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EDITORIAL

Improved corporate governance starts with a mindset shift

THOSE concerned with the standard of corporate governance in a stock market that relies on the principle of "caveat emptor" would have welcomed recent news that the Singapore Governance and Transparency Index (SGTI) scores of 474 listed companies in the "general" category rose to 74.8 points in 2023, up from 70.6 in 2022.

It was the second year in a row that the score has been above 70, and it was also the largest quantum increase since 2020, when the rating jumped 8.6 points from 2019.

However, closer examination of the finer details showed that for two key pillars – "board responsibilities" and "disclosure and transparency" – the scores were only 64 per cent and 67 per cent, respectively.

The SGTI scores "board responsibilities" on several factors, among them a firm's board size, the number of independent directors, whether there is a familial relationship between the chairman and chief executive, and whether it has a board diversity policy.

"Disclosure and transparency", meanwhile, looks at whether firms release their audited financial results in a timely manner and if they disclose related-party transactions and interested-person transactions, among other factors.

Stated differently, although the overall results are encouraging – the numbers were actually skewed upwards by higher scores in the "rights of shareholders" and "accountability and audit" categories – there remains ample room for improvement.

This is especially important, given that the local market relies on disclosure as its central pillar; that is, companies are expected to release all material information to everyone at the same time, to ensure a level playing field where informed decisions can be made.

The main obstacle to this has always been that compliance with the rules and the Code of Corporate Governance is privately seen as largely a "box-ticking" exercise, a necessary nuisance in order to stay listed and keep regulators at bay.

The only way real and meaningful improvements can occur is if there is a mindset change from within, starting from the top. Boards and senior management must realise that investors today are more aware that better-governed companies, on balance, tend to make better investments.

This belief is underpinned by empirical research – for example, a study by the Singapore Management University's Sim Kee Boon Institute for Financial Economics in 2015 found that the winners of the Corporate Governance Award by the Securities and Investors Association (Singapore) (Sias) over a four-year period consistently outperformed the Straits Times Index.

More recently, Sias constructed a portfolio comprising winners of its Singapore Corporate Governance Awards and tracked its performance from Jan 10, 2008, to Sep 28, 2022. It found that the cumulative total return of the portfolio was 110 per cent, compared to the STI companies' 59 per cent over the same period.

Similar findings prevail in the US – a 2019 study by the Diligent Institute found that the top fifth of performers on corporate governance in the S&P 500 index outperformed the bottom fifth by 15 per cent over a two-year period.

Studies also show that well-governed companies not only outperform in the long term but are better positioned to take advantage of new opportunities. At the same time, many of the biggest corporate scandals have been due to poor governance structures.

It is only when all firms recognise that it is in their own best interests to embrace transparency – and that practising substandard governance is actually doing a disservice to themselves and their stakeholders – that there can be a substantial raising of the governance bar in the local market.