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# Welcome Message from Chairman

*In this Number, we invited contributions from practitioners, academics and a diplomat. The variety in the topics covered speaks to the importance of looking at business from multiple angles. As you enjoy turning the pages, you will appreciate issues related to country level partnership in trade, market-driven compliance in finance, leadership and more. We wanted to give you different perspectives through concise explanations while keeping the basics satisfied. While we tried to keep things simple and practical, you would still need to put up with theories at times, especially when it comes to the international financial reporting standards or things of that sort. As always, if you have something nice to say, drop a line or two to the editor: [CBreview@cam-ed.com](mailto:CBreview@cam-ed.com) Thank you for your continuing commitment to learning with us.*



*Until next time.*

**Dr. Virak Prum**

Chairman of CamEd Business School



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# Canada and Cambodia: Partners in Prosperity

*By Christian DesRoches, Ambassador of Canada to the Kingdom of Cambodia*

In 2024, Canada proudly re-established its embassy in Phnom Penh, a milestone that reflects our renewed commitment to Cambodia and the broader Southeast Asian region. This decision was more than symbolic—it was a strategic investment in the future of our bilateral relationship. By restoring a permanent diplomatic presence in Phnom Penh, Canada signaled its intent to deepen economic cooperation, enhance diplomatic and educational ties, and ensure that our bilateral relationship translates into tangible benefits for Cambodians and Canadians alike. The reopening of the embassy provides a vital platform to support Canadian businesses already thriving in Cambodia, to expand trade and investment opportunities, and to foster the people-to-people ties that are the foundation of lasting prosperity.

When Canada unveiled its Indo-Pacific Strategy in 2022, it marked a turning point in our foreign policy. The strategy recognized Southeast Asia as a priority region for expanding trade, strengthening security cooperation, and deepening our diplomatic footprint. For Canada, this is not simply about diversifying markets—it is about building enduring partnerships with countries whose dynamism will shape the global economy for decades to come. Cambodia, with its youthful population, strategic location, and impressive growth trajectory, is central to this vision.

Over the past decade, Cambodia has emerged as one of Southeast Asia's fastest-growing economies. Its garment industry, agricultural exports, and tourism sector have driven remarkable progress, while new opportunities are opening in digital services, renewable energy, and infrastructure. For Canadian businesses, this is fertile ground. Our commercial presence in Cambodia has expanded significantly, and the success of Canadian companies here demonstrates the strength of our bilateral relationship.

Take ABA Bank, a subsidiary of National Bank of Canada. Today, ABA is one of Cambodia's leading financial institutions, providing modern banking services to millions of Cambodians. By supporting small and medium enterprises, ABA is helping to unlock the entrepreneurial spirit that drives Cambodia's economy. Similarly, Manulife has played a pioneering role in introducing life insurance to Cambodia, empowering families to plan for the future with confidence. And Angkor Resources is contributing to responsible resource development, ensuring that Cambodia's natural wealth is harnessed in ways that benefit communities and respect the environment. These companies are not just investors—they are partners in Cambodia's development story.

The numbers speak for themselves. By 2025, Canada had become the third-largest source of foreign direct investment (FDI) into Cambodia. This is a remarkable achievement, underscoring the confidence Canadian firms have in Cambodia's economic trajectory. It also reflects the growing recognition that Cambodia offers opportunities across diverse sectors—from finance and insurance to agriculture, renewable energy, and digital innovation. As Canadian investment expands, so too does the potential for knowledge transfer, job creation, and long-term economic resilience.

Cambodia is also enjoying considerable success in the Canadian market. Indeed, Canada is the fourth largest destination for Cambodia's garment, footwear and travel goods sector. Cambodia's high-quality manufacturing and competitive production capabilities position it as a reliable partner. These trade flows not only support economic opportunity in Cambodia but also deepens the broader relationship between the two countries, reinforcing shared commitments to sustainable growth and open markets.

But trade is not only about goods and services; it is about people. Educational exchanges, cultural programs, and professional partnerships are weaving a fabric of mutual understanding that strengthens our economic

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relationship. The Canadian International School of Phnom Penh stands as a vivid symbol of the deep, long-standing ties between Canada and Cambodia. Its curriculum, values, and community culture reflect a blend of Canadian educational excellence and Cambodian heritage, showing how both nations invest in each other's future. Likewise, Cambodian students studying in Canada bring back skills and perspectives that enrich their communities. And Canadian entrepreneurs working in Phnom Penh and elsewhere in Cambodia gain insights into Southeast Asia's dynamism. These human connections are the foundation of sustainable trade relations.

Looking ahead, Cambodia's hosting of the Francophonie Summit in November 2026 will be a milestone moment. As a proud member of the community of French speaking nations, Canada sees this summit as an opportunity to showcase the values of linguistic diversity, cultural exchange, and economic cooperation. It will also provide a platform to highlight Cambodia's growing role on the international stage and to deepen bilateral ties. For Canadian businesses, the summit will be a chance to explore new partnerships, expand networks, and reaffirm our commitment to Cambodia's future.

As a time of growing international uncertainty, high-level meetings such as the Francophonie Summit also provide a valuable opportunity to reduce the risk of conflict. We live in challenging times: global supply chains are shifting, climate change is reshaping economies, and geopolitical tensions are upending supply chains and multilateral agreements. As countries whose prosperity depends on rules-based international trade, Canada and Cambodia have a shared interest in upholding the global rules and norms that have driven peace and prosperity over the past few decades. By investing in sustainable industries, promoting inclusive growth, and strengthening international cooperation, we can ensure that our trade relationship is resilient and future-proof.

In this regard, the next major step on the horizon is the ASEAN-Canada Free Trade Agreement (ACAFTA). A successful conclusion of ACAFTA negotiations in 2026 would carry real weight for Cambodia. It would give Cambodian exporters more predictable, preferential access to the Canadian market, helping them stay competitive as global supply chains shift, and sustain

Cambodia's access to the Canadian market after its graduation from Least Developed Country status in 2029. It would also signal deeper economic cooperation between Canada and ASEAN, creating opportunities for investment, skills development, and diversification that support Cambodia's long-term growth. Finally, ACAFTA would provide Cambodia with a valuable stepping stone as it builds up its capacity to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Achieving progress on this ambitious agenda will not be easy. It will require the Royal Government of Cambodia to continue taking concrete steps to strengthen good governance, accountability and effective service delivery through the implementation of meaningful reforms. This will, in turn, create the favourable investment climate that will allow businesses and workers to prosper. Canada is committed to continue supporting Cambodians on this journey. Together, Canada and Cambodia can build a partnership that is more than transactional. It can be transformative, anchored in trust, driven by innovation, and guided by shared values.

As Ambassador, I am proud of the progress we have made, but I am even more excited about what lies ahead. The Francophonie Summit will shine a spotlight on Cambodia's role as a bridge between cultures and economies. It will also remind us that trade is not just about numbers—it is about people, ideas, and shared aspirations.

Canada and Cambodia are partners in prosperity. Our relationship is built on respect, strengthened by commerce, and enriched by human connection. As we look toward the summit and beyond, I am confident that our bilateral trade relations will continue to flourish, bringing prosperity to both our nations and contributing to a more resilient Indo-Pacific region.

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# Investor Protection Funds, Adverse Selection, and Market-Driven Compliance: The Japanese Broker-Dealer Experience

*By Charles K. Whitehead  
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Broker-dealers are essential intermediaries in modern securities markets. Investors rely on them to execute trades, maintain accounts, hold cash and securities, extend margin credit, and participate in clearing and settlement. That intermediation creates a distinct regulatory concern. Because customers ordinarily do not directly hold the securities they purchase, they must depend on the broker-dealer to ensure that customer assets remain segregated and can be returned if the firm fails.

The principal concern is that a broker-dealer may fail while customer cash or securities are missing, commingled, or inadequately recorded. Customer asset segregation rules address that risk by requiring broker-dealers to separate customer assets from the firm's own assets. The goal is to ensure that customers are not treated as general creditors if the firm becomes insolvent.

Segregation rules, however, depend on the broker-dealer maintaining accurate records, reliable operational systems, and effective supervision. If the broker-dealer fails to do this, a customer's assets may not be available if the firm becomes insolvent. Investor protection funds address this residual risk. They compensate customers, within prescribed limits, when a broker-dealer fails and customer assets that should have been available cannot be returned. The U.S. version of this fund is the Securities Investor Protection Corporation, or SIPC.

Japan introduced investor protection funds in the late 1990s as part of broader securities market reforms.

Broker-dealers doing business in Japan were required to participate in an investor protection fund. As in the U.S. model, the fund did not replace segregation rules. The broker-dealer remained primarily responsible for protecting customer assets; the fund provided a second layer of protection if that responsibility failed.

A distinctive feature of the Japanese system was that the new legislation contemplated the creation of more than one investor protection fund. Broker-dealers were permitted to organize or join their own fund, allowing firms to separate into different pools. The result was an adverse selection dynamic introduced by the regulatory structure.

The concept of adverse selection is most familiar in the insurance markets. In a typical situation, an insurer cannot distinguish between high-risk and low-risk policyholders. It charges all policyholders the same price, even though higher-risk participants are more likely to buy and make claims under the insurance. That higher likelihood increases the cost to the insurer of providing coverage, which increases the overall cost of the insurance to all policyholders. In effect, lower-risk policyholders subsidize the insurance provided to higher-risk participants. Over time, lower-risk participants are more likely to elect not to buy insurance. In that event, the overall pool of policyholders becomes riskier, further pushing up the price of the insurance, and causing the insurance arrangement to become less stable.

The same logic can apply to an investor protection fund. Each broker-dealer member contributes to the fund, which may be required to compensate customers if another member fails. A broker-dealer that is less likely to fail, or that has stronger internal controls and reliable segregation procedures, may resist sharing that risk

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with firms perceived to present greater operational or customer asset risk.

Japan's multi-fund structure made that risk-sorting possible. Firms that believed they had stronger compliance systems, more reliable customer asset controls, and lower payout risk had an incentive to associate with one another. Firms perceived as presenting greater risk were left to join a different fund. The result was a separating effect: fund membership became a signal of perceived compliance quality.

That appears to have been the practical consequence of Japan's initial regulatory structure. The possibility of multiple funds allowed a fund composed largely of non-Japanese firms to emerge alongside a second fund that covered the remaining firms, including major Japanese broker-dealers. Membership in one fund did not establish that a firm was safe, nor did membership in the other establish that a firm was unsafe. But it did allow customers, regulators, and other market participants to draw inferences about relative customer protection risk.

Those inferences mattered because each fund shared losses among its members. If a member firm failed and customer assets were unavailable, the cost of compensation would fall on the fund and, indirectly, its other members. A firm's segregation practices, therefore, ceased to be solely an internal compliance matter. They became a collective concern. Each member had reason to care about the controls, records, and operational discipline of the other members in its fund.

As a result, each investor protection fund was not merely an *ex post* compensation device. It also created *ex ante* compliance incentives. A fund composed of broker-dealers seeking to distinguish themselves as lower risk had reason to ensure that its members maintained strong customer protection practices. Members could authorize the fund's representatives to audit member firms, where appropriate, and assess compliance with segregation requirements. In that way, private monitoring supplemented public supervision.

Supplemental monitoring was important because regulators may not know, in real time, which firms have the strongest operational controls, which firms are under stress, and which firms comply with the customer asset

segregation rules. Market participants, on the other hand, may possess different and more detailed information derived from dealings with counterparties, personnel, systems, and business practices.

The second fund faced a different but also important form of discipline. Customers and counterparties might ask why a firm was not included in the low-risk fund. Regulators could draw similar inferences. Even if imperfect, that signal could affect market confidence. Firms in the second fund, therefore, had a reason to improve customer segregation practices, strengthen controls, and demonstrate they did not present a greater risk to customers.

In this respect, adverse selection became a compliance mechanism. The Japanese structure temporarily made perceived differences in compliance quality visible. That visibility converted private information about compliance quality into a market signal. It encouraged stronger firms to protect the integrity of their pool, pressured other firms to improve, and made customer asset protection a matter of both regulatory compliance and competitive position.

The structure also had costs. If customers believed that one fund contained firms with stronger controls than firms in the other fund, confidence in the second fund could decline. That concern was particularly significant because the second fund included domestic firms whose stability mattered to Japan's broader financial system. A visible divide between lower- and higher-risk firms could discipline the market, but it also risked creating reputational and political pressures that regulators viewed as destabilizing.

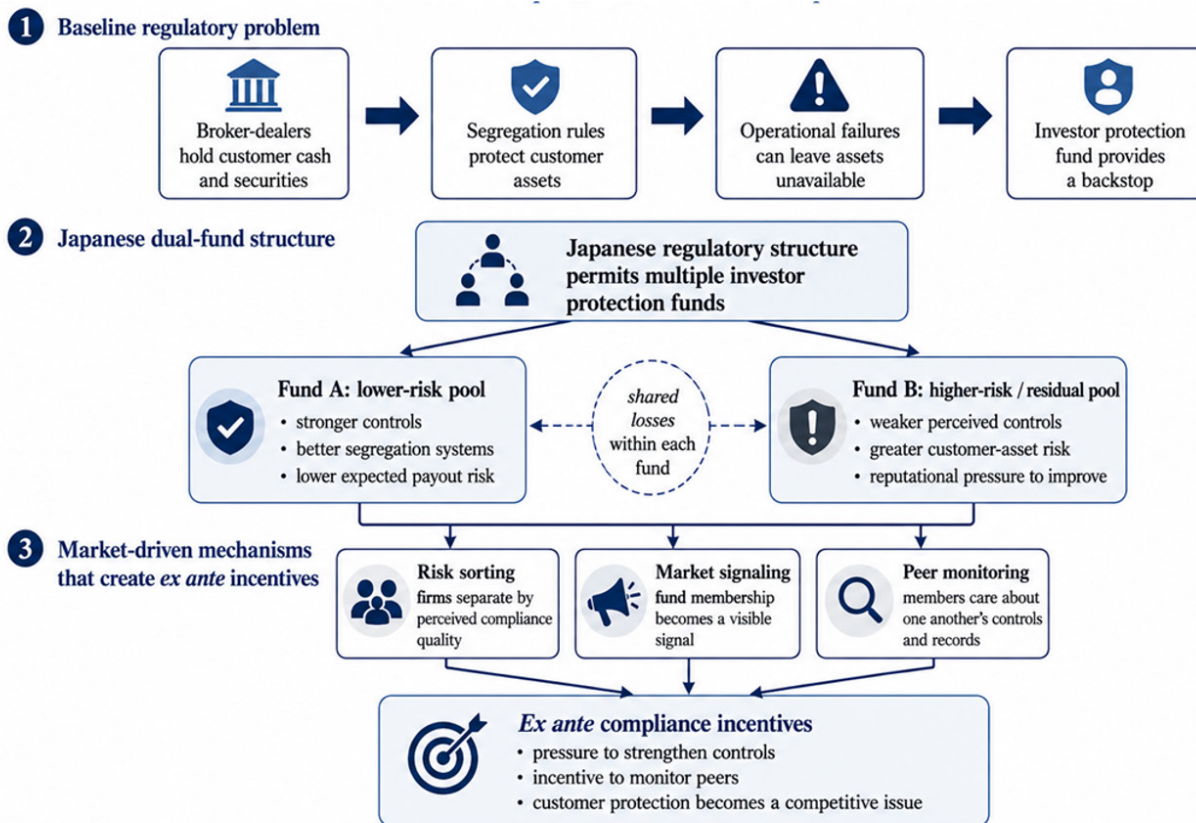
That tension helps explain why Japanese authorities ultimately favored combining the two funds. A unified fund reduced the appearance that some customers were protected more than others. From the standpoint of public confidence, that result was preferable. Yet, the temporary period of separation still performed a regulatory function. It focused attention on customer asset segregation, created incentives for peer monitoring, imposed reputational costs on weaker compliance practices, and encouraged firms to strengthen internal systems before a failure occurred.

Japan's broker-dealer reforms, therefore, illustrate a model of market-assisted regulation. Public law established the baseline: broker-dealers had to protect customer assets and participate in an investor protection fund. Private ordering then shaped how firms sorted themselves within that structure. By sharing the cost of failure, firms had reason to care about the compliance quality of other firms in the same fund. Fund membership, in turn, revealed information about relative risk that regulators and customers could not easily observe.

That is the broader significance of the Japanese experience. Investor protection funds are commonly understood as compensation devices. They protect customers after a broker-dealer fails. But they can also affect behavior before failure occurs. Japan's temporary dual-fund structure made compliance quality visible, gave firms incentives to monitor one another, and turned reputational differentiation into a source of regulatory discipline. Adverse selection, usually treated as a problem in insurance, became for a time a source of market discipline in securities regulation.

## Investor Protection Funds, Adverse Selection, and Market-Driven Compliance

### The Japanese Broker-Dealer Experience



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# From IAS 1 to IFRS 18: How the New Standard Will Transform Financial Reporting for Cambodian Public Interest Entities

*Dr. Edman Padilla Flores, CPA  
Associate Professor, CamEd Business School*

For every financial professional, accounting is far more than a mere administrative requirement; it is a “monetary scorecard” that validates a company’s past performance and illuminates its future trajectory. In the Kingdom of Cambodia, the Accounting and Auditing Regulator serves as the central authority overseeing this scorecard, ensuring that the nation’s businesses speak a global financial language. Since the full adoption of Cambodian International Financial Reporting Standards in 2012, Cambodian Public Interest Entities (PIEs)—including listed companies, banks, microfinance deposit-taking institutions (MDIs), and insurance firms—have operated under a regulatory framework designed to foster transparency and investor confidence. However, a fundamental shift is approaching: the International Accounting Standards Board (IASB) has issued IFRS 18 *Presentation and Disclosure in Financial Statements*, a landmark standard that will replace the long-standing IAS 1 *Presentation of Financial Statements*.

ACAR has fully adopted IFRS as issued by the IASB, branded as CIFRS, under which newly issued standards and amendments automatically become applicable upon their effective dates unless ACAR issues a deferral or sector-specific instruction. Therefore, IFRS 18 will become the mandatory reporting standard for Cambodian PIEs.<sup>1</sup> This transition represents the most significant change to the structure of financial statements in over a decade.

## Beyond “Boring” Accounting

Many non-financial managers view accounting as a dull, repetitive task, but for the senior decision-maker, understanding how to finance and extract wealth from an enterprise is the essence of business. Harold Geneen, former chairman of IT&T, once said, “To be good at your business, you have to know the numbers—cold”.<sup>2</sup> Financial statements are the primary means of communicating those numbers. IFRS 18 was developed because investors and analysts demanded better information regarding how to isolate operating performance from financing decisions. In a globalized market, Cambodian PIEs must provide information that is comparable, verifiable, and understandable to attract international capital and avoid the “valuation discounts” that plague less transparent markets.

## The Three Pillars of IFRS 18

IFRS 18 introduces three major improvements to financial reporting: a new structure for the statement of profit or loss, the requirement for management-defined performance measures (MPMs), and enhanced principles for aggregation and disaggregation.<sup>3</sup>

### **A New Architecture for the Statement of Profit or Loss**

Under the current IAS 1 framework, companies have significant flexibility in how they present line items in the income statement. This lack of standardization often makes it difficult for Cambodian investors to compare the core performance of different PIEs. IFRS 18 solves this by mandating that every entity classify income and expenses into five defined categories (IFRS 18, paragraph 47):

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1 IFRS Foundation. (2025, May 8). *IFRS standards—Application around the world jurisdictional profile: Cambodia*.

2 Weygandt, J. J., Kimmel, P. D., & Mitchell, J. E. (2021). *Accounting principles* (14th ed.). Wiley.

3 International Accounting Standards Board. (2024). *IFRS 18: Presentation and disclosure in financial statements*. IFRS Foundation.

1. **The Operating Category:** This is the default category for all income and expenses that do not fit elsewhere. It captures the results of the entity's core business activities, providing a pure look at how effectively the firm is operating (IFRS 18, paragraph 52).
2. **The Investing Category:** This category includes returns from assets that generate income individually and independently, such as investments in associates or joint ventures accounted for using the equity method (IFRS 18, paragraphs 53-58).
3. **The Financing Category:** This encompasses all income and expenses related to liabilities that involve the raising of finance, such as interest expenses on bank loans or bonds (IFRS 18, paragraphs 59-66).
4. **Income Taxes:** This includes all tax expenses or income included in profit or loss under IAS 12 *Income Taxes* (IFRS 18, paragraph 67).
5. **Discontinued Operations:** This captures results from business components that have been disposed of or are held for sale (IFRS 18, paragraph 68).

Crucially, IFRS 18 requires Cambodian PIEs to present two new mandatory subtotals: Operating Profit or Loss and Profit or Loss Before Financing and Income Taxes (IFRS 18, paragraphs 69-71). For Cambodian banks and MDIs, these classifications will allow for a clearer distinction between interest earned from core lending activities and interest related to the bank's own financing.

### **Management-Defined Performance Measures**

Perhaps the most transformative aspect of IFRS 18 is the formalization of MPMs. MPMs are subtotals of income and expenses that management uses in public communications—such as press releases, annual reports, or investor presentations—to communicate their view of an aspect of the company's financial performance (IFRS 18, paragraph 117).

Currently, many companies (including Cambodian firms) highlight non-IFRS metrics like "Adjusted EBITDA" or "Core Earnings" to attract investors. Under IFRS 18, if a Cambodian PIE uses such a measure outside of its financial statements, it must now bring that measure into the audited notes. Specifically, IFRS 18, paragraph 123, states that the entity must:

- Identify the measure in a single note to the financial statements.
- Provide a reconciliation between the MPM and the most directly comparable IFRS-defined subtotal.
- Explain why the measure provides useful information about the company's performance.
- Disclose the tax effect and the effect on non-controlling interests for each reconciling item.

This requirement aims to reduce "creative accounting" and ensure that the performance metrics management uses to evaluate its own stewardship of the company's resources are transparent and verifiable.

### **Enhanced Principles for Aggregation and Disaggregation**

Information is only useful if it is material—meaning its omission or misstatement could reasonably be expected to influence the decisions of investors. IFRS 18 introduces new principles to prevent material information from being obscured. In the past, companies might "hide" significant expenses by aggregating them into large, vaguely labeled "Other" categories.

IFRS 18, paragraphs 41-43, require Cambodian PIEs to:

- Classify items based on shared characteristics.
- Disaggregate items if the resulting information is material.
- Label items as "Other" only as a last resort if no more informative label can be found.
- Provide a structured summary in the primary financial statements while providing more detailed disaggregated information in the notes.

For a complex Cambodian organization, such as a multi-branch bank or a diversified holding company, this means management can no longer simply report a single line for "Administrative Expenses" if it contains items with different natures or functions that would be material to an investor.

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## Impact on Cambodian Public Interest Entities

In Cambodia, PIEs are held to the highest standards of reporting because they manage public resources or are vital to the national economy.

For commercial banks and MDIs regulated by the National Bank of Cambodia, the transition may require significant updates to accounting information systems. Since these institutions often manage thousands of interest-bearing transactions across multiple departments, the ability to correctly categorize these into the new Operating, Investing, and Financing categories will be critical for compliance. Furthermore, banks that previously relied on internal “core profit” metrics will now have to reconcile these as MPMs in their audited reports.

The Ministry of Economy and Finance has already granted a deferral for insurance companies to adopt IFRS 9 and IFRS 17 until 2028. However, IFRS 18 is scheduled for mandatory application for reporting periods beginning on or after January 1, 2027 (IFRS 18, Appendix C, paragraph C1). Insurance firms will need to coordinate their transition to IFRS 18 with their ongoing IFRS 17 implementation to ensure that the presentation of insurance revenue and insurance service expenses aligns with the new income statement categories.

Companies listed on the Cambodia Securities Exchange must provide audited financial statements that meet the rigorous requirements of CIFRS to maintain investor trust. The adoption of IFRS 18 will bring their reporting in line with global standards used in over 140 jurisdictions, potentially reducing the “Cambodian discount” and attracting more foreign direct investment.

### The Road to 2027

The effective date of January 1, 2027, might seem distant, but the transition requires a retrospective application. This means that when a Cambodian PIE issues its first IFRS 18-compliant financial statements in 2027, it must also restate its 2026 comparative figures to match the new structure.

Steps for Cambodian Financial Professionals:

1. **Assess Accounting Information Systems:** Managers should evaluate whether their current accounting information systems can capture the data necessary to categorize income and expenses into the new Operating, Investing, and Financing categories.
2. **Evaluate Current MPMs:** Review all performance metrics used in press releases or annual reviews to determine which will qualify as Management-Defined Performance Measures under the new standard.
3. **Review Aggregation Policies:** Analyze current “Other” categories to ensure they do not obscure material information.
4. **Educate the Board and Stakeholders:** Accounting is not just a back-office function; it is a tool for stewardship. Board members and senior executives must understand the new subtotals and how they will reflect on the company’s perceived performance.

### Concluding Remarks

The transition from IAS 1 to IFRS 18 is more than a technical change; it is a strategic opportunity for Cambodian PIEs to demonstrate their financial health and management integrity to the world. By providing a more transparent “monetary scorecard,” Cambodia can continue to build faith in its markets, attract high-quality investment, and spur national economic growth.

Accountants and financial managers are no longer just “bean counters” from the safe distance of an office; they are now communicators and strategic partners. By embracing IFRS 18, Cambodian business professionals ensure that their organizations are not just compliant with the relevant laws and regulations but are leaders in the global pursuit of financial transparency and excellence. The pace of change in the financial world is rapid, but for those who master the new language of IFRS 18, the future is bright

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# Navigating Sustainability Reporting Standards: The ISSB's Impact in the Cambodian Accounting & Auditing Industry

*Thearith Sem and Varabott Ho*  
*Student and Professor, CamEd Business School*

While sustainability reporting was once considered a voluntary practice, it has, in recent years, become more of a mandatory aspect of corporate transparency as the world becomes more aware of the company's role in society and the environment. (Boiral et al., 2020). For Cambodia, aligning with global standards is now essential to attract foreign direct investment and achieve sustainable growth. At the core of such transformation, accountants and auditors are experts who serve an important role in ensuring the integrity and reliability of the sustainability reports (Channuntapipat et al., 2019).

The call for such an urgent global transformation for a more transparent and comparable sustainability reporting has become clearer with the introduction of the International Sustainability Standards Board (ISSB) standards. The implementation of IFRS S1 and S2 for a country like Cambodia is not just an indication of a shift in regulatory attitude, but rather a strategic direction.

The introduction of IFRS S1 and IFRS S2 requires that all relevant investors and stakeholders receive information on sustainability-related risks and opportunities in a consistent, comparable, and reliable manner (IFRS Foundation, 2023). Now, businesses in Cambodia need to pay more attention to more disciplined disclosures to align with global practices. As the ISSB set a global effective date of January 1, 2024, Cambodia is implementing a localized, "phased adoption" approach according to the March 2026 Draft Roadmap. Under this framework, the Technical Committee for Sustainability Reporting (CSRC), which was established in May 2025, serves as the primary coordinator across 15 ministries to harmonize these efforts alongside ACAR and KICPAA. The disclosure journey begins with publicly listed equity issuers, also known as "Group 1", starting with:

- Phase 1: 2026 - the "Foundation Phase" based on the existing disclosure requirements issued by the Securities and Exchange Regulator of Cambodia (SERC)
- Phase 2: 2030 - a transition to IFRS S1 and IFRS S2 standards with transitional reliefs
- Phase 3: 2032 - the full application of the ISSB standards
- Phase 4: 2034 - the mandatory external assurance of the sustainability disclosure (Technical Committee for Sustainability Reporting, 2026)

The timeline provided by this roadmap also incorporates proportionality and transitional reliefs, such as "climate-first" reporting, to ensure companies can comply without "undue cost or effort."

A key characteristic of IFRS S1 is its strong emphasis on materiality. This emphasis requires accountants to conduct comprehensive materiality assessments to prioritize sustainability risks and opportunities likely to have a substantial impact on company performance. This is all about gathering a deep understanding of the business, its industry, and the broader economic and environmental context. Accordingly, accountants must be able to gather and analyze a large range of sustainability data to ensure that the company's disclosures are accurate, complete, and relevant to the reporting. By that, professional accountants must develop new skills and competencies to prepare for the challenges of integrating sustainability financial information into financial reporting (Ah-Shaer, 2020; Ramadhan et al., 2023).

## **Integrating Sustainability Goals with Core Business Strategies**

When we talk about sustainable finance in Cambodia, we realize that Cambodian businesses need to put more effort into making sustainability part of their core business

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plans than ever before. This integration goes beyond regulatory compliance. It is about embedding sustainable practices in the core structure of each respective organization. The ISSB's IFRS S1 and S2 explicitly require businesses to disclose material sustainability risks, climate-related reporting, and, especially, their approach to sustainability. Such a requirement requires relevant stakeholders, including finance, risk, and board members, to actually improve on the analysis of the climate scenario and their sustainability reporting. With priorities placed upon metrics that align with the financial performance, businesses may be able to gain tangible benefits from the adoption of the standards, as well as showing how they are beneficial financially.

### **A Brief History of Key Institutions and the ISSB's Role**

The trend in sustainability reporting actually derived from increased attention from society and investors regarding the firm's social and environmental consequences. The important players shaping this space are the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the International Sustainability Standards Board (ISSB). The aim is to develop a unified global sustainability reporting system with a clear set of standards that do not overlap. Building upon this foundation, the ISSB has issued two sustainability reporting standards, with IFRS S2 as the main area for climate-related disclosures.

In developing global sustainability disclosure standards, the ISSB's work primarily centers on ESG issues that may affect enterprise value. It is part of the IFRS Foundation, which develops standards for global financial reporting to encourage clear and comparable financial statements (Petersen et al., 2022). The creation of the ISSB is a significant step toward bringing sustainability practices into mainstream financial reporting, thereby providing investors with comprehensive information on a company's performance.

The introduction of IFRS S2 brings about both challenges and opportunities for Cambodian businesses. Because of its emphasis on climate-related disclosures, businesses are required to provide detailed information on their climate-related risks, opportunities, and impacts. That

information includes specific data on greenhouse gas emissions, any established climate-related objectives of the company, and the company's transition plans. These standards are important for investors, particularly in a country like Cambodia, which is vulnerable to climate change. The incidence of natural disasters, such as flooding and drought, and their effects on farm productivity can be a major determinant of a business's performance.

### **Challenges in Implementing ISSB Standards in Cambodia**

While the adoption of ISSB standards brings about benefits, there are still implementation challenges for Cambodian companies. Firstly, limitations in resources and expertise, especially for SMEs, could impede the effective implementation of the standard. Such resource limitations can directly affect companies' ability to carry out materiality assessments at the level of comprehensiveness required by IFRS S1. However, the ISSB standards are designed with proportionality reliefs to address these hurdles, specifically for entities such as SMEs (PwC, 2025). For instance, when conducting materiality assessments as per IFRS S1 requirements, entities are only required to provide 'reasonable and supportable information that is available at the reporting date without undue cost or effort' (PwC, 2025). This provision ensures that firms struggling with data availability or the capacity to measure greenhouse gas emissions are not unfairly burdened. At the same time, the draft roadmap by CSRC also incorporates transitional reliefs, such as "climate-first" reporting and Scope 3 extensions, to help domestic preparers manage the transition while they develop the necessary internal capabilities (Technical Committee for Sustainability Reporting, 2026).

Next, weak regulatory enforcement and limited data availability can also pose challenges in meeting the reporting requirements of IFRS S2 (Flores, 2023). Many companies don't have the capacity or expertise to accurately measure their greenhouse gas emissions, or to assess the climate-related risks and opportunities in their supply chains.

At the same time, there is a need for accountants to have the knowledge and competency to gather, analyze, and provide disclosure for those information, and do so

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in compliance with the guidelines provided by the Task Force on Climate-related Financial Disclosures (TCFD), which have been integrated into IFRS S2. The demands for capacity-building and training programs for accountants and auditors, who will be required to have a good understanding of the ISSB standards, have increased (de Villiers et al., 2024). Training in data analytics, climate science, and industry-specific metrics is necessary for the fulfillment of the requirements of S1 and S2.

### **Opportunities and the Role of External Reviews, SPOs, and Sustainability-Linked Instruments**

The implementation of ISSB standards, however, brings both significant opportunities and potential benefits for Cambodia. The adoption of sustainability standards may allow Cambodia to improve its attractiveness to foreign investors who have placed emphasis on ESG factors in their investment decisions (Velte, 2022). It may also help to improve corporate governance practices and foster a culture of transparency and accountability, for which Cambodian culture has revolved around a trust-based society for a long time. Provided with credible sustainability disclosures, firms may enhance stakeholders' confidence and contribute to sustainable economic growth.

As part of the implementation, auditors review sustainability reports for compliance with the ISSB standards, which provide independent assurance that increases stakeholders' confidence in the accuracy of the reports (La Torre et al., 2018). But auditors also need to test the effectiveness of internal controls to ensure the underlying sustainability data are accurate and reliable, not just review the results. This is necessary to fight "greenwashing" and to assure that corporate environmental claims are based on evidence and not misleading (Buallay & Al-Ajmi, 2020). For instance, IFRS S2 mandates that auditors have the technical capabilities to evaluate climate-related risks and report greenhouse gas metrics accurately, which necessitates detailed knowledge of the scope 1, 2, and 3 emission methodologies.

External reviews, such as Second Party Opinions (SPO) and assurance audits, may add credibility to reports and increase transparency for Cambodian firms (Aliyu, 2024). These reviews could be a way to align financial incentives

with sustainable objectives, and hence, may create value as the assessment of the sustainability credentials of financial instruments becomes more important (Gadinis & Miazad, 2024). Accountants play an important role in verifying the accuracy of environmental and social impact information and in connecting traditional financial reporting with modern sustainability disclosures (Del Guidice & Rigamonti, 2020; Garcia-Torea et al., 2022).

### **Future Opportunities and Conclusion**

The implementation of these standards, while challenging, is both feasible and beneficial. Firstly, professional accountants and auditors in Cambodia need to acquire the capacity to discharge the requirements of the ISSB standards through the design and implementation of learning programs. In the short term, they will need training via workshop(s), seminars, etc., to acquire the appropriate knowledge and skills required to apply IFRS S1 and S2. Next, Cambodia may also need to place more emphasis on regulatory enforcement and call for businesses, regulators, and relevant professional bodies to work together. Long term, as Cambodia's capacity improves, it will be able to cultivate a culture of accountability and transparency in reporting on its sustainability at the highest quality, and to attract foreign direct investment for stable, sustainable economic growth.

Given the importance of this implementation, Cambodia can ensure that growth is inclusive and environmentally sound. But to help this transition, all players need to work together. The benefits to Cambodia's economy and environment, however, are significant.

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# How organizations best survive a crisis and thrive in the long-term: Creating competitive advantage in uncertain times

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Andy Grove, the former CEO Intel, guided the firm through chaotic times like the dot-com crash and current AI disruption is quoted as having said that, “Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them”. The insight is powerful descriptively yet lacks any prescriptive advice on how to become a great company. Perseverance during distressful times is a measure of success already, but there exist managerial and leadership strategies that transform chaotic times into an opportunity for positioning a firm for long-term competitive advantage. This short article will highlight established managerial practices that correlate with business success.

Organizations that successfully navigate uncertainty develop **dynamic capabilities**, foster **organizational ambidexterity**, and practice **adaptive leadership**. Operators and managers that understand these concepts can outperform competitors and create a sustainable competitive advantage for their organizations amidst shocks in their business environment without losing sight of long-term strategic goals. These practices are both timeless and timely. Their adoption by firms in Cambodia now will help managers guide firms through the many shocks arising from current energy market turmoil, geopolitical uncertainty, supply change chokepoints, and disruptions from rapid AI adoption and technological advancement and prepare them for future uncertainties.

Knowledge of these three managerial practices and their implementation are critically important for top management teams to ensure long-run organizational survival and competitive positioning. This article attempts

to first relay three specific theoretical frameworks and then provides practical actions management can implement in their firms and three key takeaways.

## Theoretical Frameworks

### *Dynamic Capabilities*

In 2007, David Teece developed the framework for Dynamic Capabilities which can be synthesized into the three pillars of Sensing, Seizing, and Transforming. Sensing includes cognitive and sense-making practices that capture demand signals, while seizing relies on strategic and operational capabilities to influence pricing decisions, and transforming leads to proactive job and team design to reconfigure routines and processes for better value creation. Whereas an organizational capabilities approach focuses on how to do things to improve efficiency, a dynamic capabilities approach shifts focus instead towards doing the right things in the right way to meet strategic objectives of the organization. This involves creating, extending, and modifying the resources a firm control to create better returns than competing firms. Intel sensed the decline in DRAM chips market, seized the opportunity to pivot, and transformed the entire business model to begin producing microprocessors. Firms like Elpida Memory that did not develop dynamic capabilities faced a bankruptcy that is still considered the largest in Japanese post-WWII history.

### *Organizational Ambidexterity*

Robert Duncan initially coined the concept of Organizational Ambidexterity in 1976 which examines the capability of an organization to successfully balance two types of activities, namely, exploitation and exploration within a firm’s resource constraints. Exploitation derives value by relying on previously identified areas of revenue

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generation through efficiency gains by using presently available organizational resources. Exploration, on the other hand, creates value through innovations that create new resources that are currently not controlled by a firm. In this approach, there is a tension between the two approaches that can be balanced in a context dependent manner that is influenced by the external market environment. Google achieves this by exploiting the revenues from search and advertisement to explore new opportunities in “moonshot” areas like autonomous taxis with Waymo. Intel approaches this structurally with business units focused on efficiency in the mature CPU market segment while dedicating other teams to develop disruptive technologies. Meanwhile, Kodak suppressed their exploration of digital photography and focused too heavily on exploitation of the firm’s film camera revenues which is largely cited as the reason for their eventual bankruptcy.

### **Adaptive Leadership**

In 1994 Ronald Heifetz introduced the concept of Adaptive Change that he eventually refined into the Adaptive Leadership framework where organizational leaders are tasked with managing the types of structural breakdowns that occur in crises successfully by keeping employees within a productive zone of disruption. At the core, this theory advocates for distributing leadership, utilizing diverse skills of employees, remaining open and transparent, and building trust with authenticity. Firms that practice adaptive leadership demonstrate significant improvements in financial and operational performance and that outperformance becomes even more pronounced during periods of volatility. Overall, this approach shifts leadership from that of the role of an individual with a top-down approach to a more systemic, whole of the firm design that disperses leadership decision-making. Netflix actively practices this by disrupting its own business model internally to elicit innovations from within the firm where Blockbuster did not. Airbnb utilized the approach in dealing with customer preference shifts during COVID-19 by adapting the model to more long-term stays.

### **Managerial Implications: Practical Actions**

Firstly, leaders and the top management team must cultivate their sensing abilities by nurturing cognitive

frameworks to be used to identify threats and opportunities in their industry and the market more generally. Management should develop thinking that aims beyond current operations and stay focused on changing consumer preferences. Having managers write and share a brief weekly industry trends report is a low-cost effort to build these skills. This will help lay the foundation for management to develop the sensing aspect of a dynamic capabilities’ framework.

This is especially true for firms that are facing technological disruption. Sensing activities include tasks like gathering consumer behavioral data and applying analytical techniques that can quickly identify demand sentiment. Sensing keeps the firm on top of how customer preferences are changing. Other examples of this include a proactive approach to experimentation by bringing the customer into the development process and eliciting customer feedback and participation throughout the process. These gathered data can be valuable for benchmarking and for making forward looking, testable performance metrics. In this phase, successful managers will hone their skills to be able to spot disruptions earlier than their peers. It allows firms to proactively respond to a crisis before it reaches its peak by addressing firm vulnerabilities internally and not waiting until they are forced to by the market.

Next, organizational resilience requires that the seizing mentality be sharpened as well. While sensing activities build proactive readiness, seizing is reactive and recovery focused. In this stage, firms should prioritize strategic flexibility. That includes a bricolage approach that allows resources to be reconfigured to meet new objectives. Samai distillery transformed their high proof alcohol production to make hand sanitizers during Covid by using what resources they had available in a new way. Seizing relies on rapid resource deployment when an opportunity is available. This is the action stage that takes the thinking and transforms it into firm action. By creating rapid action taskforces within a firm, the organization can learn to rely on flexible working relationships where a culture of open collaboration replaces outdated, siloed top-down organizational charts. Additional focus should be paid to developing a strategic resource reserve that can be deployed to provide additional working capacity when a crisis does inevitably arise.

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Finally, managers need to instill in their employees the confidence to act in the face of uncertainty and to work in periods of disruption without allowing psychological discomfort to paralyze their actions. Iterative training can better prepare working groups to face these challenges even when the specifics of a mitigating response are yet unknown. To better prepare employees for this more dynamic environment, managers should be more proactive in refining the design of job roles and orchestrating team design. How work is completed and teams are constructed in the firms requires a transformative mindset from the top management team.

Optimizing job design can ensure that employees are given more responsibilities with tasks that they are skilled at. This protects workers' psychological and biological health, increases emotional regulation, and sets the stage for a workplace with greater employee engagement. Job crafting where employees have some autonomy over task assignment and gamification complement employee welfare management can help achieve higher levels of productivity from workers that remain engaged even in periods of elevated stress.

### **Key Takeaways**

- 1) Effective managers learn to continuously sense, seize and transform the organization to develop a firm's dynamic capabilities where continued practice better positions a firm before, during, and after a crisis.
- 2) Organizational ambidexterity balances resource exploitation and exploration in a manner that is context dependent and capable of embracing conflicting organizational strategic goals.
- 3) Adaptive leadership develops firm resources through forward looking job role and team design by dispersing power amongst the employees and allowing for managed levels of autonomy in designing workflows.

### **Conclusion**

Great companies grow their dynamic capabilities, develop organizational dexterity, and practice adaptive leadership not because it is easy, but because these managerial practices have been demonstrated as the best way ensure firm survival and competitive advantage in a market. When crisis hits, firms with these characteristics are better positioned to adapt and take advantage of new market realities. Management can promote these concepts within their own firm by taking some of the simple steps highlighted in this article.

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# Women, Leadership, and Fertility Preservation: Why Timing Matters More Than Ever

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In recent years, more women across Southeast Asia, including Cambodia, have entered higher education, professional careers, and leadership roles. This represents important social and economic progress, a shift clearly reflected in regional data across Southeast Asia. According to a 2023 United Nations Development Programme (UNDP) report on women in leadership, the share of women in senior management roles in the ASEAN region rose to approximately 35%, with countries like Cambodia seeing a steady increase in female entrepreneurs and public sector leaders. However, this rapid career acceleration means women are spending their peak biological reproductive years—typically between ages 20 and 30—establishing professional milestones, directly contributing to a demographic shift toward delayed family planning.

At the same time, another trend has become increasingly visible in clinical practice: delayed childbearing and rising fertility challenges. Many women spend their most reproductive years focusing on education, career development, financial stability, or leadership responsibilities, while fertility planning is often postponed or not discussed early enough. Over the past decade, the age at which women first attempt pregnancy has gradually increased. Although awareness about fertility decline is improving, many people still believe that modern reproductive technologies can fully compensate for age-related changes. In reality, reproductive biology follows a strict timeline, highlighting a growing gap between career planning and reproductive health planning that must become part of broader discussions about women's health, leadership, and long-term well-being.

## Biological Limits

Female fertility is closely associated with ovarian reserve and egg quality, both of which decline progressively with age. Although this process is gradual, fertility decline becomes more clinically significant after the age of 35 and accelerates further after 40. In practical terms, reproductive aging manifests as a simultaneous decrease in ovarian reserve and a decline in egg quality, which collectively drive an increased risk of miscarriage and lower success rates per In Vitro Fertilization (IVF) cycle (ASRM, 2020; ESHRE, 2023).

Age remains the primary independent predictor of reproductive success. Clinical guidelines from the World Health Organization (WHO) emphasize that while assisted reproductive technologies can optimize the probability of conception per cycle, they cannot fully reverse the cellular effects of ovarian aging. Data from international reproductive medicine organizations such as the American Society for Reproductive Medicine (ASRM) and the European Society of Human Reproduction and Embryology (ESHRE) consistently demonstrate better reproductive outcomes in younger patients compared with women undergoing IVF at later reproductive ages. One of the major challenges in clinical practice is that many women overestimate the ability of technology, forgetting that while IVF can improve probabilities, it cannot completely overcome the biological limitations associated with age.

## Hidden Risks

In addition to age-related fertility decline, several medical and lifestyle-related conditions may negatively affect reproductive potential but often remain undiagnosed for years. One important condition is Endometriosis, a chronic gynecological disorder in which tissue similar to the uterine lining grows outside the uterus. Depending on severity, it may contribute to pelvic inflammation, pain,

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reduced ovarian reserve, and impaired fertility. Some patients remain minimally symptomatic until fertility problems become apparent. Globally, endometriosis affects an estimated 10% of reproductive-age women and girls (Zondervan et al., 2020), representing a significant but frequently undiagnosed barrier to fertility in high-performing professional environments.

Polycystic Ovary Syndrome (PCOS) is another common condition frequently seen in reproductive-age women. PCOS is associated with hormonal imbalance, irregular ovulation, and metabolic disturbances. While many women with PCOS can conceive successfully, delayed diagnosis and associated metabolic issues may negatively influence reproductive outcomes over time. Statistics indicate that PCOS affects between 8% and 13% of women of reproductive age worldwide, with up to 70% of affected individuals remaining undiagnosed, highlighting the critical need for early screening.

Beyond these specific gynecological conditions, broader systemic factors like metabolic health also play a critical role. Obesity, insulin resistance, and metabolic syndrome are increasingly common and may contribute to hormonal dysregulation, ovulatory dysfunction, pregnancy complications, and lower IVF success rates in some patients.

Chronic stress may also affect reproductive health. High-performing professionals often experience prolonged stress, irregular sleep, limited recovery time, and lifestyle imbalance. Although stress alone is rarely the sole cause of infertility, it may negatively influence hormonal regulation and menstrual regularity. A major clinical concern is that many women normalize or ignore early warning signs such as irregular cycles, severe menstrual pain, chronic pelvic discomfort, abnormal bleeding, or unexplained fatigue. As a result, proper evaluation is often delayed until fertility difficulties become more advanced. Earlier reproductive assessment and improved awareness may help identify these conditions sooner and improve long-term reproductive outcomes.

### **Clinical Reality**

In reproductive medicine practice, many patients present later than would be considered ideal from a biological perspective. This pattern is increasingly observed across

Southeast Asia, particularly among professionally active women balancing career development, financial stability, and delayed family planning. These observations align closely with emerging demographic data from Cambodia and the wider Mekong region, where the average age of first marriage and first-time childbirth among urban, college-educated women has gradually increased in recent years. Consequently, in clinical settings across regional hubs, reproductive medicine specialists are increasingly managing patients who present with advanced maternal age coupled with underlying conditions that went undetected during their 20s due to a lack of routine fertility screening.

Clinical outcomes vary significantly according to age. In general reproductive medicine practice across Southeast Asian clinical hubs, pregnancy and live birth rates are more favorable below the age of 35 and gradually decline during the late 30s and early 40s. Another challenge is the common perception that IVF represents a guaranteed or immediate solution. In reality, treatment may require multiple cycles, careful planning, emotional resilience, and significant financial commitment. Delayed fertility awareness therefore contributes not only to medical complexity, but also to emotional and financial burdens for many patients and families.

### **Fertility Preservation**

Fertility preservation has become an increasingly important part of modern reproductive medicine, particularly for women who plan to delay childbearing for professional, educational, financial, or personal reasons. Early reproductive assessment may provide valuable information before fertility decline becomes clinically significant. Evaluation of ovarian reserve using Anti-Müllerian Hormone (AMH) testing and ultrasound assessment of antral follicle count can help identify potential reproductive risks even at relatively young ages. Consultation with a fertility specialist may support better long-term planning and allow earlier identification of conditions that could affect future fertility.

Among available preservation strategies, oocyte cryopreservation (egg freezing) is increasingly used worldwide. The process usually involves ovarian stimulation for approximately 10–14 days, followed by transvaginal oocyte retrieval and long-term cryostorage.

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Current evidence suggests that long-term storage itself does not significantly reduce future reproductive potential. Importantly, outcomes are generally better when fertility preservation is performed at younger reproductive ages.

Despite advances in reproductive medicine, several barriers continue to limit the use of fertility preservation services in Southeast Asia. These include limited public awareness, financial cost, cultural perceptions regarding delayed childbearing, and a lack of structured fertility education. As a result, many women become aware of fertility preservation options only after reproductive decline has already progressed.

### **Strategic Recommendations & The Business Case**

From both a clinical and practical perspective, several simple measures may help improve fertility awareness and long-term reproductive outcomes. For individuals, earlier education and proactive assessment remain important. This includes understanding that fertility is time-sensitive, considering reproductive assessment earlier rather than waiting for difficulties, recognizing symptoms such as irregular cycles or pelvic pain, seeking professional advice during long-term career planning, and maintaining overall metabolic and lifestyle health. In clinical practice, earlier intervention often allows a wider range of reproductive options and may reduce treatment complexity later. Healthcare providers also play an important role in improving awareness by ensuring fertility education is integrated earlier into preventive healthcare and women's health discussions.

From a human capital perspective, the intersection of reproductive timelines and career milestones creates what business literature defines as a "leaky pipeline" for executive talent. When organizations fail to account for the biological realities of family planning, they risk losing highly trained female leaders precisely at the moment they are poised to step into senior management. Replacing a senior executive can cost an organization up to 150% of that employee's annual salary in lost productivity, recruitment, and onboarding costs.

Therefore, implementing proactive fertility benefits is not merely an act of corporate social responsibility ; it is a calculated strategy for talent retention and risk mitigation

in competitive regional markets. Globally, multinational technology and consulting firms have increasingly adopted elective egg freezing and IVF coverage as standard benefits to retain top female talent—a trend that regional Southeast Asian enterprises must now study to remain competitive.

Employers and organizations can actively support this shift by introducing modern corporate wellness frameworks that move past basic fitness or mental health app subscriptions. Comprehensive equity and inclusion strategies require the institutionalization of reproductive health paths. This includes Human Resource departments expanding benefits packages to include fertility health literacy, access to clinical screenings, and educational seminars led by medical experts to demystify metrics like AMH testing. Furthermore, implementing corporate policies like flexible work arrangements, remote-work allowances during intensive treatments, and paid health leave can directly reduce employee stress and burnout. When an institution normalizes these conversations and removes punitive barriers, it actively dismantles the workplace stigma that forces women to choose between professional visibility and personal family planning goals.

### **Conclusion**

The increasing participation of women in leadership, business, healthcare, and professional careers represents important social and economic progress across Southeast Asia and globally. However, reproductive health planning often receives far less attention than educational or career development. In clinical practice, one of the greatest challenges is not infertility itself, but delayed awareness of reproductive decline and delayed evaluation of underlying conditions. Fertility is influenced by age, biology, metabolic health, and multiple medical factors that cannot always be fully compensated for by modern reproductive technologies.

While treatments such as IVF have significantly improved reproductive possibilities, they remain most effective when combined with earlier assessment, timely intervention, and realistic reproductive planning. Ultimately, incorporating reproductive health into corporate wellness programs and leadership literature ensures long-term workforce sustainability. By supporting informed decision-making through earlier education and

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proactive planning, we protect the physical, emotional, and institutional well-being of the modern workforce.

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# Leading with Empathy in an Era of Disconnection

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It is not surprising that a particular kind of silence may be misunderstood as harmony by a superior in a hierarchical workplace. In this culture, employees do not push back; meetings proceed without friction, and directives are followed without question. In many Southeast Asian countries, this silence is often shaped by deep-rooted norms around respect for authority and the preservation of face; however, beneath that surface, disengagement quietly emerges. In their 2021 report on workplace relationships, Aaron De Smet and associates at McKinsey discovered that the quality of an employee's relationship with their direct supervisor forecasts the employee's experience, and that burnout and attrition are prevalent in environments where leaders neglect the human aspects of work. The implication is unsettling but important to consider, and that is in societies where hierarchy is most established, the cost of leadership lacking empathy may be highest precisely because it is least evident.

## **Rethinking Empathy: Beyond Being “Nice”**

Before diving deeper into that cost, it is worth being clear about what empathy in leadership actually means because it is a concept that is frequently misread, particularly in cultures where authority and emotional expression occupy separate domains. Empathy is not warmth, and it is not even the softening of standards. What is empathy, then? In his 2020 updated perspectives on emotional intelligence, Daniel Goleman defines it as the capacity to understand what another person is experiencing and to use that perception purposefully. At its core, it is an informational skill that informs leaders about their teams in ways that performance statistics cannot.

For a moment, imagine a manager who notices that a usually reliable team member has become quieter in meetings and slower to respond to messages. Rather than attributing this to disengagement or poor attitude,

an empathically attuned leader reads these signals as information, something has shifted, and creates a quiet moment to check in. What emerges might be a personal difficulty, an unspoken concern about a project, or simple exhaustion. The leader has not lowered their standards; they have gathered intelligence that allows them to respond more effectively. That is empathy that functions not as sentiment, but as a leadership tool.

Chao Miao, Ronald H. Humphrey, and Shanshan Qian's 2020 meta-analysis found that empathy, a central component of emotional intelligence, is consistently associated with more constructive work attitudes and stronger interpersonal dynamics. This is significant in the Asian organizational context, as the argument here is not having less authoritative leaders, but is that authority exercised without empathic awareness is likely to be less effective than it could be. In other words, a leader who understands what their team is experiencing can better lead within the order, not against it.

## **Why Empathy Matters Now**

The urgency of this conversation has intensified in recent years. Gallup's 2023 State of the Global Workplace Report documents that employee disengagement remains a global challenge, with particularly striking figures in East and Southeast Asia, where hierarchical norms may prevent the type of open feedback that would otherwise detect issues at an early stage. Gallup also suggests that Disengagement is not passive; it carries real costs in productivity, retention, and organizational capability. In rapidly developing economies like Cambodia's, where organizations are growing quickly and talent pipelines are still maturing, these costs are ones that few can afford to absorb quietly.

According to Harvard Business Review in 2022, empathy has become non-negotiable in modern leadership, due to the nature of work that has genuinely changed. Employees across contexts are navigating uncertainty, pressure, and competing demands; therefore, leaders

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who cannot attune to these realities will consistently misread their teams and misallocate their attention. In a hierarchical culture, where employees are unlikely to volunteer and communicate that they are struggling, this attunement becomes not merely desirable but structurally necessary.

### **What Empathetic Leadership Looks Like in Practice**

Practicing empathy within a hierarchical culture is genuinely difficult since the same norms that produce deference and respect also make it harder for employees to express concerns, admit confusion, or push back on decisions they disagree with. The leader who waits for their team to come forward, on the other hand, is likely to wait in silence. Empathetic leadership in this context is therefore more proactive than reactive, and it requires leaders to go beyond what is being said. This means listening beyond surface-level communication and paying attention not only to what is said in meetings, but to what is communicated through hesitation, through the questions that are not asked, through the body language of someone who is nodding but not yet convinced. It also means building the kind of consistency over time that makes it feel safer for employees to speak. Guangya Ma and colleagues, in a 2024 study, suggest that empathetic leadership promotes employee innovation by generating psychological empowerment, a sense that one's voice matters, and that taking initiative carries less risk. In cultures where that sense is not automatic, it should be deliberately constructed, one interaction at a time.

Two practices are worth naming directly. The first is normalizing imperfect answers; that is, when leaders openly invite questions, respond without judgment to mistakes, and occasionally admit their own uncertainty, they gradually lower the cost of speaking up. The second is consistency in small moments, for instance, greeting team members individually, following up on something mentioned in a previous conversation, or simply pausing long enough after asking a question to make clear that an honest answer is genuinely welcome. These are not grand gestures; they are the quiet, repeated signals through which psychological safety is built one interaction at a time.

Contextual awareness is equally important. A leader who understands that a team member's quietness in a

meeting reflects cultural respect rather than agreement, or that a reluctance to ask questions signals anxiety about face rather than comprehension, is better equipped to respond constructively. These are not adjustments that require abandoning authority; they are refinements that make authority more effective.

### **The Shadow Side of Empathy**

A thoughtful discussion of empathetic leadership cannot afford to overlook its limitations and there are real ones. The first is what is described as empathy fatigue which is the emotional exhaustion that accumulates when leaders absorb, repeatedly and deeply, the stress and pain of those around them. This is not a minor inconvenience, as chronic empathic distress has been linked to the depletion of motivation and reward-processing capacity, and its symptoms, including emotional withdrawal, diminished engagement, a quiet loss of joy in the work, reflect the very burnout that empathetic leadership is meant to prevent. A leader who gives too much of themselves emotionally, without sufficient recovery, eventually has little left to offer. Paul Bloom's concept of rational compassion is a key here. This theory suggests that the goal is not to feel everything others feel, but to understand it well enough to act effectively, caring for others while preserving the capacity to continue doing so.

Another point to consider, which is subtler but equally consequential, is that empathy is not impartial. Leaders tend to empathize most readily with those who are most similar to them, most visible, or whose difficulties are most emotionally vivid. This empathic bias can quietly distort decisions about opportunities, recognition, and support, and result in favoring those who resonate emotionally over those who may be equally or more deserving. In hierarchical cultures, where proximity to leadership already shapes access to resources, this bias can compound existing inequities without anyone intending it to. The implication is not that empathy should be abandoned, but that it should be practiced with self-awareness. This means leaders need to notice not only what they are feeling, but whose experience they may be failing to see.

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## **A Leadership Imperative**

Deloitte's 2023 Global Human Capital Trends Report identifies human-centered leadership as among the most critical organizational capabilities of the decade ahead. For organizations in Cambodia and across Southeast Asia, this is not simply an imported Western concept to be adopted or adapted; it is a response to a genuine and local challenge. As workforces become younger, more educated, and more aware of what good leadership looks like, the gap between what employees experience and what they expect is likely to widen in organizations that do not attend to it. Hierarchy itself is not the obstacle here, but hierarchy without empathy is. The leaders who will matter most in the years ahead are those who can hold authority and attunement together and can understand that knowing their people more deeply does not diminish their leadership, but extends its reach. In an era marked by disconnection, empathy may well be what determines whether leadership simply functions or truly resonates.



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