Checks matter but don’t lose sight of strategy

Corporate governance may in itself conflict with the need to make business more viable.

By LAWRENCE LEE

Corporate governance. It has been in the headlines and still abounds in business circles all over the world. But it can be seen to be struggling to cope with the demands of today’s business environment.

In Singapore today, corporate governance grapples with the attention to a revised code of practice to be implemented together with an amendment to the Companies Act to address the issue of corruption.

The focus point of corporate governance is often the board of directors, and how it monitors the performance of the company. What is the board doing to ensure that it is fulfilling its duties and responsibilities?

There will be times when it is more appropriate to act without the board’s involvement. It is not always in the best interests of the company to have to consult the board on every decision. The board should focus on strategic issues, leaving day-to-day operational decisions to management.

Is the board a mere legal rubber stamp? Or is it more an audit organ or screening body?

The answer to these questions is ‘no’.

More than any of the above, the board is essential to the success of the company. It is the board that appoints and fires the executive management team.

Corporate governance is not a new concept. But the need for more effective corporate governance is now more pressing than ever. The need for a more robust system of checks and balances is becoming increasingly evident.

The need for corporate governance is not just to prevent fraud and ills. It is also to ensure that the company is managed in the best interests of all stakeholders.

Focus on business

So how can boards thrive with a focus on business in an age of control?

Boards can do so by not losing sight of strategy. This is a link that many boards seem to have lost in recent years. In the past, boards were expected to keep the company on track, ensuring that the company’s goals were met.

Now, in an age of uncertainty, boards are expected to be proactive in making strategic decisions. The challenge is to balance the need for control with the need for flexibility.

Directors are never intended to be super-auditors or company ambassadors. At the end of the day, corporate governance is not an end in itself. It is a means to an end.

And shareholders will be better served by business-focused boards.

As Charles Dickens famously wrote in A Tale of Two Cities: “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness.”

It is indeed also the best and worst of times for corporate governance. Companies now stand at a crossroads as corporate governance is tightened in terms of control. Let us not proceed too fast. Let us not lose sight of the bigger picture.

The issue is not about removing all risk from the boardroom. The issue is about finding a balance between control and flexibility. Let us not lose sight of what corporate governance is all about — protecting the interests of all stakeholders.