Singapore Board Of Directors Survey 2010/2011

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Introduction

The Singapore Institute of Directors ("SID"), in conjunction with Singapore Exchange Ltd., Aon Hewitt (Global Research Centre), Singapore Management University, Egon Zehnder International and PricewaterhouseCoopers announced the findings of their latest survey on Board practices among listed companies in Singapore on 12 July 2011.

The survey was conducted from November 2010 to February 2011. The survey was based on practices that existed primarily in 2010. It was the seventh in a series of regular surveys conducted by the SID on Board practices among listed companies in Singapore. The objective of the survey was to assess current Board practices, particularly in relation to the recommendations of the Singapore Code of Corporate Governance 2005 (the "Code"), and to reveal any changes in Board practices since the last such survey was conducted in relation to practices in 2008 with survey results reported in 2009 (the "2008 survey").

This article provides a summary of the findings of the latest survey conducted, as well as comments comparing the results with the 2008 survey.

The approach of the survey mirrored the structure and format of the Code. The report of the findings were organised based on the principles of the Code, thus enabling analysis of the extent to which provisions of the Code were being adhered to by listed companies in Singapore, and providing a rough gauge of the corporate governance standards of the Boards of such companies.

Methodology

SID sent approximately 700 questionnaires asking company Chairmen, CEOs as well as secretaries of Singapore-listed companies to participate in the survey, out of which there were finally 68 survey participants representing a diverse mix of industry and company size. Companies from various industry sectors participated in the survey. There was a higher representation from the manufacturing sector, similar to the situation in the 2008 survey. Compared to the respondents in the 2008 survey, the present survey garnered a higher representation from companies in the manufacturing and finance industries.

About a quarter of the participating companies in the present survey had an annual turnover above S$750 million, much higher than 17% in 2008 and 13% in 2005. Similar to the 2008 survey, 84% of the survey participants were listed on the Main Board of the Singapore Exchange ("SGX").

Summary Of Some Of The Key Survey Findings

Principle 1: The Board's Conduct Of Affairs

The Code provides that every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and Management remains accountable to the Board.

Board Leadership

Of the companies that responded to this section of the survey, less than a quarter (24%) had an independent Chairman, a drop from 27% from the 2008 survey. On the other hand, the proportion of companies with a lead independent director increased slightly from 43% in 2008 to 49% in 2010. As Commentary 3.3 of the Code recommends the appointment of a lead independent director where the Chairman and the CEO is the same person, where the Chairman and the CEO are related by close family ties, or where the Chairman and the CEO are both part of the executive management team i.e. in cases where the Chairman is generally not independent, the increase in proportion of companies with a lead independent director could be linked to the decrease in proportion of companies with an independent Chairman, thus demonstrating that many companies are cognizant of the recommendation in Commentary 3.3 and may comply with it. Where there is a lead independent director, he/she often holds the position as the Chairman of the audit committee.

Executive Succession Planning

Succession planning of the CEO and top executive leadership is done by the Board as a whole in 20% of companies, followed by the Chairman of the Board (10%) and the Nominating Committee (10%). 85% of the companies surveyed have plans for the development of the CEO and top executive leadership, with 27% having a formal process in place. CEO evaluation is done on a periodic basis by 93% of the companies surveyed, with 27% doing so formally.

Code Of Ethics

43% of the companies that responded to the present survey have a code of ethics for their employees, with a quarter of these having a process to monitor and enforce compliance with the code of ethics.

Principles 2 & 3: Board Composition And Guidance; Chairman And Chief Executive Officer

The Code provides that there should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making. There should be a clear division

Fig (1): Most important knowledge and skills needed by Directors, 2010/11 Results
Top 5 most Important Additional Knowledge And Skills Needed On Board* (N=57)

	Most Important				Least Important
	1	**2**	**3**	**4**	**5**
Regional Business Exposure	16%	12%	18%	9%	9%
Law	5%	2%	12%	9%	4%
Finance/Accounting	5%	11%	4%	5%	21%
Risk Management	26%	16%	18%	16%	7%
Business Management	7%	16%	11%	4%	12%
Industry Knowledge	26%	23%	12%	16%	5%
Strategic Planning Experience	11%	16%	16%	16%	12%
Technology	0%	4%	5%	9%	7%
Human Resource	2%	2%	0%	11%	11%
Others	2%	0%	0%	0%	0%

*Percentages will not add up to 100% as some knowledge/skills were given the same ranking or less than 5 knowledge/skills were ranked by the respondent of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Board Size And Independence

In the 2010/11 survey, a majority (82%) of the companies surveyed have 5 to 10 members. A majority (77%) of the companies also disclosed that more than half of the Board members are non-executive members, with 37% of the companies having more than half of the Board members as independent directors and 60% of the companies having between 33% (the Code-recommended percentage) and 50% as independent directors. As in previous years, in relation to the number of independent directors, the companies surveyed this year fall comfortably within the guidelines set by the Code, with 97% of them having independent directors that constitute more than one-third of the Board.

63% of the companies surveyed applied the relationships under Guideline 2.1 of the Code without exception in determining independence of their directors.

In 48% of the companies surveyed, Board members held more than 25% stake in the company.

Principle 4: Board Membership

The Code provides that there should be a formal and transparent process for the appointment of new directors to the Board.

Directorships And Director Selection

97% of the companies surveyed have a nominating committee to assume various responsibilities including knowing the number of directorships of their directors and decide whether to set a limit based on the appraisal results of the whole Board and/or individual directors. In the 2010/11 survey, a large majority (93%) of companies stated that they do not set a mandatory retirement age or specified period for non-executive directors to leave the Board, and less than 10% of companies set a limit set on the number of directorships a director can hold.

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22% of independent non-executive directors have served on the Board for more than 9 years, an increase over the 17% in the 2008 survey.

97% of the companies identify potential non-executive directors through personal contacts, other Board members or the nominating committee. 40% of the companies invite nomination by the parent company or controlling shareholder, an increase from 36% in 2008 and 7% in 2005.

Consistent with findings in the previous year, a majority of 82% of the companies (a slight decrease from the 85% in 2008) assess the suitability of directors formally through approaches such as interviews by the nominating committee (used by 43% of the companies). 66% of the companies (up from 58% in 2008) issue a formal appointment letter to their directors, which outlines the directors' duties and obligations.

Director Training And Skills

82% of the companies that participated in the 2010/11 survey have a formal induction program for new directors. The most common components of the induction program are presentation on business activities (84%), tours of facilities/factories (66%), and update on industry trends and developments (50%). Fig (1) shows the perceived importance of the type of knowledge and skills required for new directors for the companies that responded to the 2010/11 survey.

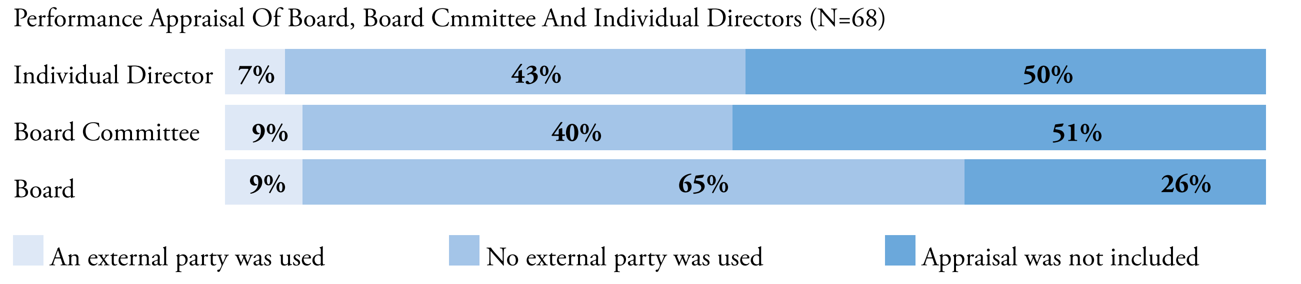
Principle 5: Board Performance

The Code states that there should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

Board And Director Appraisal

The proportion of companies that assessed the performance of the Board as a whole, Board committees or individual directors showed a marked increase from 72% in 2008 to 87% in 2010. In keeping with findings from previous years, performance appraisals of the Board, Board committees and individual directors are most commonly conducted by either the entire Board or the nominating committee. Furthermore, a growing percentage of companies engage an external party to conduct performance appraisals of the Board and Board committees (9% in 2010 compared to 6% in 2008). Fig (2) shows the percentages of companies that had conducted the appraisals and whether they had used an external party to do so.

Fig (2): Performance Appraisal of Board, Board Committee and Individual Directors, 2010/11 results



The top three popular criteria employed or to be employed by companies to assess the effectiveness of the Board were constructive discussions and interactions among directors (72%), the Board's contributions towards the development of company strategies (71%), and the Board's response to crises and urgent issues (66%).

The top 3 popular criteria to assess the effectiveness of individual directors were the director's participation at Board or committee meetings, the director's knowledge contribution, and the director's willingness to ask questions and give constructive suggestions.

Results from individual director evaluation were typically used for the purpose of considering whether to nominate directors for reappointment (44%) and also shared with the individual directors to assist them in improving their contributions (40%).

Regarding the performance criteria used to determine the performance of the CEO and executive directors, operating result-oriented (e.g. Revenue Growth, Margins, Costs, Productivity) performance measured are used by 83% of the companies, followed by value-oriented measures (e.g. Economic Value Added, Cash Value Added, Economic Profit, Cash Flow Return on Investment) (47%) and market-oriented (e.g. Total Shareholders' Return, Wealth Added) measures (41%).

Principle 6: Access To Information

The Code provides that in order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

Information Access

Principle 6 of the Code provides that Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis in order to fulfil their responsibilities. It is therefore encouraging to note that all the companies reported that their non-executive directors have direct access to senior management to obtain information when there is a need. 66% of non-executive directors typically contact the CFO for information, followed by the CEO (37%) and other senior management executives (36%). Non-executive directors in 92% of the companies have direct access to independent advisors when necessary and appropriate. Of these companies, the key expertise sought after was legal (44%) and audit (41%).

Principle 7: Procedures For Developing Remuneration Policies

The Code recommends that there should be a formal and transparent procedure for developing policy on executive compensation and for fixing the remuneration packages of individual directors, and no director should be involved in deciding his own remuneration.

Remuneration Policies

The most popular short-term variable compensation tool provided to executive directors is bonus in cash, and the most popular long-term variable compensation tools were stock options and performance shares which were adopted by 33% and 25% of the companies respectively. In 63% of the companies, non-executive directors are not provided with any type of variable compensation. Among companies which provided stock-based compensation to directors, 4% of the companies provided stock ownership guidelines and 6% of them provided stock retention requirements (i.e. requiring directors to hold a certain amount of stock for a specified time period, often going beyond retiring from the board).

Principle 8 & 9: Level, Mix And Disclosure of Remuneration

The Code provides that the level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

Executive Directors' Remuneration

Base salary represents 57% of total compensation for the CEO, and represents 70% of that for the executive directors and senior executives. The compensation mix for CEOs and other Top 4 executive directors or senior executives has changed with variable components carrying a higher weight than before; an increase of 5% from the last survey for both CEOs and Top 4 executive directors or senior executives. Around 50% of the companies provide long-term incentive awards to the CEO and executive directors, and the most prevalent long-term incentive vehicles are stock options and performance shares.

41% of the CEOs are paid more than S$1 million per annum. The CEO total remuneration in 2010 has increased from the level in 2008. CEOs in only 7% of the companies receives less than $250,000 per annum (down from 18% in 2008). Similar to the trend of CEO compensation, only 32% of top 4 executive directors and/or senior executives receive less than $250,000 (down from 43% in 2008). On the other hand, 10% of executive directors and/or senior executives receive more than $1 million per annum (same as in 2008).

The highest quantum of remuneration for executive directors is around S$12 million, and the highest level for non-executive directors is S$375,000. Fig (3) summarizes and tabulates the highest and lowest remuneration paid to directors in 2008 and 2010.

Non-Executive Directors' Remuneration

52% of companies compensate non-executive directors with the basic fee per annum between S$25,000 and S$50,000 (Fig (4) sets out a graph of the brackets of salaries paid to non-executive directors). More than half of the companies pay additional fees for non-executive directors for assuming the responsibilities as Chairman of the audit committee (79%), remuneration committee (65%), and nominating committee (63%). In addition, more than half of the companies provide additional fee to non-executive directors for assuming the responsibilities as members of the three committees. Meeting attendance fee is only paid by 24% of the companies. In addition, 27% of companies made an upward adjustment to the base fee for non-executive directors in the last 12 months.

Principle 10: Accountability

The Code provides that the Board should present a balanced and understandable assessment of the company's performance, position and prospects.

Managing Company's Performance

Regarding the indicators discussed in regular meetings of the board or board committees, 97% of the companies use operating-result oriented indicators such as revenue growth, margins and costs. Yield-oriented (e.g. return on capital employed, return on assets) and value-oriented indicators are also used by 66% and 50% of the companies respectively.

Directors' And Officers' Liability Insurance

An increasing proportion of companies provide directors' and officers' (D&O) liability insurance as a matter of company policy (96%, compared to 90% in 2008 and 81% in 2005). Among those companies that provide D&O liability insurance, the insurance coverage is below $10 million for 38% of them, and within the range of $10 million to $30 million for 39% of them, with the coverage for the rest in excess of $30 million.

Principles 11, 12 &13: Audit Committee, Internal Controls, And Internal Audit

The Code recommends that the Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties. Secondly, the Board is also responsible for ensuring that the Management maintains a sound system of internal controls to safeguard the shareholders' investment and the company's assets. Finally, the Code advises that the company should establish an internal audit function that is independent of the activities it audits.

Internal Controls

95% of the companies have a whistle-blowing policy in place to allow employees to protect employees against reprisals. (up from 70% in 2008 and 20% in 2005) 61% of the survey respondents have attended a practical training program on risk management and internal control.

Risk Management

98% of companies have a risk management policy. 46% of the companies have a formal enterprise-

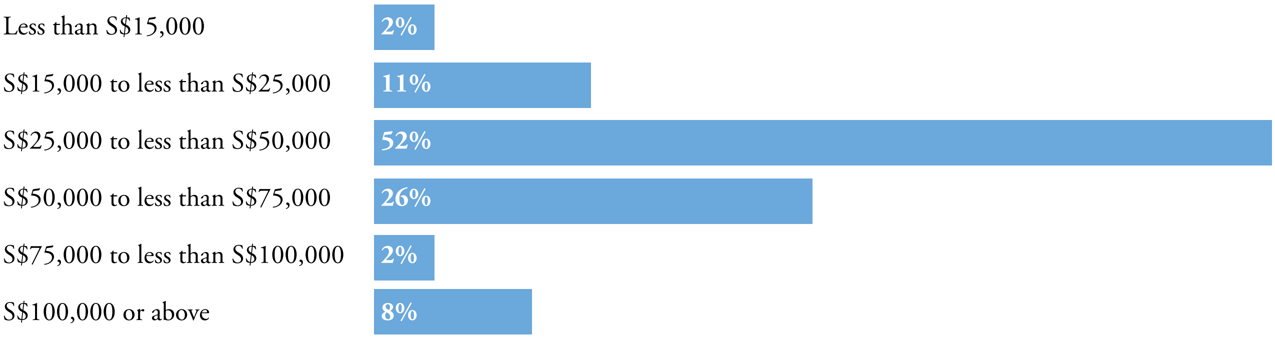
Fig (3): Highest and Lowest Remuneration paid to Directors per annum.
Highest and Lowest Total Remuneration Paid to Directors Per Annum

		2008	2010
Executive director	Highest	$8.8 million	$11.7 million
	Lowest	$10,000	$30,000
Non-executive director	Highest	$385,000	$375,000
	Lowest	$2,000	$4,000

**Executive director N (highest) =104/49 (2008/2010), and N (lowest) =93/39 (2008/2010); Non-executive director N (highest) =111/60 (2008/2010), and N (lowest) =113/57 (2008/2010).*

Fig (4): Remuneration received by non-executive directors.

Level Of Basic Fee Paid To Non-executive Directors Per Annum* (N=65)



*Percentages will not add up to 100% due to rounding

wide management (ERM) program for identifying, assessing, managing and monitoring risks, up from 41% in 2008. For those that do not have an ERM program, 68% plan to implement the program in the future (compared to 41% in 2008).

Additionally, for four consecutive surveys, "people" has been identified as the most challenging factor hindering the identification and management of enterprise-wide risks. Other challenges include the necessary level of investment and the availability of information. Only 31% of the companies feel that they have the information needed to manage risk at an enterprise-wide level, and even less, only 27% of them adopt a common terminology and set of standards to manage risks.

Capital availability, credit risk and investment performance are ranked as the top 3 risks by 32%, 32% and 26% of the companies respectively. 87% of respondents have indicated senior management provides some sort of formal certification that all key risks have been identified and an adequate programme risk management program has been established in respect of them.

Principles 14 & 15: Communication With Shareholders

The Code provides that companies should engage in regular, effective and fair communication with shareholders. Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Investor Relations Function

The 2010 survey showed around half of the companies have a designated Investor Relations person or unit that is accessible to investors. Additionally, most of the companies provide multiple channels for shareholders to access corporate information, with annual reports adopted as the main vehicle by 97% of the companies, followed by corporate website and analyst briefings.

Conclusion

The 2010/11 Survey has indicated that general compliance with Singapore's Code of Corporate Governance by companies has improved since the previous survey. Iit is an encouraging sign of the progress that companies are making towards more effective and efficient governance, and demonstrates a growing awareness of the importance of proper corporate governance by the Singapore corporate community.

Although most of the principles of the Code have been adhered to by the companies that responded to the survey, there is room for improvement in some crucial areas such as the implementation of risk management programs.

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