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Small, but strong

Both Baker Tech and Qian Hu believe in keeping their directors well-informed and up-to-date, says **CONRAD TAN**

SIZE matters little when it comes to good corporate governance – at least for some firms.

The two small-cap companies – Baker Technology and Qian Hu Corp – that won merit awards for Best Managed Board at this year's Singapore Corporate Awards show small firms need not mean weak boards.

Rather, what makes the difference is the effort the company's management and directors make to ensure the board is strong.

To maintain a strong board, "the tone at the top – at board level – is important", says Lim Ho Seng, chairman of Baker Tech, which makes specialised equipment and provides services for the oil and gas industry. "Baker Tech's board is mindful of doing the right thing."

Two of its five board members, including Mr Lim, are independent, which exceeds the requirement of the Code of Corporate Governance that independent directors make up at least a third of a company's board.

Just as important, Baker Tech's two independent directors have occupied their roles since at least 2000. They were not replaced even when the firm's current major shareholder, Saberon Investments, acquired its controlling stake that year.

"True independence is important," Mr Lim says. "Independent directors are there not just to make up the one-third required board composition of a listed company, but more to help protect the interests of minority shareholders."

To that end, "independent directors must be vocal and prepared to challenge the management and major shareholders at all times", he adds.

For ornamental fish breeder Qian Hu Corp, the other Best Managed Board merit award winner this year in the category for companies with a market capitalisation below \$300 million, plaudits for good corporate governance are no longer a surprise. The

company picked up the same prize last year, and is frequently cited for its good corporate governance and transparent practices.

Asked what he thought impressed the judges of this year's Singapore Corporate Awards most, Qian Hu's managing director and executive chairman Kenny Yap said: "We have been consistent and sincere in trying to improve ourselves over the years, despite being a small company with lots of constraints."

"One of the strengths of our board is that we are very consistent. Also, our board has a very strong corporate culture and strong values. Lastly, we run the board with passion – I believe professionalism without passion is not enough."

Indeed, Qian Hu's efforts to improve its board are still in progress. "Internally, we do 360-degree feedback among the directors," Mr Yap says, when asked how the company evaluates and seeks to improve the effectiveness of its board. "But I have to admit we can do more to have a better-structured way of evaluating the board – needs improvement."

Asked about the company's internal risk management systems, he says: "We have not formed the risk management committee yet, but all our executives directors have attended courses pertaining to risk management."

Last August, "we instructed top management to watch our cash flow when the crisis started to affect the economy, and we expanded our write-up in risk factors", he says. "Our audit committee also held separate meetings to address some risks."

Keeping directors well-informed and up-to-date is a common denominator for both of this year's winners.

At Baker Tech, it is board policy for directors to attend relevant seminars and courses at the company's expense. According to the firm's latest annual report, directors are also giv-



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en regular updates on changes to laws and regulations, to help them make informed decisions. Newly appointed directors are briefed on the firm's business operations and group structure.

The Baker Tech board takes the views of both its independent directors "very seriously", says Mr Lim. Recently, for example, the directors engaged in "robust discussion" about whether to pay a final dividend for the 2008 financial year. "The current management took the initial prudent view on the need to conserve cash and not to declare dividends in the current financial and economic crisis," he says.

"However, both independent directors felt that as Baker Tech has performed well since transforming itself into a player in the offshore marine oil and gas sector, the company should reward its shareholders."

The result? "The independent directors' view was adopted," he says.

"There is a high degree of mutual respect, trust and candour among board members," he adds. "This allows directors to surface difficult issues for discussion."

Similar discussions take place among the directors on a wide range of issues. "All key decisions are deliberated and discussed at board level," he says.

That also means the board needs to draw on a broad range of skills and knowledge.

"With board members comprising industry veterans, lawyers and qualified accountants, the board's core competencies range from in-depth industry experience to accounting, compliance, finance, business and management experience," Mr Lim says. "These have enhanced the level of discussion during board meetings."

All interested-party transactions are reviewed and approved by the audit committee, which comprises the

two independent directors and a non-executive director, Tan Yang Guan.

The nominating committee conducts a yearly performance review of individual directors and the board as a whole. "The board also encourages and does its best to ensure open lines of communication between board members – especially independent directors – and the management, including key executives of the company," Mr Lim says.

The firm also has a whistle-blowing policy in place and its internal controls are periodically reviewed by an external audit firm. Additionally, management also submits an annual risk report to the board.

Each year, management also presents its business plan, including its budget for capital expenditure, to the board. "The business plan is discussed fully and the assumptions and basis for the plan are challenged by

the board before the plan is finally approved," says Mr Lim.

Management also submits monthly and quarterly management accounts to the board, including an analysis of the company's results and explanations of significant variations from the business plan for the year.

Finally, the company's managers themselves set high standards, Mr Lim says. Chief executive Benety Chang "flies economy class".

The company also discloses the exact remuneration of its executive directors – the CEO and chief operating officer Anthony Sebastian Auroi each draw a monthly salary of \$16,000 and receive one month's pay as an annual wage supplement each year. "This \$16,000 monthly pay was only effective since March 1 last year," says Mr Lim. "Prior to that, their monthly salary was only \$6,000."

What about their laptop computers and mobile phones? "They're not paid for by Baker Tech," Mr Lim says.