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One and Two-tier Governance Systems

WILLIE CHENG

In January 2014, the Singapore Manufacturing Federation (SMF) inaugurated a board of governors to sit above a (largely) elected council in order “to enhance the federation's corporate governance and accountability”.

More specifically, the role of this board of governors is to “mediate and resolve issues, in the unlikely though possible event of serious council disagreements, or in the event where there is an unjustifiable draw on the past accumulated reserves of the federation”.

The SMF's move to a two-tier governance structure took the sector somewhat by surprise because it runs against the preference in Singapore, the US and most Commonwealth countries for a one-tier governance model.

TWO VERSUS ONE-TIER

A two-tier or dual board structure is adopted in quite a few other countries such as Germany, the Netherlands, Finland and China.

The German model, ensconced in German corporation law, comprises an executive board (made up entirely of executive directors) and a separate supervisory board (all non-executive directors). The CEO helms the executive board, and a chairman the supervisory board. This prevents not just conflicts of interest but also too much power being concentrated in the hands of one person.

In contrast, in the one-tier board structure, both executive and non-executive directors sit together on the same board. The risk of an over-concentration of power is usually mitigated by a separation of powers between the CEO and a non-executive chairman, and a sufficient number of independent directors on the board.

The arguments for a two-tier structure are that the formal separation of non-executive and executive directors achieves a better state of checks-and-balances, and there is less likelihood of an abuse of power.

The argument against a two-tier structure is that it can be cumbersome for decision-making, especially where organisations have a need to be nimble and react quickly to market forces. Supporters of the one-tier structure also point to studies that have found greater interaction between executive and non-executive board members on important matters of strategy, performance, standards of conduct and communication with stakeholders – all of which ultimately benefit the company.

TIERING IN SINGAPORE

SMF's new structure does not exactly follow the two-tier German model. As it stands, the members of its governing board and council are all non-executive, with only certain matters being referred to the former.

Although the SMF had initially said its move was the first of its kind, there already exist elements of such two-tier governance in Singapore.

Many country clubs, for example, adopt a two-tier governance structure. Typically, a general committee, comprising a president, captain and other committee members, provides oversight of the club's executive management which, in turn, run the day-to-day affairs of the club. In addition, there are often a chairman and deputy chairman (who may be appointed by the land-owner or lessor of the club) who have limited veto powers over material financial and other decisions of the general committee.

A two-tier governance structure can be particularly useful and pertinent in the case of the country clubs. This is because decisions made at annual or extraordinary general meetings are often carried by a very low percentage (often less than 10 per cent) of the membership and are thus not necessarily representative of the will of the majority of members.

As a result, resolutions on major matters and elections of office bearers can be effectively made by a very small group of members. In such a scenario and with the negative politics seen in some of the clubs, it can be useful to have a chairman and deputy chairman who can objectively assess and veto decisions that could adversely impact the club's long-term interests.

In SMF's case, there may have been good reasons for a second tier of governance. After all, it has a large council, currently 33 members (with its constitution allowing for a maximum of 38), and an even larger pool of committee members in its eight function committees and 10 industry groups, all of whom are part of the governance layer above the secretariat. More pertinently, SMF has significant reserves of $20 million, an amount that, in its view, calls for more stringent safeguards.

A notable characteristic of the SMF and the country clubs is that they are non-profit organisations without the pressures of bottom-line accountability, speed of market response, and the regulatory regime of commercial, especially listed, companies, for which a one-tier governance system might be more appropriate.

While the SMF is to be commended for taking the road less travelled to improve its governance, in my view, it is unlikely that companies or even other non-profit organisations – SID for one – will soon choose to go down the same route. ■