Progress in corporate governance, but challenges lie ahead

Addressing director tenure and board independence can also solve the problem of poor stakeholder engagement.

By LAWRENCE LOH

Board independence has immense and multi-faceted merits. It is the highest assurance a company can be well-managed.

For this year's SGTI, we have an interesting range from new directors who just joined to the very seasoned directors who served more than 50 years. The longest tenure is on the board for some 55 years. Figure 2 shows the distribution of director tenure.

We made a fascinating observation that director tenure seems to have an impact on independent directors as shown in Figure 3. When director tenure increases, it seems that the proportion of independent directors decreases.

We further examined whether companies making comprehensive assessment of the definition of director independence has any impact on director tenure. In a very revealing way, if companies do not make such independence definition, directors tend to stay longer. On average, when independence definition is made, director tenure is 3.7 years compared to 5.5 years when such definition is made.

In fact, whether the chairman is independent or non-independent also affects the proportion of independent directors. Companies with independent chairman have, on average, 54.8 per cent independent directors on the board whereas those with non-independent chairman have 51.6 per cent.

The observations are very pertinent to gauge our companies' readiness for a scenario when independent directors should form at least one-third of the board as well as the majority of the board if the chair is not independent.

From the current proportion of independent directors in various situations, it appears that the companies are quite ready for the upcoming regulatory requirement. Nevertheless, it is critical to monitor director tenure and chairmanship independence on a continual basis so as to uphold the independence of boards.

Board independence has merits that are immense and multi-faceted. It is the highest assurance that the company can be well-managed from the shareholders' and more broadly, the stakeholders' viewpoints.

How scoring for the index is done

The Singapore Governance and Transparency Index (SGTI) is a joint initiative of CPA Australia, NUS Business School's Centre for Governance, Institutions and Organisations (CGIO), and Singapore Institute of Directors. The strategic media partner is The Business Times.

Starting from 2017, the SGTI is a crafted framework comprising two separate categories, namely the General Category and the Reit and Business Trust Category. These categories are distinct and are not to be compared directly with each other.

The objective of the SGTI is to evaluate listed companies, including Reits and Business Trusts, on their corporate governance practices and disclosures, as well as the timeliness, accessibility, and transparency of their financial results.

For the General Category, the SGTI score has two components: the base score, and the adjustment for bonuses and penalties.

The base score for companies contains five sections: board responsibilities (30 points), rights of shareholders (15 points), engagement of stakeholders (20 points), accountability and audit (10 points), and disclosure and transparency (20 points).

The aggregate of bonuses and penalties is incorporated into the base score to arrive at the company's SGTI total score.

As the companies are evaluated on a similar set of criteria, but with added coverage on the unique nature of their operations.

The base score for Reits and Business Trusts includes items in the base score for the SGTI (87 points) and trust-specific items in the base score for the SGTI for Reits and Business Trusts (23 points) that focus on structure, leverage, interested person transactions, competency of Reit manager/trust manager, and enablers.

SGTI 2018 covers 589 Singapore-listed companies in the General Category as well as 43 Reits and Business Trusts which released their annual reports by May 31, 2018.

The sources of information for SGTI assessment include annual reports, websites, announcements, presentations on SQRNet, and investor relations' email responsiveness. Announcements made on SQRNet as well as in media coverage, which occurred between Jan 1, 2016 and May 31, 2018, have been used to update the scores.

Further information on the scoring methodology, including the full instrument, and post results may be obtained from CGIO's website at https://centreforbusinessgovernance.com/index.php.

In order to maintain independence and fairness of the SGTI, reports or advice cannot be provided to individual companies.