Photo: Jan Michael David

Lands of Contrast

Iain McCormick compares corporate governance in New Zealand and Hong Kong.

Hong Kong and New Zealand exist in sharp contrast in many ways. Compared to our 'green and empty land' Hong Kong is one of the most densely populated areas in the world with an overall density of some 6300 people per square kilometre. The majority of the population live in tightly-packed high-rise apartments, with much of the land reserved for open spaces and country parks.

That's just one measure of our differences. A wide raft of indicators reveal sharp distinctions – everything from birth rates, to our relative performance on IMF 'rich lists', and our average quarterly GDP growth rates. So how do we compare when it comes to corporate governance?

I have worked with a number of boards in Hong Kong and New Zealand. They differ greatly on a wide range of dimensions. In New Zealand, for example, the founder is typically no longer involved in publicly listed companies. Family members are not involved in running the business, and companies vary greatly in size from revenue of a few million to in excess of one billion.

Non-executive directors are in the majority on New Zealand boards, controlling the company on behalf of shareholders. Often the non-executive directors approve strategy after hearing input from management.

In comparison, typically in Hong Kong the founder is still involved in an organisation and has a significant shareholding even if the company is publicly listed. Family members are often still running the company. Hong Kong businesses are often large – frequently posting annual revenues in excess of US$1 billion.

In Hong Kong, non-executive directors provide an independent voice on the board but the founder maintains considerable influence. And strategy is largely controlled by a profoundly talented founder.

Corporate governance in Hong Kong is largely based on the UK system and has changed little since the handover of the country from the UK back to China in 1997.

Much of my recent work in Hong Kong has involved assisting family firms to understand and plot out a path towards a more mature model of corporate governance. Some of these firms have been privately held. Others were publicly listed with the founder retaining considerable influence. In a recent project I used a chart (see "Step by step: governance by stages") to illustrate the common stages that firms follow as they develop their governance.

Critically, I have found in conducting board and director evaluations in Hong Kong that companies want to better understand a best-practice governance model and plot a path towards it.

Both countries have embraced director and board evaluation as a method of assessing and improving corporate governance.

This involves board members undertaking a constructive but critical review of their own performance, identifying strengths, weaknesses and then implementing plans for further professional development. Director evaluation is an essential requirement of good governance.

Board evaluation usually involves assessing issues such as board balance and independence, and the process of appointments to the board. It also looks at the quality of board information, the professional development of the board and board performance. Re-election processes, the level and make-up of remuneration and

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the quality of financial reporting are also included.

Typically, board evaluation will ascertain the adequacy of internal control, the role and authority of the audit committee and the relationship with external auditors. Finally, it covers dialogue with institutional shareholders, constructive use of the annual general meeting and governance disclosures.

By contrast, director evaluation involves assessing the individual's contribution to the board over a raft of issues. This includes whether or not they remain focused at governance level in meetings, demonstrate strategic thinking and add value to board meetings.

A strong director communicates convincingly yet diplomatically. They prepare well for meetings. They generate a supportive environment in meetings, foster mutual trust and ask the hard questions.

Board and director evaluation can have a wide range of benefits. These include helping the board as a whole to understand its own performance more clearly and providing objective information about individual directors' performance.

Evaluations also assist board and management to better agree on what is expected of each other. They enable the board to better function as policy-maker and supervisor of the chief executive.

Finally, robust evaluations help with succession planning, assessing the skill requirements for prospective new directors and dealing with any performance issues on the board.

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STEP BY STEP: GOVERNANCE BY STAGES

Topic	Early-stage family firm	Mature family firm	Best practice – publicly listed company
Chairman and CEO	Founder is chair and CEO	Separation of chair and CEO	Complete independence
Board balance and independence	No independent non-executive directors (INEDs)	INEDs as advisors	INEDs control the company
Appointments to the board	Nil	Friends and acquaintances	Selection based on board skill needs
Information	Held tightly by founder	Limited distribution	Continuous disclosure
Re-election	Nil	Variable	Set term and rotation
The level and make-up of board remuneration	Not relevant	As decided by founder	Decided by market survey
Financial reporting	As needed by founder	As needed by management	International standards
Internal control	Control as needed by founder	Limited systems	Extensive and systematic
Audit committee	No audit committee	Audit committee with limited influence	Considerable power and independence
External auditors	Nil	Simple audit	Extensive and independent
Shareholders	Founder is shareholder	Family members are shareholders	Widespread shareholding
AGM	Nil	Family meeting	Important public meeting
Governance disclosures	Nil	Limited	Extensive and systematic
Strategy	Instinctive response by founder	Family and management decide and board approves	Board play key role in strategy development
Risk management	Instinctive response by founder	Undertaken at management level with little board involvement	Board play key role in risk management
Review CEO's performance	Not relevant	Informal process	The chair of the board systematically reviews the CEO's performance after wide consultation with senior staff, customers and suppliers
Review board's performance	Nil	Variable – generally not done	Often annual or biennial review by independent trusted advisor