

TOPIC

THE LINK BETWEEN CORPORATE GOVERNANCE AND BUSINESS INTEGRITY – Are boards doing enough to fight corruption?

SPEAKER



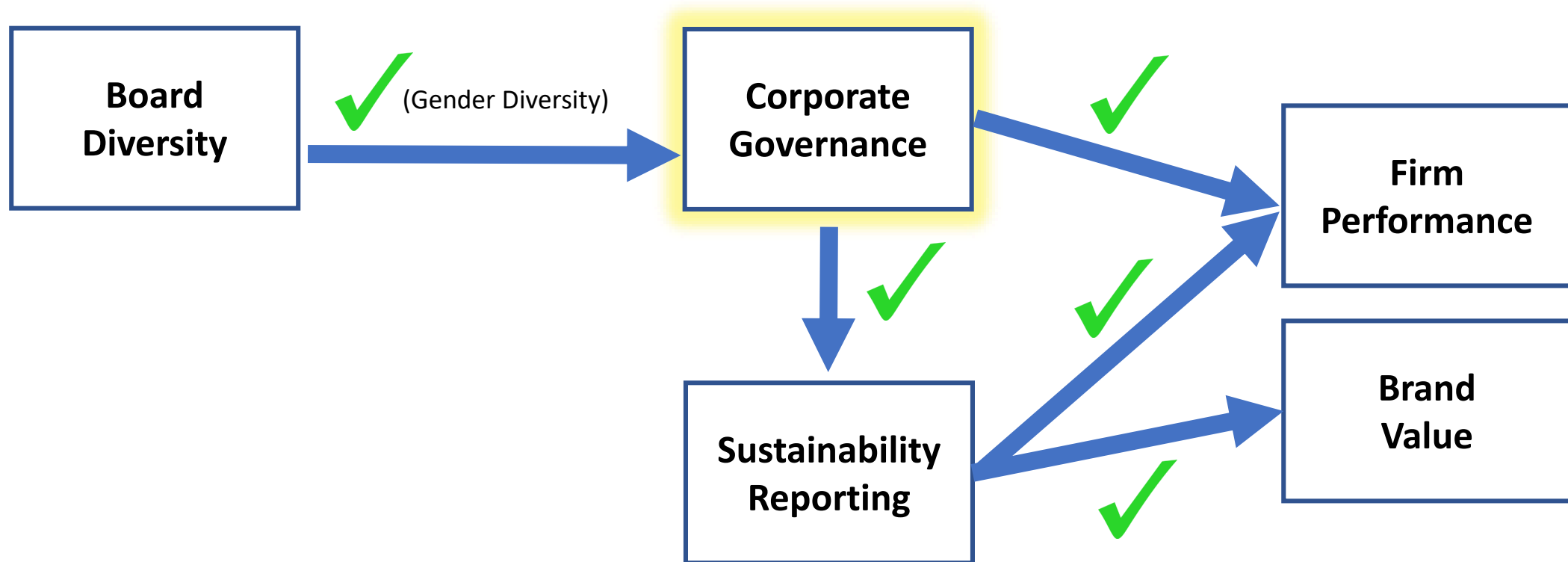
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NUS Business School

Agenda

- Broader picture of evidence-based research
- Investor perspective for corporate governance
- Missing foundation for corporate governance
- Findings of business integrity in ASEAN corporations
- Implications for COVID-19 pandemic
- Relationship of business integrity and corporate governance

Broader Picture: Corporate Governance in Singapore's Listed Companies

Evidence from CGIO's Academic Research (as of October 2020)



Corporate Governance – An Investor’s Perspective



The Investor Choice Awards (ICA) recognizes excellence in companies and individuals adopting good corporate governance practices. Corporate governance plays an important role in supporting investment, specifically for retail investors in Singapore. Investors plough their monies into companies trusting the Board and the Management and hoping for their desired returns. Therefore, SIAS together with its industry partners, annually rate the best performing listed companies in governance and transparency for the benefit of investors.

Investors' Choice Awards

Singapore Corporate Governance Award

Most Transparent Company Award

Shareholder Communications Excellence Award

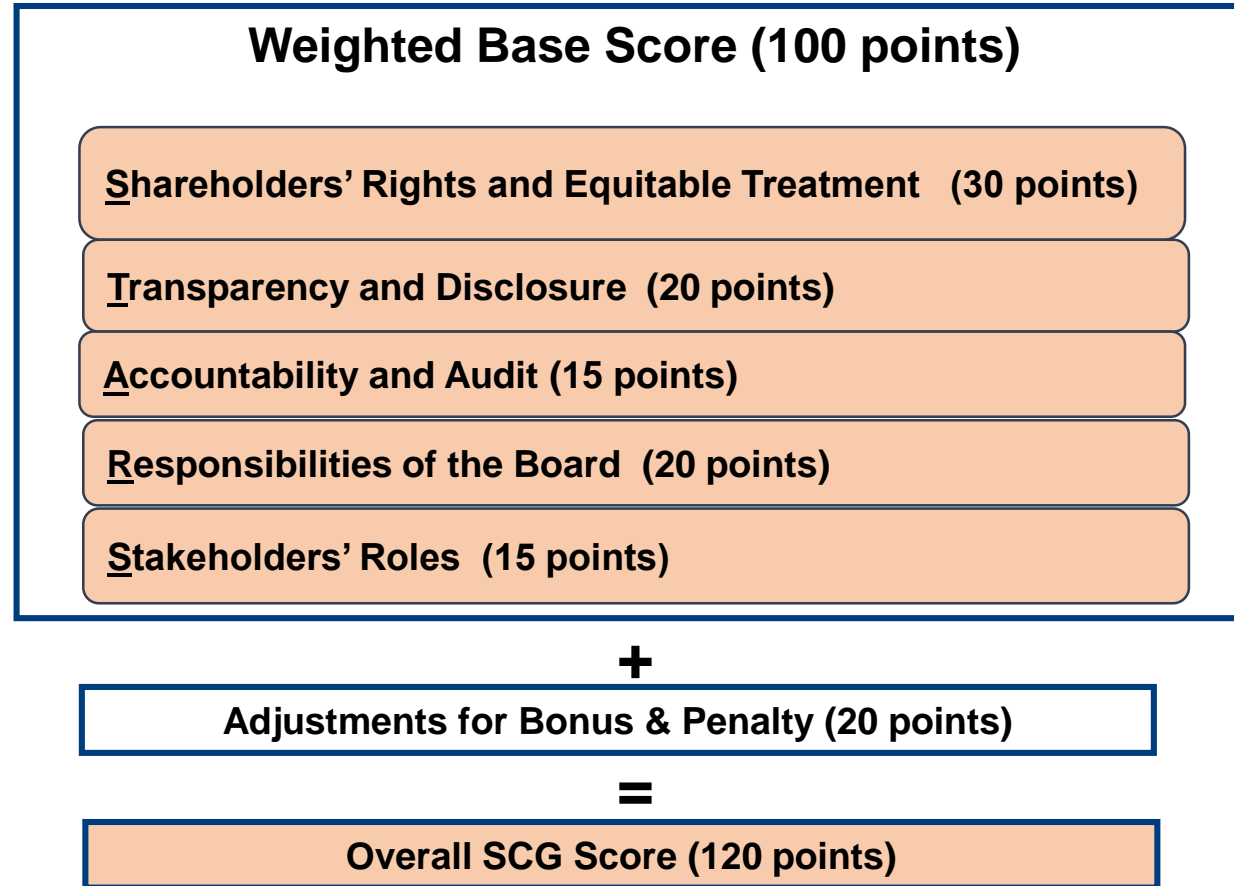
Sustainability Award

Best Retail Broker Award

Financial Journalist Award

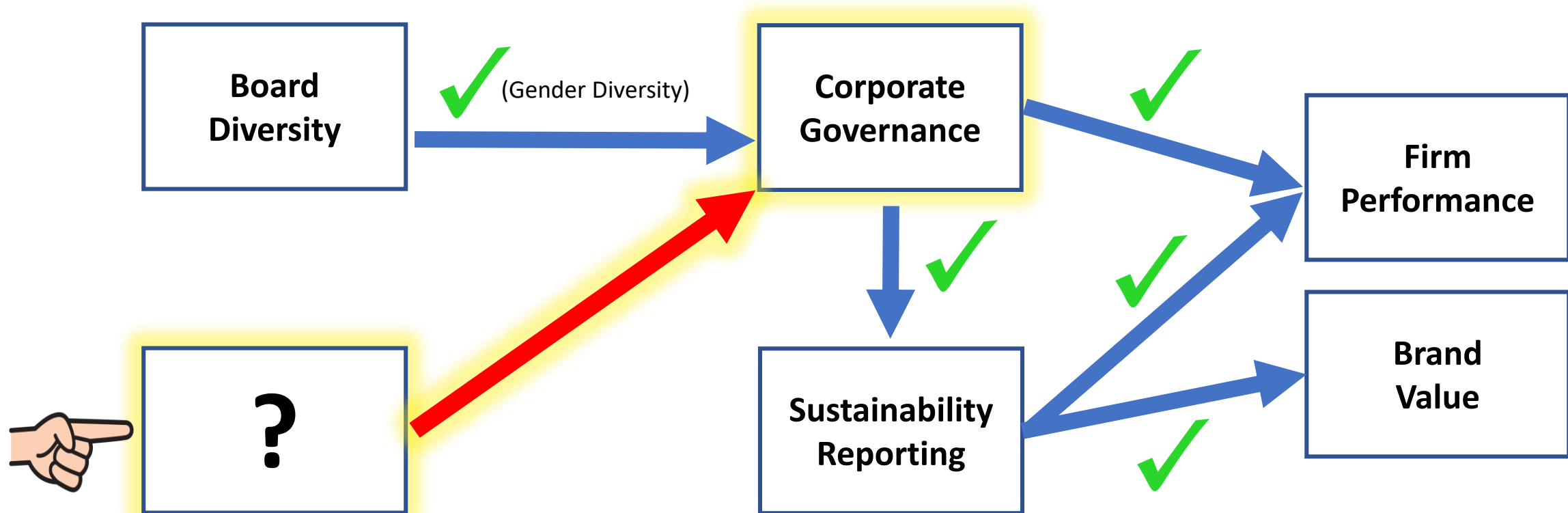


SIAS-CGIO “STARS” Framework



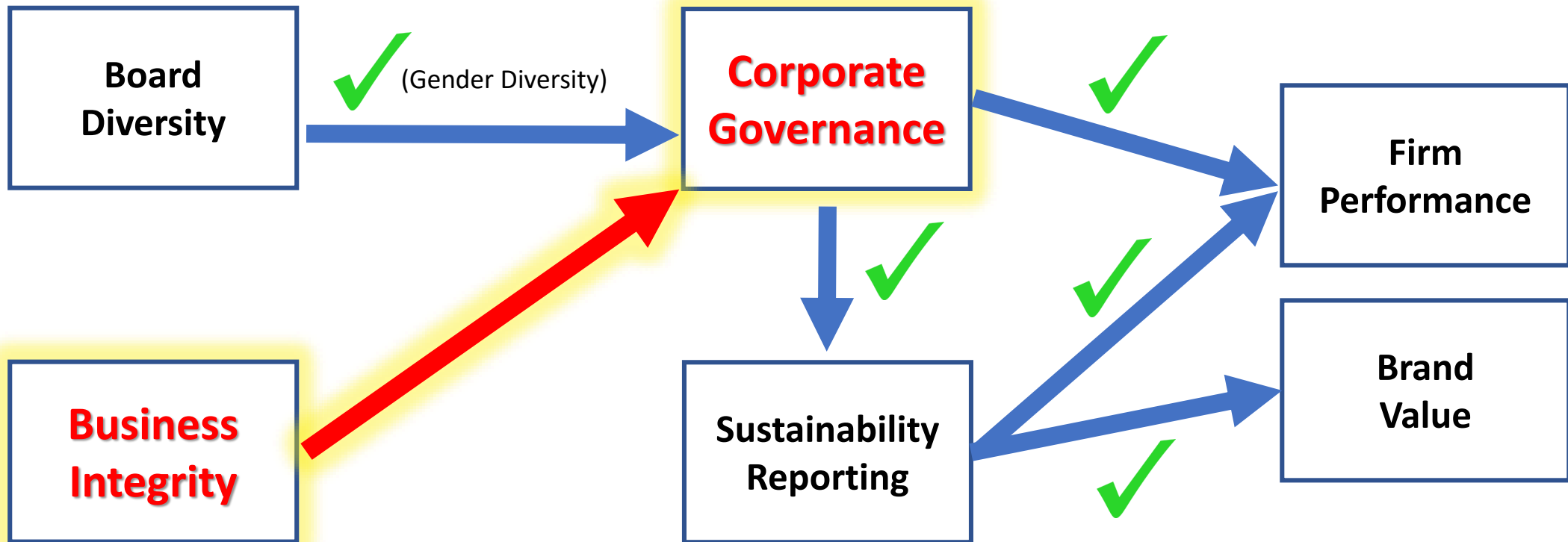
Broader Picture: Corporate Governance in Singapore's Listed Companies

Resolving the Puzzle – Foundation of Corporate Governance



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Resolving the Puzzle – Foundation of Corporate Governance



Background on Business Integrity in ASEAN

Corruption Perceptions Index (CPI)

- Constructed by **Transparency International**
 - An organization which aims to stop corruption and promote transparency, accountability and integrity at all levels and across all sectors of society
- ASEAN countries gained an average CPI score of 42.3 points in 2019
 - Improved from 41.6 points in 2018
 - Slightly below the average score of 43.2 points in 2019 from the 180 assessed countries globally

Corruption Perceptions Index (CPI)

| Country | CPI Score 2019 | Rank 2019 | CPI Score 2018 | Rank 2018 | CPI Score 2017 | Rank 2017 |
|-------------|----------------|-----------|----------------|-----------|----------------|-----------|
| Indonesia | 40 | 85 | 38 | 89 | 37 | 96 |
| Malaysia | 53 | 51 | 47 | 61 | 47 | 62 |
| Philippines | 34 | 113 | 36 | 99 | 34 | 111 |
| Singapore | 85 | 4 | 85 | 3 | 84 | 6 |
| Thailand | 36 | 101 | 36 | 99 | 37 | 96 |

CPI Scores and Rankings across ASEAN Countries

- CPI performance of most ASEAN countries remained **stagnant or fluctuated mildly** in recent years
- Many ASEAN countries were **ranked low**
- Pervasiveness of **corrupt cases** in ASEAN context

Study of Business Integrity Disclosures 2020

Conducted by



Centre for Governance, Institutions & Organisations
NUS Business School



(Based on global standards – Transparency International)

Scope of Study

Research Design

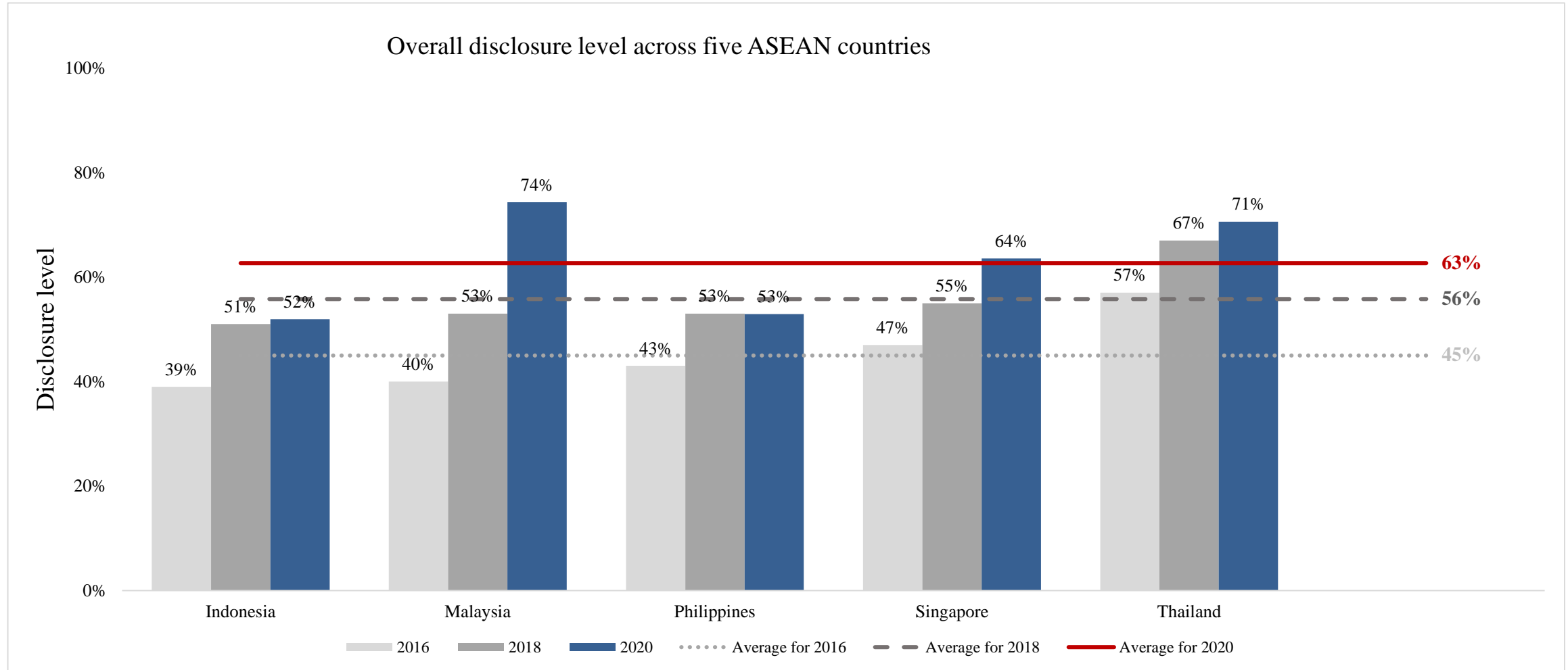
- Company Selection** → Based on market capitalisation data as of 31 March 2020, the 50 largest listed companies from the stock exchanges of each of the five ASEAN countries (Indonesia, Malaysia, Philippines, Singapore and Thailand)
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- Sources** → Publicly accessible means: annual reports, corporate governance reports, sustainability reports and corporate websites
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- Scoring** → 1 = Fully satisfied, 0.5 = Partly satisfied, 0 = Not satisfied
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- Limitations** → Absence of public disclosures representativeness of results and language barrier

Assessment Rubrics

| Category | Question | Description |
|--|----------|---|
| Internal commitment to anti-corruption | Q1 | Publicly stated commitment to anti-corruption or Zero-tolerance statement |
| | Q2 | Commitment to comply with laws |
| | Q3 | Leadership support |
| | Q4 | Code applied to all employees and directors |
| | Q5 | Training programme for all employees and directors |
| External commitment to anti-corruption | Q6 | Code applied to agents |
| | Q7 | Code applied to suppliers |
| | Q8 | Gifts, hospitality, travel policies |
| | Q9 | Prohibition of facilitation payments |
| Reporting and monitoring | Q10 | Disclosure of political contributions |
| | Q11 | Whistleblowing channel |
| | Q12 | Prohibition of retaliation for reporting |
| | Q13 | Regular programme monitoring |

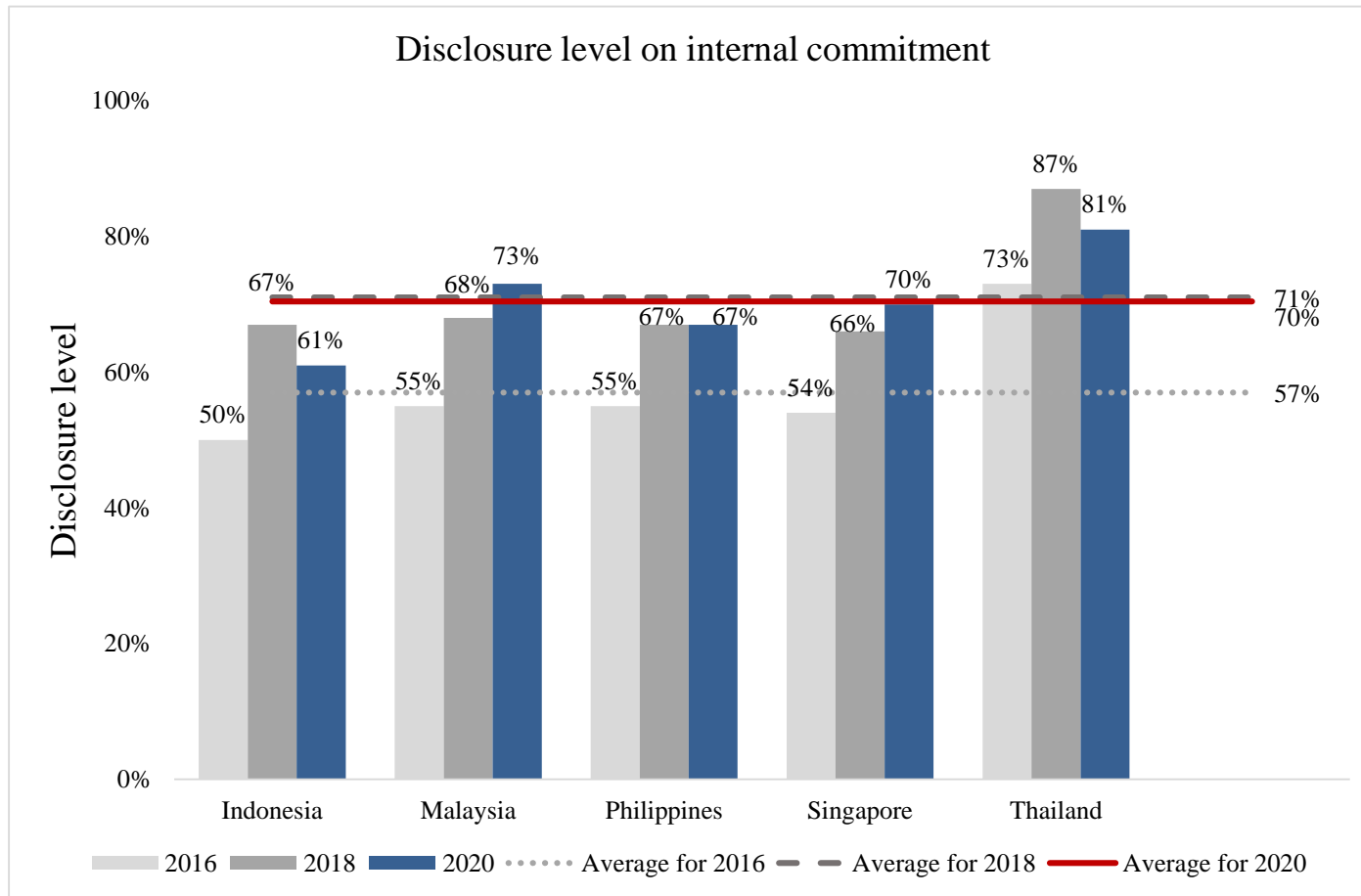
Findings of Study

Overall Level of Disclosure across ASEAN



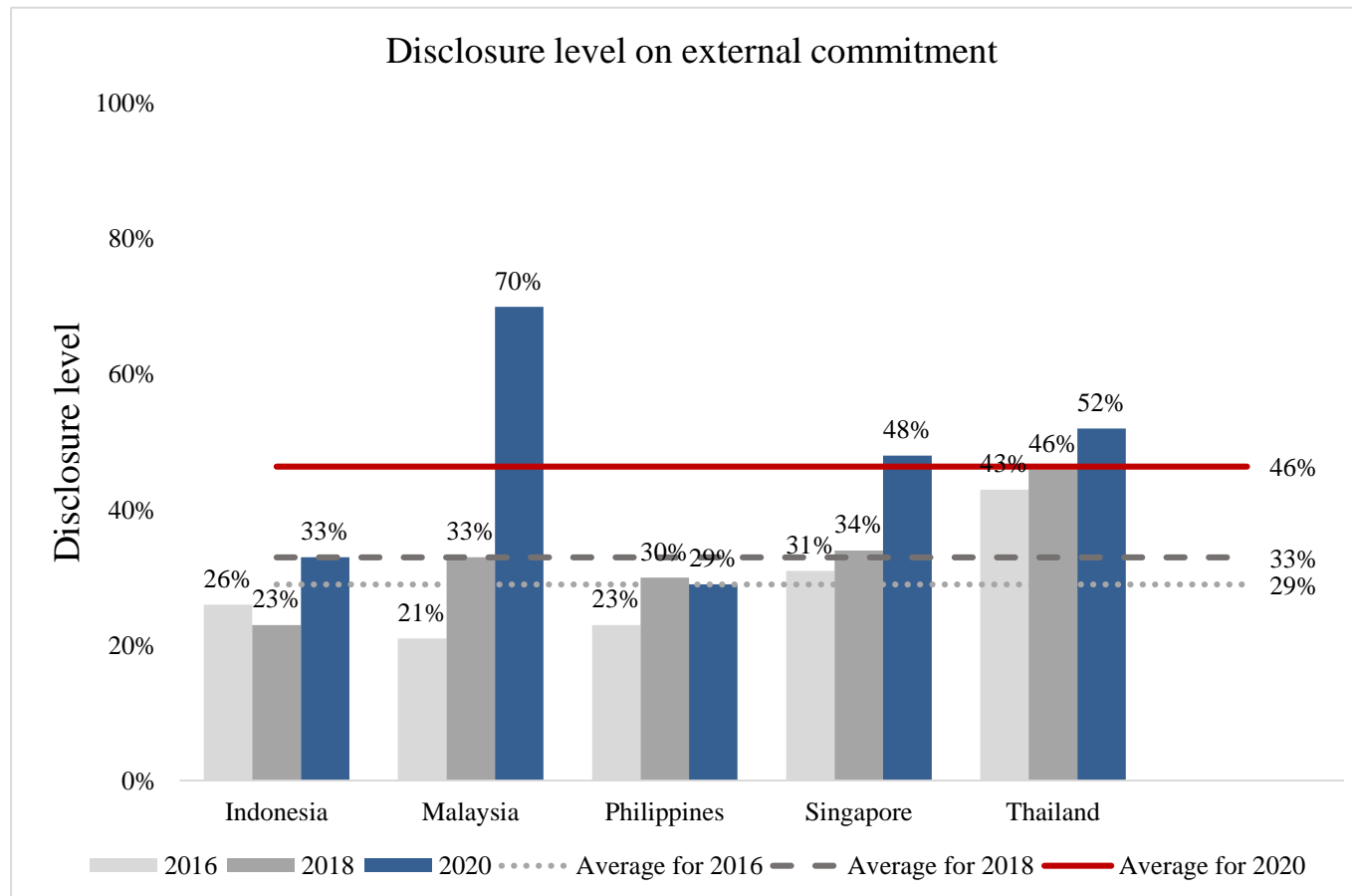
Category 1

Internal Commitment to Anti-Corruption



- I. Does the company have a publicly stated **commitment** to anti-corruption?
- II. Does the company publicly commit to be in **compliance** with all relevant laws, including anti-corruption laws?
- III. Does the company **leadership** demonstrate support for anti-corruption?
- IV. Does the company's **code of conduct/anti-corruption policy** explicitly apply to all employees and directors?
- V. Does the company have in place an anti-corruption **training programme** for its employees and directors?

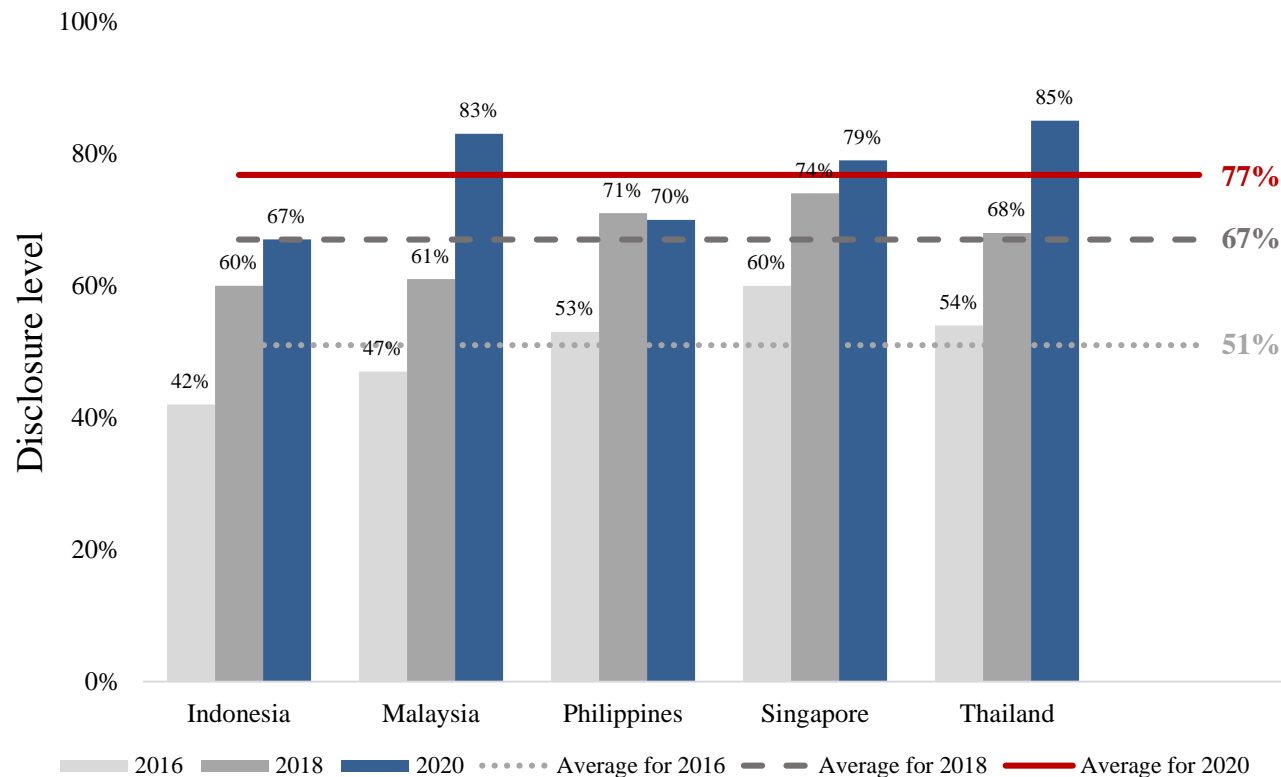
Category 2 External Commitment to Anti-Corruption



- I. Does the company’s anti-corruption policy explicitly apply to persons who are not employees but are authorised to **act on behalf of the company or represent it?**
- II. Does the company’s anti-corruption programme apply to non-controlled persons or entities that **provide goods or services under contract?**
- III. Does the company have a policy on **gifts, hospitality and expenses?**
- IV. Is there a policy that explicitly prohibits **facilitation payments?**
- V. Does the company have a policy on **political contributions** that either prohibits such contributions or if it does not, requires such contributions to be publicly disclosed?

Category 3 Reporting and Monitoring

Disclosure level on reporting and monitoring



- I. Does the programme enable employees and others to **raise concerns and report violations** (of the programme) **without risk of reprisal**?
- II. Does the company provide a channel through which employees can report suspected breaches of anti-corruption policies, and does the **channel allow for confidential and/or anonymous reporting**?
- III. Does the company carry out regular **monitoring** of its anti-corruption programme to **review the programme's suitability, adequacy and effectiveness**, and implement improvements as appropriate?

Implications on Business Conduct amid COVID-19 Pandemic

Disclosures on Business Conduct amid COVID-19

Responsible companies highlight their corporate responses to COVID-19 crisis in their business integrity disclosures:

1. Work-from-home schemes or improved workplace measures
2. Donations to vulnerable groups
3. In critical industries, manufacturers establish stronger health and safety measures throughout their supply chains

Resolving the Puzzle

**Is there a relationship between
Business Integrity and Corporate Governance?**

Corporate Governance Framework



- Link between remuneration and performance of directors
- RPTs are conducted in fair and at arms' length
- Supplier/Contractor selection practices
- Company's anti-corruption programmes and procedures
- How creditors' rights are safeguarded
- Whistleblowing policy and provision of anonymous reporting
- A statement by the board on the adequacy of the internal controls
- Review and approval of material/significant RPTs
- Risk tolerance and risk management policy



- Publicly-stated commitment to anti-corruption
- Commitment to comply with laws
- Leadership support
- Code applied to all employees and directors
- Code applied to suppliers
- Prohibition of facilitation payments
- Whistleblowing channel
- Prohibition of retaliation for reporting

Business Integrity Framework



Relationship Between Corporate Governance and Business Integrity (Singapore’s Listed Companies)

| <u>Independent Variable</u> | <u>Dependent Variable</u> (Corporate Governance) | |
|---|---|----------------|
| | Model 1 | Model 2 |
| Intercept | 42.86 | 42.117 |
| | (0.000) | (0.000) |
| Business Integrity | 3.212** | 2.968** |
| | (0.000) | (0.000) |
| Market Capitalisation (S\$Billion) | - | 0.312* |
| | | (0.016) |
| Adjusted R-square | 0.234 | 0.312 |

*Note: p-values in brackets *p<0.05, **p<0.01*

Main Findings:

1. A simple linear regression Model 1 suggests that business integrity is an explanatory variable for corporate governance at 95% significance level. For every single point increase in business integrity, there was an increase of 3.212 in the score of corporate governance.
2. Model 2 shows that the two independent variables, business integrity and market capitalisation are statistically significant to explain corporate governance, the dependent variable at 95% level.
3. Every 1 point increase in business integrity results in 2.968 points increase in corporate governance. Every \$1 billion increase in market capitalisation results in an increase of 0.312 points in corporate governance.
3. The explanatory variables, business integrity and market capitalisation, account for 31.2% of the variation of the explained variable, corporate governance, in Model 2.

Resolving the Puzzle

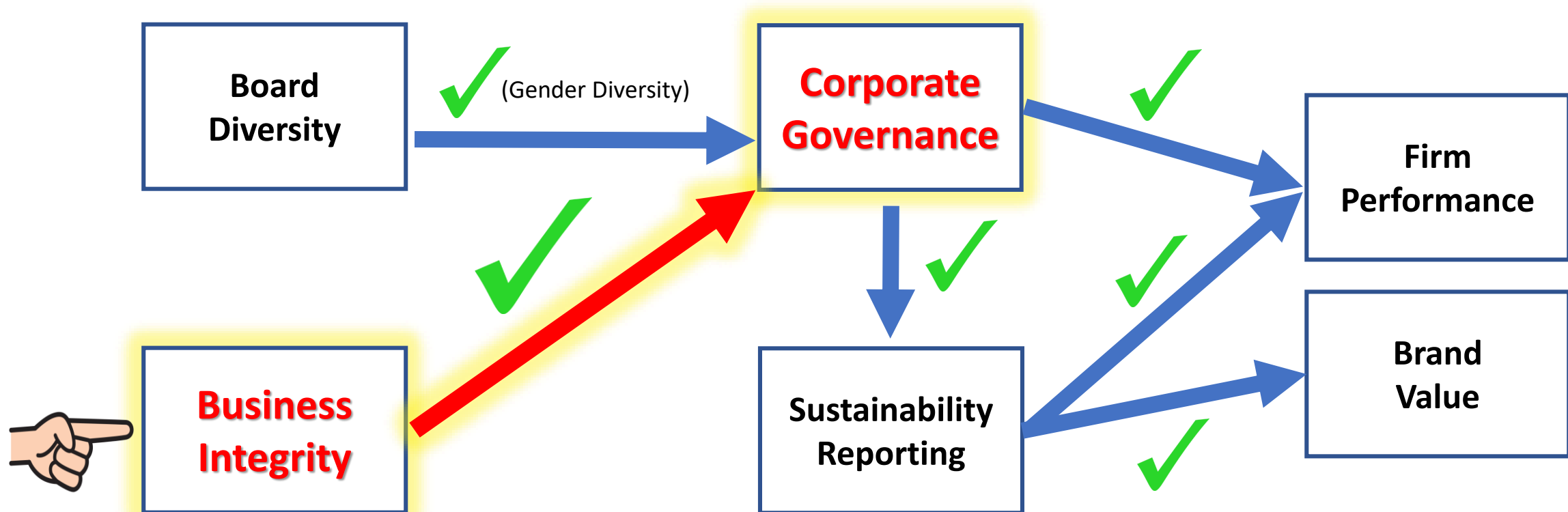
Is there a relationship between
Business Integrity and Corporate Governance?

The answer is... YES!



Broader Picture: Corporate Governance in Singapore's Listed Companies

Evidence from CGIO's Academic Research (as of October 2020)



The Story of the Moon and the Stars



**Business
Integrity**



**Corporate
Governance**

The Story of the Moon and the Stars

*Shoot for the moon.
Even if you miss,
you'll land among the stars.*

Norman Vincent Peale
Author of "The Power of Positive Thinking"