



## Talk on “Corporate Governance for Sustainability”

by Ir. Chew Weng Yuen

Ir. Chew Weng Yuen is currently a committee member in Engineering Education Technical Division (E2TD).

The Engineering Education Technical Division had co-organized a talk entitled “Corporate Governance for Sustainability” with Engineers Australia Malaysia Chapter, and the Institution of Mechanical Engineers Malaysia Branch, on 19<sup>th</sup> March 2019, at Wisma IEM. The talk was delivered by Ir. Dr. Ling Chen Hoe, the Senior General Manager and Director of Meiden Malaysia.

There were 26 participants in the talk, and Ir. Dr. Ling commenced by discussing the events that had shocked the corporate world in recent years. These included corporate frauds, concealing facts from shareholders on certain legal compliances and irregularities, US subprime crisis, conflict of interest, the global financial crisis, and corporate scandals.

Ir. Dr. Ling explained that in an attempt to meet the challenges of the dynamic business environment and changing expectations, organizations inherently took risks. Uncontrolled risks occur when there is a misalignment of interest between the Principal and Agent as outlined in the Agency Theory. The meaning of Moral Hazard occurred when “one person made the decision about how much risk to take, while someone else beared the responsibility” was discussed with references to numerous real life occurrences in the corporate world. As such it is imperative for corporate directors to focus on its roles, responsibilities, and evaluation to effectively monitor an organization’s senior management team. This is to ensure that there is no misalignment of interest between the organization and its senior management. A framework for spotting high-risk fraud situation known as the Fraud Triangle was also introduced for discussion.

The framework for Corporate Governance was next introduced to the participants with the discussion on the roles of the Board of Directors and Committees; legal and regulatory framework; organizational hierarchy; monitoring and internal control; transparency and accountability; and policies and procedures. There was also a brief discussion on the topic of Board Behavioural Dynamics, where key Board functions; improving Board processes; Board effectiveness; and defining governance roles; were explicitly explained.

Ir. Dr. Ling informed that the expectations of board members had changed significantly due to the challenging and dynamic nature of the business environment. Improving corporate governance is critical for an organization’s success and an inadequate corporate governance practices can lead to corporate disaster.

The main corporate governance principles as outlined in The Cadbury Report (UK, 1992); Principles of Corporate governance (OECD, 1998:2004); and the US Sarbanes Oxley Act (SOX, 2002) are as follows:

- Rights and equitable treatment of all shareholders,
- Interests of other stakeholders,
- Role and responsibilities of the board,
- Integrity and ethical behavior,
- Disclosure and transparency

It was informed that Deloitte (2013) had proposed an integrated approach towards better risk management and reporting by developing frameworks for risk governance, and risk management. The risk governance framework consists of three tiers that are overseen by (1) the Board of directors, (2) Board of directors and service providers, and (3) Risk management team/service providers whilst the risk management cycle entails (1) Organization and governance, (2) Systems, measures and control, and (3) Reporting procedures.

Corporate culture does play an important role in corporate governance. Corporations need to instill a culture that paid attention when any improprieties are discovered instead of adopting a 'look the other way' culture that put profit above quality, compliance failure and malfeasance.

It was informed that the criteria for board members should encapsulate the following traits such as competency, ethical, diligent, and independent. Similarly, board processes should have a committee structure, productive meetings, effective performance-evaluation system, information availability, effective succession-planning system, and an open communication and reporting system.



*Ir. Dr Ling Chen Hoe receiving a memento from the Deputy Chairman of the Engineering Education Technical Division, Dr.Shahrudin bin Muslimin after delivering his talk on “Corporate Governance for Sustainability”.*

The three pillars of good corporate governance consisting of (1) transparency of operations, (2) accountability towards shareholders, and (3) fairness in dealings were briefly mentioned before Ir. Dr. Ling concluded the talk by reiterating that risk was inherent in any type of business. It could and should be managed with care to prevent corporate failures and frauds and a sound corporate governance framework was required to protect all stakeholders' interests. There was a brief Q&A session before the talk ended with the presentation of a memento to Ir. Dr. Ling by the deputy chairman of the Engineering Education Technical Division.