Effective corporate governance for SMEs

The firms face increasing fraud risks if they don't enact sound corporate governance

By GARY PAN and EVELYN GAY

N MAY this year, the Singapore Corporate Awards were given to 14 outstanding companies in recognition of their effective governance practices. Given the mounting cases of corporate fraud in the last few years, such recognition could not have come at a better time.

While most would agree that effective governance ought to be enacted in both large and small and medium enterprises (SMEs), the truth is many SMEs, one except themselves. Conceptions that they are answerable and responsible for their enterprise, Board members should command relevant professional competencies and maintain independence. Align governance policies and practices with corporate culture. SMEs should strive to develop a corporate culture that is conducive to the implementation of effective governance practices.

Establish appropriate organisational structures. SMEs ought to assign appropriate levels of authority and responsibility to directors, management and employees, and be visible and accountable to the organisation.

Align and communicate effectively. Management must communicate the benefits of effective governance policies to relevant stakeholders, especially employees, to convey the benefits of effective governance policies. The emphasis is on evolving best practices that ensure accountability and effectiveness. The best practices include:

- Define the goals and objectives of the business. Business objectives include strategic, operational, compliance and reporting objectives. SMEs with a clear and articulated strategy and set priorities for the medium to long term, their business strategy. The emphasis is on evolving best practices that ensure accountability and effectiveness. The best practices include:

- Devise policy statement. Devise corporate governance policy statement in tandem with the overall governance direction and set the "tone from the top." The policy statement should convey the importance of integrity and ethical values.

- Establish an effective board to lead and govern the enterprise. Board members should command relevant professional competencies and maintain independence.

This is followod by exploration into a series of effective governance policies and practices. As most SME owners are put off by the complexities of governance assessment exercises, a quick and easy-to-use diagnostic tool is proposed here to alleviate their concerns.

Some questions to ask include:

- Are directors have appropriate professional qualifications? Have roles, authorities and responsibilities of the board, management and employees clearly defined and communicated?

- Is a governance code of conduct available? Are board meetings regularly held to review governance issues? Are regular audits performed?

- Are risk management and internal controls mechanisms properly designed and implemented?

These questions provide SMEs with an initial assessment of their levels of governance maturity. As a basic guide, if an SME is able to address at least six of the above questions, its existing corporate governance approach is considered mature. If fewer than five questions are addressed, there is room for improvement. If only three or fewer questions are addressed, the SME ought to re-evaluate and develop its governance policies.

Diagnosis and implementation

After an initial needs assessment, the next step involves governance design and implementation. The emphasis is on evolving best practices that ensure accountability and governance effectiveness. The best practices include:

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- Devise policy statement. Devise corporate governance policy statement in tandem with the overall governance direction and set the "tone from the top." The policy statement should convey the importance of integrity and ethical values.

- Establish an effective board to lead and govern the enterprise. Board members should command relevant professional competencies and maintain independence.

- Align governance policies and practices with corporate culture. SMEs should strive to develop a corporate culture that is conducive to the implementation of effective governance practices.

- Establish appropriate organisational structures. SMEs ought to assign appropriate levels of authority and responsibility to directors, management and employees.

- Allocate sufficient resources. Resources must be set aside for implementing governance-related activities.

- Accountant. Establish accountability by aligning responsibility and performance incentives, and rewarding good performance in carrying out governance activities.

- Two-way communication. Management must communicate the benefits of effective governance policies to relevant stakeholders, especially employees, to convey the benefits of effective governance policies. The emphasis is on evolving best practices that ensure accountability and effectiveness. The best practices include:

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