Boards must safeguard investor interest: Ho Ching

BY ERICA TAY

COMPANY boards should act in the collective interest of shareholders and not be held to ransom by their chief executive officers (CEOs).

That was the pointed message delivered to bosses and economists last night by Ms Ho Ching, CEO and executive director of Singapore's investment company, Temasek Holdings.

Unless there is "a healthy distance" between the board and management, she said, it would be awkward for a board to fire a CEO — especially one who was also owner and chairman of the company.

Ms Ho, whose comments come in the wake of a series of corporate scandals at home and abroad, including China Aviation Oil and Enron respectively, said it was ideal to consider a separate chairman acting independently of the CEO, even if it "dents the ego of the CEO a little".

"No board should be held to ransom by its CEO," she said.

In particular, remuneration committees, or those who decide on management pay, should be free and independent from those whose salaries are being decided.

Ms Ho was speaking on corporate governance and shareholder value as guest of honour at the Economic Society of Singapore (ESS) annual dinner last night.

Government shareholders, she said, are entitled to a proper return for their investments, like any other investor. And given the diverse range of shareholder configurations today — from family businesses to large corporations — the board's role as a trustee of shareholder interests becomes crucial, she added.

Ms Ho laid out four critical functions she believes a board should perform.

Firstly, it must guide and direct management to function as "an experienced guide, friend and mentor" of management.

Secondly, a board has the role of holding management to task for delivery of results.

Thirdly, a board's most sensitive, most awkward and yet most critical function, said Ms Ho, was in evaluating management and in the hiring and firing of the CEO.

"For boards which do not yet have a succession planning or CEO review process in place, it can be awkward to raise this," she said. "The decision to fire a CEO is often taken too late and usually after everyone else in the company and perhaps the investment community have come to that conclusion."

Regular board sessions without the CEO or management present allow members to discuss CEO performance, compensation and succession freely and frankly, she added. "It helps to keep a healthy distance between board and CEO," she said.

Finally, it is a board's duty to ensure that the company and management comply with the law.

But ultimately, both board and management should function on integrity, she said.

"The simplest level is honesty at the individual level...and not to cheat and steal," she said.

On top of that comes professional integrity: To have the courage to act objectively and professionally and keep obligations of friendship and personal loyalty separate from professional duty. There is also institutional integrity, which requires an ethical culture among the board, management and staff.

She ended with a call to "recognise and celebrate the presence and rights of shareholders".

Ms Ho also handed out prizes for the Monetary Authority of Singapore — ESS Essay Competition, the topic this year being Is Our Education System Able To Meet The Challenges Of Globalisation?

Mr Joshua Liaw and Ms Maureen Tee of the Singapore Management University jointly won the top prize of $5,000 in the university category — called the open category previously. Harvard University's Ms Judith Huang and Mr Huang Zhipeng were second, with Mr Samuel Goh of Auckland University third.

In the pre-university category — the previous student category — Hwa Chong Junior College student Thun Jie Liang won. NSman Joe-Han Ho was second and Raffles Junior College student Pepper Lee was third.