National University of Singapore
Centre for Governance and Sustainability
NUS Business School

Corporate Governance

Singapore Governance and Transparency Index

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CORPORATE GOVERNANCE FOR A SMART NATION

January – March 2024 – Corporate Governance Update Q1 2024

(Based on data made available by 31 May 2023)

Contents

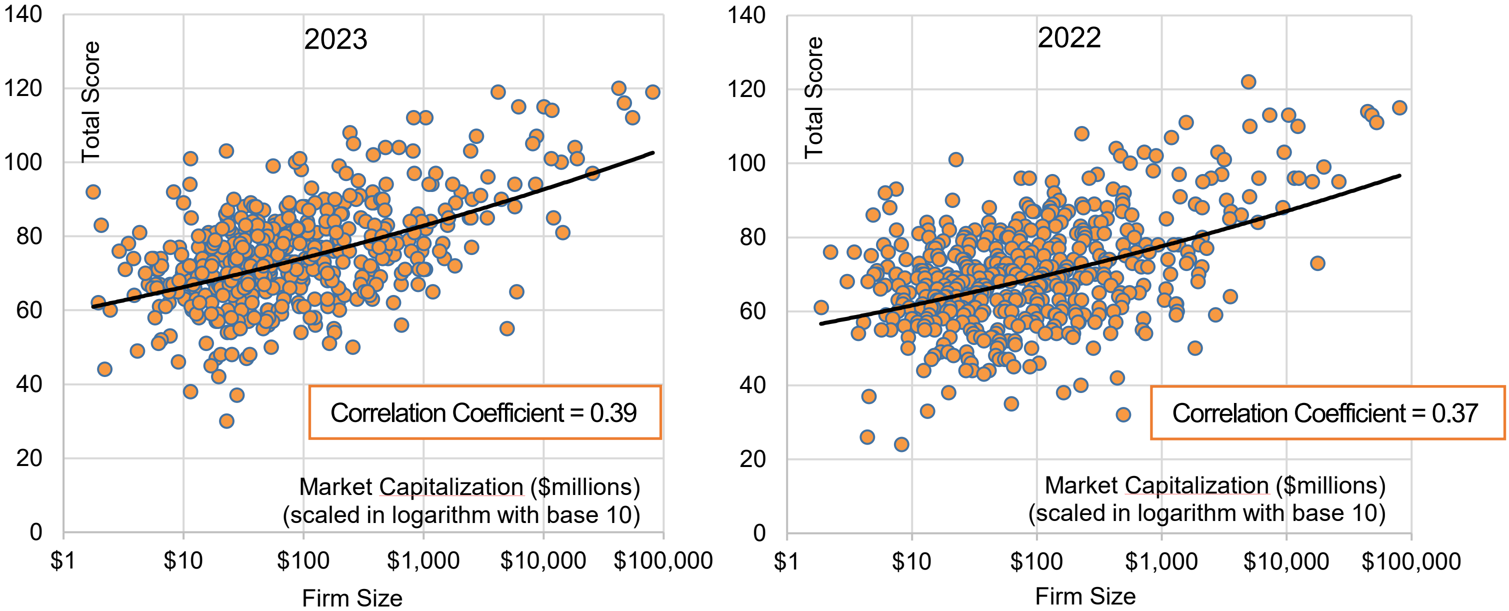
Introduction

The update this quarter will focus on the size effect seen in the results of assessing corporate governance (CG) practices and disclosures. The results here are more in-depth findings from the SGTI 2023 assessment, which covered all 474 SGX-listed companies which had released their annual reports by 31 May 2023.

Overall Size Effect

The correlation coefficient between market capitalization and overall score, which measures the strength of the linear relationship between these two factors, remains at around 0.4 (0.39 in 2023, 0.37 in 2022). Although lower than its value of 0.60 in 2020, this remains a moderate positive correlation, and is statistically significant at the 1% level ($p<0.01$).

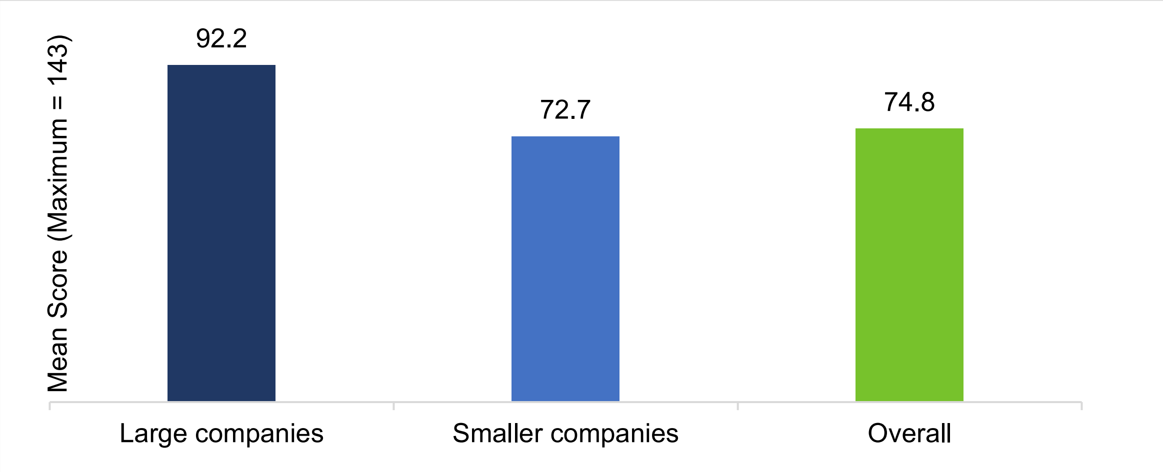
Market Capitalization vs. Total Scores: 2022 and 2023



This size effect can also be seen when looking at the mean scores of large companies (having market capitalization of over $1 billion, n =52) and smaller companies (market capitalization of up to $1 billion, n=422). The latter have a mean overall score of 72.7 points, almost 20 points less than that of the large companies.

These results point to a size effect in CG, with larger companies tending to have higher scores. Smaller listed companies may benefit from policy attention helping them to overcome resource constraints in adopting CG best practices.

SGTI Score by Company Size



The size effect can also be seen in the various dimensions of corporate governance. The five main dimensions of CG assessed are: board responsibilities; rights of shareholders; engagement of stakeholders; accountability and audit; and disclosure and transparency. The largest difference is in sustainability-related disclosures (engagement of stakeholders). Large companies had mean score of 84% for this dimension, compared with 69% for smaller companies - a 15 percentage point difference. Similarly, in the areas of transparency of disclosures and board responsibilities, large companies have an advantage of 14 percentage points and 13 percentage points respectively (mean scores of 80% vs. 66% for disclosure & transparency and 76% vs. 63% for board responsibilities).

Size Effect in ESG Reporting

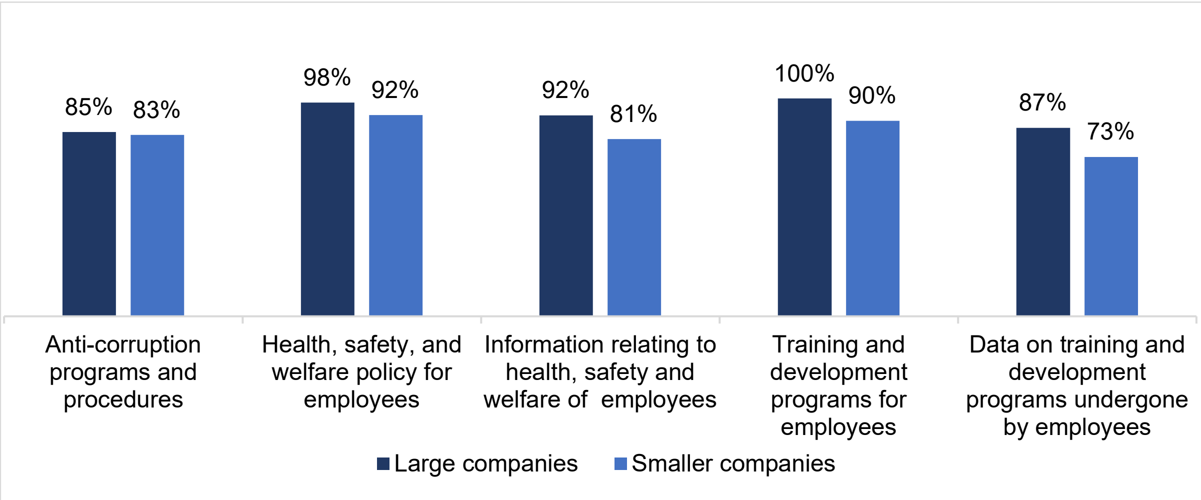
The size effect can be seen in disclosure of both internal and external ESG issues.

Disclosure of Internal ESG Issues

For general information on internal issues such as anti-corruption programs and employee welfare policies, companies have similar disclosure rates regardless of size category. 85% of large companies disclose their anti-corruption programs and procedures, as do 83% of smaller companies. Similarly, 98% and 92% of large and smaller companies respectively disclose their employee health and safety policies. However a differential appears when it comes to more detailed disclosures. 92% of large companies report specific information or data relating to the health, safety and welfare of their employees; for smaller companies, this figure drops to 81%.

Similarly, the difference in disclosure rates is lower for general disclosures regarding employee training and development programs (reported by all large companies and 90% of smaller companies) than for specific data on these programs (reported by 87% for larger companies vs. 73% for smaller companies, a difference of 14 percentage points).

Internal ESG Issues



Disclosure of External ESG Issues

The size effect is even clearer in disclosures of external ESG issues, ranging from customer health and safety to community engagement and supply chain issues. For all these indicators, smaller companies have disclosure rates that are lower by at least around 15 percentage points. One exception however is discussion of efforts to ensure value chains are consistent with sustainable development. 98% of large companies and a comparable 93% of smaller companies address this in their reports.

External ESG Issues