Corporate governance at the crossroads

Can Singapore companies and directors transcend compliance to a more principle-based approach? BY MAK YUEN TEEN

It is interesting that Malaysia, which released its latest Code in April 2017, and the United Kingdom, which released its in July 2018, also opted for streamlining and simplification, and a greater focus on applying the spirit of the principles. After years of code revisions, there seems to be some consensus that corporate governance codes have become too cumbersome and prescriptive. However, in releasing the latest UK Code, the Financial Reporting Council sounded a cautionary note, emphasizing that it is crucial for boards and companies to apply the spirit of the principles and to use the flexibility under the new approach wisely.

Another point that is often discussed is the relationship of the company to its stakeholders. It is generally agreed that the company should make a sustainable and ethical profit, but the question arises as to what extent the company should act in the best interests of all stakeholders. Stakeholders include employees, customers, suppliers, and the local community. The company’s decision-making process must be transparent and fair to all stakeholders. The company should also consider the long-term interests of its stakeholders, as well as its own interests. This is particularly important in the context of sustainability, where the company’s actions can have a significant impact on the environment and society.

In addition, the explanations for variations should be “comprehensive and meaningful.” However, this more prescriptive approach and tone is balanced by streamlining and simplifying other aspects of the Code. A key objective is to reduce boilerplate explanations in corporate governance reports and improve substance.

In the context of corporate governance in Singapore, the National University of Singapore (NUS) and the Singapore University of Social Sciences (SUSS) conducted a study on the implementation of the Code. The study found that while the Code provides a framework for good governance, there is a need for greater clarity and specificity in the guidance provided. The study also highlighted the importance of stakeholder engagement in the governance process.”

Independent directors have a key role in ensuring that the company is acting in the best interests of its stakeholders. Independent directors are required to be independent of the company and to act in the best interests of the company. This means that they should not be involved in any business transactions or appointments that may conflict with their duties as independent directors. Independent directors should also be able to make informed decisions and provide independent advice to the company. This is particularly important in the context of corporate governance, where the company’s actions can have a significant impact on the environment and society.

The Code provides guidance on the independence of directors, including the requirement that independent directors should not have any major interest in the company. However, the Code also recognizes that there may be situations where a director may have a minor interest in the company. In such cases, the director should disclose the nature and extent of the interest and ensure that the company is acting in the best interests of its stakeholders.

In conclusion, the Code provides a framework for good governance, but there is a need for greater clarity and specificity in the guidance provided. The Code also recognizes the importance of stakeholder engagement in the governance process. Independent directors have a key role in ensuring that the company is acting in the best interests of its stakeholders, and they should be able to make informed decisions and provide independent advice to the company. This is particularly important in the context of corporate governance, where the company’s actions can have a significant impact on the environment and society.

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Professor Emeritus, NUS Business School, Associate Professor, SUSS School of Business