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A formal 'say on pay' may be more effective than better disclosure

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Without the threat of a genuine "no" vote, shareholders are eventually left with the illusion of choice between similarly overpaid executives at different firms. PHOTO: BT FILE

RECENTLY, *The Business Times*' senior correspondent Ben Paul wondered aloud in his Mark to Market column if CEOs are being paid too much – and for good reason, too.

Some of the numbers from a recent study of Singapore Exchange (SGX)-listed firms by the NUS Centre for Investor Protection (CIP) are pretty damning.

The study found that at companies where executive directors (EDs) were substantial shareholders, or family members of substantial shareholders, every dollar of remuneration yielded a median revenue of S$64.

In contrast, at firms that did not have EDs with such entanglements, shareholders got considerably more revenue bang for their buck – a median of S$119 per dollar of pay.

The, shall we say, very involved executive director is more rule than exception in Singapore's market; 70.8 per cent of companies have at least one ED who is a substantial shareholder or is related to one.

"These characteristics mean that many EDs may have a significant influence on the appointment of (independent directors), including those who serve on the remuneration committee, and may therefore have indirect influence on the setting of the EDs' remuneration," the report read.

It doesn't help that many listed companies abide by the latter half of the British royalty's maxim of "never complain, never explain". More than half of the companies in the CIP study still provide zero information on how they actually calculate annual bonuses for EDs.

It is annual general meeting (AGM) season now, and if you want to bring a calculator and pitchfork to your next investor love-in, you wouldn't be alone.

"Last year, a quarter of large American firms faced meaningful opposition to their remuneration reports – a reminder that unease over executive pay is no longer confined to fringe activists," Alex Edmans, a finance professor at London Business School, noted in *The Economist* earlier this year.

Still, however large your calculator and however pointy your pitchfork, you would be fighting a largely futile battle as the company's gilded class peers at you from over their castle battlements.

Thanks to an intractable combination of inefficiencies and self-interest, executives tend to be paid too much, far too soon and permitted to stay for far too long, according to a paper in *The Journal of Finance* last year.

"No" is a complete sentence

The hardest thing about keeping this class of CEOs and directors honest (or at least reasonable) isn't measuring their compensation or deciding whether these people have earned their keep for the financial year.

Most retail shareholders generally know if they're happy with how a company is being run or not, through a combination of share-price performance, bottom-line history, dividend track record and how many service outages the firm has had.

At the same time, no executive in the history of civilisation has ever woken up on their silk Frette sheets and told themselves, "Gee, maybe I'm overpaid."

No. Someone else has to tell them that, and I rather like the "say on pay" mechanism for doing it, as do the authors of the CIP study, led by corporate governance advocate Mak Yuen Teen.

This concept gives shareholders the right to vote on executive compensation packages to ensure pay is actually aligned with performance.

In some markets, such as Switzerland, these votes are binding, and in others, such as Australia, they are only advisory but might set off a vote to remove directors if 25 per cent or more votes oppose a remuneration report for two consecutive years.

Last year, 33 companies on Australia's ASX 300 index recorded opposition votes above 25 per cent, well above historical norms.

Shareholders also appear to be exercising their "say on pay" rights in a fairly robust and rational manner; in 2025, companies that delivered total shareholder return in the bottom quartile within the ASX 300 index were far more likely to attract an opposition vote on pay.

"Giving minority shareholders a 'say on pay' vote, particularly in cases where management are controlling shareholders or related to controlling shareholders, should be considered," NUS' CIP report said.

"This can be based on similar principles to interested person transactions requiring independent shareholders' approval when they cross a certain threshold – so only outsized remuneration is subject to such approval."

The dissent that should follow disclosure

I don't know how steep the climb towards a formal "say on pay" mechanism in Singapore will be, but given that corporate governance experts have been mooting the idea for about a decade, you'd best keep your crampons on.

Currently, curbing the worst demons of corporate excess falls on the shoulders of a disclosure-based approach. In 2023, SGX made it compulsory for listed companies to disclose the exact remuneration for CEOs and directors in annual reports.

The theory, presumably, is that transparency is its own disinfectant: The market will naturally punish firms that overpay, sparing everyone the paperwork of a formal vote. But in a world where every board is benchmarking its "competitive" packages against the company next door, you could end up with a compensation arms race.

And without the threat of a genuine "no" vote, shareholders are eventually left with the illusion of choice between similarly overpaid executives at different firms, leaving you to choose whose Good Class Bungalow you'd rather fund.

Better disclosure is a fine start, but without a formal "say on pay" mechanism, disclosure risks becoming a spectator sport, producing futile outbursts about ancillary matters at AGMs.

The option to formally register dissent by voting "no" on a pay report might do more than all the calculators and pitchforks in the world. It might make AGMs less of a peanut gallery and more of a public accounting.

Corporate scrutiny must be disciplined and evidence-based, Page 50