

Bridging of chambers needed

► governance is said to be able to increase visibility to investors. SMEs, therefore, should look into the ASEAN Corporate Governance Scorecard created by the experts in the area to raise their corporate governance standards.

Kairon further commented that it helps for SMEs to start having external and internal auditors and they should also build a bridge with trade associations and chambers of commerce to get guidance and training.

An effective internal audit function can help provide assurance that there are appropriate corporate governance processes in place. Internal audit's primary responsibility should be to ensure that the risk management approach is being followed throughout the company, and that appropriate internal controls are in place and are operating effectively.

This could only mean that important issues such as disclosure and transparency, budgeting, responsibilities of shareholders, products, customers and supply chain and environmental and social impact can also be incorporated in SMEs' operations.

He also added that SMEs should start conforming to international regulations and incorporating them in daily operations. An example that he gave was on due diligence.

Generally, due diligence refers to the process that a person or business must conduct before carrying out a transaction or entering into an agreement with another party. The



process involves carrying out enquiries or research to verify facts in order to avoid risks.

There are various reasons why Kairon emphasised on due diligence. One of the reasons it should be taken seriously is because there are still a large number of SMEs that take up loans or borrow money from parties they think they know, though it does not necessarily mean that the creditors are credible and responsible.

SMEs should strive to develop a corporate culture that is conducive to the implementation of effective governance practices. They must invest in considerable efforts in crafting a corporate governance culture that promotes

accountability and effective internal control.

The ASX Corporate Governance Council, in defining corporate governance, stated that effective corporate governance structures encourage companies to create value through entrepreneurialism, innovation and development, and provide accountability and control systems which commensurate with the risks involved.

A company's governance framework should be designed to enable the board to provide strategic guidance and effective oversight of the management, clarify the roles and responsibilities of board members and management to facilitate the board's and

management's accountability to the company and shareholders, and ensure a balance of authority, so that no single individual has unfettered powers.

To illustrate the importance of corporate governance, Megat Najmuddin said there are two things that can go wrong in a business. "One is internal control. If you don't have a proper check-and-balance mechanism, especially when it comes to financial management, you're asking for trouble," he said.

"The second is risk management. For every project you do, you must know how serious your risk is and mitigate it," he said. Good corporate governance covers these elements, ensuring the success and sustainability of businesses.

Human capital consultancy firm, Innovative HR Solutions CEO Nanette Fairley stated, "Understanding and building a foundation of corporate governance within an SME can only contribute to better business practices. SMEs who start small and build their corporate governance framework with the growth of the business will achieve greater success in the long-term."

Currently, there is a positive outlook on the implementation of corporate governance among SMEs. "I am already seeing a lot of changes. More SMEs are taking it seriously. I am pretty sure that in two to three years, it will be much better," Kairon said. **MSME**



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