Making headway in governance

This year’s Governance and Transparency Index stands at a watershed as S’pore companies gear up for a stricter regime.

By LAWRENCE LOH and ISABEL SIM

It is no surprise to see Singapore’s listed companies making headway in governance as they aim to meet new expectations.

The new Code has been heralded as a timely move to address critical aspects of practices, especially in director matters and shareholding requirements.

However, there are still key questions to be asked as we make the transition to the next era. Are our listed companies well poised for the changes? How far are we from complying with the new guidelines? What preparations need to be made?

Taking stock

For the past three years, the quality of corporate governance in Singapore’s listed companies has been assessed by the Governance and Transparency Index (GTI) project. The study is the result of a tripartite collaboration between NUS Business School’s Centre for Governance, Institutions and Organizations (C*GO), CPA Australia and The Business Times. It is supported by the Investment Management Association of Singapore.

GTI 2012 stands at a watershed moment as Singapore gears up for the revised Code. The annual index shows that listed companies have improved their corporate governance practices. This is evident from the average score of 34.9, up from 31.5 in 2011.

In addition, this year’s score is the best since 2009. The top score also increased from 94 points in 2009 to 111 points in 2012.

However, there is still room for improvement. Only 4 per cent (24 of 600 companies) this year scored above 70 points, while the majority (46 per cent) scored between 20 and 40 points.

Where independent directorships stand now

The proposed revisions to the Code place special attention on directors’ independence and diversity. The move is in response to the current landscape of independent directorship in Singapore.

The proposed changes to the Code are designed to comprehensively cover its definition and assessment. It is recommended that the director who is a substantial shareholder, or an immediate family member of a substantial shareholder, or is/was directly or indirectly associated with a substantial shareholder, or is/was an officer or director of any external organisation that has material dealings with the company or its subsidiaries.

The study found that 7 per cent (49 of the companies) disclosed that they considered independent directors to be independent of major shareholders in their definition of an independent director. In addition, 29 per cent (193) disclosed that they have adopted a comprehensive process to assess the independence of their directors.

On directors’ tenure, a cap may be needed as long-serving independent directors may lose their “outside” perspective due to their close association with the company. The proposed revisions recommend that any independent director who has served on the board for more than nine years should be subject to a particular rigorous review, and the board should explain why such a director should be considered independent.

As it stands now, there are 349 independent directors in Singapore’s GTI 2012 companies, which have served more than nine years in the same company.

Busy directors

The proposed Code revisions touch on the issue of busy directors by providing guidelines on multiple directorships and appointments of alternate directors. It recommends that the nominating committees should determine the maximum number of listed company board representations which any director may hold, and disclose this in the annual report. The GTI recommends that the board should generally avoid approving the appointments of alternate directors, except for limited periods.

In addition, it proposes that the nominating committee and the board should ensure that an alternate director to an independent director should similarly qualify as an independent director.

How many directorships can an independent director hold? In Singapore, there have been differing views. The Singapore Institute of Directors suggests that there is no one-size-fits-all approach to multiple directorships, as each individual director has different abilities and capacities, just as the needs of companies and the requirements of their boards are different.

On the other hand, the Securities Investors Association (Singapore) has advocated limiting directorships for a person holding a full-time position to not more than four listed companies, while a professional director should not be a director of more than six listed firms.

Based on GTI 2012 data, there are 114 independent directors with at least four directorships in other listed companies. Among these independent directors, 41 hold full-time executive positions.

The GTI 2012 data shows that 53 companies out of the 674 surveyed employ alternate directors. Out of these, 42 have one alternate director, nine have two alternate directors, one has three alternate directors and another has four alternate directors.

Whistleblowing and shareholder communications

As we move towards the revised Code, it is important to note the progress made over the past decade since the Code was originally formulated in 2001 and revised in 2005. Let us examine two areas—whistleblowing and shareholder communications.

The 2005 Code recommended that the audit and committee review arrangements by which staff of a company may raise concerns confidentially about possible improprieties in financial reporting or other matters. This, in essence, refers to a whistleblowing policy that plays an important role in uncovering fraud and provides channels for stakeholders to report misconduct.

Our results show that 77 per cent (521) of the companies disclosed that they have a whistleblowing policy in place. In fact, there is a clear upward trend over the four years: 64 per cent (2009), 70 per cent (2010), 75 per cent (2011) and 77 per cent (2012).

Another area is communications with shareholders. Since the implementation of the original 2001 Code, Singapore’s listed companies have made improvements in their investor relations. Through the use of technological platforms such as Internet websites, firms are able to engage in regular and effective communication with shareholders.

This year’s results show that 73 per cent of the firms have a separate investor relations link on their websites while 47 per cent provide an e-mail address for communication.

Importance of the Code

Corporate governance is a dynamic and not a static concept. It has often been described as a journey and not a destination. Recent revisions to the Singapore Exchange listing manual, done in a well-functioning capital market, will ensure that the revised Code will further strengthen the standard of corporate governance in Singapore.

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Further information on the scoring methodology, including the full instrument, and past results may be obtained from the C*GO website at http://school.nus.edu.sg/C*GO.aspx. Queries about the GTI may be sent to the GTI office in order to maintain independence and fairness of the index, reports or advice cannot be provided to individual companies.

Goverance and Transparency Index 2012 – The Top 500, Pages 8 and 9

How the scoring is done

The Governance and Transparency Index (GTI) is aimed at assessing companies on their corporate governance practices, as well as the timeliness, accessibility and transparency of their financial results announcement.

The GTI score comprises two components: the base score and the adjustment for bonuses and penalties.

Companies can obtain a maximum of 100 points for the base score under four domains as follows:

- Board matters (maximum 35 points);
- Remuneration matters (maximum 20 points);
- Accountability and audit (maximum 20 points); and
- Transparency and investor relations (maximum 25 points).

The aggregate of the bonuses and penalties (positive or negative) is incorporated into the base score to arrive at the company’s overall GTI score.

The GTI is now in its fourth year. For this year, 674 companies have been included in the rankings. GTI 2012 covers companies that released their annual reports between Jan 1, 2011, and Dec 31, 2011, with exceptions for companies with September fiscal-year ends, where the cut-off for inclusion in the index was extended to Jan 31, 2012. A total of 75 listed companies were excluded from the GTI 2012 ranking. These are real estate investment trusts, business trusts, exchange traded funds, secondary listings, suspended companies, delisted companies as well as newly listed companies that do not have a full year’s financials.

The primary sources of information are the company’s annual report and the company website. Announcements made by the company on the SGXNet as well as in the media, which occurred between Jan 1, 2010, and Jan 31, 2012, have also been used to update the score. In addition, companies were contacted to obtain some of the information that is not publicly available.