

The State as Shareholder: The Case of Singapore

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Background

- SOEs - State owned-enterprises - underperform around the world
- Singaporean GLCs - Government-Linked Companies- perform much better
- Why?
- Does good governance have anything to do with it?

Issues in SOEs

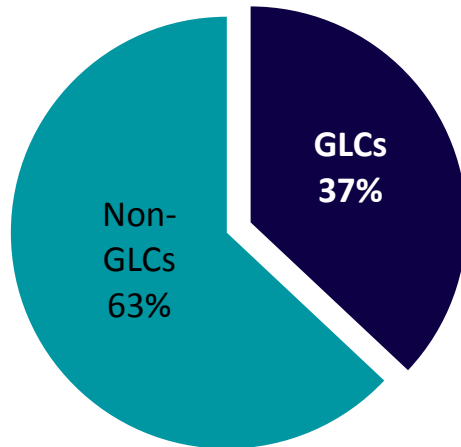
- Lack of incentives
- Absent owners
- Complex goals
- Political interference
- Public scrutiny (taxpayer's money)
- Bureaucratic controls
- Monopoly
- Rent seeking
- Corruption
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What do Singaporean GLCs do differently?

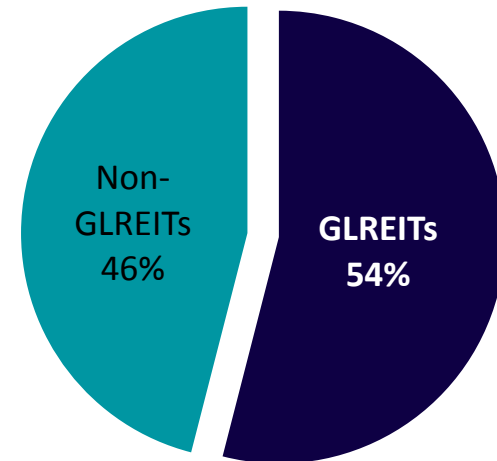
- Clear Business Mandate
- Arm's length distance to politics
- Active ownership by Temasek
- Competition between companies
- International operations
-
- Good governance
Independent boards, committees, transparency, accountability...

Government-linked companies matter in Singapore

Based on 2008 to 2013 market capitalisation data, GLCs accounted for **37%** of the stock market value.



Based on 2008 to 2012 market capitalisation data, GLREITs made up **54%** of REIT market.



Note: 2008 - 2013 Singapore's Market Capitalisation data downloaded from Bloomberg Professional Services.

Number of SGX-listed GLCs and GLREITs

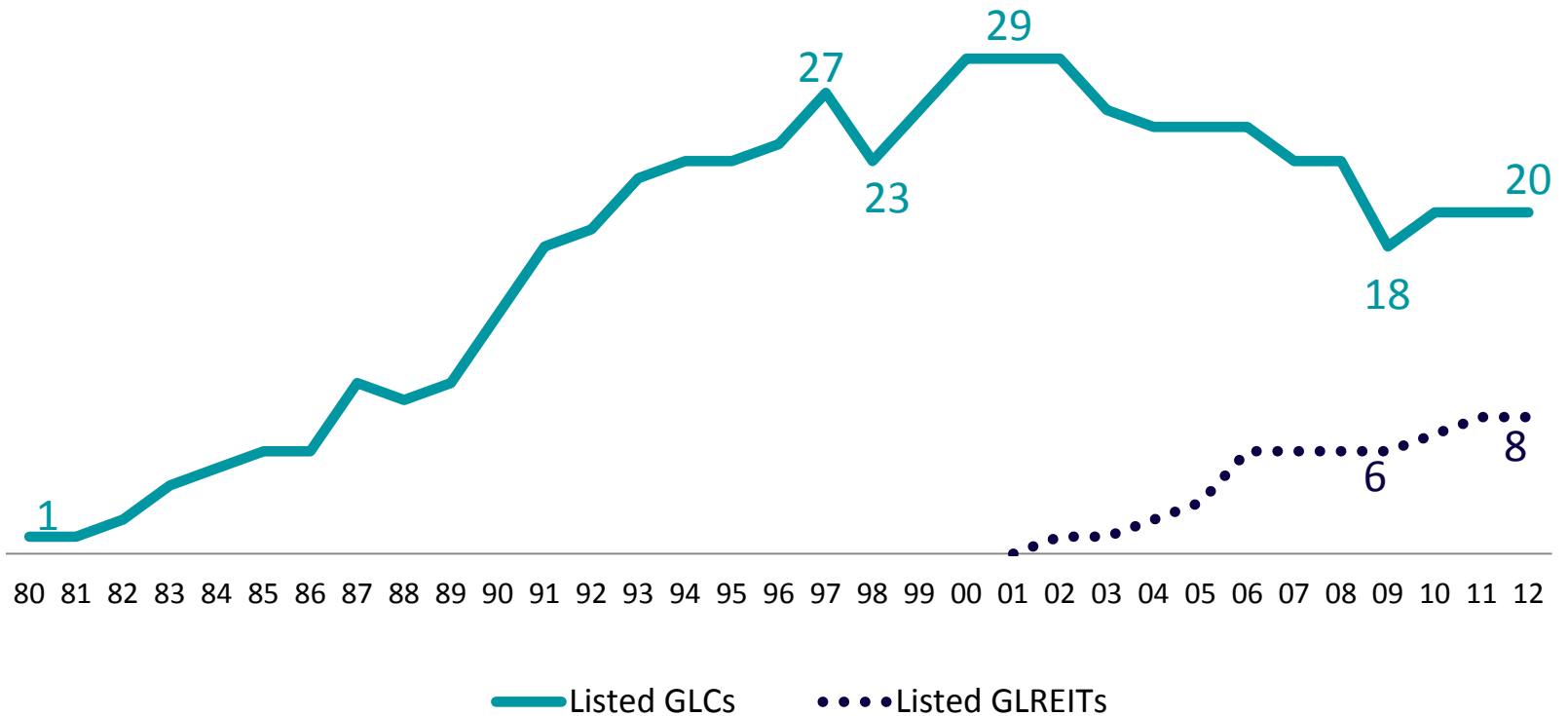
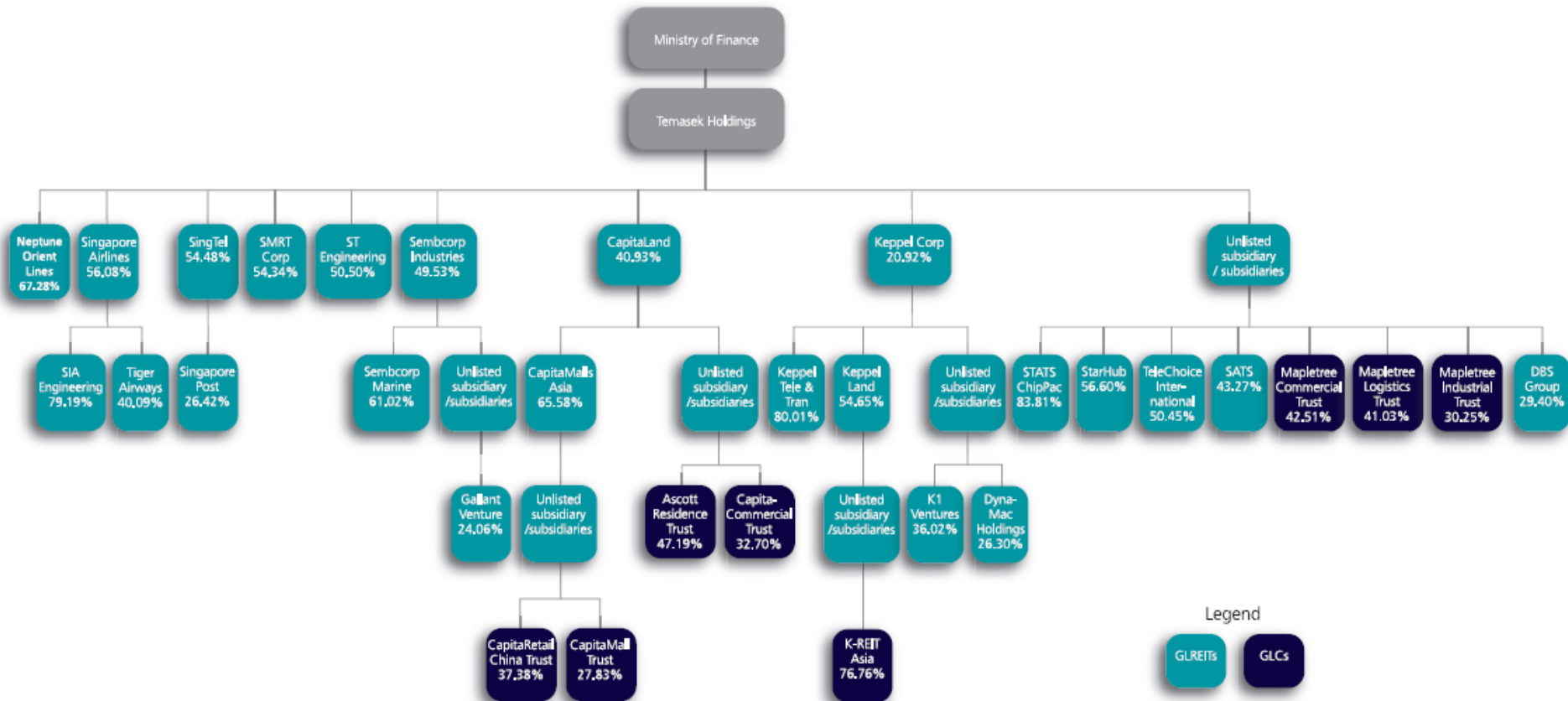


Fig 4. Temasek's Ownership Structure of SGX-Listed GLCs and GLREITs (FY2012)



Sources: 2012 Annual reports of GLCs and GLREITs.

INVESTMENT PERFORMANCE

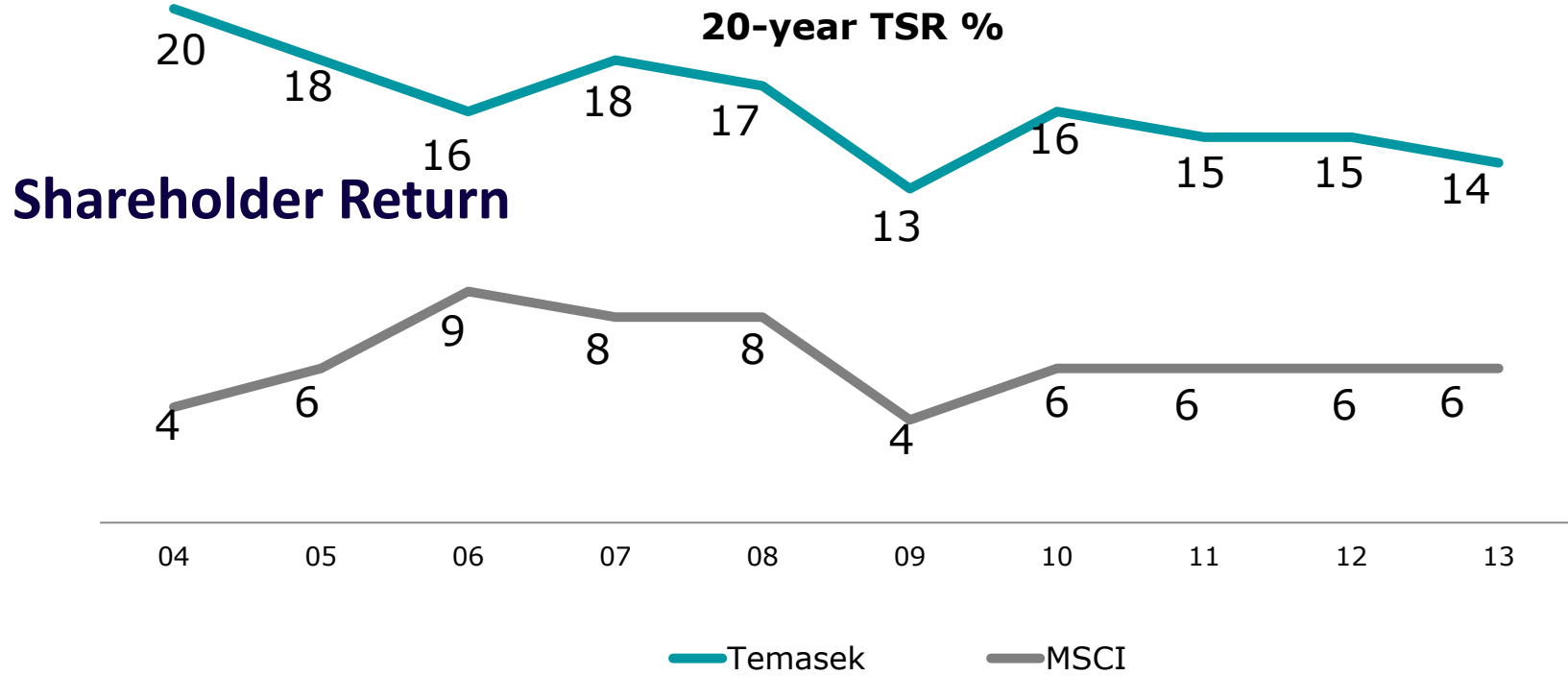
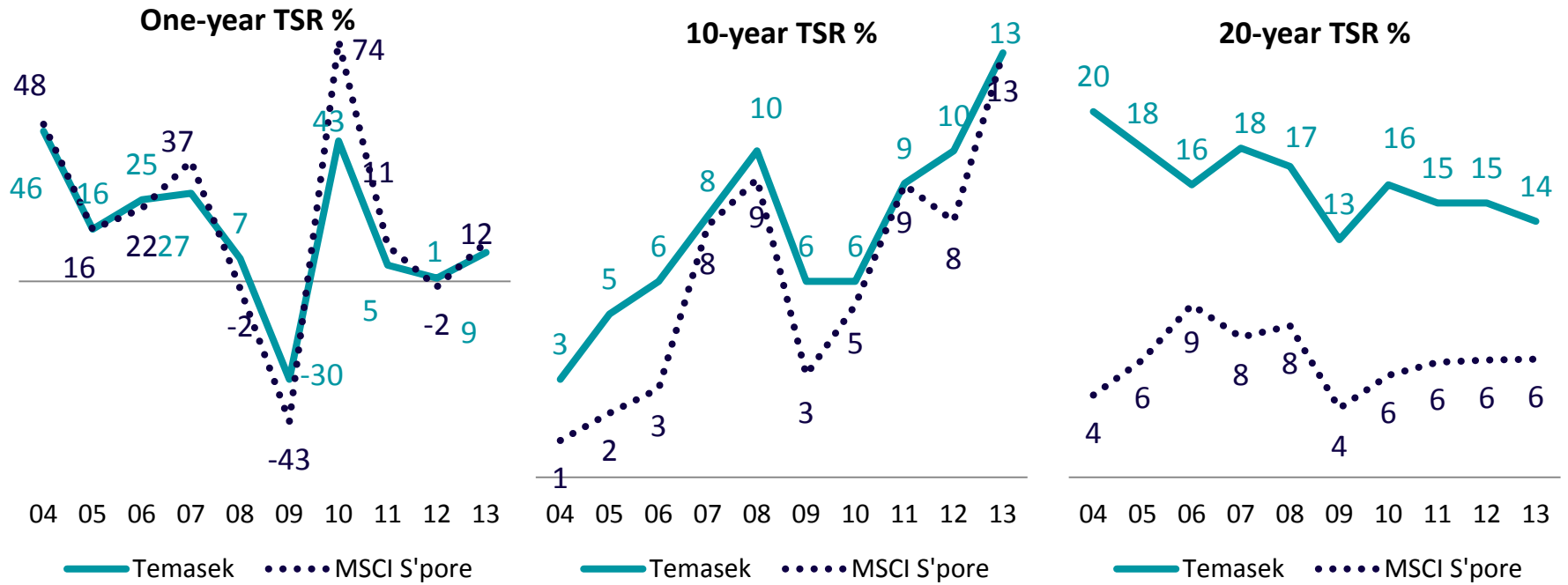


Fig 2. Total Shareholder Return (TSR) % 2004-2013



ACTIVE OWNERSHIP

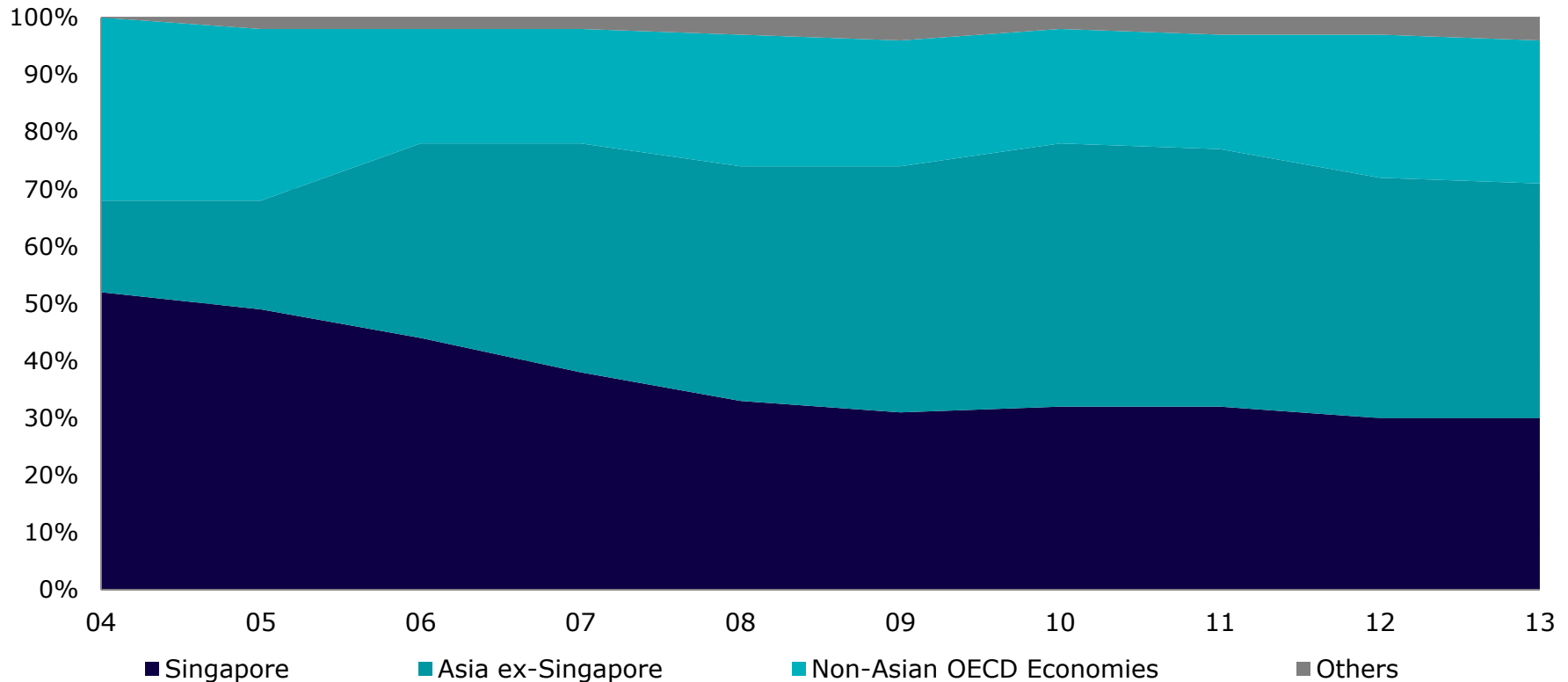


**Invested
S\$ 159
Billion**

**Divested
S\$100
Billion**

Temasek's invested **S\$159** billion and divested **S\$100** billion over the last decade.

INTERNATIONALIZATION

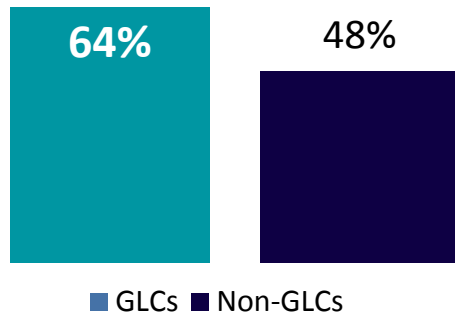


Non-Domestic Ownership of Assets increased **22%** over the last decade.

GOVERNANCE

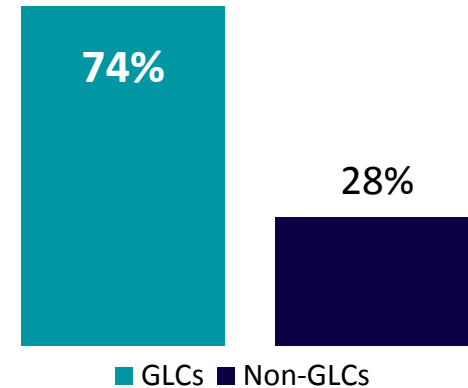
Board Independence

GLCs have **higher** percentage of independent directors on their boards.



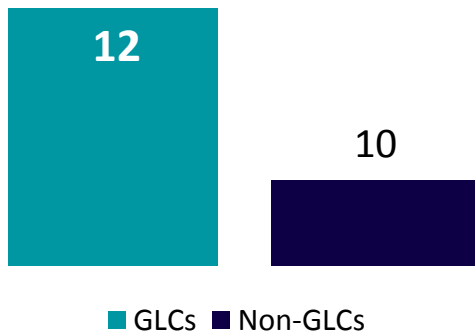
Chairman Independence

GLCs have **higher** percentage of Boards led by an independent/ non-executive chairman.



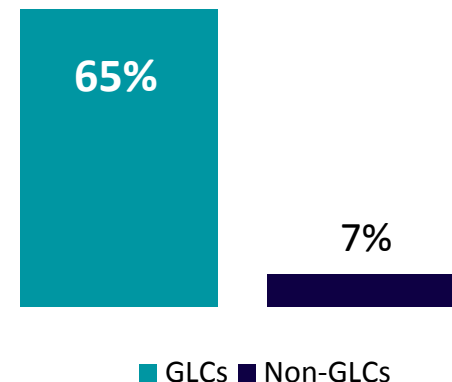
External Board Appraisal

GLCs are **more likely** to hire external consultants to conduct board appraisals.



Risk Governance

GLCs are **more likely** to have a Board Level Risk Committee.



Note: Analysis based on data from CGIO's GTI 2009 -2013.

GOVERNANCE SCORES

(GTI 2009 – 2013)

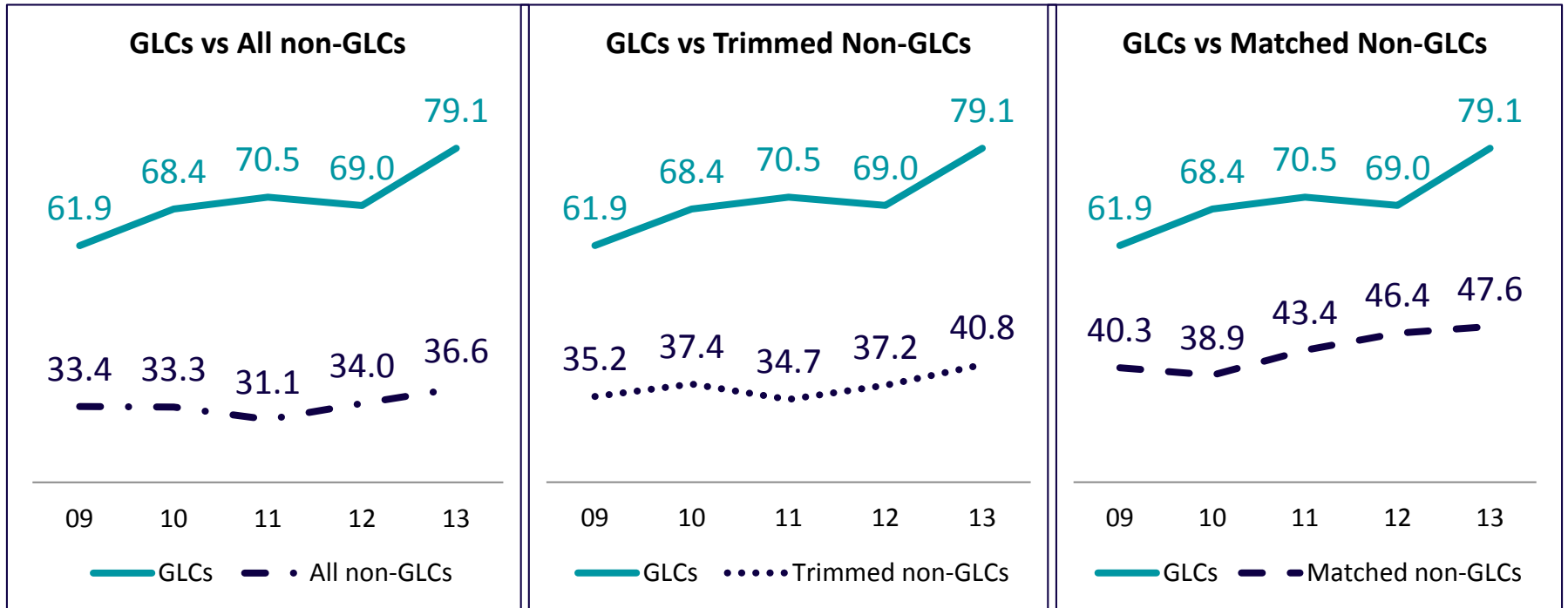
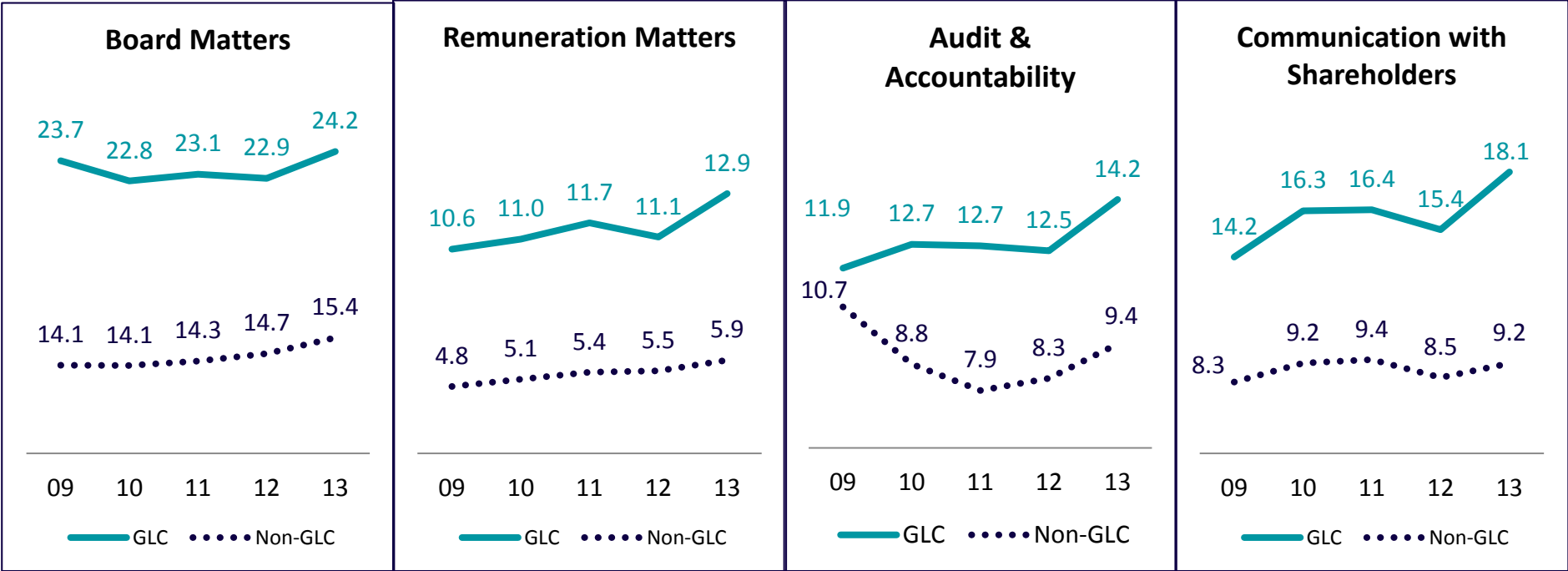


Figure 7: Comparison Between GLC and Non-GLC Scores by Component (GTI 2009 – 2013)



Director Independence

Question	GLC	N	Non-GLC	N	Difference
1 Proportion of independent directors on board	0.64	103	0.46	2881	0.18 ***
3 Disclosure of all directorships and chairmanships held by its directors at present and over past 3 years	0.58	103	0.22	2881	0.37 ***
4 Chairman is independent director	0.47	103	0.13	2859	0.33 ***
5 Chairman is independent or non-executive director and not related to CEO	0.89	102	0.32	2783	0.57 ***
6 Definition of independence to include independence from major shareholders	0.36	84	0.06	2354	0.29 ***
7 Comprehensive description of how the company assesses the independence of its directors	0.55	103	0.26	2854	0.29 ***
8 Same independent directors sitting on the nominating, remuneration and audit committees	0.10	103	0.55	2881	-0.46 ***
9 Non-disclosure of director information	0.12	65	0.38	1795	-0.26 ***

Nomination of directors

Question	GLC	N	Non-GLC	N	Difference
2 At least one independent director has experience in industry company is in	0.79	103	0.41	2880	0.37 ***
10 Director skills/experience sought disclosed	0.46	103	0.14	2880	0.31 ***
11 Process followed for nominating director disclosed	0.54	103	0.23	2880	0.32 ***

Board Appraisal

Question	GLC	N	Non-GLC	N	Difference
12 Number of times board met during year	6.63	103	4.35	2857	2.29 ***
13 Board appraisal process disclosed in detail	0.64	103	0.29	2879	0.35 ***
14 Individual director appraisal process disclosed in detail	0.39	103	0.12	2879	0.27 ***
15 Individual director appraisal criteria disclosed	0.23	103	0.35	2879	-0.12 ***
16 External party used at least periodically to conduct board and/or individual director appraisal	0.40	103	0.01	2880	0.38 ***

Remuneration of Executive Directors

Question	GLC	N	Non-GLC	N	Difference
17 Exact remuneration of executive directors is disclosed	0.51	97	0.05	2432	0.46 ***
18 Long-term incentives are used for executive director remuneration	0.85	103	0.34	2872	0.52 ***
19 Performance measures of executive directors are disclosed	0.60	102	0.10	2871	0.49 ***

Remuneration of Non-Executive Directors

Question	GLC	N	Non-GLC	N	Difference
20 Exact fees of non-executive directors are disclosed	0.67	103	0.06	2868	0.61 ***
21 Non-executive director fee structure is disclosed	0.65	103	0.06	2869	0.59 ***

Audit and Accountability

Question	GLC	N	Non-GLC	N	Difference
22 How risks are assessed and managed is disclosed	0.57	103	0.34	2880	0.23 ***
23 Process and framework used to assess adequacy of internal control systems and risk management are disclosed	0.63	103	0.14	2879	0.49 ***
24 Whether internal auditor meets or exceeds IIA standards is disclosed	0.57	101	0.19	2852	0.39 ***
25 Having a separate board-level risk committee	0.66	103	0.04	2881	0.62 ***

Communication with Shareholders

Question	GLC	N	Non-GLC	N	Difference	
26 Latest financial results are available on website	0.97	103	0.62	2784	0.35	***
27 Number of days to announce results	40.9	103	55.8	2840	-14.8	***
28 IR contact is given on website/annual report	0.88	103	0.46	2853	0.42	***
29 Website has clearly dedicated IR link instead of providing financial information under links such as "News" or "Announcements"	1.00	103	0.74	2785	0.26	***
30 Powerpoint slides/webcast from briefing are available on SGX or corporate website	0.69	103	0.18	2829	0.51	***
31 Number of days between notice sent and date of AGM	25.00	102	17.89	2872	7.11	***

Conclusion

- Yes, Singaporean SOEs perform well
- Yes, they are well governed
- So they do the right thing
- - and get good results
- Exactly as we would predict in governance research

Reflection

- Do the Singaporean GLCs perform well **because** they have good governance?
- Or is there – for example- a third factor which makes for both good governance and performance?
- The Singapore factor
- What could it be?
- Can it be replicated?