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Crossing the Governance Chasm: From Assessment to Performance

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Corporate governance rankings are attention-grabbing. This is rightly so, as directors and top managers often regard them as validation of the governance policies and processes that have been put in place. From a broader perspective, stakeholders, including investors and regulators, see these rankings as signposts or even warning systems for what goes on in the companies.

Sticking points are invariably the value of measurement and the measurement system. Here, two key questions can be asked:

- Given that the assessment scheme is dedicated solely to indicators of corporate governance, is there, nevertheless, a place for holistic indicators that also measure business performance?

- How should a company integrate the results of the assessment and upgrade itself in both governance and business?

RATING COMPANIES IN SINGAPORE

The Singapore Governance and Transparency Index (SGTI) is the only scheme that assesses and ranks the corporate governance practices of nearly all listed companies on the Singapore Exchange. The SGTI is a joint initiative of CPA Australia, the NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) and the Singapore Institute of Directors (SID), with The Business Times as strategic media partner.

Launched on 3 August 2016, the SGTI succeeds the previous Governance and Transparency Index (GTI) and enhances it through critical updates in line with Singapore's Code of Corporate Governance and the G20/OECD Principles of Corporate Governance. In particular, while continuing to incorporate the traditional emphasis of corporate governance on the board and its related domains, there is a sharper focus on stakeholder and shareholder issues. Specifically, the SGTI employs a "BREAD" framework that covers five areas: Board responsibilities, Rights of shareholders, Engagement of stakeholders, Accountability and audit, and Disclosure and transparency.

In a similar vein, Singapore participates in the ASEAN Corporate Governance Scorecard (ACGS), a separate and regional assessment framework which draws on the G20/OECD Principles. The Scorecard covers the largest 100 listed companies by market capitalisation in six ASEAN countries - Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam (in Vietnam, the base is 50 companies). In Singapore, the domestic rating bodies, as appointed by the Monetary Authority of Singapore, are SID and CGIO.

MEASURING BUSINESS PERFORMANCE

By design, the SGTI and ACGS focus on the conformance aspects of corporate governance – their compliance with leading practices and regulations.

For that reason, many stakeholders like these ratings because they get a quick overview of how companies fare in the overall ratings, and how they stand relative to one another. Similarly, companies can internally apply the specific assessment criteria to improve their own corporate governance practices.

An alternative approach for corporate governance evaluation is to incorporate company performance into the equation. This may include market measures such as stock returns, or book measures like profits, or both. In itself, this blended method has merit in that the assessment will be more integrative, even though performance may be affected by uncontrollable factors such as current events and external business conditions that are beyond the scope of corporate governance.

As long as they are useful to companies and stakeholders, it is good that both dedicated and integrative evaluation mechanisms co-exist. Dedicated measurements, especially, focus on a particular arena of governance and facilitate undivided attention on what makes good governance. From a statistical viewpoint, they are less "noisy" indicators, though they can, in fact, be separately and readily combined with other indicators of business performance to attain comprehensive assessments. This can be done by the evaluation bodies or even the investors themselves.

MAKING IMPROVEMENTS

The more critical issue is, in my view, not so much how companies are measured. It is really about how they can be improved as a result of the evaluation. After all, learning does not happen solely through assessment. There has to be a conscious commitment and effort for development and advancement.

The evaluation environment has now reached a point where it is not enough to just continue churning out scores and rankings. While most research points to a positive relationship between corporate governance and business performance, this is at best an aggregate finding. The challenge is to translate this to the individual company level – company by company.

Here, it is worth noting that the champions of the SGTI and ACGS are key players in Singapore's corporate governance ecosystem. And these players are creating guidance on how improvements can be made. For example, SID, with the support of the regulators and professional firms, is creating a series of corporate governance guides for boards and board committees in Singapore. In addition, it conducts more than 100 professional development sessions a year on various aspects of corporate governance.

More importantly, it is for the companies to apply these guidelines and integrate the information from the rankings into their internal systems to promote better performance, not only in governance, but also in the actual businesses.

As a business community, we have certainly made a good first step with the SGTI and ACGS to take stock of where we stand in corporate governance. As a priority, we now have to take the crucial next step towards converting the measurement to better levels of corporate governance and ultimately superior business performance. ■