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Branding Corporate Governance

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It is unfortunate that not many companies capitalise on their strong corporate governance practices even though the latter should be an integral part of their overall strategy of branding and positioning.

This observation was made by John Lim at the launch of the *ASEAN Corporate Governance Scorecard 2014* results in April 2015. Mr Lim, who is Singapore's nominated corporate governance expert to the ASEAN Scorecard expert group, said: "Many of the Singaporean companies have not scored as well as they should as they did not fully disclose their corporate governance practices. Corporate governance is like justice, it must not only be done but also be seen to be done; hence the need for good and full disclosure."

This lack of disclosure by companies of even their laudable attributes could be one of the reasons why SGX-listed shares are under-appreciated. Currently, around half of listed companies are trading at, or below, book value.

Listed companies, especially, need to play their part in attracting the attention of investors. They need to be more focused on communicating and branding their key assets, one of which could be their corporate governance practices.

THE BRAND VALUES OF SHARES

Branding is about delivering on a promise, and doing so consistently. Most directors understand the need to market their company's products and services, and the important role that brand values play in securing and keeping customers.

What companies need to do more is to apply this thinking to their shares.

If the company's shares are a product and investors are the customers, what is the brand value that the company stands by? What is it that the directors and management want the shares to be known for in the market? What will keep investors buying the shares, or holding on to them for a long time?

Thinking of branding in this way is much harder to do because there are many variables in the life of a company. Some of the factors that a company could consider incorporating as brand values for its shares are its dividend track record and policy, sustainability practices, and consistent growth in revenue and/or profits.

However, there is one factor that companies do not routinely consider as part of their brand values – corporate governance. Yet numerous empirical studies have shown a strong correlation between good corporate governance and higher valuation by investors. The valuation premium comes from the perception of lower risks, more effective operations, greater accountability, and reduced agency problems.

Too many companies treat corporate governance merely as a matter of compliance with rules and regulations. They see it as a necessary cost of doing business. What they fail to appreciate is the enhanced brand value that could come from marketing their already strong corporate governance practices.

In fact, these companies do themselves a disservice when comparative peer rankings such as the *ASEAN Corporate Governance Scorecard* are published. Since there is no disclosure of a particular governance practice, the presumption will be that it does not exist in that company – when in fact it does – and the company will be unduly penalised for it.

For example, many of the SGX-listed companies did not disclose the names of their directors attending the AGM and the details of the voting process and tabulation. In addition, few companies stated that their related party transactions, regardless of size, were executed on at arm's length. These are matters which are usually complied with and could easily have been disclosed.

COMMUNICATING CORPORATE GOVERNANCE

Whatever brand values a company chooses, it should communicate them. This applies to branding for customer products and services, as well as the company's corporate governance.

The first place to start is in the annual report, in particular the corporate governance statement. It serves a company well to be complete in its disclosures. Although the Code of Corporate Governance is based on a "comply or explain" approach, this does not mean that the company cannot comply and explain. And when it does not comply, the company's explanation for non-compliance should be clear and substantive.

Companies should actively engage its investors. They should, for instance, schedule a conference call after their quarterly earnings announcements. The point is to do so even if the news is not good. Investors might not like the negative news the company has to share, but they will appreciate the consistency in scheduling the calls.

Companies can also schedule pre-AGM shareholder meetings to discuss issues that might be of concern to investors. Again, those issues might not please investors but the willingness to discuss them will earn kudos. On top of that, the AGM might go much more smoothly because there will be fewer surprises.

Companies should always have a policy of responding to all investor enquiries. Of course, some enquiries will be trivial, but building a reputation for openness will go a long way to making a company more attractive to investors.

Many companies today have brand guardians in their marketing departments who ensure their products and services are marketed to customers in accordance with their brand values. It is time boards and CEOs become the brand guardians for their shares, and market their corporate governance practices to investors. ■