Corporate Governance in Singapore & Implications for Investors: Indicators & Insights

Dr Lawrence Loh
Centre for Governance, Institutions & Organizations
NUS Business School

On behalf of:
Securities Investors Association (Singapore)

24 October 2011
Presentation Scope: Three “Movements”

- Corporate Governance
  - Challenge
  - Context

- State of Practice in Singapore
  - Trends
  - Interpretations

- Investor Protection
  - Perspectives
  - Synthesis
Corporate Governance: The Challenge

• Company outsiders’ interest
  – Protection of value

• Company insiders’ interest
  – Transfer of value

• Classical principal-agent problem
  – Conflict of interest

• But emerging “stewardship” view
Corporate Governance: The Context

- **Mega-failures:** Enron etc
- **Accounting firms:** From Big 5 to Big 4
- **Global economic crisis 2008-2009:** No firms too big to fail
- **Singapore issues:**
  - Staying competitive, comparative
  - Standards in listed companies
  - S-chips
Corporate Governance: The Context

- **UK**: Cadbury Report 1992 & others
- **US**: Sarbanes-Oxley Act 2002 & others
- **OECD**: Principles of Corporate Governance 2004
- **Singapore**: Code of Corporate Governance 2005
  - Proposed revisions - Consultation Paper (June 2011)
Corporate Governance in Singapore

• Focus
  – Board
  – Nomination
  – Remuneration
  – Audit

• Emerging
  – Risk management
  – Investor relations
  – Shareholder rights
State of Corporate Governance Practice in Singapore
Corporate Governance Study

• Conducted under SIAS by CGIO as part of SCGA 2011
• Number of companies considered
  – 705 with annual reports on SGX website or company website, excluding ETFs & REITs
• Period of consideration
  – FY ending in 2010
## Analysis Framework

<table>
<thead>
<tr>
<th>Category</th>
<th>Score Breakdown</th>
<th>Percentage Breakdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Matters</td>
<td>46</td>
<td>36.2%</td>
</tr>
<tr>
<td>Nomination Matters</td>
<td>21</td>
<td>16.5%</td>
</tr>
<tr>
<td>Remuneration Matters</td>
<td>29</td>
<td>22.8%</td>
</tr>
<tr>
<td>Audit Matters</td>
<td>26</td>
<td>20.5%</td>
</tr>
<tr>
<td>Communication</td>
<td>5</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>127</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
# Summary Statistics

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>68.7</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>11.2</td>
</tr>
<tr>
<td>Maximum</td>
<td>109</td>
</tr>
<tr>
<td>Minimum</td>
<td>9</td>
</tr>
<tr>
<td>Median</td>
<td>69</td>
</tr>
<tr>
<td>Sample Size</td>
<td>705</td>
</tr>
</tbody>
</table>
Overall Trend

Average Total Score

- 2009: 62.3
- 2010: 67.9
- 2011: 68.7
Board Matters

- **Board meeting ≥ 6 times in the year**
  - 2009: 12%
  - 2010: 11%
  - 2011: 11%

- **Responsibilities of chairman beyond administrative matters**
  - 2009: 29%
  - 2010: 27%
  - 2011: 89%

- **Meeting of NED without presence of management**
  - 2009: 3%
  - 2010: 4%
  - 2011: 11%
Board Matters

- Disclosure of details of training provided to directors:
  - 2009: 1%
  - 2010: 2%
  - 2011: 3%

- Induction/orientation program for all new directors:
  - 2009: 41%
  - 2010: 52%
  - 2011: 56%
Board Matters

Classification of directors (i.e. independent or not):
- 88% in 2009
- 96% in 2010
- 99% in 2011

Process for director selection disclosed:
- 34% in 2009
- 39% in 2010
- 58% in 2011
Nomination Matters

- **Majority independent NC**: 93% (2009), 91% (2010), 93% (2011)
- **Independent members of NC**: 23% (2009), 21% (2010), 23% (2011)
- **Independent Chairman of NC**: 88% (2009), 92% (2010), 94% (2011)
Nomination Matters

- Meeting of NC ≥ 2 times:
  - 2009: 7%
  - 2010: 8%
  - 2011: 6%

- Appraisal of board performance:
  - 2009: 33%
  - 2010: 29%
  - 2011: 32%
Remuneration Matters

- **RC members who are independent directors**
  - 2009: 46%
  - 2010: 45%
  - 2011: 48%

- **Chairman of RC an independent NED**
  - 2009: 87%
  - 2010: 94%
  - 2011: 94%

- **Meeting of RC ≥ 2 times**
  - 2009: 16%
  - 2010: 14%
  - 2011: 13%
Remuneration Matters

- Exact amount of remuneration of ED disclosed:
  - 2009: 4%
  - 2010: 6%
  - 2011: 6%

- Exact amount of remuneration of NED disclosed:
  - 2009: 6%
  - 2010: 7%
  - 2011: 7%

- Exact amount of remuneration of top 5 execs who are not directors disclosed:
  - 2009: 3%
  - 2010: 2%
  - 2011: 2%

- Components of remuneration disclosed:
  - 2009: 76%
  - 2010: 59%
  - 2011: 86%
Audit Matters

- Independent AC: 56% (2009), 54% (2010), 56% (2011)
- Independent chairman of AC: 96% (2009), 98% (2010), 97% (2011)
- AC members with accounting/finance related expertise/experience: 60% (2009), 55% (2010), 67% (2011)
- Meeting of AC ≥ 2 times (half yearly reporting) and > 4 times (quarterly reporting): 33% (2009), 34% (2010), 34% (2011)
Audit Matters

- **Review by AC on the independence of external auditors**
  - 2009: 80%
  - 2010: 90%
  - 2011: 87%

- **Statement by the board on adequacy of internal controls in AR**
  - 2009: 21%
  - 2010: 64%
  - 2011: 61%

- **Whistleblowing policy**
  - 2009: 65%
  - 2010: 71%
  - 2011: 77%
Communication

- Quarterly reports provided to shareholders:
  - 2009: 15%
  - 2010: 33%
  - 2011: 70%

- AR presented on company's website:
  - 2009: 66%
  - 2010: 71%
  - 2011: 73%
Corporate Governance for Investor Protection

Investors  \[\rightarrow\]  Market Regulation  \[\rightarrow\]  Corporate Governance  \[\rightarrow\]  Company

Trading Infrastructure
Why Investor Protection?

Minority Shareholders → Company → Managers

Creditors

Controlling Shareholders

Investments → Expropriation

Outside Stakeholders

Inside Stakeholders
What is a Firm?

Portfolio of Projects

Nexus of Contracts

Distribution of Rights

Cash flows

Claims

Returns

Resources

Stakeholders
Dilemma: Who Should be Protected?

Outside Stakeholders

Inside Stakeholders
Dilemma: Delicate Balance

Market Growth

Investor Protection
Emerging View: Tight Linkage

In the diagram, the gear on the left represents Investor Protection, and the gear on the right represents Market Growth. The arrows indicate the direction of the linkage between the two concepts.
Co-Leveraging Protection & Growth

Investor Returns

Investor Protection

Fair markets
Resolutions
Regulations

Free markets
Best practices
Incentives

Market Growth

Free markets
The Duality of Corporate Governance & Investor Protection

- From company-centricity to investor-centricity
  - 2 sides of same coin
  - 2 hands to clap
- Calibration & measure
  - Investor-guided management
  - Partnership & synergy
Investor Protection: Beyond Corporate Governance

Investor Protection

Education  Resolution

Legislation  Supervision

Investor Engagement

Corporate Governance

Broad  Specific

SIAS