

CORPORATE GOVERNANCE

# SGTI 2019: progress made thus far commendable

At the level of practices, mixed results are observed. In order to encourage companies to adopt the entirety of the Code and listing rules, a targeted approach is probably necessary. **BY LAWRENCE LOH**

**T**HE Singapore Governance and Transparency Index (SGTI) 2019 is the first assessment of listed companies to be released since the launch of the revised Code of Corporate Governance in August 2018.

Although the full scope of the amendments to the Code and listing rules has yet to come into effect, SGTI 2019 is indicative of the progress that has been made thus far, and its findings will be useful to steer ongoing corporate actions and guide regulatory thinking.

SGTI 2019 has reached an all-time high of 59.3, with a three-point increase from last year's 56.3 (see Figure 1).

Although there is still room for advancement, the progress made thus far is definitely commendable.

Even more laudable, that improvement is spread across a larger array of companies, as can be seen in the distributions of their performances over the past three years (see Figure 2).

Let us examine, in particular, the state of corporate governance pertaining to the key changes in the new Code and listing rules.

In addition, we can also look at related good practices that go beyond those explicitly stipulated.

### Board structures

In SGTI 2019, almost all companies (98.7 per cent) have at least one-third of their boards being comprised of independent directors (IDs).

This seems quite close to the requirement of the new listing rules even if there is an additional three-year transitional period for adoption.

SGTI 2019 also found that virtually all companies (99.6 per cent) have all three board committees – audit, nominating and remuneration – as required by the new listing rules.

However, only 38.9 per cent of the boards have IDs as the majority where the chair is non-independent, which is a requirement on a comply-or-explain basis in the revised Code. This is a slight improvement from last year's 33.2 per cent.

In the new listing rules, a unique

two-tier voting process is required for IDs to be considered independent after serving nine years.

Even if this rule has an additional three years of up to 2022 for compliance, it will have implication for companies which currently have such long-serving IDs.

In SGTI 2019, 32.4 per cent of the companies have more than one ID serving more than nine years while 12.3 per cent and 1 per cent of the companies have more than two IDs

and three IDs being so, respectively (see Figure 3).

Thus, while the basic structures for boards are in place for the new Code and listing rules, there is some urgency in inducting IDs. We do expect that companies will be putting in place measures to bring in more IDs to fulfil the requirements of the mandatory listing rules.

### Corporate practices

In SGTI 2019, only 20.1 per cent of

companies disclose details of a code of conduct or ethics. While this is a marginal increase from last year's 17.7 per cent, it is quite far away from what is required in the new Code. Likewise, in the area of whistle-blowing, the adoption by companies is 52.4 per cent but this is barely any improvement from 50.8 per cent last year.

For the disclosure of the link between rewards to corporate and director performances, only 42.3 per cent of companies adhered to it, and is an unfortunate decline from last year's 47.5 per cent.

The requirements for sustainability were covered on a comply-or-explain basis in a listing rule introduced earlier in 2016.

While the revised Code has not dealt with the details of sustainability, the results gathered from SGTI 2019 provide useful information on the specific aspects of practices (see Figure 4).

For instance, only 36.6 per cent of companies stipulate efforts to address customer health and safety, while 69.8 per cent consider the well-being of their employees.

Only 54.5 per cent of companies elaborate their efforts to interact with the communities in which they operate.

Finally, 69.8 per cent of them ensure that their value chains are environmentally friendly.

In essence, there is room for improvements for corporate practices in

line with the new Code and listing rules as well as in going beyond them.

### Regulatory implications

From SGTI 2019, at the level of structures, it appears that the foundations of the new Code and listing rules are largely in place and companies are ready to move to the next phase of reforms.

However, more attention still needs to be directed towards addressing the key pillar of IDs.

At the level of practices, SGTI 2019 points to mixed results. In order to encourage companies to adopt the entirety of the Code and listing rules, a targeted approach is probably necessary.

The quest for good corporate governance is a continuous process that goes well beyond 2018's revisions to the Code and listing rules, and SGTI 2019 suggests that the progress cannot be left to its natural course.

Although regulation needs to be reviewed regularly, it must be remembered that corporate governance exists to serve businesses and not vice versa. The amount of regulation in corporate governance should be optimal, not maximal.

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## Readiness for the new governance landscape

Structures in place, practices to improve

Figure 1. Mean score trend for general category of companies

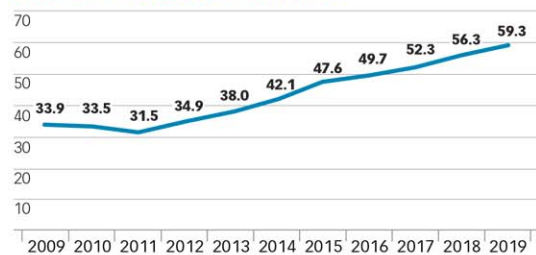


Figure 2. Distribution of company scores over the past three years

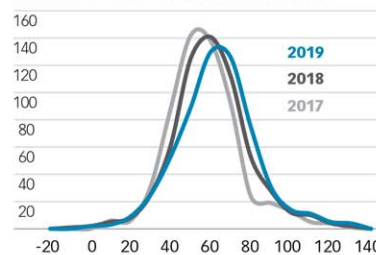


Figure 3. Percentage of companies with independent directors serving for more than nine years

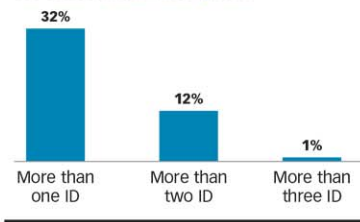
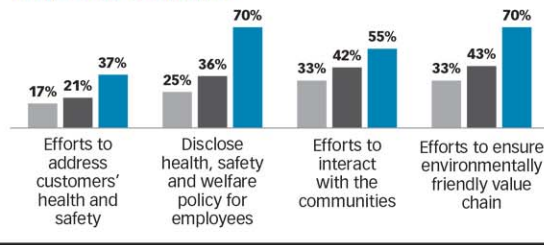


Figure 4. Sustainable practices adopted by companies



Source: NUS CGIO