EDITORIAL

# Investing public must play a bigger role in corporate governance

IN the past two decades since the local financial market shifted to a disclosure-driven regulatory framework, regulators have had the unenviable task of deciding just how many rules should be dismantled and how many should be kept.

On the one hand, the notion that "less is more" is popular among those who opt for a minimalist approach and a lighter hand – one where the market delivers the necessary discipline through rewarding or penalising share prices. As the theory goes, well-run and transparent companies should receive the market's endorsement via superior share price performance, while opaque and poorly-managed firms will see their shares languish. Proponents of such a market-based regime also point out that too many regulations place unnecessary financial burden on companies via high compliance cost and hampers attempts to attract new listings.

Conversely, those who prefer a tighter regulatory hand argue that it is better to have a market that is well-governed with a strong disciplinary framework that looks to enforce a level playing field for all participants because it is only when all investors are confident that the system will look after their interests can any market truly thrive. Under such a regime, more regulation is needed – especially when targeted at protecting retail investors.

Both sides have valid points but what is often forgotten in the search for a prudent middle ground is the role that the investing public has to play. While regulators have to provide the framework and are responsible for the fine-tuning of rules, they cannot be held solely accountable for the success of a deregulated market model.

The problem is that the average retail investor is often portrayed as apathetic, uninterested in how companies are run and only concerned with receiving as much dividends as possible or making money quickly from punting the market.

Although retail investor sophistication has improved over the past 20 years – thanks to the educational efforts of several organisations such as the government's financial literacy programme Moneysense, and courses run by the Securities and Investors Association of Singapore – anecdotal evidence is that there remains room for improvement.

If the market-driven, disclosure-based model that has been carefully installed here is to operate properly, investors must better acquaint themselves with the affairs of the companies in which they hold shares and play a bigger role in corporate governance.

If they are serious investors, they must scrutinise important company documents such as annual reports, and demand better disclosures from their boards. They should pay close attention to all company announcements, not just those relating to the firm's business. For example, announcements of changes in key managerial positions that might appear routine should be tracked as these could be precursors to trouble ahead.

Investors should go as far as to question the composition of their boards and the adequacy of its level of independence. If they are not satisfied with the conduct of the companies in which they have invested or the answers that are given, they can always vote with their feet. They should understand that a disclosure-based regime, in essence, seeks to allow them, the investing public, to decide who wins and who loses. The public must therefore play its part in the governance and regulatory process, and not leave the job solely to regulators.

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Consumer companies like Amazon have a laser-sharp view into their supply and distribution chains through integrated real-time data on their inventory levels, delivery delays and weather forecasts to find optimum alternatives when any risky scenario erupts. PHOTO: REUTERS

# As supply chains break, hope is not a strategy

A trade war and post-Covid reality will force an extensive realignment of how companies plan, source, make and deliver. Here's a survivor's guide. BY GIRIJA PANDE AND VIJOY VARGHESE

THE super-efficient global supply chains may be consigned to history soon. Political sparring between two of the world's largest economies and the aftermath of Covid-19 have thrown a spanner into that shiny image of factories in China gobbling raw materials to make cheaper goods that move seamlessly through docks and airports to put everything from food on your plate, fuel into your car and smartphones into your hands.

For decades, these supply chains have been the foundation of modern business. They contribute to nearly 70 per cent of global trade today, up from 30 per cent in 2011. Then Covid arrived unannounced. First came the supply shock in masks, ventilators, gloves and sanitisers. Consumers panicked, raiding food and toilet paper aisles in cities from Singapore to Sydney and San Francisco. Many countries banned exports, creating wild price spikes globally. As companies ordered people to work from home, airlines froze operations, tourism and hospitality floundered and demand shifted drastically to online channels for banking, shopping, entertainment, healthcare and more.

Gone is the interdependent, cooperative global economy of yesteryears. Enter the new economy of protectionism and self-interest. Global trade may contract between 13 to 30 per cent in 2020, estimates the World Trade Organization. These are startling statistics. Hope is not a strategy in such times.

## DISRUPTION AHOY

A chain, it is said, is only as strong as its weakest link. Covid-19 exposed the supply chain itself as the weak link in most companies.

Three stark realities have emerged from the pandemic.

**The enemy is unknown:** Covid-19 showed how porous and vulnerable global supply chains can be. Take car maker BMW. Nearly 1,800 suppliers at 4,000 points feed 30 million parts into its 30-odd factories that roll out 10,000 BMWs every day. Built on lean inventory, just-in-time delivery, sequential production and driven by cheap labour, many supply chains are so extended that even Tier 1 or Tier 2 suppliers don't know who or where the last link is. Danger lurks in unknown quarters today. It could be an act of terror, trade offensives, border closures, regulatory changes, labour disputes or spikes in demand and supply due to pandemics resulting in recurrent lockdowns. Corporations need to build in more visibility, third party risk buffers and damage-control mechanisms into more flexible supply chains. Just-in-case supply chains and not just-in-time supply is the new paradigm.

**A cloud hangs over China:** Factories have opened in China, but consumers are not buying. Ships are idling at ports, creating fresh backlogs of orders and invoices. Yangtze floods have added to the chaos. In the era of lockdowns, demand shifted online for an endless variety of goods, delivered fast, rightly priced and ethically sourced. The "Cheap China" model that was already strained got another blow. Companies like Nike or Adidas make more shoes in Thailand and Vietnam than in China. Zara, H&M and Uniqlo source from Turkey, Thailand, India and Bangladesh. Cars are mostly made in Eastern Europe and Mexico. A new-age consumer wants sustainable sourcing added to the equation. He is saying no to lax rules on labour, ecology and intellectual property. Political rhetoric is mounting to shift pharmaceutical and other critical supply chains home or diversify.

**Geopolitical tensions:** Geopolitical tensions are rising. Take the case of Chinese 5G provider Huawei that US President Donald Trump first blacklisted, then banned chips supply to it. The company alleged that the move could "impact the expansion and operation of telecom networks worth billions of dollars in more than 170 countries". In the post-global, volatile world – whether hit by Brexit or trade war – politics and not economics will increasingly drive business. Company bosses may willy nilly have to take sides in these technology and trade wars. Most firms have accepted a "China +1" sourcing strategy by now. Next they will have to build contingency plans beyond natural disaster or health scares into supply chains.

## A CEO'S SURVIVAL GUIDE

**Technology, the game changer:** Digital technologies like IoT (Internet of Things), artificial intelligence, data analytics, advanced robotics and digital platforms are risk-management tools in the CEO's arsenal. When the pandemic hit, Nike used predictive analytics to selectively mark down goods, cut production and reroute goods to online sales through its training app. Consumer companies like Amazon or Procter & Gamble have a laser-sharp view into their supply and distribution chains through integrated real-time data on their inventory levels, delivery delays and weather forecasts to find optimum alternatives when any risky scenario erupts. Building sophisticated tech stacks allows track-and-trace capability and digital payments, simplifying life for all.

**Specialist sourcing vendors:** Today global specialist sourcing vendors (SSVs) operate across major supply lines. These SSVs have received good reviews by independent analysts like Everest & Forrester's who track them closely and rate them on their global sourcing capability. These vendors have by now created scale as well as regional buying operations. Some of them are often carve-outs from major organisations and have good tech systems and buying processes reflecting their pedigree. Chain iQ, a European specialist vendor, for example, is a carve-out from a major European bank! Often these vendors deal with over 15-20 thousand suppliers globally, which gives them unmatched buying power. One of their major services revolve around "consortium buying" where they engage in aggregate buying – especially of indirect purchases (which exclude direct materials) – for their large MNC customers. Such bulk buying led by a neutral SSV is usually more acceptable to all consortia members and legally works well to provide comfort to different buying entities. Savings ranging from 15 to 20 per cent are common from such activities.

For many firms that may not be able to handle such supplier risks in the new world, outsourcing to such SSVs could be an alternative as part of re-engineering the procurement organisations in such volatile times. A lean central procurement organisation that spends effort in effectively managing such a vendor mitigates supplier risks, is cost effective and benefits greatly from bulk discounts negotiated by the vendor. For organisations intent on deeper cost cuts, a "carve-out" solution to spin off their procurement operation is also an option well worth considering.

As the biggest supply chain reset in history takes place, new hybrid models that fuse the physical with digital will emerge. The sourcing function will be reengineered and reimagined. No one can possibly predict when any disaster will strike. But when it does, no CEO can afford to be caught flat-footed.

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⌘THE BOTTOM LINE

# Can 'buy now, pay later' help Singapore's retailers bounce back?

By David Chen

THE rest of 2020 and beyond will be an uphill battle for Singapore's battered retail industry.

Now in recovery mode as consumers once again head to the malls – albeit tepidly – it will be a slow recovery at best.

A walk down Singapore's shopping belt of Orchard Road, for example, shows just how badly the pandemic has hit the city's retailers.

Fresh Covid-19 outbreaks across Asia and Australia point to a rocky road ahead that will be punctuated by stop-starts in reviving the economy and retail sector.

In Manila and elsewhere across the region, the entire shopping mall experience is under question.

Across Asia, the pandemic and uncertain economic outlooks have also resulted in consumers spending less and saving more.

### Waiting not a strategy

However, for Asia's retailers, simply waiting it out is not an effective or sensible option. Retailers who quickly pivoted towards an effective omnichannel strategy have been able to ride the online shopping boom; they are also poised for the gradual recovery in offline sales.

Prime examples are Singapore multi-label fashion retailer Decks and Foot Locker, which have defied the retail doom and gloom by launching their five-storey megastore at Orchard Gateway.

But this alone is no guarantee that consumers will open their wallets and spend.

In Malaysia, IKEA was prescient enough to launch "buy now pay later" (BNPL) in their stores at end-2019, a few months before Covid struck.

In Hong Kong, Tencent launched BNPL integration in its WeChat app in March this year.

Asia's hoteliers are offering innovative "buy now, travel later" packages to keep their staff employed and to kickstart the tourism revival.

Even car manufacturers are offering BNPL plans in Singapore to spark car sales.

The impressive growth of Afterpay in Australia in the first half of 2020 is an indication of BNPL's potential.

Brands like Klarna in Europe and Affirm in the United States are also riding the home-shopping boom triggered by prolonged lockdowns, as consumers look for safe, alternative ways to shop and pay. For digital-savvy Gen Z and millennials in particular, BNPL provides flexibility, control and convenience in letting them decide how to budget their discretionary spend.

Scarred by what they saw their parents go through during the 2008 global financial crisis, they are wary of credit card debt and place a premium on simplicity and transparency; 90 per cent of Afterpay's business this year is based on repeat customers.

### Growth of a new payment mode in Asia

The natural question, given this backdrop, is why BNPL is not yet widely available in Asia?

There are at least three reasons for this, the first of which is the perception that it fuels consumer debt.

This is misleading and comes from a limited understanding of how BNPL actually works.

In fact, industry insiders know the opposite is true: consumers who overspend and default will have their accounts suspended, which does no one – the consumer, retailer or BNPL provider – any good in the long run.

Unlike for credit cards, late fees for most BNPL providers are capped at a fraction of the original purchase, making it an unsustainable way to build a business.

The next reason is a lack of awareness and education among merchants.

BNPL is a relatively new concept in Asia and retailers do not yet have a clear understanding of its key benefits: higher conversion rates and ticket sizes, and a better way to manage business cash flow.

Most important of all, it offers the potential of a more tailored customer shopping experience and relationship.

The third and final reason: the availability and accuracy of data.

### Time to innovate

Across many emerging markets in Asia, a large proportion of people are still unbanked or underbanked, with no record of credit, financing or payment behaviours.

Coupled with complex regulatory, payment and technological infrastructures, it can be difficult for BNPL brands to properly assess risks that come with this business model, which essentially hinges on an accurate assessment of the customer's ability to pay promptly over time.

It remains to be seen whether BNPL will gain wider acceptance among Singapore's retailers.

But in Covid19, the retail industry faces its biggest challenge and must do everything it can to embrace new partnerships, innovation, and business models.

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