Not the Best World for shareholders

Its executive directors receive generous pay even as the company has not declared dividends in recent years. BY MAI YUEN TEEN

On Jun 22, UOB Kay Hian released a note on the pay of chief executive officers of listed Singapore companies. It listed the top 20 highest-paid CEOs in Singapore, with the top five being those of DBS ($115.4 million), UOB ($84.2 million), Wilmar International ($64.1 million) and Keppel Corp ($61.8 million).

A survey of 60 companies by The Business Times found that the CEOs of the top 10 highest-paid CEOs were also among the top 10 companies with the highest turnover in Singapore. For example, CEO Ho Taicean of Osim ($111.2 million) and Keppel Corp ($61.8 million).

Nearly all companies practise pay for performance, but the hurdles for achieving this or the profit-sharing percentages may differ vastly.

Best World’s co-founder, co-chairman, group CEO and managing director Dora Hoan was paid $72.75 million in FY2022. Photo: BEST WORLD INTERNATIONAL

If we compare Hoan’s remuneration with that of the world’s 10 largest cosmetics companies, her pay is about $33 million below that of the fourth-highest paid CEO, of French company L’Oreal. L’Oreal is the world’s largest cosmetics company by market capitalisation, at around US$250 billion, or some 428 times that of Best World.

In my opinion, Best World’s remuneration policies for its EDs are questionable and the remuneration excessive. Compared to profit before or after tax, remuneration has declined from the early years when profits were significantly lower—but remains high. In FY2022, it was more than 17 per cent of profit before tax and 15 per cent of profit after tax. Nearly all companies practise pay for performance, but the hurdles for achieving this or the profit-sharing percentages may differ vastly.

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Questions of benchmarking

In 2022, investor rights advocate Securities Investors Association (Singapore) questioned Best World on the remuneration of the three EDs. The company said that their incentives are “directly linked to the group’s profitability i.e., profit before tax excluding any exceptional items in accordance with our service contracts”.

Asked whether the RC benchmarked the remuneration to comparable companies, listed on SGX or other exchanges, Best World said a benchmarking exercise was conducted in 2019 with 22 SGX listed companies of the same size where EDs were controlling shareholders.

“From the study, the current pay for the three executive directors were comparable to the benchmarks,” it said.

Best World’s RC comprises the company’s three independent directors: chairman Adrian Chan, Lee Soon Choon and Chester Fong. Chan is a lawyer, while the other two have accounting/finance backgrounds.

In the company’s annual reports from FY2013, the last time the company said it engaged an external remuneration consultant was FY2013. In FY2019 and FY2022, the company specifically disclosed that no independent consultant was engaged with regard to the remuneration of the directors and key management personnel.

Was the benchmarking exercise done without such consultants? Was the benchmarking information provided by management? How was the peer group selected? Why only select companies where EDs are controlling shareholders?

Even if one were to accept the peer group, it is hard to imagine that the EDs’ remuneration would be comparable to the benchmarks. While remuneration of EDs in such companies is often high and arguably excessive, I do not recall figures such as $33 million for a CEO or $53 million for three EDs.

Given that none of the RC members appears to have deep expertise in executive remuneration matters, and that no independent consultant was engaged, how did the RC satisfy itself that the benchmarking exercise was objective and sound, and the remuneration of the EDs was reasonable?

Best World’s problems

It should not be forgotten that Best World’s shares were suspended for a long time, following attacks by two short-sellers. Questions were raised about its business model, practices and accounts relating to China. Coming back from what is akin to a near-death experience, and paying such generous remuneration while giving nothing to minority shareholders, just does not sit right.

There is nothing much that Best World shareholders can do, except try to sell their shares. Unfortunately, that is all that minority shareholders of many SGX-listed companies can do—and many are doing it.

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The views in this article are his personal views.