Corporate Governance

Code of Corporate Governance 2012, SGX Rule 1207(10)

Letter to the Board and Senior Management

At around the turn of the century, there was a spate of corporate scandals taking place in the US and Europe. Once highly regarded corporations, Enron, WorldCom, Tyco, Arthur Andersen (and the list goes on), became corporate scoundrels by misdeeds that their managements plotted unseen in boardrooms. Dot-com start-ups mushroomed in the 1990's, rogue traders (Nick Leeson) and money managers (Bernie Madoff) - one by one, they fell dishonoured by their dishonest practices. Countless innocent organisations, funds and individuals were injured. The Sarbanes Oxley Act was enacted in 2002 to arrest what seemed to be a run-away series of corporate misbehavour. *Corporate governance* was thus born as the solution.

Corporate governance is simply proper management of business activities to protect the interests of stakeholders, in particular investors. It means recognizing the rights of stakeholders to protect their investments or interests by ensuring that business processes are conducted with due diligence and transparency, without fraud, and that any inherent risk that bears the potential to impair stakeholder interests is identified and adequately managed. It also means that in the event of any immitigable risk or situation of significant impact, the stakeholder is duly informed - i.e. disclosure. All these are obligations of the Board and senior management.

The Monetary Authority of Singapore ("MAS") issued ***Code of Corporate Governance*** (2012), and the Singapore Stock Exchange ("SGX"), **SGX *Rule 1207(10)***. These require financial institutions and public-listed companies in Singapore to comply with corporate governance requirements. The compliance focus is that organizations are to put in place an adequate system of **risk management** and **internal controls**, and to make timely disclosures on status of any material risks. Transparency and communications with stakeholders are key requirements. The onus of compliance rests on the Board and senior management.

There are numerous cases of poor governance around us, and the following are but some:

1. *Snow Brand Milk Company, Japan in 2003 suffered a total cessation of its business because of a serious bacterial infection in its manufacturing process which caused 15,000 milk consumers to suffer food-poisoning. Senior management should have set internal controls to prevent and be alerted of infections in their plant.*
2. *BP Texas City Refinery in 2005 suffered a total devastation of its refinery due to lapses in maintaining its aging plant and equipment because senior management (London, UK) had reduced maintenance budgets for consecutive years as cost cutting exercise. There was no internal controls that placed safety as priority.*

What is *risk management* and *internal controls*?

Risk Management. Every business venture, operation or process has some elements of risk. Unless the risks that are present are identified and managed to eliminate or to mitigate/lessen their impact on the organisation, any such risk could spark off an incident and escalate to seriously prejudice shareholder's interests. This is ***risk management***. Conducting this risk management on an enterprise-wide basis constitute an Enterprise Risk Management ("ERM") programme.

Internal Controls. Business decision-making or business activities can be prejudicial to shareholder's equity. This can occur innocently, carelessly or fraudulently. It is thus important put in place *control* devices to ensure that mistakes and misdeeds are not committed without management's knowledge. This means making business processes robust by instituting *best practices*, and placing *toll-gates* for review opportunity.

Management should invest sufficiently in implementing risk management and internal controls, which in turn will improve operational efficiency leading to favourable returns. Expending only a nominal effort will be a waste of corporate resources, which will bear no returns. Furthermore, there will be palpable discomfort on the part of Directors and senior management who annually sign as witnesses that there is good system of risk management and internal controls in place in the organization.

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