

Singapore's corporate governance in the pandemic year: performances and prospects

With the revised Code of Corporate Governance in effect, firms have taken steps to align their practices. BY LAWRENCE LOH AND ZECHARIAS CHEE

THE Covid-19 crisis shows no sign of stopping and companies must be adaptable to thrive in such an operating environment. With the revised Code of Corporate Governance in effect, companies have taken steps to align their practices to the new code.

Despite the disruptions caused by the pandemic, SGTI 2021 has maintained its upward trend and companies continued to score well, reaching an all-time high mean overall score of 68.7 (Figure 1) – a minor increase of 0.8 point over the previous year. The results are commendable and suggest an improving corporate governance landscape.

Companies generally improved or maintained their scores in each section of the B.R.E.A.D framework, except for the Board Responsibility section which saw a slight decrease (Figure 2).

Although sustainability practices reporting under the Engagement of Stakeholders section maintained its good results, there is still room for improvement.

Observable effects

SGTI 2021's results have provided several unique insights.

Generally, companies that ranked in the bottom half of SGTI 2020 have shown an improvement in score, with the bottom 100 companies showing significant improvements, while the top 100 companies experienced an overall decrease in score.

Additionally, the size effect as observed in the previous year is weakening (Figure 3). Correlation coefficient measures the strength of the relationship between two variables and the decrease in the correlation coefficient between the company's score and its market capitalisation to 0.32 from last year's 0.60 indicates that there is a weaker positive relationship between the size of a company and its SGTI score.

SGTI 2021 shows that the smaller size companies that tend to rank

Fig 1: Mean score trend for general category

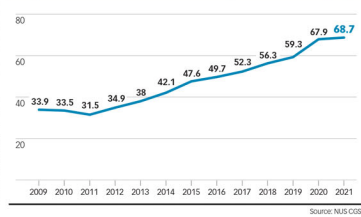


Fig 2: B.R.E.A.D sectional score

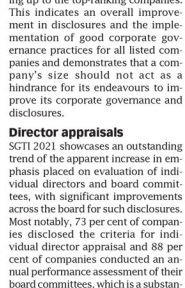


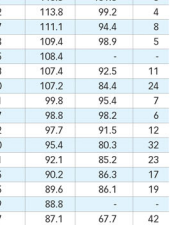
Fig 3: Size effect



Fig 4: Board appraisals of companies



Fig 5: Sustainability practices of companies



Singapore Governance and Transparency Index 2021

REIT and Business Trust Category		BASE SCORE*	ADJUSTMENTS FOR BONUSES/PENALTIES	OVERALL SGTI 2021 SCORE	OVERALL SGTI 2020 SCORE	RANK 2021	RANK 2020
1	ASCOTT RESIDENCE TRUST	88.3	27	115.3	101.3	3	
2	FAR EAST HOSPITALITY TRUST	81.8	32	113.8	99.2	4	
3	ASCENDAS REIT	84.1	27	111.1	94.4	8	
4	NETLINK NBN TRUST	81.4	28	109.4	98.9	5	
5	CAPITALAND INTEGRATED COMMERCIAL TRUST	83.4	25	108.4	-	6	
6	FRASERS LOGISTICS & COMMERCIAL TRUST	84.4	23	107.4	92.5	11	
7	ASCENDAS INDIA TRUST	77.2	30	107.2	84.4	24	
8	CROMWELL EUROPEAN REIT	78.8	21	99.8	95.4	7	
9	CAPITALAND CHINA TRUST	81.8	17	98.8	98.2	6	
10	KEPPEL PACIFIC OAK US REIT	75.7	22	97.7	91.5	12	
11	PARKWAYLIFE REIT	75.4	20	95.4	80.3	32	
12	MAPLETRE LOGISTICS TRUST	71.1	21	92.1	85.2	23	
13	AIMS APAC REIT	65.2	25	90.2	86.3	17	
14	ESR-REIT	74.6	15	89.6	86.1	19	
15	LENDLEASE GLOBAL COMMERCIAL REIT	69.8	19	88.8	-	-	-
16	MAPLETRE COMMERCIAL TRUST	70.1	17	87.1	67.7	42	
17	SASSEUR REIT	75.9	11	86.9	83.7	25	
18	MAPLETRE INDUSTRIAL TRUST	68.9	18	86.9	81.2	31	
19	SPI REIT	70.8	15	85.8	78.6	35	
20	STARHILL GLOBAL REIT	74.6	11	85.6	78.0	36	
21	CDL HOSPITALITY TRUSTS	73.5	12	85.5	85.9	20	
21	MAPLETRE NORTH ASIA COMMERCIAL TRUST	70.5	15	85.5	90.2	14	
23	LIPPO MALLS INDO RETAIL TRUST	75.7	9	84.7	90.5	13	
24	FRASERS CENTREPOINT TRUST	76.3	7	83.3	76.2	37	
25	SUNTEC REIT	75.2	8	83.2	85.3	22	
26	KEPPEL REIT	72.6	9	81.6	81.9	27	
27	MANULIFE US REIT	67.0	12	79.0	93.8	9	
28	ARA US HOSPITALITY TRUST	66.0	12	78.0	66.2	43	
29	KEPPEL INFRASTRUCTURE TRUST	64.7	12	76.7	79.5	34	
30	FRASERS HOSPITALITY TRUST	69.6	6	75.6	86.3	17	
31	KEPPEL DC REIT	69.5	6	75.5	88.3	15	
32	ARA LOGOS LOGISTICS TRUST	68.3	7	75.3	81.6	28	
33	BHG RETAIL REIT	66.0	8	74.0	81.4	29	
34	OCOM COMMERCIAL REIT	64.3	9	73.3	92.9	10	
35	FIRST SHIP LEASE TRUST	55.5	13	68.5	81.4	29	
36	EC WORLD REIT	68.3	0	68.3	80.3	32	
37	FIRST REIT	62.8	4	66.8	74.9	39	
38	ASIAN PAY TELEVISION TRUST	59.4	6	65.4	53.3	45	
39	DASIN RETAIL TRUST	66.9	-2	64.9	85.9	20	
40	IREF GLOBAL	70.0	-6	64.0	76.0	38	
41	PRIME US REIT	66.3	-3	63.3	83.4	26	
42	HUTCHISON PORT HOLDINGS TRUST	50.7	12	62.7	73.9	40	
43	SABANA SHARIAH COMPLIANT REIT	63.1	-2	61.1	71.5	41	

* Base is the addition of SGTI Base Score and Trust-Specific Score
Notes:
[1] Abbreviation: REIT - Real Estate Investment Trust
[2] SGTI 2021 assessed trusts based on their annual reports for Financial Year 2020 released by June 15, 2021.
[3] A total of 82 entities currently or formerly listed at SGX are excluded from the SGTI 2021 ranking. They are: 1) Newly-listed Business Trusts that do not have a full year's financial report (2 Cos.); 2) Business trusts/REITs that are suspended from trading (2 Cos.); and 3) Companies which were delisted as of June 15, 2021 (4 Cos.)

hands during such turbulent times.

Sustainability practices

SGTI 2021 illustrates that the upward trend for sustainability-related disclosures seems to have either plateaued or decreased. Although there was a higher proportion of companies reporting an annual sustainability report, the sharp increase in sustainability reporting seen in the previous year upon the onset of Covid-19 shows signs of tapering off.

Disclosures pertaining to sustainable value chain processes decreased to 82 per cent from last year's 87 per cent and disclosures on employees' training and development decreased to 77 per cent from last year's 80 per cent (Figure 5). One possible explanation is the companies' diversion of their limited resources to other means to cope with Covid-19 measures at the expense of their sustainability practices. Additionally, the Covid-19 restrictions may have made it difficult for companies to conduct physical training sessions and the switch to online training programmes takes time to implement. While the decrease in performance for sustainability-related items is minor, it is still a cause for concern.

Sustainability should stand at the forefront of all business decisions and be an integral aspect of a business's strategic management and corporate planning, as sustainable corporate governance is the key to long-term value to ensure that the company continues to prosper in the future. Although corporate growth and profitability is important, companies

wield power to influence environmental, social and economic development through their corporate practices, which should not be taken lightly.

Sustainable corporate governance

As the current pandemic situation evolves possibly into an endemic one, companies should continue to improve their corporate governance, implementing new measures and practices while accounting for the new norm in the foreseeable future. Good corporate governance practices ensure that companies remain steadfast and resilient, with the necessary arsenal to tide over any risks that may materialise and ensure that they continue to prosper amid the crisis.

With the increasing integration of sustainability into corporate governance, regulatory authorities may consider reviewing the current Code of Corporate Governance, with a greater emphasis on the complete environmental, social and governance (ESG) aspects. Each company's board of directors must take the helm and push for the linkage of sustainability and corporate governance practices, tying in sustainability with the company's performance and growth.

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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 and Sustainability (CGS), and Singapore Institute of Directors. The strategic media partner is *The Business Times*.

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.

SGTI is a unified 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.

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 ("BREAD"): (1) board responsibilities; (2) rights of shareholders; (3) engagement of stakeholders; (4) accountability and audit; and (5) disclosure and transparency. The aggregate of bonuses and penalties is incorporated to the base score to arrive at the company's SGTI total score.

For the REIT and Business Trust Category, the companies are evaluated against 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 (specific to 75 points) as well as trust-specific items for REITs and business trusts (25 points) which covers five aspects ("SLICE"): (1) structure; (2) leverage; (3) interested person transactions; (4) competency of REIT manager/trustee; and (5) ESG disclosures.

SGTI 2021 covers 519 Singapore-listed companies in the Gen-

eral Category as well as 43 REITs and business trusts which released their annual reports by June 15, 2021. The sources of information for SGTI assessment include annual reports, websites and announcements on SGXNet. Announcements made on SGXNet as well as in media coverage, which occurred between Jan 1, 2019 and May 31, 2021, have been used to update the scores.

The SGTI assessment is conducted independently with an in-house research team at CGS and guidance from an external advisory panel.

Further information on the scoring methodology, including the full instrument, and past results may be obtained from CGS's website at <https://bschool.nus.edu.sg/cgs/>. Queries about the SGTI may be sent to cgs@nus.edu.sg. In order to maintain independence and fairness of the SGTI, reports or advice cannot be provided to individual companies.