

CORPORATE GOVERNANCE

Upholding ESG with strong governance: Board leadership and regulation as catalysts

Rise in SGTI bodes well as good governance is the foundation of corporate resilience and sustainability. BY LAWRENCE LOH, THI THUY NGUYEN AND ANNETTE SINGH

ALTHOUGH Singapore emerged from the Covid-19 pandemic in 2022, public-listed companies continue to face economic uncertainty in global and domestic markets.

Amid these challenges, such companies have continued to improve their corporate governance practices, spurred by investor expectations and regulatory requirements. This bodes well for their performance in environmental, social and governance (ESG)-related issues, as good governance is the foundation of corporate resilience and sustainability.

The Singapore Governance and Transparency Index (SGTI) rose from 70.6 to 74.8 in 2023. This is a significant improvement, representing the largest quantum of increase in the mean score since 2020.

The SGTI assessment framework is based on five dimensions. Average scores in each of the five dimensions rose in 2023.

As in 2022, the proportion of companies disclosing stakeholder engagement practices increased the most. Mean scores rose 9 percentage points to reach 70 per cent. The remaining dimensions each had mean scores increasing by 4 percentage points, except accountability and audit, which had a slightly smaller rise of 3 percentage points.

The improvement in performance is not only across all assessed corporate governance dimensions, but also across all levels of performance.

The lowest-ranked companies in 2022 showed the greatest improvement on average, with an 11-point increase in mean score. Those ranking slightly higher – the top 300 to 400 in 2022 – had a smaller, but still notable, rise of five points on average.

Companies ranked within the top 100 in 2022 experienced a one-point increase in mean score. Despite being a small increment, this is a positive contrast with the previous assessment – in which the top-ranking companies saw a fall in their mean overall scores.

Board practices

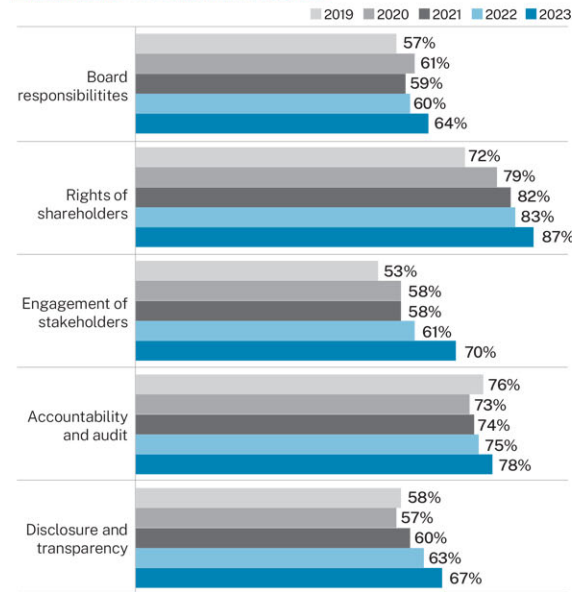
There was a significant increase in disclosure rates for various board-related indicators. These covered a range of board characteristics and practices such as independence, competence and selection of directors.

The share of companies providing a comprehensive description of how independence is assessed; disclosing their board diversity policy; and disclosing skills and experience sought in new director appointments each rose by 20 percentage points or more.

So, too, did the share of companies disclosing the link between performance and remuneration paid to executive directors and key management personnel, and those reporting that their boards were monitoring or overseeing the implementation of corporate strategy.

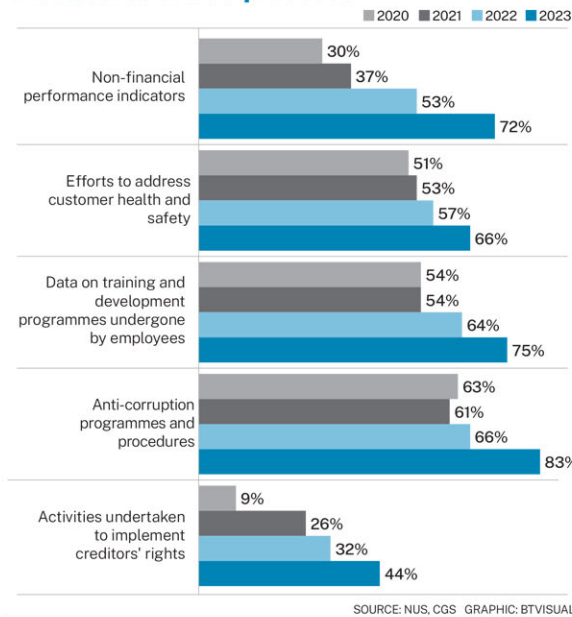
Higher disclosure rates were also seen in several disclosures relating to board committee meetings, nomination committees, board

B.R.E.A.D sectional scores



SOURCE: NUS, CGS GRAPHIC: BTVISUAL

Disclosures of ESG practices



SOURCE: NUS, CGS GRAPHIC: BTVISUAL

training and appraisal.

There is room for improvement. One point of concern is a rise in the percentage of companies that breached listing rules (up nine percentage points to 35 per cent).

There was also a fall in the share of companies reporting the nature and value of each significant interested person transaction (down seven percentage points to 85 per cent) and those for which all directors attended the annual general meeting (down four percentage points to 68 per cent).

The results of SGTI 2023 nevertheless show, as a whole, that Singapore-listed companies are establishing a solid governance foundation. This will, in turn, support their sustainability efforts as they

leverage their corporate governance frameworks to integrate ESG factors into corporate strategy.

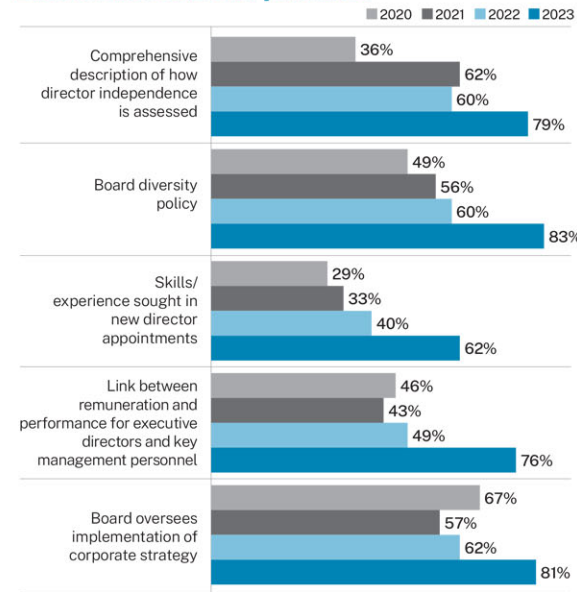
ESG practices

This process is underway, as reflected by the fact that ESG-related disclosures – largely assessed in the “engagement of stakeholders” pillar of the SGTI framework – show the highest increase in mean score for 2023.

Most of the indicators in this dimension have disclosure rates rising by at least eight percentage points to 10 percentage points against 2022.

Topics cover a range of ESG-related issues such as customer health and safety, employee training and development, and anti-

Disclosures of board practices



SOURCE: NUS, CGS GRAPHIC: BTVISUAL

corruption programmes and procedures.

Companies are also reporting quantitative data in their ESG disclosures more frequently. Almost three-quarters of public-listed companies included non-financial performance indicators in their reporting, up from around half in 2022.

Almost all companies (94 per cent) reported on efforts to ensure their value chains are environmentally friendly or consistent with sustainable development, compared with 85 per cent in 2022.

Regulation momentum

Much of the improvement seen in SGTI 2023 may be a response to regulatory requirements and support.

The rise in board diversity and anti-corruption disclosures is likely to have arisen from compliance with listing rules which took effect from January 2022, requiring companies to maintain and disclose a detailed board diversity policy and state their whistleblowing policy in annual reports.

Similarly, increased director training disclosure has been facilitated by the listing rule, also effective from 2022, mandating sustainability training for all directors.

Improved remuneration and independence disclosures are probably attributable to the ending of a three-year transitional period for implementing related listing rules.

Authorities have also supplemented requirements with the provision of guidelines and other resources.

The higher disclosure rate of non-financial performance indicators may have been facilitated by the Singapore Exchange releasing a list of core ESG metrics for companies to use in sustainability reporting.

There is also increased disclosure of specific ESG-related topics as sustainability reporting becomes more entrenched, and listed companies use international standards such as those by the Global Reporting Initiative and the Task Force on Climate-related Financial Disclosures.

The results of SGTI 2023 suggest recent regulation has helped Singapore-listed companies further bolster their governance, including board practices and processes. This is important for corporate sustainability because the board, together with management, is at the forefront of the organisation's ESG efforts.

A well-functioning board is better placed to incorporate sustainability issues into its oversight responsibilities, balancing near-term considerations with long-term sustainable growth and providing comprehensive risk management.

Companies are now poised for the next phase as ESG concerns are increasingly merged with corporate governance, and attention turns to sustainable corporate governance.

We can expect the regulatory authorities to continue to be a driving force in this, as the Sustainability Reporting Advisory Committee completes its public consultation and issues recommendations on International Sustainability Standards Board-aligned climate-related disclosure requirements.

Lawrence Loh, Thi Thuy Nguyen and Annette Singh are, respectively, director, research associate, and senior research associate at the Centre for Governance and Sustainability at NUS Business School