Corporate governance index to cast wider net on stakeholder feedback

2016 index will also tap OECD principles; scores in 2015 rankings hit a new high. Singtel takes top spot in annual ranking

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CONSIDER it the seven-year itch of corporate governance.

How and why the current Governance and Transparency Index (GTI) can be improved became the hot topic on Tuesday as organisers revealed the seventh annual edition of the governance benchmark.

This latest version of the Singapore Governance and Transparency Index (SGTI) will replace the current benchmark in 2016, said its organisers CPA Australia, the National University of Singapore's Centre for Governance, Institutions and Organisations (CGIO) and *The Business Times.*

The new index will adopt a more comprehensive view of a company's stakeholders and work on principles derived from the Organisation for Economic Co-operation and Development (OECD).

Participants in a panel discussion found themselves debating whether a benchmark like the GTI adequately captures the effectiveness of a board of directors, especially in terms of participation in the company, developing strategy and setting a corporate culture.

Singapore Telecommunications (Singtel) reclaimed the top spot in 2015, a position it last held in the 2012 ranking. Singapore Exchange, fourth last year, jumped to the second spot.

The GTI remains dominated by a select group of blue chips – 18 of the top 21 this year were also in the top 21 last year – and scores in general have improved.

The mean score of 47.6 out of a best possible 143 in 2015 was the best since the first GTI in 2009.

Associate professor Lawrence Loh noted that companies in the middle of the pack had to improve their scores by seven points in the latest ranking just to maintain the same rank; companies between the 25th and 75th percentile who maintained the same score could lose about 100 places.

"You can't stay still," Prof Loh said.

The 2015 GTI looked at 639 Singapore-listed companies' annual reports and assessed them on matters relating to the board, remuneration, accountability and audit, and transparency and investor relations.

After assigning a base score out of 100, assessors then added bonus points or subtracted penalty points. The highest score in 2015 was 118, and the lowest, nine – the first time that the bottom score was positive.

Prof Loh called the Code of Corporate Governance, which was revised in 2012 but fully applied to every annual report only from this round of rankings, as the key lever that lifted the scores.

Prof Loh said: "The revised code is actually more than a tap on the wrist; it is a kick in the pants for everybody to be serious about corporate governance. Because now it's enshrined, you now have to comply or explain."

Sharp improvements were recorded in the following areas:

- the number of financial statements certified by the chief executive or chief financial officer;
- the use of poll voting at shareholder meetings;
- the disclosure of how remuneration was linked to performance; and
- the disclosure of limits to concurrent directorships.

But improvement seemed to lag in other areas. For example, only 3.8 per cent of companies disclosed the exact remuneration of their top five executives; and although 94.5 per cent of companies said they had a whistleblower policy, only 23.3 per cent gave details of that policy.

Whether the GTI's scores and rankings said enough about the effectiveness of a board was something prominent business leader Boon Swan Foo questioned several times.

The board's role goes beyond simply complying with governance guidelines, he said. Directors should also be assessed in terms of whether they are active participants in their companies. Do they contribute to strategy and culture?

He said: "The more important part, to me, is strategy and risk management – how you participate in running the company, not how you participate in controlling the company."

Singtel chief corporate officer Jeann Low said that it was important to also recognise sustainable long-term performance; key to that is how the board and management work together.

"What you need really is the entire dynamics of the board," she said.

Chng Lay Chew, chief financial officer of Singapore Exchange, said that it was also important to recognise that shareholders are not the only stakeholders in a company.

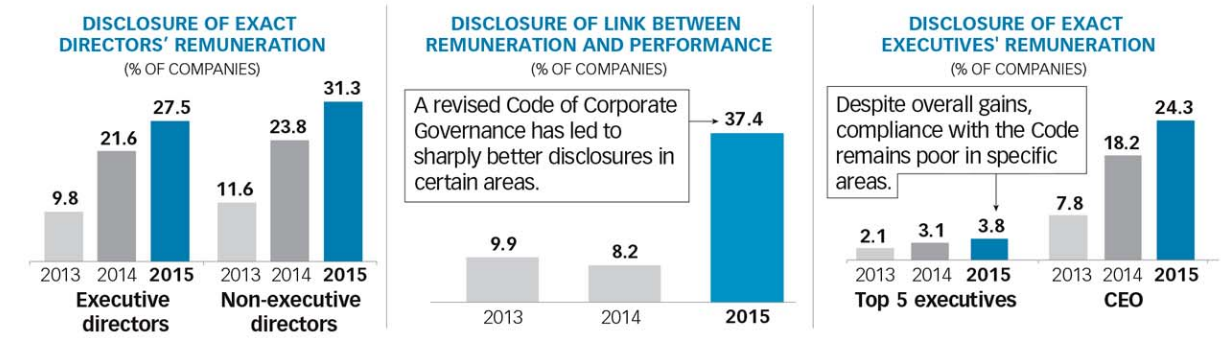
"One possible way to supplement measurement of compliance against corporate governance standards is to obtain stakeholder feedback on their view of a company's governance. This can include (feedback from) shareholders, regulators and customers."

Prof Loh said that the new SGTI will seek to address that issue, with a more comprehensive look at a company's impact.

"We are going beyond the board of directors or even the shareholders," he said. "We will look at employees, customers, suppliers, regulators, the society at large. This is in line with the spirit of global practices."

Know your pay

Companies are generally more transparent about pay matters



Source: NUS Centre for Governance, Institutions and Organisations

Full list of ranking / 10-11
Commentary: Pushing towards a new frontier / 11
How the scoring is done / 11

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COMMENTARY

Pushing towards a new frontier

GTI 2015 reveals larger effects of the 2012 Code of Corporate Governance

By Lawrence Loh and Susan See Tho

SINGAPORE'S open economy is often seen as a model for others. Despite its relatively short 50-year history, the country has consistently been ranked highly in global competitiveness rankings.

Many see this as an enviable position. But as Singapore moves beyond SG50, the ability of its firms to uphold strong corporate governance will be a significant factor in maintaining the country's international standing in the long run.

For now at least, we are making good progress.

With more than two years since the Code of Corporate Governance was last revised, results from the 2015 Governance and Transparency Index (GTI) show that companies are reaping the benefits of a more comprehensive adoption of the Code.

The GTI assesses and ranks the corporate governance and disclosure practices of Singapore-listed companies each year. GTI 2015 studied 639 listed companies that released their 2014 annual reports on or before May 31, 2015.

Overall results

This year's mean GTI score is at an all-time high of 47.6 points (Figure 1), up more than five points from last year.

This is the largest year-on-year increase in the past seven years. In addition, GTI 2015's top score of 118 points is two points above last year's top score.

GTI 2015 marks the first time researchers have captured a complete slate of annual reports that come under the revised Code, as companies adhere to different fiscal year-ends.

This means that this year's scores reflect widespread effort by companies to ensure that their corporate governance standards meet or exceed the revised Code's requirements.

In fact, the rise in the mean GTI score is largely attributable to the efforts by "middle-tier" companies, or firms that have been occupying positions between the 25th to 75th percentiles over the past few years, to improve corporate governance practices.

Figure 2 summarises the distribution of scores. Apart from the rise in median score from 41 to 47, the rightward movement of curve signifies improvement in scores across most companies.

Standing still means falling behind

As a sign of the more widespread adoption of the revised Code, this year's GTI ranking reveals an interesting phenomenon.

Companies with marginal year-on-year movement in scores (±5 points) generally saw significant changes to their rankings in GTI 2015. They moved by more than 90 places on average, compared to last year.

Correspondingly, companies that wanted to maintain their positions would have needed to increase their total GTI scores by seven points on average, indicating the importance of continuous improvement in staying competitive.

Significant areas of improvement

This year's GTI also showed promising improvements in specific areas which the revised Code intended to enhance, such as disclosures on whistle-blowing, code of conduct, and director training.

The results indicate that companies have gradually improved on these areas over time, with significant advancements recorded mainly between GTI 2014 and GTI 2015.

The revised Code encourages companies to disclose their whistle-blowing policies in their annual reports, as well as procedures for raising concerns where appropriate.

This year's GTI found that 94.5 per cent of companies have implemented a whistleblowing policy, an increase from 92.2 per cent in GTI 2014.

In addition, among the 94.5 per cent of companies, 149 (24.7 per cent) disclosed key policy details and allowed anonymous reporting, a significant improvement from 105 companies (17.7 per cent) in GTI 2014.

The Board's role, as described in the revised Code, is to set the company's values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met.

We found that 74 companies (11.6 per cent) in GTI 2015 disclosed details on their code of conduct or ethics. This is a one-fold increase from 37 companies (5.8 per cent) in GTI 2014.

On director training, the revised Code emphasises the importance of regular training for all directors, particularly on relevant new laws, regulations and changing commercial risks.

GTI 2015 revealed that 139 companies (21.8 per cent) disclosed information on director training, an improvement from 97 companies (15.1 per cent) in GTI 2014.

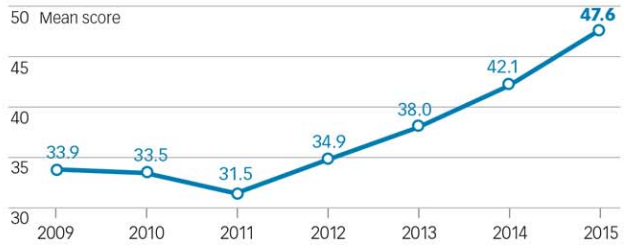
Room for more

Despite the general increase in scores, there are still areas which require substantial attention.

While the revised Code recommends that companies consider sustainability issues such as environmental and social factors as part of business strategy formulation, only 12.7 per cent had either published sustainability reports or included a sustainability section in their annual reports.

General GTI trend

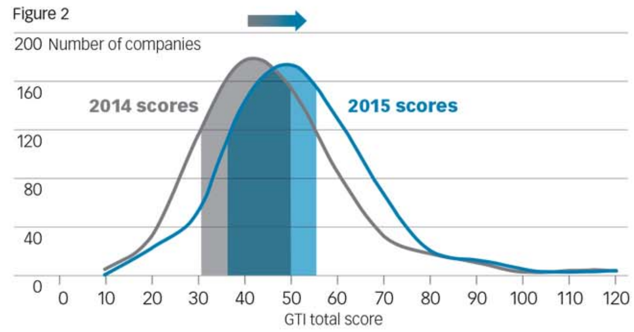
Figure 1



Source: NUS

GTI score distribution

Figure 2



Source: NUS

In the area of remuneration, only 9.4 per cent of companies disclosed that external consultants' advice was sought when deciding directors' remuneration. This is an area of concern as external validation and benchmarking make pay determination more objective.

In the area of shareholders' interest, companies fell short of providing details on dividend policy. Only 7.5 per cent of the 639 companies described their dividend policies in their annual reports.

Going forward

While the achievements by Singapore's listed companies are highly commendable, complacency takes no place in corporate governance.

Change has been the only constant in Singapore's growth from third to first world economy in one generation.

As we move beyond SG50, the dramatic turns of world economy and tightening of the domestic labour market will continue.

To remain globally competitive, Singapore companies must proactively assess their business landscape and continuously update corporate governance practices to adapt to changing demands.

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How scoring is done

THE Governance and Transparency Index (GTI) assesses companies on their corporate governance practices, as well as the timeliness, accessibility and transparency of their financial results.

The GTI score comprises two components: the base score and adjustments for bonuses and penalties. Companies can obtain a maximum of 100 points for the base score under four domains:

- 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 in the base score to arrive at the company's overall GTI score.

The GTI is currently in its seventh year. The ranking is a tripartite collaboration between NUS Business School's Centre for Governance, Institutions and Organisations (CGIO), CPA Australia, which also sponsors the annual study, and *The Business Times*.

The primary sources of information were the companies' annual reports and websites. Announcements made by the companies on SGXNet as well as in the media between Jan 1, 2013 and May 31, 2015, have also been used to update the scores. In addition, companies were contacted to obtain some information that was not publicly available. A total of 639 SGX-listed companies which released their 2014 annual reports on or before May 31, 2015 were examined for GTI 2015.

Further information on the scoring methodology, including details on its instrument and past results, may be obtained from CGIO's website at http://bschool.nus.edu.sg/CGIO.aspx. Queries about the GTI may be sent to cgio@nus.edu.sg. In order to maintain independence and fairness of the Index, reports or advice cannot be provided to individual companies.

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