ARTICLE FOR THE EDGE

SINGAPORE'S CORPORATE SECTOR AND THE COUNTRY'S FUTURE

The restructuring of Singapore Press Holdings has aroused much controversy. But we need to go beyond the media sector and the company itself because the issue raises far more important questions about the corporate sector overall and what it means for Singapore's future. The first question is, what does the less than impressive performance of the locally-owned corporate sector imply for our economic prospects? And, second, the discussion of business models that could ensure high-quality journalism raises a broader and more important question: do we have the right mix of corporate structures to ensure that other important social goods are also produced in sufficient quantities?

Performance of the locally-owned company sector could be better

Singapore's economy is dominated by multinational companies but this column will focus on the indigenously-owned company sector. One, albeit imperfect, way of assessing the performance of these local companies is to compare the performance of the Singapore stock market index against other markets. This makes for depressing reading. The Straits Times Index reached a peak of 3,805 in October 2007 before the global financial crisis. Since then it has hovered in a range of around 2,600 to 3,200, well below its previous peak. Over the same period, from October 2007 to date, Taiwan's stock market index has soared to new heights and so have the indices of South Korea and India, not to mention those of supposedly slower growing economies of the US, Germany and Japan. Singapore's market performance is one of the poorest among established bourses and stands in marked contrast to its impressive economic performance.

More importantly, if we look for large local incumbents that have successfully reinvented themselves and transformed themselves into real value generators, how many can we find? Similarly, how many companies can we boast of which emerged only in the past twenty years but grew rapidly into giants, as so many companies have done in the US and in our neighbourhood?

Of course, we do have success stories but they are limited. There is DBS Bank which has been turned around quite impressively and is lauded internationally for its digital transformation and the quality of its leadership. OCBC Bank also made bold acquisitions to make wealth management an exciting engine of its growth. There are a number of unlisted companies that have done well. For example, PSA Corporation remains a world leader in the port business. Privately held Phillip Capital has grown into a veritable multinational company while keeping a low profile. A number of tech start-ups which began life in our neighbouring countries have transplanted themselves to Singapore and could be counted as Singapore success stories – if we stretch things a bit. There are some tentative signs of a few new home-grown companies that are beginning to grow rapidly such as Carro, which is now said to be Southeast Asia's largest car marketplace. But an economy the size of Singapore (39th largest economy in the world with a GDP of USD337bn in 2020) should be doing better.

True, the last twenty years have been marked by tumult in the global economy, with successive crises. But companies elsewhere have adapted to a tougher environment and found ways to surge again while the record in Singapore is not inspiring. For instance, in the offshore and marine sector, Malaysia's Dialog has grown through the years, astutely exploiting new opportunities while demonstrating its resilience by overcoming the downturns in that sector. Singapore does not seem to have enough of such companies.

Ownership matters, we cannot neglect our home-grown corporate sector

The fact is, we have a problem in our local company sector and we need to face up to it. Now, some will say that this does not matter, that whether companies are owned by locals or foreigners is not the issue, so long as good jobs are created and our economic output grows.

Nothing can be further from the truth. Ownership matters.

First, we cannot be a resilient economy if we are overly reliant on foreign-owned corporations and neglect the weaknesses of our local sector. In a crisis, it will be local companies that are more likely to stay the course and even to chip in and help the country because they have skin in the game and feel for their country.

Second, it is locally-owned companies that will be the main conduits for the ambitious Singaporean to gain career advancement to senior management levels. Sure, the Singaporeans among say, the top 10% of talent pool, will be able to secure good jobs in foreign companies, or indeed anywhere in the world. But what about the next 20% or 30% of the talent distribution, people who are very smart and have great potential? The reality is that it is local companies that will offer this cadre of talent the chance to rise to the highest reaches of the corporate structure, not foreign companies that can source talent from all over the world.

Third, it is locally-owned companies that are more likely to build supply chains which give other Singapore businesses a chance to participate in their growth. Foreign companies, for good and understandable reasons, may have a preference to bring along suppliers that they are already familiar with in their home countries.

Finally, there is the issue of the citizens' sense of ownership in the economy. If the economy prospers but a large share of the economic pie accrues to non-citizens, the locals will feel alienated - that is just human nature. This is not to say we abjure the good things that foreign investors can bring, but to argue that we must do more to ensure a strong and vibrant local company sector.

What should we do?

Thus it is important to ask where Singapore's corporate sector has gone wrong? There are three areas which we should think about and where policy responses are needed:

First, there is a governance issue. In corporations, it is boards of directors which have a custodial duty to fulfil on behalf of the shareholders they represent. They have a responsibility to detect when companies are beginning to under-perform or where managements are failing to deliver results or to keep ahead of challenges. If a large segment of our corporate sector is not performing well then we may need to investigate whether there is a systemic problem in governance. It may well be that the governance reforms of the past two decades such as the Code of Corporate Governance may have become box-ticking exercises.

Second, could it be that there is not enough competition in some important sectors? After all, it is competition which keeps managements on their toes and which sharpens their edge. Recall how PSA became complacent in the 1990s without serious competition in the region, only to be shocked when an upstart new port in Malaysia enticed its top two customers away? That pushed PSA to change strategy and as a result it has become super-competitive. There could be a case for Singapore's competition law framework to be reviewed to bring about more competition.

Third, it is not just boards of directors that act as checks and balances. We need feisty financial journalists who will ask tough questions and who have the hunger to undertake investigative journalism – but that requires a different media scene than what we have today. We need inquisitive equity analysts who will not be satisfied with management's take on a company's direction but who will dig around and probe hard. Unfortunately, the travails of the stockbroking and investment banking industry in recent years have diminished equity research. That means we need to think of a way of funding high-quality equity analysis. We have a couple of brave and respected academics in finance who do raise inconvenient questions and press corporates to perform better – but we need more.

Do we have the right mix of diverse corporate structures?

The second big question that has been raised is regarding the mix of corporate structures that Singapore needs. It is good that Singapore is considering new business models to finance high-quality journalism. But why stop at journalism? What about other socially important areas such as medical care, medical insurance, education, think tanks and the provision (at affordable prices) of food and other basics to lower-income groups?

It may seem an anathema to the free-market enthusiasts to hear this but the time may have come for us to re-think the shift away from cooperatives. The recent furore over medical claims reminds us that for-profit insurance companies may not always deliver optimal results for society as a whole. Strengthening the role insurance cooperatives such as NTUC Income (and hopefully more such companies in future) would discipline the for-profit companies into conducting themselves better.

A similar case can be made for medical care. In the course of the debate over this issue, it also transpired that it was Mount Alvernia Hospital, a hospital run by a religious order that offered high quality medical care at a lower price. That is not a surprise. It is certainly worth studying whether having cooperative structures to run hospitals would produce lower medical inflation and more affordable yet high-quality medical care for Singaporeans.

Another area where moving away from a pure profit-motivated structures could work might be in hawker centres that provide low-cost but good food for the masses. The privatisation of hawker centres has almost certainly raised prices – you only have to go to the few remaining old-style hawker centres such as Amoy Street to see the difference not just in terms of prices but quality as well.

In Singapore's earlier days, we had successful cooperatives to run supermarkets (Fairprice), taxis (Comfort) and insurance (NTUC Income), among others. Today, NTUC Income survives in its original shape and industry experts credit it with protecting the interests of its stakeholders. Fairprice is still a cooperative as well but many others have been converted into more conventional corporate structures that no longer have a social purpose. Cooperatives give workers and other stakeholders a share of the business and are run for the benefit of these stakeholders. Singapore showed that cooperatives can be run efficiently and profitably while still delivering good products to their stakeholders. We should not be afraid of reviving the cooperative movement – and we should certainly avoid turning our remaining cooperatives into ordinary companies.

The bottom line

Singapore may be still in the midst of the pandemic crisis but we should treat this crisis as an opportunity, a time for us to review our ways of doing things, a chance for us to question assumptions we have taken for granted, and the occasion for us to re-invent ourselves.

First, we need to study carefully what ails the local corporate sector and vigorously address the root causes of its under-performance. While continuing to be open to, and supportive of, multinational corporations, we should improve the eco-system so that local companies can flourish.

Second, Singapore should not be shy about developing our own unique corporate structures that can help us better achieve a fairer and more equitable economy. The SPH restructuring offers us a chance to think through what works best for the different types of social goods that we should be protecting, not just high quality journalism.

Prepared by Manu Bhaskaran
CEO, Centennial Asia Advisors