiencing great changes, we in this little red dot have no choice but to stay ahead with the changes. We will have to make many difficult decisions together – difficult decisions on a range of issues such as our population size and make-up; how we use our limited land resources; and how we maintain harmony in a multi-racial, multi-religious city that is also so global; and how we maintain economic vibrancy even as we face the prospect of an ageing population.

25. But our leaders, whether in the private or public or people sector, must be guided by a mission - a mission to create opportunities together with our people and for our people. And even as we resolve immediate, vexing problems, let us have an eye clearly on the future and position ourselves to create opportunities and build a better future, for ourselves, and our children. We can do so if there is a high level of trust among us. We need good communications and engagement. I believe members of the Harvard Club can play a very constructive role here.

(VI) Thirdly, build a high level of social and cross-cultural capital

26. This brings me to my final point. Good governance is based on a high level of social and cross-cultural capital. It is not just rules, but a relationship based on integrity and trust.

27. Another Harvard professor, Robert Putnam from the Kennedy School of Government noted that social capital is “the collective value of all social networks and the inclinations that arise from these networks to do things for each other”. The Harvard Club and the gathering this evening is an example of a social network.

28. Social capital involves the implicit mutual trust that the public has of its leaders and government and the inclination of the public to support each other as a community, and make personal sacrifices for the mutual good. A society with high levels of social capital is one which is inclusive. It is one, as DPM Tharman Shanmugaratnam puts it recently that has both a strong sense of responsibility and a strong sense of community - a strong sense of personal responsibility and responsibility for our family and friends, and a strong sense of community to help others.

29. For Singapore, beyond building our domestic social capital, let us also build cross-cultural social capital that will allow us to harness the benefits of globalisation. Again, many of you have businesses that span the region. With the rise of Asia, and our global orientation, we are well positioned to a key Global-Asia node. By staying open and developing an appreciation for other cultures around us, we can build relationships and cross-cultural social capital that extends beyond Singapore and help create a better life for others and for ourselves.

(VII) Conclusion

30. Let me conclude with the observation that many nations which had made great progress after World War II were characterised by an ability of the society to grapple with difficult challenges. They set themselves challenging goals – such as putting the man on the moon or getting out of poverty. They had good leaders and high levels of social capital. It is unfortunate that some of these attributes that make for good governance have been eroded over time.

31. Singapore is a little red dot with no natural resources, no buffer. But we are a global city situated in the heart of a dynamic Asia. While there are many uncertainties ahead, there are also many opportunities. If our society stays cohesive, energetic and forward looking, we will ride the next wave of growth. I am optimistic that we will succeed and I am confident that members of the Harvard Club of Singapore will exercise good leadership and be part of our collective effort to take Singapore forward. Thank you.

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