

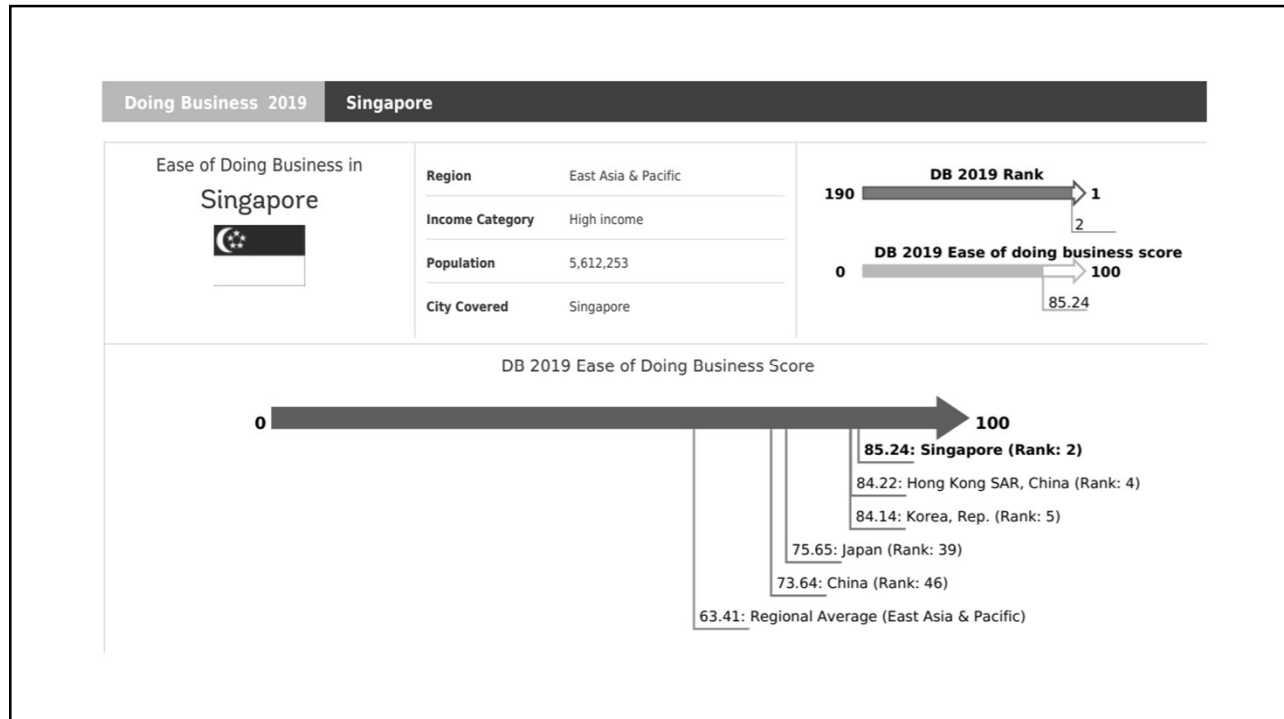
Singapore's Puzzling Embrace of Shareholder Stewardship A Successful Secret

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**1988****2018**

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The difficulty is to strike a balance between having a set of standards which are **comparable to best practices elsewhere** and having a set which is **not so onerous** that, in our circumstances, we are not able to get them to work and we are just going through the form and the motion rather than to maintain high standards of corporate governance

DPM Lee Hsien Loong, 2002

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Singapore's Stewardship Journey

- 2010: UK Stewardship Code
- 2011: Stewardship and Corporate Governance Centre
- ~2015: Stewardship Asia
- Nov 2016: Singapore Stewardship Principles (Singapore Stewardship Code)
- Oct 2018: Stewardship Principles for Family Businesses (Family Stewardship Code)

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Puzzle 1: Absence of UK Problems/Solutions



- | | |
|---|---|
| <ul style="list-style-type: none"> • Dispersed shareholding • Passive institutional investors | <ul style="list-style-type: none"> • Concentrated shareholding • Controlling sh can monitor BoD, directly manage co • State and family controllers • No private pension funds |
|---|---|

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Puzzle 1: Absence of UK Problems/Solutions

TEMASEK

- Controlling sh of govt linked companies (GLCs) in SG
- GLCs include 23 of Singapore's largest publicly listed companies, comprising about 37% of total market capitalization
- Substantial legal safeguards to prevent govt from tunneling wealth

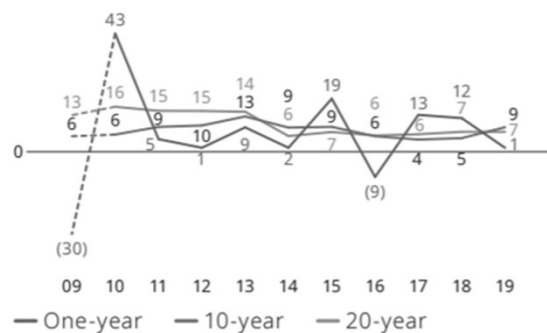
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Puzzle 1: Absence of UK Problems/Solutions

Ten-year return to shareholder

9%

Rolling S\$ Total Shareholder Return (%)



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Puzzle 1: Impotent Institutional Shareholders

TEMASEK = Steward?



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Puzzle 1: Absence of UK Problems/Solutions

Steward

A Trusted Steward

TEMASEK

Temasek is an investor with an institutional conscience, and a duty towards present and future generations.



We hold the boards and management accountable for the activities of their companies



We have a duty to ensure every disposal of investment is transacted at fair market value



We gift endowments for our communities based on the twin pillars of sustainability and good governance



Temasek does not manage Singapore's Central Provident Fund savings

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Puzzle 1: Absence of UK Problems/Solutions



- Dispersed shareholding
- Passive institutional investors
- UK Code



- Concentrated shareholding
- Impotent institutional investors – not problem or solution
- Singapore Stewardship Code?

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Puzzle 1: Absence of UK Problems/Solutions

Independent Directors (US-style)

- Corporate Governance Code
- IDs not independent from controlling sh
- Functional substitutes in GLCs and family firms

Stewardship (UK model)

- Stewardship Code
- Impotent institutional investors
- Functional substitutes – controlling shareholders

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Puzzle 1: Absence of UK Problems/Solutions

Independent
Directors (US-style)

Stewardship
(UK model)

- Corporate Governance Code
- Stewardship Code

Halo signaling

Compliance with international corporate governance norms – despite functional irrelevance

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Puzzle 2: “Toothless” Stewardship Code?



- | | |
|--------------------------------|------------------------------|
| • A “Stewardship <u>Code</u> ” | • “Principles”, not a “Code” |
| • Financial Reporting Council | • No regulatory authority |
| • Mandatory for some | • Entirely voluntary |
| • Comply or explain | • No comply or explain |
| • List of signatories | • No signatories |

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Puzzle 2: “Toothless” Stewardship Code?

Principle 1, Guidance 1.4

“Investors should take steps to **satisfy themselves** that they adhere to their **own stewardship approach** in carrying out investment activities.”

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Puzzle 2: “Toothless” Stewardship Code?

No signatories, only **expressions of support**

“We share the view that stewardship is important, and agree with the spirit and principles articulated in the Singapore Stewardship Principles (SSP) for Responsible Investors.

We express our support for the SSP.”

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Puzzle 2: “Toothless” Stewardship Code?

- Temasek funds and supports Stewardship Asia
- Seems to create serious conflict of interest
- Isn't it in Temasek's interest for the Singapore Code to avoid disrupting management or promoting foreign investor activism?
- BUT institutional constraints prevent undue state influence from being exerted on Temasek's board or subsidiary companies

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Puzzle 2: “Toothless” Stewardship Code?

- State through Temasek indirectly took control of regulatory space: **“pre-emptive corporate governance”**
- Unlikely to be usurped by genuine “bottom-up” approach
- Not going to be another “Stewardship Code 2.0”
- Prevents undue disruption to Singapore's existing corporate governance system

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Puzzle 3: Family Stewardship Code

Stewardship Principles for Family Businesses

Fostering Success, Significance and Sustainability

- Released October 2018 by Stewardship Asia
- First in the world – no equivalent
- Directed at family controlling shareholders and family businesses

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Puzzle 3: Family Stewardship Code



PRINCIPLE 1

**Driven by purpose,
anchored on values**



PRINCIPLE 2

**Cultivate an
ownership mentality**



PRINCIPLE 3

**Integrate short-term
and
long-term perspectives**



PRINCIPLE 4

**Expect changes, nurture agility
and strengthen resilience**



PRINCIPLE 5

**Embrace inclusiveness and build
strong stakeholder relationships**



PRINCIPLE 6

**Do well, do good, do right;
contributing to community**



PRINCIPLE 7

**Be mindful
of succession**

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Puzzle 3: Family Stewardship Code

- Code provides guidance, does not demand strict compliance
- No evidence of compliance required from signatories
- No mechanism to monitor signatories' compliance
- Assumes continued involvement of family controlling shareholders/successors
- Does not actively encourage institutional investor activism

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Puzzle 3: Family Stewardship Code

- Puzzle: Why introduce Family Stewardship Code?
- Up to 60.8% of SG listed companies can be classified as family firms
- Family controllers have significant incentives to act as “stewards” to promote long term success of family business
 - Strong cultural norms to preserve business for future generations
 - Family's reputation tied to business

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Puzzle 3: Family Stewardship Code

SAMSUNG



Jardines



CK HUTCHISON

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Puzzle 3: Family Stewardship Code



BANYAN TREE



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Puzzle 3: Family Stewardship Code

Stewardship Principles for Family Businesses

Fostering Success, Significance and Sustainability

- Demonstrates SG ambition to become corp gov leader in Asia
- Developed code specifically directed to business model not addressed by UK Code
- No competitors - why?