Poor governance: finding the underlying causes

The worst performers in this year’s Governance and Transparency Index (GTI) have also been plagued by serious – and in some cases, debilitating – financial losses. Just under half of the bottom 20 were S-chips, with accounting scandal-ridden Fibrechem Technologies Ltd rounding up the list.

While popular belief may point to a correlation and even causality between the companies’ abysmal corporate governance rankings and financial woes, Lawrence Loh, the lead researcher behind the GTI, cautioned against a simple cause-and-effect analysis of the results.

"Empirical evidence suggests that it’s much more complex than this," said Professor Loh, who is associate professor at the Department of Strategy and Policy, NUS Business School.

"Personally, I believe that having good corporate governance may not necessarily translate into a good financial performance. But a company with poor corporate governance will have a higher risk of seeing a poor financial performance," he said.

In fact, Prof Loh stressed the need to dig beneath such external manifestations of problems, as shoddy governance and lacklustre financial results may actually be symptoms of a "more serious and larger underlying disease", such as poor leadership and dishonesty.

Among the bottom few is New Lakeside Holdings – which was ranked 657 out of 660 companies. The company has seen poor internal controls and accounting-related issues.

"Companies that haven’t been performing well are often less willing to communicate this to shareholders. In fact, it is usually due to a poor financial performance that companies aren’t upfront and transparent," said Mun Cheong Fai, general manager of CPA Australia in Singapore, CPA Australia sponsored the study.

And the attempts to obfuscate and conceal are plenty.

Professor Loh shared – “in no order of dismerit” – that the GTI’s worst performers had annual reports and key financial information missing from their websites; were tardy about disclosing the remuneration of directors and senior management; and failed to declare potential risks and risk management frameworks.

"Some companies even retained directors who were subject to regulatory action – this is very serious," he said.

On what this year’s worst performers can do to improve, Prof Loh said that while there is “no silver bullet solution, it is not rocket science”.

"The list of requirements and guidelines is there. One only needs the basic and foremost intention to improve a company’s corporate governance and transparency standards," he said.