

Corporate governance steady in pandemic times: refocusing on risks and sustainability

The SGTI2020 has reached an all-time high mean overall score of 67.9 points, an 8.6-point increase over the previous year. **BY LAWRENCE LOH**

EVEN amid the Covid-19 pandemic crisis, listed companies in Singapore are experiencing a transition on the corporate governance front. With the revised Code of Corporate Governance expected to come fully into effect by this year, companies have been aligning their practices to the new Code.

Continuing the upward trend of past years, the Singapore Governance and Transparency Index (SGTI) 2020 has once again reached an all-time high mean overall score of 67.9 points – a solid 8.6-point increase over the previous year (see Figure 1). Comparing to the previous year, the mean base scores and bonus points have risen by 3.2 and 3.0 points respectively, while the number of penalty points taken have dropped by 2.4 points. These results are commendable and point towards an improving corporate governance landscape.

The increase in mean score is evident in the score distribution over the past few years (see Figure 2), where a noticeable shift to the right can be observed. In addition, the peak of the distribution is taller this year, indicating that more companies are achieving this higher mean score compared to previous years.

Observable effects

Alongside the commendable progress, the results of SGTI 2020 have provided several insightful observations.

(1) Closing-up effect

Notably, a “closing-up” effect has been observed. Companies that did not do as well last year tended to register greater improvements in overall score compared to companies that did well. This effect is reflected in the score distribution (see Figure 2). While the distribution has become narrower, the distribution has also shifted noticeably towards the right with a higher peak. This indicates that a lot more companies are scoring in the 65- to 85-point range, as opposed to the 55- to 70-point range the year before.

In fact, the top 20 companies in SGTI 2019 registered an average 3.1 points improvement this year, while the companies in the 301st to 450th place and those above 450th place registered a much larger improvement at 8.3 and 20.5 points, respectively. This implies that the lower-ranked companies are improving much more than the top companies.

(2) Size effect

A further analysis of the scores revealed a positive correlation between a company's score and its market capitalisation, suggesting a size effect. In fact, the mean score for large-capitalisation companies stood at 91.5 points, compared to 78.1 and 64.6 points for medium- and small-capitalisation companies, respectively. Interestingly, the increase in scores tends to flatten with an increase in market capitalisation. This indicates that companies with larger market capitalisation

tended to experience smaller increases in score, which further corroborates the “closing-up” effect.

(3) Industry effect

While there was no apparent relationship observed between a company's industry and its score, it was observed that companies in the communication services and financial industries performed slightly better (see Figure 3). This is seen in a box-and-whisker plot which shows the spread of scores and interquartile range as well as the mean and median values within each industry.

Risk management

As companies continue their long battle against the pandemic crisis, it is an apt time to pose this question: Are the corporate governance structures in companies sufficient to combat these so-called “black swan” events when or even before they occur?

As it turns out, the risk disclosures of companies appear to have weakened. SGTI 2020 has found that the proportion of companies disclosing their key risks and associated risk management strategies has been gradually declining over the past two years (see Figure 4). Furthermore, the proportion of companies that disclose their risk tolerance policy or the link between risk management and remuneration remain relatively low, hovering at the 5- to 10-percent mark.

While low rates of disclosure do not necessarily imply deficiencies in risk management, it does put into question the robustness of the risk management structures adopted by companies, particularly in times of crises. Therefore, more effort should be placed in enhancing disclosures in this area to increase companies' overall resilience to events that adversely impact their businesses.

Sustainability management

Another outstanding trend in SGTI 2020 is the apparent increase in emphasis placed on sustainability reporting. Ninety-one per cent of companies have released an annual sustainability report in SGTI 2020, compared to 83.3 per cent the previous year. The rising quality of these sustainability reports has also been reflected in the remarkable performance for sustainability-related items, with significant improvements observed across the board (see Figure 5).

Trust-specific performance

Moving on to real estate investment trusts (Reits) and business trusts, a similarly impressive improvement has been observed in SGTI 2020. This year saw a respectable 6.2-point increase in mean scores over the previous year (see Figure 6) as these trusts continued their positive trend.

It was also observed that Reits and business trusts generally performed noticeably better than their counterparts in the general category over the years (see Figure 7). This is possibly due to the more comprehensive disclosures that are required of Reits and

Steady improvements

Figure 1: Mean score trend for general category (2009 - 2020)

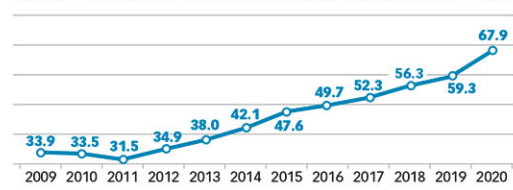


Figure 2: Overall score distribution (2017 - 2020)

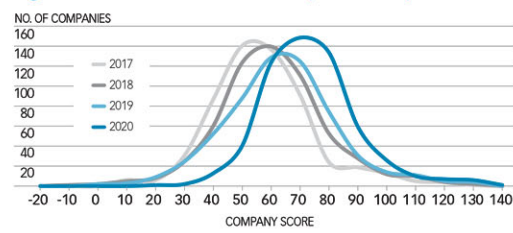


Figure 3: Box-and-whisker plot of scores by industry

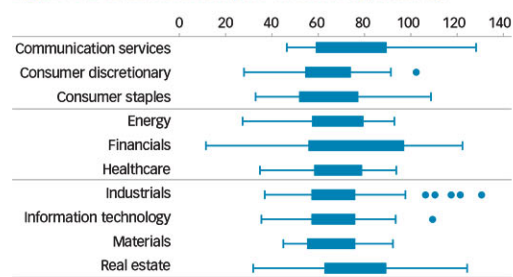


Figure 4: Risk disclosures of companies (2018 - 2020)

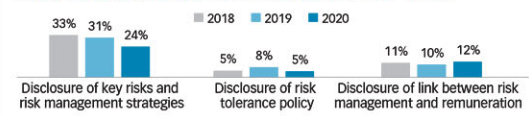


Figure 5: Sustainability practices of companies (2018 - 2020)

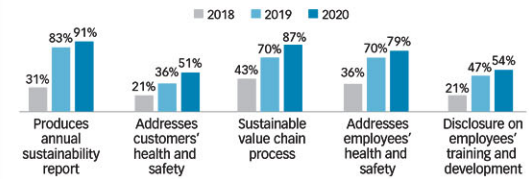


Figure 6: Mean score trend for Reits and business trust category of companies (2017 - 2020)

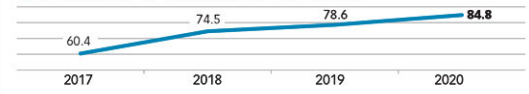
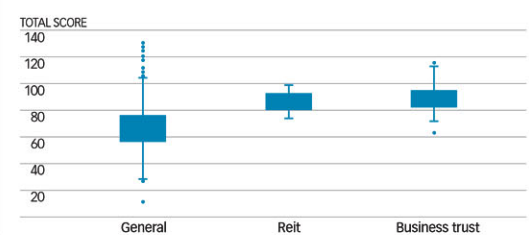


Figure 7: Mean score trend for Reit and business trust category of companies (2017 - 2020)



Ninety-one per cent of companies have released an annual sustainability report in SGTI 2020, compared to 83.3 per cent the previous year. The rising quality of these sustainability reports has also been reflected in the remarkable performance for sustainability-related items.

der the Code on Collective Investment Schemes.

Beyond governance in crises

As SGTI 2020 has shown, companies have ramped up on their corporate governance efforts. This has been reflected in the laudable improvements made over the previous years. Companies have put in more emphasis in their sustainability disclosures. There is, however, also much room for improvement in addressing critical aspects in risk management.

Good corporate governance practices are essential for the survival and perpetuity of the company. But is corporate governance the elixir for longevity? Perhaps good corporate governance is the means and not the end. It has to be coupled with sound business strategies, especially in pivoting to safety amid the pandemic crisis.

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Singapore Governance and Transparency Index 2020

REIT and Business Trust Category

RANK 2020	TRUST NAME	BASE SCORE*	ADJUSTMENTS FOR BONUSES/PENALTIES	OVERALL SGTI 2020 SCORE	OVERALL SGTI 2019 SCORE	RANK 2019
1	CapitaLand Commercial Trust	85.5	27	112.5	100.5	1
2	CapitaLand Mall Trust	86.5	24	110.5	99.5	2
3	Ascott Residence Trust	81.3	20	101.3	98.0	3
4	Far East Hospitality Trust	80.2	19	99.2	90.4	6
5	Netlink NBN Trust	74.9	24	98.9	73.3	34
6	CapitaLand Retail China Trust	83.2	15	98.2	96.2	4
7	Cromwell European Reit	84.4	11	95.4	71.3	36
8	Ascendas Reit	87.4	7	94.4	88.4	8
9	Manulife US Reit	79.8	14	93.8	74.7	33
10	OUE Commercial Reit	71.9	21	92.9	70.8	37
11	Frasers Logistics And Commercial Trust	78.5	14	92.5	86.5	11
12	Keppel Pacific Oak US Reit	73.5	18	91.5	72.3	35
13	Lippo Malls Indo Reit Trust	75.5	15	90.5	70.3	38
14	Mapletree North Asia Comm Trust	73.2	17	90.2	85.8	13
15	Keppel DC Reit	71.3	17	88.3	87.3	9
16	Soilbuild Business Space Reit	76.3	11	87.3	64.5	40
17	Frasers Hospitality Trust	77.3	9	86.3	84.5	15
17	AIMS APAC Reit	70.3	16	86.3	82.9	21
19	ESR-Reit	76.1	10	86.1	81.4	24
20	Dasin Retail Trust	71.9	14	85.9	77.0	30
20	CDL Hospitality Trusts	75.9	10	85.9	86.9	10
22	Suntec Reit	72.3	13	85.3	80.3	25
23	Mapletree Logistics Trust	74.2	11	85.2	85.9	12
24	Ascendas India Trust	75.4	9	84.4	77.2	29
25	Sasseur Reit	71.7	12	83.7	45.2	45
26	Prime US Reit	64.4	19	83.4	-	-
27	Keppel Reit	75.9	6	81.9	84.8	14
28	ARA LOGOS Logistics Trust	72.6	9	81.6	79.8	26
29	First Ship Lease Trust	62.4	19	81.4	48.0	44
29	BHG Retail Reit	73.4	8	81.4	89.5	7
31	Mapletree Industrial Trust	72.2	9	81.2	84.5	15
32	Parkway Life Reit	70.3	10	80.3	76.6	31
32	EC World Reit	72.3	8	80.3	68.8	39
34	Keppel Infrastructure Trust	65.5	14	79.5	76.6	31
35	SPH Reit	74.6	4	78.6	83.5	19
36	Starhill Global Reit	72.0	6	78.0	84.0	17
37	Frasers Centrepoint Trust	75.2	1	76.2	83.6	18
38	IREIT Global	72.0	4	76.0	81.6	23
39	First Reit	59.9	15	74.9	64.3	41
40	Hutchison Port Holdings Trust	58.9	15	73.9	60.1	43
41	Sabana Shari'ah Compliant Reit	68.5	3	71.5	44.5	46
42	Mapletree Commercial Trust	65.7	2	67.7	82.0	22
43	ARA US Hospitality Trust	57.2	9	66.2	-	-
44	Accordia Golf Trust	54.3	7	61.3	77.7	27
45	Asian Pay Television Trust	49.3	4	53.3	63.2	42

*Base is the addition of SGTI Base Score and Trust-Specific Score

Notes:

- Abbreviation: Reit - Real Estate Investment Trust
- SGTI 2020 assessed trusts based on their annual reports for Financial Year 2019 released by June 30, 2020.
- A total of 11 Reits and Business Trusts at SGX were excluded from SGTI 2020 ranking. They are: 1) Newly listed Reits/Business Trusts that do not have a full year's financial report (3 Cos.); 2) Funds (3 funds); 3) Reits/Business Trusts that are suspended from trading (2 Cos.); 4) Reits/Business Trusts which were delisted from 1st January 2020 to 31st May 2020 (3 Cos.)

Source: NUS Business School