Directors playing musical chairs?

There has been much debate on directorships of listed companies. For example, in an independent director's role.

But another issue was raised recently by Business Times readers. They wondered whether there are companies with the same directors sitting on various board committees.

The Business Times reader (Letters to the Editor, 17 April 2010) said that there are companies with the same directors sitting on various board committees.

The code of corporate governance encourages companies to appoint independent directors to their audit committees (ACs), remuneration committees (RCs), and nomination committees (NCs) to handle these significant aspects of governance.

The OECD Principles of Corporate Governance, UK's Combined Code on Corporate Governance, Australia's Corporate Governance Principles and Recommendations all have similar recommendations with regard to the establishment of ACs, RCs, and NCs.

Each committee can deliberate and deliberate on specific key issues in the strategic issues that matter to the company. Independent and non-executive directors may also find that their dealings with board members who often involve executive directors are enhanced if they work within a committee structure with a clear charter and terms of reference.

Of course, the board's responsibility cannot be abdicated to just those who serve in the board committees. Since the whole board is ultimately responsible for board decisions, there needs to be clear mechanisms for the committees to report back to the board as a whole for further deliberations when necessary.

To gain a better understanding of the state of board committees in Singapore, we looked at the top 500 companies listed on the Singapore Exchange by market cap as at April 2010, with emphasis on the three committees recommended in the code.

Data was collected using the latest available annual reports (or IPO documents if newly listed) of the 500 companies, which were divided into four categories: those that have all three committees, those that have only two committees, those that have only one committee, and those that have no committees.

For each of the 500 companies, there was a total of 3,245 director positions, excluding alternate directors. About 91.7 per cent of the director positions in these 442 companies are independent directors, followed by 35.7 per cent being executive directors and 18.5 per cent non-executive directors. Usually, the total number of directors is much larger than the number of directors sitting in multiple committees.

While independence alone is not an outright indicator of quality of the board, it is generally seen as an indicator of maturity in corporate governance.

For the directors of these 3,245 director positions in these 442 companies, there is no independent director outside the company. In the case of companies that have independent directors, the company is a positive

For the reasons of director positions, there are 1,987 directors who have at least one membership in the AC, IC, or RC. Notwithstanding the difficulties in attracting qualified and experienced directors to company boards, it is still surprising to see that almost half of these directors actually sit on all three committees recommended in the code. This naturally leads to the perception that the three committees often comprise the same directors. Occasionally, there are changes in the chairmen of the three committees. This is why many corporate governance recommendations place additional requirements on the chairs of these committees. Of the 1,987 directors who sit on AC, IC, or RC committees, 899 directors (45.2 per cent) chair one committee, and 197 (9.9 per cent) chair two committees (see Graphic 2).

Chairmanship of ACs, ICs, and RCs are whilst the same person chair all three committees. It is therefore necessary to have a person chair all three committees to be elected by the directors. In the case of companies that have independent directors, the company is a positive

The three board committees are generally considered to be independent of each other. They are mainly concerned with different aspects of the company's governance. The AC is responsible for overseeing the company's financial reporting and ensuring that the company is managed in a way that maximizes shareholder value.

The IC is responsible for ensuring that the company's strategy is aligned with shareholders' interests and that the company is managed in a way that maximizes shareholder value.

The RC is responsible for ensuring that the company's strategy is aligned with shareholders' interests and that the company is managed in a way that maximizes shareholder value.

There are also some small number of directors who chair all three AC, IC, and RC committees on their respective boards. These "triple chairs" are present in the 11 companies we studied (see Graphic 3).

Out of the 442 companies, only eight have minimum overlap of (a) three independent directors chairing the three committees and (b) the least number of directors sitting in multiple committees. These are Keppel Land, Straits Trading, OSB-Kaymnian, SBS Transit, Medallion, Longkong, Strauss, and Affke Pacific.

On the other hand, there were hundreds of companies (23.8 per cent) who have exactly the same set of directors sitting in all three committees. There is a clear indication that the smaller the company, the more likely that the company will rely on the same directors for AC, IC, and RC duties (see Graphic 4).

It can be perceived that the three committees in these 195 companies are, in fact, just one committee. It may also give the impression that the establishment of the three board committees is merely form over substance to demonstrate compliance with the code.

While the code provides guidance on the composition of each committee, it is silent on multiple committee memberships. However, in principle, one could argue that having the same set of directors sitting in all the three recommended committees seems to be against the spirit of corporate governance and defeats the advantages of having board committees.

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Would it be reasonable to have the same person chair all three committees? Is there any potential conflict of interest? How would the BC members decide on the appropriate fees for NC members who sit on the performance of performance of NC members, if they are all the same set of directors in the three committees?