A Qualitative Study of Corporate Governance:

Boards of Directors in Hong Kong Family-Owned Companies

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Abstract

Purpose: After winning the championship in the Corporate Governance Paper Competition 2011 held by the Hong Kong Institute of Charted Secretaries (HKICS), I have been motivated to explore more about the practice of corporate governance. Family-owned companies are distinctive because the family is often involved in the governance of the companies. So far, the functions of the boards of directors in Hong Kong family-owned companies have not yet been widely examined. The purpose of my research is to advance the understanding of the boards of directors in family-owned companies in Hong Kong.

Methodology: It is a qualitative study based on interviews of twenty interviewees including board members, Company Secretaries and corporate governance professionals and twenty interview hours.

Findings: This study investigates the board governance of Hong Kong family-owned companies and examines the similarities and differences in board functions between publicly listed family-owned companies and non family-owned companies in Hong Kong. Three research questions were examined. The result of the findings is the production of seven propositions to suggest theories concerning corporate governance and family governance.

Managerial implications: The study has practical implications for effective governance and some of the recommendations were made from the human resources perspective.

Keywords: Corporate governance, Boards of directors, family-owned companies, Hong Kong

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# Table of Content

Abstract............................................................................................................................................. i
Acknowledgement ................................................................................................................................. ii
Executive Summary ............................................................................................................................... 1
Objectives of the Study .......................................................................................................................... 2
Literature Review ................................................................................................................................. 5
Methodology and Analysis .................................................................................................................... 8
Findings and Interpretation ................................................................................................................... 13
  1. Composition and functions of Hong Kong family-owned companies ............................................. 13
  2. Similarities and differences between publicly listed family-owned and non family-owned companies. 16
  3. Problems and challenges of family-owned companies’ boards ....................................................... 22
  4. Additional findings ......................................................................................................................... 25
Managerial Implications and Recommendations ................................................................................. 27
Limitations and Suggestions for Future Research ............................................................................... 30
Contributions and Conclusion ........................................................................................................... 31
Tables.................................................................................................................................................. 32
  Table 1A: Number of interviewees .................................................................................................... 32
  Table 1B: Profile of interviewees ...................................................................................................... 32
  Table 2: Coding results ..................................................................................................................... 33
  Table 3: Composition and functioning of Hong Kong family-owned companies ............................. 48
  Table 4: Composition of directors in the boards ............................................................................... 48
  Table 5: Findings of the board functions .......................................................................................... 49
  Table 6: Summary of findings about the agency conflicts ................................................................. 50
  Table 7: Common problems and challenges faced by family-owned companies based on the study .... 50
  Table 8: Summary of suggested propositions ................................................................................. 51
References........................................................................................................................................... 52
Appendices........................................................................................................................................... I
  Appendix AI. Interview Questions for Publicly Listed Companies ................................................... I
  Appendix AII. Interview Questions for Private Companies .............................................................. III
  Appendix B. Interview Transcripts ................................................................................................... IV
Executive Summary

Around the world, the most common large shareholders are families (Claessens, Djankov & Lang 2000; Villalonga & Amit 2006). Family control is one of the distinguishing features of firms in Hong Kong (Leung & Horwitz 2010). Therefore, the ability to develop proper governance structures is vital for the well-being of family-owned companies (Leach & Bogod 1999; Van den Berghe & Carchon 2002) and the board of directors plays a significant role. Not much is known about the board governance of family-owned companies in Hong Kong. Thus, it inspires me to do a study on this issue.

The area of my research is the boards of directors in corporate governance. Family-owned companies in Hong Kong are the scope of the research. There are three main aspects of the research questions: (1) the boards composition and functioning of Hong Kong family-owned companies; (2) the similarities and differences in board practices between publicly listed family-owned companies and non family-owned companies; and (3) problems and challenges in the boards in Hong Kong family-owned companies. A qualitative methodology is adopted. Twenty person-to-person interviews were conducted in the study.

The paper is structured as follows. The next session clarifies the three research questions of the study. After the theoretical discussion on the definitions, the research method, sample, interview questions and techniques used in analysis are discussed in the Methodology and Analysis section. Findings and implications based on the information collected from twenty interviews are then presented, followed by reporting the managerial implications and recommendations. Finally I discuss the limitations and recommendations for future research and the contributions of the study and conclusion.
Objectives of the Study

By participating in the HKICS’s Corporate Governance Paper Competition 2011, I realized that good corporate governance is critical for both individual corporations and society. Family-owned companies are distinctive because the family is often involved in the governance of the companies. Hence, it contributed to my interest to conduct this research. I would like to advance the understanding of the boards of directors in family-owned companies in Hong Kong and draw the companies’ attentions on corporate governance.

Meanwhile, as an undergraduate studying in the concentration of human resources management, I would like to apply my knowledge gained from courses to this study. The board of directors determines the strategy and directions for a company, which definitely affects the corporate culture and the use of human capital. In addition, the group dynamics among directors and other corporate governance actors as well as the ethical give me the opportunity to apply my understanding of organizational behavior. Therefore, this study is not only related to the corporate governance mechanism, but is also concerned with human resources management issues.

There are three objectives and areas of investigation in my study. These research areas are also the research questions as well. Each of them is discussed below.

(1) The boards’ composition and functioning of Hong Kong Family-owned companies

My first objective is to examine the practice of boards of directors in Hong Kong family-owned companies, including both private and publicly listed family companies, from two aspects: composition and functioning. Empirical studies have looked at the special characteristics of family firm governance systems (Davis & Pett 2000; Miller & Le
Breton-Miller 2006). However, little is known about the effect of the boards’ composition on decision-making. In my research, the number and the types of directors as well as how the board composition affects decision-making are addressed to examine the board composition.

As for listed companies, three main functions of the boards have been generally recognized: resources service and control (Johnson, et al., 1996; Young, et al., 2001). Both internal and external aspects are considered. Internal functioning includes providing advices (service) to the CEO and controlling the managers (control) (Sundaramurthy & Lewis 2003). Acquiring company resources (resources) belongs to the external functioning. It concerns providing resources like critical information, capital and guanxi to the firm. I follow these three functions to view the board functions of those listed companies. As for private companies, it seems that their boards’ composition and functioning are mysterious since they are not regulated by the Listing Rules so they need not to disclose the board practice to the public. Are there any similarities and differences in the boards’ composition and functioning of private family companies and listed family companies? It is an open question. Therefore, it is interesting for me to examine the board practices of both types of family-owned companies.

(2) The similarities and differences in board practices between publicly listed family-owned and non family-owned companies

By understanding the boards’ composition and functioning, identifying the similarities and differences in board practices between publicly listed family-owned and non family-owned firms is my second goal.

When it comes to corporate governance, the separation of ownership and management is always examined. Yet, family influence in ownership and management are commonly
emphasized in family-owned companies (Van den Berghe, et al, 2002; Bammens, Voordeckers & Van Cils 2007). There is fairly little empirical research on the similarities and differences in the board governance structures between the publicly listed family-owned and non family-owned companies in Hong Kong. As such, I would like to study in what ways they are same and different as well as finding out the reasons.

(3) Problems and challenges in the boards in Hong Kong family-owned companies

My third aim of the research is to examine special problems and challenges that the board encountered in family-owned companies. For example, do family members lead to an enormous influence in decision making? How can the board balance the interests of the controlling family and the non-controlling minority shareholders? Besides, two agency conflicts, the principal-agent agency problems and the principal-principal agency problems are also investigated in the study. While examining the problems and difficulties, I would like to examine how firms prevent and solve them as well.

By investigating these three research areas, it is believed that the study will contribute to the corporate governance and family firms’ literature.
Literature Review

Corporate Governance

Monks & Minow (2001) defined corporate governance as “the relationship among various participants in determining the direction and performance of corporations. The primary participants are the shareholders, the management, and the board of directors.” Without doubt, corporate governance is important in all areas of every business. Good corporate governance enhances an organization’s reputation since it avoids corporate scandals, fraud, and potential civil and criminal liability of the organization (Lipman & Frederick, 2006). Neubauer & Lank (1998) stated that “Good functioning governance mechanisms like the board of directors help enhance corporate performance.” The family dimension in the family-owned companies makes them deal with a more complex corporate governance structure than other non family-owned companies (Neubauer & Alden 1998). Thus, it is worthwhile for me to examine the boards of directors in Hong Kong family-owned companies.

Family-Owned Company

Giovannini (2010) defined family holding company as the “presence of a company held by an owner family”. Jordan 2008 stated that nearly 90% of listed companies in Hong Kong are family-controlled, with a family or shareholder having 25% or more of a company’s total shares. La Porta, Lopez-de-Silanes & Shleifer (1999) defined a family-controlled company as “one which has a controlling shareholder or family members whose direct and indirect voting rights in the company exceed 20%. Similarly, Sraer & Thesmar (2007) classified a family firm as “The founder or a member of the founder’s family is a block holder of the company. This block represents more than 20% of the voting rights.” With reference to these
literatures, a family-owned company in this study is defined as any firm that there is one person or one family owns more than 20% of the shares and voting rights.

**Board of Directors**

The board monitors the performance of the company and protects the interests of shareholders. It ought to be independent from the management (Leung, Wong & Lui 2011). The board of directors and especially the outsiders in the board generally bear the role of arbitrator in family companies because they can provide objective advice with their expertise (Nash 1988). The provision of advice and counsel is one of the main contributions of active boards in family companies (Huse 2005; Bammens et al., 2007).

**Corporate Governance Rules and Code in Hong Kong**

Company law is practiced in Hong Kong. Publicly listed companies also have to comply with the Listing Rules of the Stock Exchange of Hong Kong (SEHK). The Code on Corporate Governance Practices (CG) introduced by the Honk Kong Exchanges and Clearing Limited (HKEx) includes code provisions and recommended best practices. All publicly listed companies must disclose whether they comply with the code provisions in the annual and interim reports.

**Board Functioning of Listed Companies**

Three main aspects of the board functions are generally identified: acquiring resources, giving service to the management, and monitoring and controlling (Johnson, Daily & Ellstrand 1996; Young, Ahlstrom, Bruton & Chan 2001). I follow using these three categories to study the board functions of listed companies.
The first board function, **acquiring resources**, refers to assisting in providing access to important resources including capital, competitive information and reputation (Dalton & Daily, 1999). *Guangxi*, the reciprocal relationship, is also treated as a resource and it may be a relatively important resource in Chinese communities than in West countries (Luo, 2000; Young, et al., 2001).

The second board function, **providing service**, refers to providing advices and counseling service to the CEO (Dalton, et al., 1999). Fama & Jensen (1983) stated that the expertise of board members can provide valuable advice in formulating strategies. Yet, Young, et al. (2001) found that advising the CEO and top management may be difficult for outside board members to work with in East Asia since management of business are mainly family-based.

The third board function, **monitoring and controlling**, refers to monitoring and ratifying the management decisions in order to protect the shareholders’ interests (Jensen, 1993). This function is relevant to the principal-agent agency problems arising from the separation of ownership and management (Hillman, Cannella & Paerzold, 2000). Morck & Yeung (2003) argued that there may not be so many principal-agent agency problems in family firms because family members are involved in the firm governance and have the ability to monitor the managers. Thus, the control function is a particularly interesting aspect to be studied on.

Apart from the principal-agent agency problems, agency conflicts also include the principal-principal agency problems arising between the controlling and non-controlling shareholders. The principal-principal agency problems may be more severe in family-owned companies (Maury, 2006). Both principal-agent problems and principal-principal problems are addressed in the study when examining the problems encountered by companies.
Methodology and Analysis

Research Method

Being exploratory in nature, the research adopted the qualitative method to collect data. In-depth interviews were used in finding out the board practices of family-owned companies in Hong Kong as well as the similarities and differences of the board of directors between Hong Kong publicly listed family companies and non family companies. The qualitative research method is commonly used in empirical researches. Kakabadse, Yang & Sanders (2010) used qualitative method by conducting interviews with the boards of directors to examine the corporate governance issues in Chinese State-Owned Enterprises. Young, et al. (2001) also applied the qualitative method to study the functioning of boards of directors of Overseas Chinese Firms in Hong Kong and Taiwan.

It is suitable to use the qualitative research method because fewer assumptions are placed on the issue being studied, which is great for exploratory research. Since not everything can be quantified easily, the qualitative research method helps examine individual views and experience in more depth. Rich details can be obtained from the interviewees, including their real feelings and views towards issues and historical information about the boards and the companies.

The in-depth interview is appropriate because the inner board practices are quite sensitive. With one-on-one interviews, there is time for the respondents to further give reasons on individual point of views and ideas from one respondent do not influence the thoughts of other respondents. Without being influenced by the opinions of others, this increases the quality of the information obtained.
Sample

Board members, Company Secretaries and corporate governance professionals are my target sample. Therefore, purposive sampling was adopted. I contacted the office of the Master of Science in Corporate Governance and Directorship of Hong Kong Baptist University to recruit potential interviewees. In addition, direct approach to companies and individuals were conducted. Snowball sampling also contributed because some interviewees introduced other relevant people to participate in my research.

A total of 20 in-depth, semi-structured interviews were undertaken. Table 1A presents the number the interviewees and Table 1B presents the profile of them. Among the twenty interviewees, 9 respondents come from listed family-owned companies; other 7 respondents come from listed non family-owned companies, and the remaining 4 respondents come from private family-owned companies.

[Insert Table 1A and Table 1B about Here]

Although a relatively small sample size, the interviews can be considered to be significant since all interviewees are high level experienced professionals and executives, who shared realistic information about the inner operations of the boards of directors during the interviews. Therefore, comments and information provided by the interviewees really help shed light on the actual picture of board practices. Sufficient time was given to the interviewees to express opinions. The interviews averaged last for an hour and totally twenty hours were spent in the interviews process. According to Krueger and King (1998), 1 hour of discussion requires 6 to 8 hours for transcription, assuming the transcriber is experienced. Therefore, this qualitative research could be far more time intensive and complicated than other quantitative researches.
To ensure a comprehensive investigation on the boards’ functions, respondents from a diverse group of industries were invited to take part in the interviews. These include property, banking, electronics, automotive, entertainment, etc (See Table 1B). This helps to ensure that investigations of boards’ functions were not idiosyncratic to any specific industry.

**Interview Questions**

Interview questions were designed after careful review of literatures on family firms, boards of directors and corporate governance. There are two main parts of the interview questions. The first part of the interview questions focuses on the composition and functioning of the boards of directors. Questions are designed with reference to the previous study of Van den Berghe & Carchon (2002). As for the composition of the boards, the number of directors, the types of board members, and the effect of the board composition on decision-making were asked. As for the functioning of the board, I follow Johnson, et al. (1996) and Young, et al. (2001) to develop interview questions with three categories of boards’ functions: acquiring resources acquiring, providing service, and, controlling and monitoring. In addition, to ensure the interview questions suit the regulatory environment of Hong Kong, the questions were developed with reference to the Code on Corporate Governance Practices introduced by the HKEx.

Most of the questions are open-ended. Only a few questions are close-ended, and interviewees were then asked to discuss the reasons behind or their feelings. Some general questions were asked to all interviewees. For example, what are the roles of the board in the operational management? How does the board assist the company in acquiring resources? What is the meeting atmosphere? Other specific questions are particularly developed for interviewees from the family-owned companies. For instance, do family members lead to
influences in decision making? How can the board balance the interests of the controlling family and the non-controlling minority shareholders?

The second part of the interview questions requires interviewees to describe and explain the challenges and problems that they address regarding their firms’ governance style and how their companies overcome these challenges. Interviewees’ views on the differences of the board practice between family-owned companies and non family-owned companies were asked too. The list of interview questions for listed companies and private companies can be found in Appendix AI and Appendix AII respectively.

The Interview Process

A pilot interview was conducted before doing the actual interviews. Time was counted to see the length of the interview. The pretesting helped me to determine the appropriateness of the use of language, the length and the content. Feedback was asked and self-evaluation was made to see what changes were needed for the actual interview questions.

The interviews were conducted on a one-to-one basis. Eighteen interviews were conducted through face-to-face discussion and two were conducted through telephone interviews. Notes were taken in all cases and twelve interviews were taped-recorded at the same time. Other eight interviews were not taped because of the refusal of interviewees or the environmental constraints. All except one of the interviews were adopted in Cantonese. Data from the interviews were translated and transcribed to English. Then, the interviews transcriptions were sent to interviewees for making verifications on their answers to ensure there is no presence of misunderstanding. Follow-up questions were asked for clarification as necessary. All interviews transcripts can be found in Appendix B. Finally, interviews transcripts were studied and then the data were coded and compared.
Analysis

To facilitate analysis, coding was used in which the data collected from the interviews were categorized. I went through the interviews transcripts to look for patterns in the text. Responses for each question were put together to develop codes and categories. Constant comparison was adopted as every time I selected a passage of text and coded it, I compared it with other previous passages that were already coded.

Ryan and Bernard (2003) suggested various ways in coding transcripts. I utilized word repetition and key words in context (KWIC) these two techniques in my study during the coding process. Word repetition is one easy way to identify themes and codes; in which commonly used words in the interviews transcripts were searched. I also applied the technique of KWIC to look for key terms used in the phrases and sentences. Coding results are presented in Table 2. Coding data let me easier to analyze the information, and to retrieve relevant data. After the completion of coding and categorization, I transferred the ideas and categories into several data tables. Creating tables is effective for organizing results and interpreting findings in the research paper. The similarities and differences across distinct original texts thus can be easily compared and contrasted.

[Insert Table 2 about Here]
Findings and Interpretation

1. Composition and functions of Hong Kong family-owned companies

The first research question addresses the composition and functioning of private family companies and listed family companies. The results are summarized in Table 3.

In private family-owned companies

In private family-owned companies, the board is generally comprised of family members and senior staff, without the presence of outsiders. Only one interviewee said that there is an Independent director in the board. The average number of board members is 6, which is less than that in listed family companies in the study, which have 9 board members in the board on average.

It is not surprising that there are generally no outsiders in the boards of private family companies. It is because private companies are not regulated by the Listing Rules and Company Law does not regulate the composition of the board of the companies.

Besides, dual roles (the same person acting as chairman and CEO) seem to be prevalent in private family companies. From the four interviews, 2 interviewees said the chairman at the same time is the CEO in their boards. One interviewee said his company does not have the position of CEO. Yet, he admitted that the family member is the leader in both administration and in the board. When asking how the board composition influences the decision making, all interviewees agreed that family members have a great influence in the decision-making. Remarked an executive director who is a family member:

Personal preferences of the family members are involved in the company. Subjective decisions may be made because of family ties and feeling.
In fact, 3 interviewees mentioned that protecting the family rights and equity is one main function of the board in private family-owned companies. Quoted from an Executive Director of a watch family company:

When the founder passes away, the wealth including money in bank and shares, the non-measurable assets like invention and goodwill, and the resources of business-knowledge are left. Usually, the eldest of the family becomes the administrator to succeed the business. However, whether the non-professional can run the professional business management is an issue. Therefore, the directors-board strikes a balance between the family and the business operation. The board is the representative of the investors (family) to protect the interest of them. It acts as a moderator to make sure management can meet the expectation of investors to convey investors’ assets, ROI and goodwill.

On a similar note, one interviewee who is a retired outside board member and is now the consultant to the company’s board added:

Given the composition of the Board, the sustainability of family interest is a dominant consideration in major board decisions.

**In publicly listed family-owned companies**

Listing Rules and other enactments have clearly set the rules on the composition of the board of listed companies. Taking the Code of Corporate Governance Practices as an example, it mentions that at least one third of the board members should be independent non-executive directors. It is obvious that three types of directors can be found in all interviews, which are executive directors, non-executive directors and independent non-executive directors. When talking about how the board composition influences the decision-making, 4 interviewees pointed out the contributions brought by the independent non-executive directors. An Independent non-executive director expressed the following comment:
The existence of the Independent directors is the requirement of corporate governance. Indeed, external directors benefit the accountability. For example, minority shareholders believe that independent individuals do not tend to one-side in favoring large shareholders on decision-making. And minority shareholders cannot participate in daily operations, so INEDs are the representatives of minority shareholders to play the balance role and monitor function.

Another interviewee from an electricity company with more than one third of independent non-executive directors in the board also said:

Directors have different professional backgrounds, which forms a balance mix in the board. And there are more than 1/3 of independent non-executive directors in our board, to whom shareholder concerns can be conveyed.

[Insert Table 3 about Here]

Based on the findings, a consensus point of interviewees from publicly listed family companies reveals that independent non-executive directors with different professional backgrounds add values for the minority shareholders. It is consistent with relatives observed by the literature: Independent directors contribute expertise and objectivity that ostensibly minimize managerial entrenchment and expropriation (Dalton, Daily, Ellstand & Dalton, 1998). In light of this, the following proposition is formulated:

**Proposition 1:** Board independence leads to higher quality decisions and thus enhances the corporate governance mechanisms in family-owned companies.
2. Similarities and differences between publicly listed family-owned and non family-owned companies

The second research question examines the similarities and differences regarding the board composition and three board functions between listed family-owned and non family-owned companies.

Regarding the composition

As mentioned above, publicly listed companies are regulated by the Listing Rules, which give listed companies strict guidelines on the board composition. Table 4 presents the composition of directors in the boards.

Considering the types of board members, Executive Directors, Non-executive directors and Independent non-executive directors can be found in both listed family companies and non family companies. 7 interviewees from the family-owned companies have more than one family member in the board. 6 of them have two family members or relatives in the board and 1 of them have six family members in the board. As for non-family companies, board members of all seven interviewees’ companies have no family relationships.

Among the nine interviewees from the listed family companies, the number of their companies’ board members ranges from 7 to 17, with an average of 9. And among the seven interviewees from the listed non-family companies, the number their companies’ board members range from 7 to 14, with an average of 10. Therefore, it seems to be no big difference regarding the number of board members between the two types of companies.

As for the proportion of the directors, all firms from the family-owned have more than one third of independent non-executive directors in the boards while 2 firms from the non family-owned have less than one third of independent non-executive directors in the boards.
Regarding the board functions

The board functions are classified into three aspects: acquiring resources, providing service and controlling and monitoring. Table 5 presents the major findings for the board functions.

Acquiring Resources

4 interviewees from listed family-owned companies asserted that initiatives are given by family members on some new projects and developments. It is common that family members give suggestions for the new project development before bringing into the board for discussion. The following quotation is illustrative of such a situation:

Actually the executive management consults the chairman (owner) first regarding the decisions and proposals. The proposal is submitted to the board, after the direction is given by the chairman. Sometimes, the chairman gives instructions to the management, asking them to investigate and see if the projects work or not when he has some ideas in mind.

Meanwhile, respondents from the listed non family-owned companies mostly emphasized the expertise of Independent non-executive directors and their professional advices brought to the board. 4 interviewees said that the diverse background of outside directors helps offer professional advices and extend the market network of companies. Explained by a retired company secretary who worked for a listed non-family company for nine years:

The company has a diversify board. All areas are taken care of, for example, an accountant, a financer and an IT man act as the independent non-executive directors in the Board. These people are experts in their own field, with a lot of
experience and connections, which can introduce somebody to the company. These are the ways how they contribute.

When being asked about the resources function, the interviewees were more focus on mentioning about the expertise of the directors rather than guanxi brought by them. Interviewees from both two types of companies commonly agreed that good relationship with the externals can help companies to develop business. Outside directors can also help recommend investors and pass on their connections. One respondent mentioned that guanxi is of particularly importance in Asia because Asian people are family-centered, personal contracts help protect people from getting hurt and thereby people prefer passing benefits to somebody they know instead of everybody. However, it is found that the interviewees were doubtful about the importance of guanxi. They in general commented that normal partnership is necessary, but unusual partnership that involves interests should not be applied in making decisions.

Providing Service

The study found that the owner or the family member often takes the position of chairman, directing the investment in family-owned companies. Remarked by a non-executive director from a family-owned petrochemical manufacturing company:

Many issues do not need to be discussed in the formal board meetings. It is also the characteristic of many Asian family businesses. Usually, the chairman or the major shareholder informally discusses with the CEO.

Family members may lead to a consistent view and facilitate the decision making process. Explained by an executive director of a property company:

With a family owner, there is a drive to the success of the business. If all directors are employees, there is no driver; so decision-making needs democracy, and
disagreement may slow down the progress of decision-making in non family-owned business.

Apart from regular board meetings, family members always have informal discussions about the business. It may be common that family members come into a consistent view on one issue before having the formal discussion with other directors. Consensus position on an issue among family directors steps up the decision-making process in board meetings and shortens the length of discussion on that issue. Thus, boards of family companies may make faster decisions than boards of non-family companies. From the above findings, I propose the following two propositions:

**Proposition 2:** Close communications among family members lead to faster decisions in the board.

**Proposition 3:** Boards of family-owned companies are more likely to make faster decisions than that of non family-owned companies.

It is believed that the presence of the family members in the board may facilitate the decision-making process. Yet, there is a risk that wrong decisions are made just because the family members give initiatives:

As for disadvantages, one person can be the dominator of the decision-making, which may influence other members to agree with him.

5 interviewees pointed out that the independent non-executive directors of family-owned companies play a critical role in proposing concerns and providing objective advices. An Independent non-executive director from a family-owned conglomerate company added that:
We use our expertise to give advice and check the company accounts. The role of independent non-executive directors is to protect the minority. For example, when the family suggested expanding the market in China, we have concerns about the project so we proposed quarries and voiced out our concerns in the board.

Apart from the above, interviewees from the listed non family-owned companies generally felt that CEO is merely one of the board members who represent the shareholders to do the operational management; ideas of board members are usually exchanged and collective decisions are made in the board. Hence, communications between board members were emphasized in four interviews. As what a Non-Executive Director of a non family-owned conglomerate company said:

We make collective decisions. CEO is one of the management who execute the decisions. He needs to ensure the decisions are executed orderly. We give opinions in each meeting and make a resolution at last. Advices of directors are usually accepted.

As for the similarity, 7 interviewees emphasized that good communications within the board is required. When concerning the service function, it is better to concern with the efficiency of communications between board members rather than focusing on saying whether advices are provided to the CEO. All interviewees said that the atmosphere of board meetings is harmonious although different views may exist in the decision making process, final decisions are based on collective decision. Hence, I propose that communications between directors are important to enhance the service function of the board:

**Proposition 4: Better communications among directors enhance the corporate governance mechanisms of companies.**
Controlling and Monitoring

To align the interests of shareholders and managers, several means were mentioned by the interviewees from the listed family-owned companies. These include the reward system and the share option that encourages the management to consider both long-term goals and short-term profits; the internal control system regarding the connected transactions; and the involvement of Independent non-executive directors in board committees, like the Audit Committee to monitor the internal control and the Remuneration Committee to monitor the performance and the compensation packages of the management. Besides, 3 interviewees shared a similar view, adding that the owner (family member) sit in the board can ensure the management does not work for their own interests and prevent them from cheating. Indeed, founders of family companies have the ability to monitor the managers since they directly take part in the companies’ governance. They own power in affecting key decisions to prevent CEO and other managers from pursuing own interests.

The interviewees from the listed non-family companies also mentioned several control policies. These include various board committees; a series of internal control procedures; declaration of interests for the connected transactions; frequently review on business and management report; the share option scheme; and the establishment of code of conduct and code of ethics.

When being asked which of the three board functions are more important, 10 interviewees agreed the controlling and monitoring function seems to be more important. Stricter legislation on corporate governance and board practices recently has enhanced the monitoring and controlling function of the boards in Hong Kong. Furthermore, this function keeps business operations to run on the right track. One of them explained this reason as follows:
The board steers the company. This function is important because it ensures the company goes in the direction as agreed and planned. Otherwise, the company would get lost. Resources sharing and service are also important, but they could be acquired from outside, while the management and control function must be done by the directors themselves.

Meanwhile, 4 interviewees commented that it is difficult to say which of the three board functions is more important since they felt that all three functions are essential and they should act together as a system in order to bring out their effects.

3. Problems and challenges of family-owned companies’ boards

The third research question addresses the problems and challenges faced by the boards of the family-owned companies. Also, two agency conflicts, the principal-agent agency problems and the principal-principal agency problems are examined. Table 6 summarizes the findings about the agency conflicts of publicly listed family-owned companies and non family-owned companies. And Table 7 shows the common problems and challenges faced by companies based on the study.

Agency Conflicts

In family-owned companies, many suggest that the principal-principal agency problems may be severe because the presence of large shareholders (families or individual) may have an incentive to extract private benefits of control at the expense of minority shareholders (Morck, et al, 2003; Maury, 2006). Thus, interviewees from listed family-owned companies were asked how the boards of their companies align the interests of majority and minority shareholders.
3 interviewees answered that the interests of the controlling family and non-controlling minority shareholders should be the same. Also, 3 respondents mentioned the connected transactions are clearly defined and the involvement of the independent-non executive directors in the board and board committees help balance the interests of all shareholders.

In non family-owned companies, the principal-agent agency problems are generally being concerned with owing to the separation of ownership (shareholders) and management (managers) (Hillman, et al, 2000). Thus, interviewees from listed non-family-owned companies were asked to express their views on this agency conflict.

5 interviewees were from the state-owned enterprises. They in general claimed that the problem of empirical building (the management uses company resources to build personal power) is rare to occur because the management is always appointed and monitored by the large shareholder from the parent state-owned company. To protect the interests of all shareholders, the interviewees put more emphasis on discussing the internal control on connected transactions and declaration of interests.

Moreover, three common challenges of the boards are found in the study.

The first challenge commonly found in the interviews is that board members may not fully understand or pay attention to the corporate governance and the aim of it. It affects the practices of the board and whether board members really fulfill their directors’ responsibilities. 5 respondents, one from private family-owned companies, one from listed family-owned companies and three from listed non family-owned companies pointed out this challenge in their board. One interviewee explained that board members do not realize the
aim of corporate governance, putting too much time on discussing the details, tables and numbers which can be delegated to the management instead of focusing on the formulation of strategy. Other interviewees suggested that more resources should be put in the compliance with the corporate governance rules and education for directors is needed to make them have a better understanding about their roles and corporate governance.

The second challenge is found in private family-owned companies and listed family-owned companies, which is about the families’ influences on the decision-making. A better drive given by the family may lead to faster decision-making and prevent bureaucracy. Yet, 5 interviewees mentioned that the families may make decisions based on emotions rather than sentiments, and personal preferences, feelings and affections factors of the family members may lead to subjective decisions. It is subject to whether a chairman (owner) is open-minded in listening to advices given by the outside directors and the chairman’s attitude towards the participation of outside directors in the board. If a chairman is open-minded, it is likely that independent non-executive directors are more willing to give opinions and their advices will be taken. Thus, I propose the following:

**Proposition 5:** An open-minded chairman enhances the effectiveness of independent non-executive directors in family-owned companies.

The third challenge found in this study is related to the independent non-executive directors, mentioned by 4 interviewees from the publicly listed family-owned companies and non family-owned companies. The problem is that independent non-executive directors may have difficulties in performing their directors’ role because they may not have a background related to the company’s business field. Remarked by a company secretary from a brand activation company:
Independent Non-Executive Directors may not fully understand the business when they read some of the proposals. Thus, the chairman has to explain to them and refer to previous projects before the board made decisions.

[Insert Table 7 about Here]

To tackle with this challenge, the interviewees suggested companies should keep the independent non-executive directors informed and provide more training for them. This leads to the following proposition:

**Proposition 6: More information and trainings enhances the effectiveness of independent non-executive directors.**

4. Additional findings

Two interview questions are specially developed from the human resources management perspective and there are interesting findings regarding these two interview questions:

- **Are board members evaluated on their performance?**

Almost all interviewees stated that their companies only have an evaluation system for Executive Directors, or evaluation is just taken on the whole board, but not done on each individual board member. Only one interviewee from a listed family-owned company said that the company hired external consultants to do the board evaluation, reviewing the operation of the individual directors’ performance few years ago.

- **How does the board control the succession process of CEO?**

All interviewees form private family-owned companies agreed that the succession planning
of CEO is determined by the family and related to the preference of the chairman.

As to the interviewees from listed companies, the respondents in general admitted that the boards have not yet had a very clear succession plan for the CEO although three interviewees from listed family-owned companies and two interviewees from listed non-family companies mentioned that there are clear procedures for the succession process of CEO. This finding is out of my expectation since what I learnt from courses tell me that a succession plan is vital for setting the organizational structure of a company. But in this study, it is found that not many companies (both family-owned and non family-owned firms) have a clear succession plan for CEO. Some interviewees explained that it is a sensitive issue to be discussed on because some executive directors worked for the companies for many years so they are reluctant to talk about the succession planning.

Besides, interviewees were asked their views on the regulatory system in Hong Kong. They generally agreed that increased regulations help improve companies’ awareness about corporate governance and enhance Hong Kong’s corporate governance standard. Yet, the interviewees pointed out that good ethical behaviors and the compliance culture of companies should be concerned with on top of the legislation requirements. Based on these findings, I develop the following proposition:

**Proposition 7: Organizational ethics is more powerful than rules and regulations in improving corporate governance.**

Totally 7 propositions are suggested. A summary is shown in Table 8.
Managerial Implications and Recommendations

This study investigates the board governance of Hong Kong family-owned companies and examines the similarities and differences in board functions between publicly listed family-owned companies and publicly listed non family-owned companies in Hong Kong. It leads to practical implications for effective governance.

Realize the Importance of Corporate Governance

The findings showed that families have a certain extent of influences in the boards in family-owned companies in the way that initiatives are often given by family members to do on new projects and developments. If the head of the family-owned business is open-minded, he will invite talents and expertise beyond the family members and friends to the board, and listen to their advices. If the owner is not open-minded, he may want other directors follow his view, and thus cannot get wise counsel. Thus, challenges include personal preferences of family members in boards’ decision-making and ignorance towards corporate governance are identified in family-owned companies. It is suggested that chairman and directors should take part in continual education and trainings, to learn the importance of corporate governance and be more aware of their directors’ roles and responsibilities. In fact, several professional institutions like the Hong Kong Institute of Directors, the Hong Kong Institute of Chartered Secretaries, and the Hong Kong Institute of Certified Public Accountants are active in promoting corporate governance in Hong Kong. There is also a master programme in Corporate Governance and Directorship launched by the Hong Kong Baptist University to equip corporate leaders with better skills and knowledge on corporate governance. By taking part in different professional conferences, workshops, and training courses, family founders and directors can realize more about corporate governance and be more open-minded.
The Independence of Chairman

Also, a chairman should be an independent director who should not much involved in the daily management. Such independence can avoid the influences of families on business operations and safeguard the interests of shareholders (Lee & Pica, 2010).

More Information and Trainings for Independent Non-Executive Directors

The findings also showed that interviewees mostly agreed independent non-executive directors play an important role in proposing concerns and providing the service function in family-owned companies, but the challenge is that they may not be familiar with the business of the company. My recommendation is that directors should be informed more about the information of the company and the business. If independent non-executive directors are not familiar with the company and the industry, training sessions should be arranged for them. Previous studies suggested two dimensions of trainings can enhance directors’ knowledge and skills and the effectiveness of corporate governance: 1) in business management functional knowledge and skills (Kakabadse, et al. 2010); and 2) in firm-specific knowledge and skills (Forbes and Milliken, 1999).

Evaluation on Individual Directors’ Performance

Besides, viewing that most interviewees mentioned their companies only have an evaluation system for executive directors, or evaluation is just taken on the whole board, it is recommended that the performance of individual directors should also be evaluated (Leung, et al. 2011). Communications among directors can be enhanced when they involve in doing the board evaluation. Shortcomings in the individual can be reflected on the evaluation and directors can be motivated to improve their performance. An objective means combining both peer and self evaluation methods can be adopted to evaluate the performance of individual board members. With amendments made to the Code of Corporate Governance Practices,
being effective from 1 April, every company has to have a Nomination Committee. One of its contribution is to evaluate the directors’ performance, thus, it is believed that companies in Hong Kong will attach a greater importance to the evaluation system in assessing the individual performance of directors.

**Establish a Fair and Transparent Remuneration Policy**

The contributions of human resources professionals in formulating the remuneration policy should not be neglected as well. HR professionals can provide objective advices to help improve the remuneration structure. The remuneration packages of the management and directors should be transparent and fair. Income of directors and senior managers should be disclosed clearly to the shareholders. Their salaries ought to be aligned with the market trend and no special benefits should be offered to family members.

**Promote Ethical Corporate Culture**

Last but not least, the interviewees generally commented legal restrictions may not prevent problems from happening. Instead, good ethical behaviors and ethical corporate culture were commonly emphasized by the interviewees. An approach to corporate governance is to focus more on building ethical conducts, rather than just compliance with regulations. Directors and top management should act as role models for the companies and I advise that they ought to pay attention to the ethical management. Apart from the establishment of code of conduct/ethics, building a compliance unit is suggested. This compliance unit acts a supervisory role in overseeing behaviors of all employees, and it ought to be comprised of employees from each department (Leung, et al. 2011). The compliance unit should provide suggestions on improving ethical corporate culture and report to the board of directors periodically. By promoting good ethical standards, corporate governance in corporations can surely be improved.
Limitations and Suggestions for Future Research

Because of the difficulties in contacting directors and senior professionals to be my interviewees, the sample size may not be large enough to generalize the results and implications found in the research to all Hong Kong family-owned companies. Further research is needed to identify the board practice and special problems in overcoming family conflicts on a larger sample of family-owned companies.

Second, it is difficult to determine the validity and reliability of the data collected. It is because information collection was filtered through the views of interviewees. As the interview questions are related to the internal board practice of companies, which are quite sensitive, so it is unavoidable that interviewees may provide some ‘socially desirable’ answers.

Third, more scientific efforts are suggested to improve the understanding of the board of directors in Hong Kong family-owned companies. This research studies how the board practices are different between the listed family-owned and listed non family-owned companies, rather than how significance of the level of difference is. A next step would be to explore in the differences via the quantitative approach in order to quantify concepts for indication and comparison.

Last, findings may vary over a period of time because of the changes in the legislation. For example, there are always amendments to the Code of Corporate Governance Practices. Future research may compare the findings in this study with a later period of time to see how the regulatory system in Hong Kong is influential on companies’ board practices.
Contributions and Conclusion

This study contributes to the literature in several ways. It adds the understanding of how listed family-owned companies differ from the listed non family-owned companies in Hong Kong in terms of the three board functions, i.e. acquiring resources, providing service and monitoring and controlling. At the same time, the boards’ composition and functioning of both private family-owned companies and publicly listed family-owned companies are investigated in this study, which thereby enriches the understanding about the family-owned firms in Hong Kong and contributes to the corporate governance and family firms’ literature. Seven propositions are suggested based on the findings. Further, three challenges of the boards are found and recommendations are given to deal with these challenges.

As mentioned in the objectives, I would like to stress the board governance with the human resources management perspective. The managerial implications of this study suggest that 1) founders of companies and directors from families should learn more about corporate governance; 2) the chairman post should be held by an independent non-executive director; 3) providing more business information and trainings for independent non-executive directors; 4) establishing a fair and transparent remuneration policy; 5) assessing the performance of individual directors; and 6) building a compliance unit to promote ethical corporate culture.

In summary, the composition, functions and challenges of the boards of directors in Hong Kong family-owned companies are examined in the research. Comparisons are made between the board practices of publicly listed family-owned and listed non family-owned companies. Managerial implications are also discussed. Consequently, this study advances the understanding of the board of directors in family-owned companies in Hong Kong and contributes to the corporate governance and family firms’ literature.
Tables

This section includes nine tables summarizing the data of the sample, coding results and major findings. The following abbreviations are used in the subsequent tables:

- **PFC**: private family-owned companies
- **FC**: publicly-listed family-owned companies
- **NFC**: publicly-listed non family-owned companies
- **INED**: independent non-executive director

Table 1A: Number of interviewees

<table>
<thead>
<tr>
<th>Number of interviewees</th>
<th>From PFC</th>
<th>From FC</th>
<th>From NFC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
<td>9</td>
<td>7</td>
<td>20</td>
</tr>
</tbody>
</table>

Table 1B: Profile of interviewees

<table>
<thead>
<tr>
<th>Interviewee #/ Ref. No</th>
<th>PFC/FC/NFC</th>
<th>Company Industry</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PFC</td>
<td>property</td>
<td>Executive Director</td>
</tr>
<tr>
<td>2</td>
<td>PFC</td>
<td>sauces</td>
<td>Consultant of the Director's Office</td>
</tr>
<tr>
<td>3</td>
<td>NFC</td>
<td>banking</td>
<td>Assistant Company Secretary</td>
</tr>
<tr>
<td>4</td>
<td>FC</td>
<td>petrochemical manufacturing</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>5</td>
<td>FC</td>
<td>conglomerate</td>
<td>Independent Non-Executive Director</td>
</tr>
<tr>
<td>6</td>
<td>FC</td>
<td>household appliances</td>
<td>Independent Non-Executive Director</td>
</tr>
<tr>
<td>7</td>
<td>NFC</td>
<td>gaming and lottery</td>
<td>Company Secretary (retired)</td>
</tr>
<tr>
<td>8</td>
<td>FC</td>
<td>entertainment</td>
<td>Senior Advisor</td>
</tr>
<tr>
<td>9</td>
<td>NFC</td>
<td>conglomerate</td>
<td>Company Secretarial Manager</td>
</tr>
<tr>
<td>10</td>
<td>FC</td>
<td>electricity</td>
<td>Assistant Company Secretary</td>
</tr>
<tr>
<td>11</td>
<td>FC</td>
<td>construction</td>
<td>Company Secretary (retired)</td>
</tr>
<tr>
<td>12</td>
<td>NFC</td>
<td>fabless semiconductor</td>
<td>Executive Director &amp; Company Secretary</td>
</tr>
<tr>
<td>13</td>
<td>FC</td>
<td>electronics</td>
<td>Executive Director</td>
</tr>
<tr>
<td>14</td>
<td>PFC</td>
<td>watch</td>
<td>Managing Director</td>
</tr>
<tr>
<td>15</td>
<td>PFC</td>
<td>electrical appliances</td>
<td>Executive Director</td>
</tr>
<tr>
<td>16</td>
<td>PFC</td>
<td>real property management and investments</td>
<td>Executive Director</td>
</tr>
<tr>
<td>17</td>
<td>NFC</td>
<td>shipping</td>
<td>Executive Director</td>
</tr>
<tr>
<td>18</td>
<td>NFC</td>
<td>automotive</td>
<td>Company Secretary</td>
</tr>
<tr>
<td>19</td>
<td>NFC</td>
<td>conglomerate</td>
<td>Executive Director</td>
</tr>
<tr>
<td>20</td>
<td>FC</td>
<td>brand activation</td>
<td>Company Secretary</td>
</tr>
</tbody>
</table>
Table 2: Coding results

<table>
<thead>
<tr>
<th>Inductive Categories</th>
<th>Interviewees Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dual roles in PFC</td>
<td>- Interviewee #14</td>
</tr>
<tr>
<td></td>
<td>- Interviewee #16</td>
</tr>
<tr>
<td>To Protect family equity in PFC</td>
<td>- Interviewee #2: Given the composition of the Board, the sustainability of family interest is a dominant consideration in major board decisions.</td>
</tr>
<tr>
<td></td>
<td>- Interviewee #14: The directors-board strikes a balance between the family and the business operation. The board is the representative of the investors (family) to protect the interest of them. It acts as a moderator to make sure management can meet the expectation of investors to convey investors’ assets, ROI and goodwill.</td>
</tr>
<tr>
<td></td>
<td>- Interviewee #16: For listed companies, there are many public announcements and the timing to release the information is regulated. They have to add values to the shareholders via distributing dividends. For non listed companies, we don’t need to release announcement to the public. Also, we protect the family equity.</td>
</tr>
<tr>
<td>INEDs add values for the minority shareholders in FC</td>
<td>- Interviewee #1: They (INEDs) take part in overall company’s direction, and they are outsiders to balance the shareholders’ interests.</td>
</tr>
<tr>
<td></td>
<td>- Interviewee #5: The role of Independent Non-Executive Directors is to protect the minority.</td>
</tr>
<tr>
<td></td>
<td>- Interviewee #6: External directors contribute to the accountability. For example, minority shareholders believe that independent individuals do not tend to one-side in favoring large shareholders on decision-making. And minority shareholders cannot participate in daily operations, so INEDs are the representatives of minority shareholders to play the balance role and monitor function.</td>
</tr>
<tr>
<td></td>
<td>- Interviewee #10: Directors have different professional backgrounds, which forms a balance mix in the board. There are more than 1/3 of independent non-executive directors in our board, to whom shareholder concerns can be conveyed… Independent Non-Executive Directors occupy a large proportion in the board composition to ensure the interests of all shareholders are represented.</td>
</tr>
<tr>
<td><strong>Initiatives of projects are given by family members in FC</strong></td>
<td></td>
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<tr>
<td>---------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>- <strong>Interviewee #5</strong>: The board approves major decisions, e.g. large investment, donation and strategy. But in the family business company, the initiatives are always in the family.</td>
<td></td>
</tr>
<tr>
<td>- <strong>Interviewee #8</strong>: Decisions are decided by the chairman (family member). As he is the major shareholder, he influences the decision making.</td>
<td></td>
</tr>
<tr>
<td>- <strong>Interviewee #11</strong>: Actually the executive management consults the chairman (family member) first regarding the decisions and proposals. The proposal is submitted to the board, after the chairman gives the direction. Sometimes, the chairman gives instructions to the management, asking them to investigate and see if the projects work or not when he has some ideas in mind.</td>
<td></td>
</tr>
<tr>
<td>- <strong>Interviewee #20</strong>: Proposals put forward may have been discussed and agreed by family members before bringing up to the board.</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Expertise of INEDs contributes to the resources function</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NFC:</strong></td>
</tr>
<tr>
<td>- <strong>Interviewee #7</strong>: They provide expertise in the board meetings… All areas are taken care of, for example, an accountant, a financer and an IT man act as the Independent Non-Executive Directors in the Board.</td>
</tr>
<tr>
<td>- <strong>Interviewee #17</strong>: Different Expertise is brought to the board. Of course Executive Directors and Non Executive Directors are specialists in the shipping business. As to INEDs, they are experience in finance, management, law and accounting. One of them can also help strategy planning as he has experience in investment banking.</td>
</tr>
<tr>
<td>- <strong>Interviewee #18</strong>: Among the INEDs, one is a finance specialist, one is a cultural worker, one is a teacher, they are expected to monitor the executive directors and be subjective.</td>
</tr>
<tr>
<td>- <strong>Interviewee #19</strong>: Expertise of different outside directors help the board makes collective decisions.</td>
</tr>
</tbody>
</table>
| Owner takes the position of chairman to direct the investment of the company in FC | - **Interviewee #1**: With a family owner (the chairman), there is a drive to the success of the business.  
- **Interviewee #5**: The board approves major decisions, e.g. large investment, donation and strategy. But in the family business company, the initiatives are always in the family (Chairman).  
- **Interviewee #8**: The company mostly acquires business opportunities via the chairman.  
- **Interviewee #11**: Actually the executive management consults the chairman first regarding the decisions and proposals. The proposal is submitted to the board, after the chairman gives the direction. |
|---|---|
| INEDs provide objective views based on their expertise and propose concerns in FC | - **Interviewee #4**: The board provides a balance view. The composition includes accountant, lawyer, and expertise in the chemical industry, and Non-Executive Directors are with rich management experience. When the board discusses things, there are usually different views.  
- **Interviewee #5**: The role of Independent Non-Executive Directors is to protect the minority. For example, when the family suggested expanding the market in China, we have concerns about the project so we propose quarries and voice out our concerns in the board.  
- **Interviewee #6**: INEDs are different industries experts. The background of INEDs is important. We can help recommend investors, give insights from the users’ perspective, review the annual reports, and see the business life cycle of the company. We are willing to exchange ideas to help the company to make profits.  
- **Interviewee #11**: In our board, there are lawyer, bankers, accountant and business executive. Their experience can help the board in decision-making. For example, when considering some acquisition projects, the lawyer focuses on the legal perspective to raise out related legal questions, and the banker focuses on financial implications, like the ROI, returns.  
- **Interviewee #20**: While the Non-executive directors may give suggestions and contributions to the company based on their professional areas. For instance, the director working in capital market could contribute his relationship and knowledge when there is fund
raising exercise, the director in legal field can advise on legal issues.

| Quick decisions are made in the board in FC | Interviewee #1: If all directors are hired, and no family members involve, the success in terms of drive and get things done is not as fast as family business. If all directors are employees, there is no driver; so decision making needs democracy, and disagreement may slow down the progress of decision making… Faster decision-making, no bureaucracy and better drive (are found) in family business.  
- Interviewee #6: In non-family business, there are different opinions while family business has consistent views. The advantage is that it makes quick decision. |
| Communications among directors are necessary | FC:  
- Interviewee #4: In our company, advices are easily accepted by the CEO. It depends on the working relationship between the board members and the CEO. There are good communication and coordination among them.  
- Interviewee #6: They (Family directors) keep on having communications with the sales, research, finance executive directors. The two family members have to explain to the executive directors on what to do, so they cannot only make decision among them.  
- Interviewee #11: Another issue is about the communications and relationship between the directors. For example, one previous INED was active. He gave many comments when reviewing the proposal and even corrected the grammar for the annual report. He was so careful that some directors disliked about that because they thought the INED micromanaged the company. Therefore, how to maintain a good relationship among all board members is a big challenge.  
NFC:  
- Interviewee #3: The board has played the board discussion role and the CEO is competent for its job, the environment allows board members to communicate.  
- Interviewee #12: In general, board members actively take part in the
discussion… No one knows all knowledge and board members have different expertise, we trust the one who have expertise in that particular area.

- **Interviewee #18:** The CEO has to report, sometimes he may be subjective, and he is required to listen to other board members’ advices and suggestions. In reality, the board atmosphere is not hostile; there are few conflicts in the board. Before the meeting, we have a practice: the chairman always communicates with other directors.

- **Interviewee #19:** We make collective decisions. CEO is one of the management who execute the decisions. He needs to ensure the decisions are executed orderly. We give opinions in each meeting and make a resolution at last. Advices of directors are usually accepted.

### The owner sit in the board in FC to make sure the management does not work for their own interests

- **Interviewee #4:** When the owner sits in the board, he can make sure the management will not work for their own interests. It is common in the family businesses in Asian countries. And one more important thing, the business in this listed company represents the whole business of the owner, he does not have any business else.

- **Interviewee #8:** The board via the chairman (the founder) to supervise the management.

- **Interviewee #11:** Sometimes, the chairman gives instructions to the management, asking them to investigate and see if the projects work or not when he has some ideas in mind.

### The board supervises the management through internal control

**FC:**

- **Interviewee #1:** Directors cannot determinate their only salary. The board determinates their salary and approves their salary packages. There are many regulations, in terms of internal control, like directors have to declare and seek approval if they buy shares and buildings, which are highly regulated.

- **Interviewee #5:** We follow the Hong Kong Stock Exchange (SEHK) Best Practices few years ago to set up the internal auditor function and the internal auditor has to report to me directly. As for internal audit, management directly report to the Audit Committee, and then report to the board. As for control function, Investment, donation and connected
transaction need to be approved by the board. E.g. INEDs suggested that large donation should be approved by the board, because the audit report does not show where the donation goes to, which help strengthens the control function.

- **Interviewee #10**: There is stringent internal control in place. Board Committees have different responsibilities and functions in supervising different aspects. For example, the Audit Committee oversees the internal audit function, reviews the financial reports and monitors financial reporting of the company.

- **Interviewee #11**: I think there are two aspects. In the operation, power is delegated to the audit committee to see if the internal control and risk management perform well. The audit committee is in charged by the INEDs; they review the overall risks of the company’s operations. The internal audit manager is responsible for reviewing and investigating controls on each operation to identify any internal control weaknesses and other problems and new risks. All are highlighted to the audit committee members.

- **Interviewee #13**: The Board is responsible for internal control of the group and for reviewing its effectiveness. Procedures have been designed to safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for management use and for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

- **Interviewee #20**: The Internal Audit Department is responsible for the internal control and reports to the audit committee formed by a Non-Executive Director and three Independent Non-Executive Directors regularly. The management regularly submits in financial reports to the board.

**NFC:**

- **Interviewee #7**: The board does the internal control. Also, the company does not have leverage of nomination to the executive or the staffs.
There is the share option scheme to align the interest of shareholders and managers, which is making money.

- **Interviewee #12**: We also have internal control procedures. The board reviews the operational menu and staff handbook, and then introduces them to control the behaviors of management and staff.

<table>
<thead>
<tr>
<th>Via INEDs and Board Committees to control and monitor the management</th>
<th>FC:</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>- <strong>Interviewee #1</strong>: Independent directors sit in different Committees. In addition to that, we have a compliance committee.</td>
</tr>
<tr>
<td></td>
<td>- <strong>Interviewee #5</strong>: As I (an INED) am the Chairman of the Audit Committee, so the Management has to report the management accounts and interim accounts, and I actively meet with external auditors to check the accounts, the standards and the code.</td>
</tr>
<tr>
<td></td>
<td>- <strong>Interviewee #10</strong>: There is a large proportion of independent non-executive directors in the board, which is more than the legal requirement (1/3 of the board), to ensure shareholders’ interests are represented. Independent non-executive directors form the majority in most board committees. Also, when determining the amount of performance related pay to executive directors/senior management, the Human Resources &amp; Remuneration Committee takes a broad and balanced view of Group performance in the relevant year. This means that the Committee considers all aspects of the company performance including financial, operational, safety, environmental, governance and compliance related.</td>
</tr>
<tr>
<td></td>
<td>- <strong>Interviewee #11</strong>: In the operation, power is delegated to the Audit Committee to see if the internal control and risk management perform well… Besides, the Remuneration Committee monitors the appraisal on the performance of the management and its remuneration. The Company issues share options to motivate the management, and the share options are based on the performance. The performance of the management is monitored through these compensation packages.</td>
</tr>
<tr>
<td></td>
<td>NFC:</td>
</tr>
<tr>
<td></td>
<td>- <strong>Interviewee #12</strong>: Management Committee is formed in the hierarchy</td>
</tr>
</tbody>
</table>
bridging between the board and the management and avails for the management sitting together regularly for operational matters.

- **Interviewee #17**: The board supervises the management through different committees. Audit Committee review cash flow, capital investment, finance, accounts reports and internal control, hold meetings quarterly, and all members are Independent Non Executive Directors. We also have a Risk Investment Committee to monitor big development plans. And there is a Corporate Governance Committee, which comprise of Executive Directors and management, to enhance the company’s corporate governance system. Nomination Committee is responsible for proposing of new board members. I think it is more obvious that the Audit Committee bears the role of supervising the management.

- **Interviewee #18**: There are committees like Audit Committee and Remuneration Committee. INEDs perform in these committees to help align the interests of shareholders and managers.

<table>
<thead>
<tr>
<th>Reward system/ Share option scheme</th>
<th>FC:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Interviewee #4</strong>: The management can get rewards when he achieves some targets. The rewards systems not only consider the business performance, but also some long-term goals, like safety and succession planning in the sub-group levels. It is because if the company only views the business performance, the management may merely pursue the short-term profits.</td>
</tr>
<tr>
<td></td>
<td><strong>Interviewee #11</strong>: We have the long-term incentive scheme. Our chairman thinks that if the management also holds the shares of the company, they would devoted to the company. We also set long-term performance targets. We just roll out a 3-year plan, for example, under this plan, the management is required to double the profits within 3 years. If they meet the performance targets, a large amount of share options will be awarded to them. They can sell the shares at the current market price to earn the profits after 3 years. The interests of the management and shareholders are aligned through this incentive scheme.</td>
</tr>
<tr>
<td></td>
<td><strong>Interviewee #20</strong>: We have share option for the managers in order to encourage them acting for the company rather than personal interests.</td>
</tr>
</tbody>
</table>
is hoped that managers will pursue the long-term interests for the company when they become a part of the shareholders.

**NFC:**
- *Interviewee #7:* There is the share option scheme to align the interest of shareholders and managers, which is making money.
- *Interviewee #19:* It (interests of shareholders and managers) is aligned through the share option scheme and bonus giving. Share option is provided to the Executive Directors. If the company performs well, the managers can get bonus too.

**Establishment of Code of Conduct/ Code of ethics**

**NFC:**
- *Interviewee #3:* Code of Banking Practice endorsed by the Hong Kong Monetary Authority (HKMA) mentions the ethical behaviors of bank practitioners, company follow related regulations and requirements provide internal training and introduce code of conduct.
- *Interviewee #7:* They (Shops of the company) have manuals like control manual and operation manual
- *Interviewee #12:* The board reviews the operational menu and staff handbook, and then introduces them to control the behaviors of management and staff.

**Same Interests for Controlling family and non-controlling minority**

**FC:**
- *Interviewee #4:* This company is the only business of the owner. Thus, his interest is the same as other shareholders.
- *Interviewee #10:* The interests should be the same for all shareholders. First, the board makes decisions for the interests of all shareholders. For example, since 2011 the board changed its dividend practice to declare a fourth interim dividend instead of the final dividend to shareholders. This decision is made with the consent of all shareholders at the Annual General Meeting and the company emphasized that such a change is made in the interests of all shareholders.
- *Interviewee #13:* They should have the same interests.
### Declaration of interests

**FC:**
- **Interviewee #5:** Actually the law regulates the transactions related to the involvement of the major shareholder. The major shareholder has to abstain… Investment, donation and connected transaction need to be approved by the board.

- **Interviewee #8:** Via the disclosure of connected transactions: When the major shareholder has potential conflicts of interests, he should voice out in the board meetings to discuss with other directors, the representatives of the minority shareholders. If conflicts of interests really exist, he should abstain from the meeting and voting.

- **Interviewee #10:** If there is potential conflict of interests, the subject director has to declare his/her interest and withdraw from the discussion as appropriate. In fact, our company has published Guidelines on Disclosure of Related Party Transactions and we have very few connected transactions.

**NFC:**
- **Interviewee #3:** Large shareholders cannot vote when there are connected transactions.

- **Interviewee #17:** To balance the conflicts of interests/ align the interests of majority and minority shareholders, declaration of interests is required if there are connected transactions. Board members will not vote when they have interests involved.

### The control function of the board is relatively important

**FC:**
- **Interviewee #1**

- **Interviewee #5**

- **Interviewee #6:** I think internal control and risk management are the most important in corporate governance. The Internal Control Department (ICD) can discover the monitoring problems in daily operations. We also have compliance. We hire external accountants to perform internal audit function to find out the problems in the operations. And we have a whistle blowing policy. Thus, I believe we have sound internal control and external financial functions.

- **Interviewee #8**
- **Interviewee #11**: Monitoring is relatively important… Resources function is not so important in our board because our executive directors will seek external advisers when there are problems in the operations. Occasionally, the INEDs may help in some cases, like the referral of lawyer regarding legal issues. Actually, executive directors manage to recruit talents and acquire necessary resources for the business requirements. While INEDs contribute their knowledge and expertise in the decision making process. The INEDs are in fact playing a more important role in monitoring by, say, reviewing the financial statements, cash flow and liquidity, ensuring a robust internal control system and effective risk management, and overseeing the performance of executive management and its remuneration.

- **Interviewee #13**: Control is the most important because it is the last part which determines if a company makes profit or loss.

- **Interviewee #20**: Control is relatively important because the senior management has to report to the board periodically and Non-Executive Directors and Independent Non-Executive Directors pay more contributions in the controlling function.

**NFC:**

- **Interviewee #7**: Management and control are the most important functions of the board. The board steers the company. These functions are important because they ensure the company goes in the direction as agreed and planned. Otherwise, the company would get lost. Resources sharing and service are also important, but they could be acquired from outside, while management and control must be done by the directors themselves.

- **Interviewee #9**: Control. The company expands quickly. Its businesses are so diversified that it should do better on the control of operations and finance.

- **Interviewee #19**: Service and control seems to be more important than the resources function. It is because service and control help set the corporate values, help enhance the competitive advantages of the company and ensure the company can develop steadily.
<table>
<thead>
<tr>
<th>Board members may not fully understand or pay attention to corporate governance &amp; its aim</th>
<th>PFC:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- <em>Interviewee #15:</em> For challenge, is each board member fulfilling their responsibility? In private companies, historical issues are included. Some old senior staffs have the directorships and carry the posts for a long period of time. Are they fulfilling their directors’ roles in this keen competition environment? Can they keep up with changing times?</td>
<td></td>
</tr>
<tr>
<td>FC:</td>
<td></td>
</tr>
<tr>
<td>- <em>Interviewee #8:</em> Chairman is the founder and a major shareholder of the company. Other directors are either employees or friends of him… Family-owned companies in Hong Kong need to learn from good western practices/ systems to adopt professional management systems. Companies should also keep the transparency, following the Listing Rules to disclose the conflicts of interests and avoid the participation of related parties in voting.</td>
<td></td>
</tr>
<tr>
<td>NFC:</td>
<td></td>
</tr>
<tr>
<td>- <em>Interviewee #9:</em> Actually the management (Executive Directors) is not aware of the agency problem. This size of the company is large; it has resources to perform better in Corporate Governance, like the establishment of better Code of Conduct and in monitoring function.</td>
<td></td>
</tr>
<tr>
<td>- <em>Interviewee #18:</em> Board members may not really realize the aim of corporate governance. In the board meetings, too many issues are covered, and I think some</td>
<td></td>
</tr>
<tr>
<td>- <em>Interviewee #19:</em> The company should put more resources in the compliance with the related corporate governance rules. And continuous educations like training courses and field visits should be held to ensure all board members are thoroughly aware of the rules and have the understanding about the company business.</td>
<td></td>
</tr>
<tr>
<td>Personal preferences of family members may be involved in decision making. / Decisions are based on emotions rather than sentiments</td>
<td>PFC:</td>
</tr>
<tr>
<td>- <em>Interviewee #7:</em> I won’t say the Board of the family-owned companies is always bad; it depends on the owner of the company. If the owner is fair and open-minded, he may not invite friends who agree with everything he says, but invite good people, and listen to their advices.</td>
<td></td>
</tr>
</tbody>
</table>
- **Interviewee #2**: The Board faces the same challenges experienced by many family businesses when the elderly (in this case, the Group Chairman who pioneered the current successful business) is not prepared to let go and continues to exercise a strong influence on business direction and operational matters. Although the Group Chairman sits on the Board as a member and not the chairman, he virtually still dictates and can veto business direction as he sees fit.

- **Interviewee #14**: There are feelings and affections factors. When family members, like the spouse have opinions about the business, how to the board face? In our company, I play a fair and just role that my wife and children are not involved in the business. I set an example to ensure that public and private affairs are separated.

- **Interviewee #16**: Personal preferences of the family members are involved in the company. Subjective decisions are made because of family ties and feeling, which may make the company being outdated in the market.

**FC:**

- **Interviewee #1**: One person can be the dominator of the decision making, may influence other members to agree with him.

- **Interviewee #8**: The chairman makes most of the decisions. It is common that family companies are very focus on their current business. In a family business, major shareholder successfully developed the business in the past, with his or her background and experience. However, business environment keeps changing from time to time. New technology, new products and new competition raise in the industry. If major shareholder only relies on his or her background and experience to run the business, the company may not catch up the change of the business environment now and in the future. Major shareholder should keep an open mind on obtaining advice from other board members and other professionals.
<table>
<thead>
<tr>
<th>Independent non-executive directors may not be familiar with the company business</th>
<th>FC:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Interviewee #11: One recommendation is that more activities like workshops should also involve INEDs’ participation in order to strengthen the communications between board members.</td>
<td></td>
</tr>
<tr>
<td>- Interviewee #20: There are not many challenges our board faces. Yet, Independent Non-Executive Directors may not fully understand the business when they read some of the proposals. Thus, the chairman has to explain to them and refer to previous projects before the board made decisions.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NFC:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Interviewee #9: I think SEHK’s suggestion of more training to INEDs is a good idea. Some INEDs do not have the background in auditing, so they may not be familiar with the Listed Rules. I encountered a situation that an INED asked me not to give him so much information review. And they should be more familiar with the operation and business of the company. More information shown in management reports can help INEDs to review the company business and do better in monitoring.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>On top of the regulations, the compliance culture and ethical behaviors should be concerned with</th>
<th>PFC:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Interviewee #12: Board members come from different expertise. For some independent directors, they may not familiar with the business of the company, so they may have some difficulties in doing the internal control as they may not identify the appropriateness of the operational procedures.</td>
<td></td>
</tr>
<tr>
<td>- Interviewee #14: There should be no rules for corporate governance. The CEO should perform professionally under corporate ordinance and standards.</td>
<td></td>
</tr>
<tr>
<td>- Interviewee #15: As we are not listed company, we are not subject to the strict control of the appointment of the board members. But as our company has status in society, we are careful to the ethical issues. In our company, we have Code of Conduct for board members and all staff.</td>
<td></td>
</tr>
</tbody>
</table>
FC:

- Interviewee #1: For corporate governance, the government can write many rules and declarations, but if people want to manipulate the system, they can still seek the loopholes… There is zero tolerance on any unethical behaviors in our company. We immediately report to ICAC and police and suspend the staff if we discover any sufficient unethical behaviors. We do a lot of enforcement in trainings and orientation as integrity is core value of our company, so we enforce the zero tolerance on unethical behaviors and emphasize the enforcement.

- Interviewee #4: Legal restrictions cannot solve all the problems. Good ethical behaviors of people contribute to the good corporate governance practices of a company. Ethical behaviors take time to develop, and is good to starting educating this aspect among students. Besides, the atmosphere of society is important too. I think the atmosphere in Hong Kong is good enough. For example, there is a Master course of Science in Corporate Governance and Directorship in Hong Kong Baptist University, and there are some rewards related to the Corporate Governance in Hong Kong, which act as check and balance to help create the healthy atmosphere in society. Apart from the law itself, whether they are executed is another issue. There are more rules in china, like the Antitrust Law, but are these laws fully executed?

- Interviewee #10: It doesn’t matter if there are more or fewer regulations. Instead, the practicality and enforceability of these regulations are more important.

- Interviewee #11: In fact, the law only sets the minimum… It depends on the compliance culture of the company in adopting the best recommended practices voluntarily and if the company and the management is committed to follow the rules.
Table 3: Composition and functioning of Hong Kong family-owned companies

<table>
<thead>
<tr>
<th>Composition</th>
<th>Consensus Point of Interviewees in PFC</th>
<th>Consensus Point of Interviewees in FC</th>
</tr>
</thead>
<tbody>
<tr>
<td>- It is common that the board only comprises family members and senior staff</td>
<td>- Restricted the rules, listed family companies clearly define the three types of board members</td>
<td></td>
</tr>
<tr>
<td>- 2 interviewees mentioned the existence of dual roles</td>
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</tr>
</tbody>
</table>

Functioning

- Protection of the interests of the family is one focus of the board functions

- 4 interviewees mentioned that the presence of INEDs who have different professional backgrounds in the board add values for the minority shareholders

Table 4: Composition of directors in the boards

<table>
<thead>
<tr>
<th>PFC/FC/ NFC</th>
<th>Interviewee #/Ref. No</th>
<th>Company Industry</th>
<th>Total Number of Directors</th>
<th>Executive Directors</th>
<th>INEDs</th>
<th>Non-Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFC</td>
<td>2</td>
<td>sauces</td>
<td>6</td>
<td>1</td>
<td>/</td>
<td>5</td>
</tr>
<tr>
<td>PFC</td>
<td>14</td>
<td>watch</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>PFC</td>
<td>15</td>
<td>electrical appliances</td>
<td>9</td>
<td>9</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>PFC</td>
<td>16</td>
<td>real property management and investment</td>
<td>6</td>
<td>6</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>FC</td>
<td>1</td>
<td>property</td>
<td>11</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>FC</td>
<td>4</td>
<td>petrochemical products</td>
<td>11</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>FC</td>
<td>5</td>
<td>conglomerate</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>FC</td>
<td>6</td>
<td>household appliances</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>FC</td>
<td>8</td>
<td>entertainment</td>
<td>8</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>FC</td>
<td>10</td>
<td>electricity</td>
<td>17</td>
<td>3</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>FC</td>
<td>11</td>
<td>construction</td>
<td>10</td>
<td>4</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>FC</td>
<td>13</td>
<td>electronics</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>/</td>
</tr>
<tr>
<td>FC</td>
<td>20</td>
<td>brand activation</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>NFC</td>
<td>3</td>
<td>banking</td>
<td>12</td>
<td>2</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>NFC</td>
<td>7</td>
<td>gaming and lottery</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>NFC</td>
<td>9</td>
<td>conglomerate</td>
<td>13</td>
<td>6</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>NFC</td>
<td>12</td>
<td>fabless semiconductor</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>NFC</td>
<td>17</td>
<td>shipping</td>
<td>14</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>NFC</td>
<td>18</td>
<td>automotive</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>/</td>
</tr>
<tr>
<td>NFC</td>
<td>19</td>
<td>conglomerate</td>
<td>11</td>
<td>7</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 5: Findings of the board functions

Comparison between publicly listed family-owned companies and non family-owned companies

<table>
<thead>
<tr>
<th>Board Functions</th>
<th>Description of function in literature</th>
<th>Consensus of interviewees responses in FC</th>
<th>Consensus of interviewees responses in NFC</th>
<th>Points of Similarities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Aspect</strong></td>
<td></td>
<td></td>
<td></td>
<td>In general, the interviewees emphasized the expertise of the directors rather than guanxi brought by them.</td>
</tr>
<tr>
<td>Acquiring company resources</td>
<td>Resources include capital, competitive information, guanxi</td>
<td>4 interviewees said that initiatives of some new projects and new business opportunities may be given by family members.</td>
<td>4 interviewees emphasized the expertise of INEDs and their professional advices brought to the board.</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Aspects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Providing Service</td>
<td>Provide advices for CEO</td>
<td>4 interviewees pointed out that the owner takes the position of chairman, directing the investment of the company. The presence of family members leading to consistent view may facilitate the decision making process. 5 interviewees mentioned the importance of INEDs in providing objective views and proposing concerns.</td>
<td>Efficient communications between directors were emphasized by 4 interviewees as collective decisions are made by the board at last.</td>
<td>7 interviewees mentioned that good communications among directors are necessary. It is better to concern with the efficiency of communications between board members instead of focusing on whether advices are provided to the CEO.</td>
</tr>
<tr>
<td>Protecting interests of shareholders</td>
<td>- 3 interviewees shared the view that the owner sit in the board to make sure the management does work for their own interests.</td>
<td>Several policies were mentioned by interviewees: - Different Board Committees; - Internal control; - Declaration of</td>
<td>Most interviewees agreed this function is relatively important, probably because of more related regulations recently and its usefulness in</td>
<td></td>
</tr>
</tbody>
</table>
Other means of control mentioned by interviewees:
- Via INEDs;
- Declaration of interests;
- Reward system;
- Internal control.

Keeping business operations to run on the right track.

Table 6: Summary of findings about the agency conflicts

Between publicly listed family-owned companies and non family-owned companies

<table>
<thead>
<tr>
<th>Agency conflicts</th>
<th>FC</th>
<th>NFC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main agency conflicts in literature</strong></td>
<td>Principal-principal agency problem (Controlling vs minority)</td>
<td>Principal-agent agency problem (Shareholders vs management)</td>
</tr>
<tr>
<td><strong>Findings</strong></td>
<td>The participation of the INEDs helps ensure the interests of all shareholders are presented. They assist in the check and balance, neither favoring major shareholders nor minor shareholders.</td>
<td>The management is always appointed by large shareholder in state-owned enterprises, so the problem of empirical building of CEO is scare. More attention is paid on the monitoring of connected transactions to ensure the same interests of all shareholders.</td>
</tr>
</tbody>
</table>

Table 7: Common problems and challenges faced by family-owned companies based on the study

1. Board members may not fully understand or pay attention to corporate governance and its aim.
2. Personal preferences of family members may be involved in decision making. / Decisions are based on emotions rather than sentiments. (Depending on the mindset of the family owner).
3. Independent non-executive directors may not be familiar with the company business.
**Table 8: Summary of suggested propositions**

*Proposition 1:* Board independence leads to higher quality decisions and thus enhances the corporate governance mechanisms in family-owned companies.

*Proposition 2:* Close communications among family members lead to faster decisions in the board.

*Proposition 3:* Boards of family-owned companies are more likely to make faster decisions than that of non family-owned companies.

*Proposition 4:* Better communications among directors enhance the corporate governance mechanisms of companies.

*Proposition 5:* An open-minded chairman enhances the effectiveness of independent non-executive directors in family-owned companies.

*Proposition 6:* More information and trainings enhances the effectiveness of independent non-executive directors.

*Proposition 7:* Organizational ethics is more powerful than rules and regulations in improving corporate governance.
References


Appendices

Appendix A1. Interview Questions for Publicly Listed Companies

1.1 Composition
- How many and what types of directors are on the board?
- How does the board composition influence the decision-making?

1.2 Functioning:
- What are the roles and contribution of Non-Executive Directors and Independent non-Executive Directors? Do they actively participate in the board?
- Do they play an active role in operational issues?
- Are board members evaluated on their performance?
Which of the function (resources/ service/ control) does the board plays the most important role?

1.2a Resources
- How does the board assist the company in acquiring resources in order to create competitive advantage?

1.2b Service
- What are the roles of the board in the operational management?
- Do you think the board plays a strong advisory role to the CEO? Why?
- Do advices offered by the non-executive directors usually being accepted by the CEO?
- How often do the board members meet? (Meeting frequency)
- How long does the meeting usually last?
- What is the usually setting of the board meetings?
  ▪ What is the meeting atmosphere?
  ▪ Do all conversations during the meeting being recorded?
  > Do family members lead to an enormous influence in decision making?

1.2c Control
- How does the board supervise the management?
- How does the board control the succession process of CEO?
- How does the board help align the interests of shareholders and managers? (avoid agency problem)
  >How can the board balance the interests of the controlling family and the non-controlling minority shareholders?
2. Challenges and special problems

- Do you think more or fewer regulations are better for the company? Why?
- What are the challenges and special problems that the board face?
- What are the differences in the boards practice/functioning between the family business and non-family business?
- What other issues that you would like to add?

*Questions underlined were only designed for interviewees from listed family firms.*
Appendix AII. Interview Questions for Private Companies

1.1 Composition
- How many and what types of directors are on the board?
- How does the board composition influence the decision making?

1.2 Functioning:
- What are the functions of the board?
- Are board members evaluated on their performance?

1.2a Resources
- How does the board assist the company in acquiring resources in order to create competitive advantage?

1.2b Service
- What are the roles of the board in the operational management?
- Do you think the board plays a strong advisory role to the CEO? Why?
- How often do the board members meet? (Meeting frequency)
- How long does the meeting usually last?
- What is the usually setting of the board meetings?
  • What is the meeting atmosphere?
  • Do all conversations during the meeting being recorded?

1.2c Control
- How does the board supervise the management?
- How does the board control the succession process of CEO?
- How does the board help align the interests of shareholders and managers? (avoid agency problem)

2. Challenges and special problems
- Do you think more or fewer regulations are better for the company? Why?
- What are the challenges and special problems that the board face?
- What are the differences in the boards practices/ functioning between the listed family companies and non-listed family companies?
- What other issues that you would like to add?
Appendix B. Interview Transcripts

Totally 20 interview transcripts are included in this Appendix B.
Interview Transcript 1

1.1 Composition
1. How many and what types of directors are on the board?
   Total: 11; Non-Executive Directors: 1; Executive Directors: 6; Independent Directors: 4
   There are 2 family members in the board. There is no CEO in the company.

2. How does the board composition influence the decision making?
   Executive directors have roles and responsibilities in operations. They are heavily involved in
   the daily operations and the involvement of other non-executive directors is on the advisory and
   consultancy bases.

1.2 Functioning:
3. What are the roles and contribution of independent directors?
   • Do they play an active role in operational issues?
     They take part in overall company’s direction, and they are outsiders to balance the
     shareholders’ interests. They don’t have active role in operation, but they are being informed for
     major decisions and have voting right for major decisions that affect the interest of shareholders
     like merging acquisition and sells. They also involve in the board committees, audit committee,
     nomination committee, and remuneration committee.

4. Are board members evaluated on their performance?
   No specific procedures to review the non-executive directors. For executive directors who have
   active roles within the company, we go through the performance appraisal system, because our
   remuneration depends on our performance. All executive directors are subjected to the internal
   performance appraisal system.

5. Which of the function (resources/ services/ control) does the board plays the most important
   role? Why?
   I think services and control.

1.2a Resources (competitive information, business opportunities/ guanxi/ capital)
6. How does the board assist the company in acquiring resources in order to create competitive
   advantage?
   • What information is usually provided by the board members?
     I think independent directors play an advisory role, provide expert advice and control only.

1.2b Services
7. What are the roles of board in the operational management?
   In major decision making, approval should be sought from the non-executive directors.
   Executive director play an active role in operations, and other non-executive directors play the
   role on advisory and control
8. How often do the board members meet? (Meeting frequency)
   We meet at least four times a year.

9. How long does the meeting usually last?
   It depends, about half to one hour.

10. What is the usually setting of the board meetings?
    - What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      We meet at the meeting room and the atmosphere is formal and harmony.
    - Do all conversations during the meeting being recorded?
      Yes

11. Do family members lead to enormous influence in decision making?
    Of course. But I don’t feel there are problems arise from it. The presence of family owner has both advantages and disadvantages in family business and I think the advantages outweigh the disadvantages. With a family owner, there is a drive to the success of the business; and I remember some research papers showed that family businesses with a family owner and drive are more successful than the non-family businesses. If all directors are hired, and no family members involve, the success in terms of drive and get things done is not as fast as family business. If all directors are employees, there is no driver; so decision making needs democracy, and disagreement may slow down the progress of decision making. As for disadvantages, one person can be the dominator of the decision making, may influence other members to agree with him. Yet, in our board, the meeting atmosphere is harmony; the chairman listens to other board members’ advices and accepts some good ideas.

1.2c Control

12. How does the board supervise the management?
    Independent directors sit in different committees. In addition to that, we have a compliance committee. If necessary, we engage in external consultants in committees meetings.

13. How does the board control the succession process of Chairman?
    The son is the successor of the Chairman, and he is now sitting on the board as an executive directors.

14. How does the board help align the interests of shareholders and managers? (avoid agency problem)
    For one thing, directors cannot determinate their only salary. The board determinates their salary and approves their salary packages. And there are many regulations, in terms of internal control, like directors have to declare and seek approval if they buy shares and buildings, which are highly regulated.

15. How can the board balance the interests of the controlling family and the non-controlling minority shareholders?
    We have a compliance committee, and an external law firm is engaged, so we clearly define the
connected transactions and compliance, in order to prevent the listed company subsidies the private party.

16. How to avoid inefficient participation from unqualified family members or relatives?
In our company, there are three family members in the management. And all of them are very hard working and efficient, that’s why there is no bureaucracy in our company and we make decisions quickly, very efficient.

2. Challenges and special problems

17. Do you think more or fewer regulations are better for the company? Why?
I don’t know how to comment on it. For corporate governance, the government can write many rules and declarations, but if people want to manipulate the system, they can still seek the loopholes. To a certain extent, I think the regulations are enough. I don’t see any immediate need that the government should implement certain policy to prevent certain things from happening. I mean following the rules still may not be appropriate, for example, a supplier of the company invites me to go to a trip and even I have paid for it. Thus, imposing many governance and laws cannot prevent unethical things happen.

So, how to prevent the unethical things happen in the company?
We are very strict on it. There is zero tolerance on any unethical behaviors in our company. We immediately report to ICAC and police and suspend the staff if we discover any sufficient unethical behaviors. We do a lot of enforcement in trainings and orientation as integrity is core value of our company, so we enforce the zero tolerance on unethical behaviors and emphasize the enforcement. No matters in property or development, contractors are involved and there are possibilities of unethical behaviors, that’s why we give a lot of trainings and we make what we say.

How about the training for board members?
I am not sure about that because the company secretary arrange for that. There should be a few training.

What are the differences between family business and non-family business?
Apart from faster decision making, no bureaucracy and better drive in family business, I don’t feel there are any differences in the operation.

18. What are the challenges and special problems that the board face?
There are no special problems.
Interview Transcript 2

1.1 Composition

1. How many of directors are on the board?
   Total: 6; Non-Executive Directors: 5 who are all family members; Executive Directors: 1(who is also the CEO)
   Apart from the 6 directors, there are 2 advisers, who were Independent directors and retired at the age of 65 as required under the charter of the board, and are playing the role of a non-executive director.
   CEO: vacant; one of the Directors acts as the Chairman and CEO

2. How many and what types of board members?
   At present, all 5 Directors on the board are family members.

3. How does the board composition influence the decision making?
   The Board of Directors performs the normal functions of a company board in deciding on all major matters relating to business direction and development, upholding corporate culture and value, and monitoring company performance in pursuing its vision and mission. It takes advice from the two well-experienced board advisers and, as necessary, may be guided by the Family Council (which comprises all board members plus the wife and daughter of the Group Chairman) when family interest is at stake. Given the composition of the Board, the sustainability of family interest is a dominant consideration in major board decisions.

1.2 Functioning:

4. What are the roles and contribution of non-executive/ independent directors?
   • There are, at present, no non-executive directors; but the 2 board advisers perform the role of the INED.
   • Do they play an active role in operational issues?
     No, they are not active in the operational issues; but regularly monitor company performance through financial and business updates at board meetings

5. Are board members evaluated on their performance?
   No, except for the chairman whose performance is evaluated by board members. The evaluation is made on the collective board, not on an individual level.

6. What are the main functions of the Board in your company?
   [See answer to Q. 3]
1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage?

   The Board generally supports applications submitted by the CEO for resource allocation through either the annual budget or supplementary funding requests for meeting contingency or development’s needs.

1.2b Services

8. What are the roles of board in the operational management?

   Operational management is exercised by the CEO as Executive Director who executes the decisions made in the board and reports on company performance.

9. How many times does the chairman meet with the non-executive directors without the presence of the executive directors present?

   The board chairman privately meets the board advisors (who perform the role of INEDs) as often as necessary.

10. How often do the board members meet? (Meeting frequency)

    Once a quarter at board meetings

11. How long does the meeting usually last?

    Normally one day.

12. How long does the meeting usually last?

    Normally one day.

12c Control

13. How does the board supervise the management?

    Through the CEO as Executive Directors who reports on company performance and major issues on a regular basis through board meetings and supplementary reports as necessary.

14. How does the board control the succession process of CEO?

    The board does not control the succession process of CEO who may be groomed from potential candidates from within the company or recruited from outside as necessary. There are plans to encourage and develop younger family members to join the family business and be groomed to senior management positions and eventually to be CEO.
2. Challenges and special problems

15. Do you think more or fewer regulations related to corporate governance are needed for the company? Why?

This is not a listed public company and is therefore not governed by related statutory corporate governance regulations. Nevertheless, it strives to follow them for strengthening its corporate governance practice. To that extent, any additional regulations which serve the purpose of improving corporate governance would be given due regard and beneficial to improving its corporate governance.

16. What are the challenges and special problems that the board face?

The Board faces the same challenges experienced by many family businesses when the elderly (in this case, the Group Chairman who pioneered the current successful business) is not prepared to let go and continues to exercise a strong influence on business direction and operational matters. Although the Group Chairman sits on the Board as a member and not the chairman, he virtually still dictates and can veto business direction as he sees fit.

The major challenge to the board is to iron out the difference in views of two generations and introduce changes to modernize corporate governance policy and practices in tune with changes in times and the development of the company into the multi-national corporation that it is.

In circumstances as such, the Board also faces the challenge of recruiting and retaining talented staff who may not be able to manage or cope with situations with conflicting views expressed by different generations on the board from time to time. Failure to attract talents would inhibit the long-term development of the business.
Interview Transcript 3

1.1 Composition

1. How many and what types of directors are on the board?
   Total: 12; Non-Executive Directors: 5; Executive Directors: 2 Independent Directors: 5

2. How does the board composition influence the decision making?
   Each board member has the equal right to say and vote, chairman also carry the casting role.
   The presence rate is 90% for the meetings. Large shareholders cannot vote when there are connected transactions.

1.2 Functioning:

3. What are the roles and contribution of non-executive/independent directors?
   Roles: For non-executive directors, they cannot execute company’s operations; for independent directors, they check related parties independently.
   Contributions: Surprise company’s operations, monitor risks, plan business plan.
   There are specialized committees in our company. Audit committee is formed by the independent directors, who have the CPA qualification. And we also have remuneration committee and SBP, in which members have expertise and experience.

   • Do they play an active role in operational issues?
   All board members have the responsibility to participate actively in the board. For non-executive directors and independent directors, they have a role in supervision.

4. Are board members evaluated on their performance?
   We have in-house board evaluation system. Board evaluation committee questionnaire is used for committees to do mutually evaluation. The evaluation system is based on entity level instead of individual level.

5. Which of the function (resources/services/control) does the board play the most important role?
   It is difficult to say. These three functions act together as a system to bring out the effects.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive advantage?
   Board members have the expertise in particular area, which help conduct the risk management.

   • What information is usually provided by the board members
   Both professional (expertise in particular area with multi-levels) and general (intellectual sense, e.g. potential to expand China market) information is brought by board members.

1.2b Services
7. What are the roles of board in the operational management?
   Executive directors represent the shareholders to do the operational management, management reports are handed in to CEO periodically. CEO executes the decision.

8. Do advices offered by the non-executive directors usually being accepted by the CEO?
   The board has played the board discussion role and the CEO is competent for its job, the environment allows board members to communicate.

9. How many times does the chairman meet with the non-executive directors without the presence of the executive directors present?
   There are at least 7 meetings annually and the first agenda of each meeting is without the presence of the executive directors.

10. How often do the board members meet? (Meeting frequency)
    It is uncertain

11. How long does the meeting usually last?
    2 hours

12. What is the usually setting of the board meetings?
    Meetings are held in either Hong Kong or Beijing.
    • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      Harmony and have procedures to follow

1.2c Control

13. How does the board supervise the management?
    1. Formal meetings: management (CEO and senior staff) presents to the board;
    2. Informal meetings between the board and management.
    3. Listed company is regulated by the Listing Rules, the board should have no preferences to large shareholders (related parties cannot vote for connected transactions

14. How does the board control the succession process of CEO?
    I am not sure about that.

15. How does the board help align the interests of shareholders and managers? (avoid agency problem)
    Code of Banking Practice endorsed by the Hong Kong Monetary Authority (HKMA) mentions the ethical behaviors of bank practitioners, company follow related regulations and requirements provide internal training and introduce code of conduct.

2. Challenges and special problems

16. Do you think more or fewer regulations are better for the company? Why?
    Neither too much nor too few regulations are good for companies. I think the Listing rules are improving continually.

17. What are the challenges and special problems that the board face?
    There are no special problems in the board as the board plays its due role.
Interview Transcript 4

1.1 Composition

1. How many and what types of directors are on the board?
   Total: 11; Non-Executive Directors: 3; Executive Directors: 4; Independent Directors: 4
   2 are family members, 3 are senior management, 1 Non-Executive Director is an legal adviser

2. How does the board composition influence the decision making?
   The board provides a balance view. The composition includes accountant, lawyer, and expertise
   in the chemical industry, and Non-Executive Directors with rich management experience. When
   the board discusses things, there are usually different views

1.2 Functioning:

3. What are the roles and contribution of non-executive and independent directors? Do they
   play an active role in operational issues?
   NED and INED do not full time work at the company. They mainly play the control and
   monitoring role. In our company, they help the company develop in an orderly manner. So they
   play the support role.

4. Are board members evaluated on their performance?
   There are evaluations for ED, NED

5. Which of the function (resources/ services/ control) does the board plays the most important
   role?
   • I think the support/ helping role (providing advices) is relatively important. As mentioned,
     interests of all shareholders are the same. And he majority shareholders strictly supervise the
     management to prevent them from cheating. Therefore, the helping role of the board is more
     important than the controlling role in our company.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive
   advantage?
   Running the company business is not the role of directors. The board decides the long-term
   strategies, whereas execution belongs to the management’s role. There are four management
   staffs in the board. When they sit in the Board meetings, they need to clarify their role is to
   decide long-term strategies for the company. They may propose their view on the potential
difficulties in the execution of the policy, but they should consider from the angle of the whole
company when making decisions.

**What information is usually provided by the board members?**

I think companies are regulated by the law in a certain extent no matter what business they are doing. Therefore, the presence of a lawyer and an accountant in the Board is helpful for the monitoring function. And resources should be provided by the company, but not brought by the directors.

Directors may bring connections to the company, but it should not be viewed as resources. I think Guangxi applies to all industries, as a good relationship with other companies and suppliers may help the company to get more information and business opportunities.

**1.2b Services**

**7. What are the roles of board in the operational management?**

Directors mainly play the role on monitoring and control.

**8. Do you think the board plays a strong advisory role to the CEO? Why?**

The board is helpful for the decision-making, yet, we are not playing a very strong advisory role. This company is a family-owned business; many issues do not need to be discussed in the formal board meetings. It is also the characteristic of many Asian family businesses. Usually, the Chairman or the major shareholder informally discusses with the CEO. When comes to the major decisions, they should be discussed formally in the board meetings if the chairman is fair and respect the board. But considering the efficiency for the daily decision making at work, many decisions are made in the informal way.

**9. Do advices offered by the non-executive directors usually being accepted by the CEO?**

In our company, advices are easily accepted by the CEO. It depends on the working relationship between the board members and the CEO. There are good communication and coordination among them.

**10. How do you describe the actual level of independence of independent non-executive directors? Do they actively participate in the board?**

The actively participate in the board. Again, it depends on the individuals and how the INEDs join to the board. In our company, they are invited by the Chairman. The Chairman is open-minded, hoping to improve and develop the company constantly. Thus, he found some people he knows but who also have abilities to join the board, instead of some ‘yes men’. All NEDs and INEDs have many responsibilities in our board. As we don’t have the Nomination Committee, the Chairman is responsible for finding those non-executive directors, which can secure the nomination process to avoid some ‘yes men’ from existing in the board.

**11. How often do the board members meet? (Meeting frequency)**

At least once a quarter

**12. How long does the meeting usually last?**
13. **What is the usually setting of the board meetings?**

Meetings are held in the meeting room.

- **What is the meeting atmosphere? (formal or informal/ conflict or harmony)**
  The meeting atmosphere is always harmonious, but there are different views among the directors and debate between us.

  **Formal:** There is agenda in meetings, and minutes are taken by the Company Secretary. Before the Board meetings, documents are surveyed and all NEDs and INEDs can request for further documents. There is active discussion during the Board meetings, so all NEDs and INEDs are not ‘voting machines’.

- **Do all conversations during the meeting being recorded?**
  Not all conversations are recorded. Only Main discussed issues, decisions made, and important objections are recorded.

14. **Do family issues being discussed in the board meeting?**

- No

15. **Do family members lead to an enormous influence in decision making?**

- Yes. The Vice Chairman is an Executive Director; he is now responsible for the daily management and strategy formulation. The Chairman is a Non-Executive Director, so his role is lighter when compared with the Vice Chairman. The Vice Chairman and the CEO are the main executors and they draft policies and propose to the Board. The role of the family members is vital in deciding the long-term strategy of the company.

1.2c **Control**

16. **How does the board supervise the management?**

The board supervises the management through the authority setting. There is an Executive Committee, chaired by the Vice Chairman. This committee owns the highest power in the daily operations. The board delegates a certain extent of authority to this committee. When an investment exceeds a certain amount, the committee has to get the approval from the Board. The authority of the Executive Committee is clear. Under the Executive Committee, there are also many managers and head of the business units. Their authorities are given by the Executive Committee. Therefore, the Board supervises the Executive Committee and the Executive Committee supervises its below managers.

17. **How does the board control the succession process of the CEO?**

The CEO is still young. There is not yet a plan for the succession process of the CEO. The CEO was promoted internally. We are now having the talent pool. We have adopted the Management Trainee Program for a long time to cultivate a group of talents to be the management in the future.
18. How does the board help align the interests of shareholders and managers? (avoid agency problem)

We have different systems like the rewards and punishment system. The management can get rewards when he achieves some targets. The rewards systems not only consider the business performance, but also some long-term goals, like safety and succession planning in the sub-group levels. It is because if the company only views the business performance, the management may merely pursue the short-term profits. Besides, when the owner sits in the board, he can make sure the management will not work for their own interests. It is common in the family businesses in Asian countries. And one more important thing, the business in this listed company represents the whole business of the owner, he does not have any business else. In Hong Kong, many bosses of the listed companies also do other businesses, either listed or not listed. Some people may have bad ethical behaviors, associating the profits or interests of the listed company with their other businesses and taking advantages of the minority shareholders. Yet, this problem does not happen in our company.

2. Challenges and special problems

19. Do you think more or fewer regulations are better for the company? Why?

Legal restrictions cannot solve all the problems. Good ethical behaviors of people contribute to the good corporate governance practices of a company. Ethical behaviors take time to develop, and is good to starting educating this aspect among students. Besides, the atmosphere of society is important too. I think the atmosphere in Hong Kong is good enough. For example, there is a Master course of Science in Corporate Governance and Directorship in Hong Kong Baptist University, and there are some rewards related to the Corporate Governance in Hong Kong, which act as check and balance to help create the healthy atmosphere in society. Apart from the law itself, whether they are executed is another issue. There are more rules in china, like the Antitrust Law, but are these laws fully executed?

20. What are the challenges and special problems that the board face?

Succession is one of the issues. Although we have the Management Trainee Program, it takes time to cultivate the management. Also, with the retirement of one director recently, we now do not have a director who has background related to the company’s business field in the board.

21. How can the board balance the interests of controlling family and the non-controlling minority shareholders?

This company is the only business of the owner. Thus, his interest is the same as other shareholders.

22. What are the differences between the family business and non-family business?

In non-family business, the agency problem may be larger than the family business. There may be
more non-executive directors than executive directors in the board of non-family business. As those non-executive directors are not holding a large proportion of shares, they may not help the business of the company wholeheartedly. Some of them even are directors of many companies. I think it does not make sense because they cannot have enough time to sit in so many different boards. So, the CEO or the senior management in these companies may have a greater power than those people in the family-owned business because there is less people supervise them. Thus, the monitoring role in these companies should be strengthened.

23. What other issues would you like to add?
In family business, it is subject to how the majority shareholder wants his business being run continuously. There must be a good leader in order to keep on operating the business. It depends on the owner’s mindset of whether the leader is the successor of him or a professional manager hired from the external. How to find a right person to succeed the business is the main difficulty for the family business. If the family business want to pass on the business to his successors, do his next generations feel interested in the business? Do they have the talents and abilities to run the company? How long does the business can be sustained by the family? And there should be a good succession plan for the management. Our CEO is now not the family member, the chairman is a Non-Executive Director, and the Vice Chairman will also be the Non-Executive Director in the future. We are going forward to the direction of the professional management. The large shareholder wants to focus on the monitoring role and the helping role.
Interview Transcript 5

1.1 Composition

1. How many directors are on the board?
Total: 7; Non-Executive Directors: 1 Executive Directors: 3 Independent Directors: 3

2. How many types of directors are on the board?
1 ED is Chairman, who is a family member, involves in the day to day operations; CEO is a professional accountant; 1 ED is a retired civil servant, who is well-known by the public, mainly be responsible for the public relations. 3 INEDs, 1 NED is a lawyer, who provide legal advice for the company (previously was an INED, he became a NED after the amendments was made by the Stock Exchange of Hong Kong Limited (Stock Exchange), stating that an INED should have no business relationship with the company.)

3. How does the board composition influence the decision making?
The board approves major decisions, e.g. large investment, donation and strategy. But in the family business company, the initiatives are always in the family (Chairman).
Ex. Retail business in China
The role of Independent Non-Executive Directors is to protect the minority. For example, when the family suggested expanding the market in China, we have concerns about the project so we propose quarries and voice out our concerns in the board. But as we are not familiar with the company business and are not majority shareholders and the EDs have submitted sound-well business plan, the board decided to open one store first. There are few formally voting in our board. Decisions are always made before the meeting. The board meeting is for the formulation.

1.2 Functioning:

4. What are the roles and contribution of non-executive/ independent directors? Do they play an active role in operational issues?
In functional, as I am the Chairman of the Audit Committee, so the Management have to report the management accounts and interim accounts, and I actively meet with external auditors to check the accounts, the standards and the code. And we follow the the Hong Kong Stock Exchange (SEHK) best practice few years ago to set up the internal auditor function and the internal auditor has to report to me directly.

5. Are board members evaluated on their performance?
We have nomination Committee and audit committee; we show the attendance in the annual report. There is evaluation for executive directors as it affects their salary.

6. Which of the function (resources/ services/ control) does the board plays the most important
role? Why?

Control

1.2a Resources

- **7. How does the board assist the company in acquiring resources in order to create competitive advantage? What information is usually provided by the board members?**

We use our profession to bring resources to the company. As I have mentioned, INED is a lawyer, he can give advice for legal issues and he frequently contact with legal and secretarial staff in company. And there are 2 INEDs with accountant background, we use our expertise to give advice and check the company accounts. And the family members give suggestions for the new project development, then bringing into the board for discussion.

1.2b Services

- **8. What are the roles of board in the operational management?**

  Executive directors do the operational management.

- **9. Do you think the board plays a strong advisory role to the CEO? Why?**

  Right, we (INED) give our ideas especially we propose concerns for some projects and strategies.

- **10. Do advices offered by the non-executive directors usually being accepted by the CEO?**

  It depends. The CEO considers the risk and sees if there are strong evidence.

- **11. How do you describe the actual level of independence of independent directors?**

  Quite independent.

- **12. How often do the board members meet? (Meeting frequency)**

  6 times last year

- **13. How long does the meeting usually last?**

  Around 3 hours

- **14. What is the usually setting of the board meetings?**

  In register office (headquarter)

  - **What is the meeting atmosphere? (formal or informal/ conflict or harmony)**

    Harmony, between formal and informal

  - **Do all conversations during the meeting being recorded?**

    Not all conversations are recorded. Only important issues are marked, and the minutes are quite comprehensive.

1.2c Control

- **15. How does the board supervise the management?**

  1) Internal audit → directly report to the audit committee → board
2) Control function → Investment, donation and relative transaction need to be approved by the board. E.g. INEDs suggested that large donation should be approved by the board, because the audit report does not show where the donation goes to, which help strengthens the control function.

17. How does the board control the succession process of CEO?
   It is an issue our board has to face, as the CEO is now 62 years old. Yet, now we still do not have the succession planning for the CEO.

18. How does the board help align the interests of shareholders and managers? (avoid agency problem)
   Keep track on dividends distribution. Check the trend of the expected dividends of shareholders, accounting and financial follows the rules to practice legally.

2. Challenges and special problems

19. Do you think more or fewer regulations are better for the company? Why?
   More rules are better. For instance, CG code required the chairman of Audit committee should have financial background eight years ago, which enforces the company to comply with.

20. What are the challenges and special problems that the board face?
   Our company does not have a clear direction and long term strategy. As strategies are always decided by the family, the family has a strong influence in decision making.

21. How can the board balance the interests of controlling family and the non-controlling minority shareholders?
   We consider the interests of the whole company; do not favor large shareholders or minority shareholders. For example, minor shareholders would like to have as much as dividends, but we have to consider the cash flow of the company as well.

22. What are the differences between the family business and non-family business?
   Most of the companies in Hong Kong are family business. The board in non-family business includes mainly paid employees, their control function is stronger. But for family business, there may be less supervision as the family is the largest shareholders.
Interview Transcript 6

1.1 Composition

1. How many directors are on the board?
   Total: 8;
   Non-Executive Directors: 1
   Executive Directors: 4
   Independent Non-Executive Directors: 3

2. How does the board composition influence the decision-making?
   The existence of the Independent directors is the requirement of corporate governance. Indeed, external directors contribute to the accountability. For example, minority shareholders believe that independent individuals do not tend to one-side in favoring large shareholders on decision-making. And minority shareholders cannot participate in daily operations, so INEDs are the representatives of minority shareholders to play the balance role and monitor function. In our board, each INED has his expertise, like with the background of accounting and investment bank. Thus, our advices given on the finance perspective to acquisitions, mergers and investment can help the business development. In a certain growth period, in the mature stage, there is the need for new business development. Insiders may not have this particular expertise; so, the INEDs can supplement the development of the company.

1.2 Functioning:

3. What are the roles and contribution of independent directors? Do they play an active role in operational issues?
   The Listing Rules regulate this aspect. The participation of INEDs cannot compare with the Executive Directors. They view from the outside to see the operations of inside. They have special expertise in finance, which are different from the industrial knowledge; they consider the economic situation, and the like. The Executive Directors always listen to their ideas.

4. Are board members evaluated on their performance?
   We have Nomination Committee and Audit Committee. We show the attendance in the annual report. There is the evaluation for Executive Directors as it affects their salaries.

5. Which of the function (resources/services/control) does the board plays the most important role?
   I think internal control and risk management are the most important in corporate governance. The Internal Control Department (ICD) can discover the monitoring problems in daily operations. We also have compliance. We hire external accountants to perform internal audit function to find out the problems in the operations. And we have a whistle bowing policy. Thus, I believe we have sound internal control and external financial functions.

1.2a Resources
7. **How does the board assist the company in acquiring resources in order to create competitive advantage?**

- Executive Directors have the expertise about the industries’ information, their advices are important. INEDs are different industries experts. The background of INEDs is important. We can help recommend investors, give insights from the users’ perspective, review the annual reports, and see the business life cycle of the company. We are willing to exchange ideas to help the company to make profits.

### 1.2b Services

8. **What are the roles of board in the operational management?**

   Executive Directors perform the daily operation and management of the group, inter alia, HR, accounting and internal audit, corporate finance and treasury management, inventories custodian and keeping, fixed assets management, customer relationship management and accounts receivable management etc. As for INEDs, they are responsible for pretty much the same functions, however, certain functions are delegated to top management in real life.

9. **Do you think the board plays a strong advisory role to the CEO? Why?**

   Directors’ advices on the products’ life cycle and about the market and economic situation are helpful to the CEO.

10. **Do advices offered by the Independent non-executive directors usually being accepted by the CEO?**

    Advices are usually being accepted, as long as the advices are sensible.

11. **How often do the board members meet? (Meeting frequency)**

    6 times; meetings are held around every 2 month

12. **How long does the meeting usually last?**

    See if sales announcement, if yes, around half day

13. **What is the usually setting of the board meetings?**

    Via phone and video-conferencing

- **What is the meeting atmosphere? (formal or informal/ conflict or harmony)**

    Formal meeting. There may be different opinions, but at last we compliance and make an agreement.

- **Do all conversations during the meeting being recorded?**

    Not every word is recorded. Only issues being discussed and final decisions are recorded.

14. **Are there any influences on the decision-making?**

    I think there are usually informal discussions between the two family members. And they keep on having communications with the sales, research, finance executive directors. The two family members have to explain to the Executive Directors on what to do, so they cannot only make decision among them.

**Do you feel pressure to propose ideas in the meeting? No.**
1.2c Control

15. **How does the board supervise the management?**
   Actually the Executive Directors have two roles: 1) to manage their divisions well, 2) to evaluate the abilities of the mid-level management. So, the Executive Directors are responsible for supervising the management.

16. **How does the board control the succession process of CEO?**
   The succession planning is something about the theory. Nobody can't be replaced in a company. Keeping mutual communications is enough.

17. **How does the board help align the interests of shareholders and managers? (avoid agency problem)**
   In fact, agency problem exists. In our company, the senior managers are also the large shareholders, say CFO and COO are the executive directors, so it is quite difficult to separate the roles of them. Yet, every shareholder has one vote. Other minority shareholders can monitor large shareholders in annual general meeting. In some cases, minority shareholders together make the directors appointed by the major shareholders quit the board.

2. **Challenges and special problems**

18. **Do you think more or fewer regulations are better for the company? Why?**
   I don’t feel that fewer Corporate Governance Rules is better. The regulation tell the minimum of what company should do some company has scandals, problems of internal control. I think there is deficiency and some areas still need to be regulated.

19. **What are the challenges and special problems that the board face?**
   Getting resources is always a main challenge. Capital is needed for the new investment. In the board, there are not many challenges.

20. **How can the board balance the interests of controlling family and the non-controlling minority shareholders?**
   The Annual General Meeting helps align the interests of all shareholders.

21. **What are the differences between the family business and non-family business?**
   In non-family business, there are different opinions, while family business has consistent views. The advantage is that it makes quick decision.

22. **What other issues would like to add?**
   Our company has listed for 5 years, and the INEDs haven’t changed. The stability of INEDs in the board gives the impression that there are not many conflicts and there is a good balance between Executive Directors and INEDs.
Interview Transcript 7

1.1 Composition

1. How many directors are there on the board?
   Total: 7
   Executive Directors: 2; Independent Non-Executive Directors: 3; Non-Executive Directors: 2

2. How does the board composition influence the decision making?
   I think the composition is good. The chairman is a Non-Executive Director, who is the founder of the company, and he is now not a majority shareholder of the firm. He is concerned about the future wellbeing and the reputation of the company, but he does not involve in the operations. Thus, he has a detecting [you mean detached?] function. Another Non-Executive Director helps the company to raise funds as he knows well about the finance industry. As for the 2 Executive Directors, the CEO is a businessman who is familiar with technology and the market in China; another Executive Director comes from a Greek lottery company who is an expert in the lottery business. As for the 3 Independent Non-Executive Directors, they are all very experienced businessmen and professionals. One is an accountant, one is a banker and one is an IT expert. With the check and balance function and also talented people, I think there is a good mix on the board.

1.2 Functioning:

3. What are the roles and contribution of non-executive and independent non-executive directors?
   • Non-Executive directors do not have actual work in the company. They provide expertise in the Board meetings and the Chairman reviews and monitors the policies and practices of the company. Executive Directors manage the market and the operations of the products. Apart from their different expertise, Independent Non-Executive Directors mainly perform the function of monitoring and preventing corruption and fraud from happening. Also, they are accountable to the public, having a fiduciary duty towards the shareholders.
   • Are they actively participated in the board?
     Yes, each director provides a lot of suggestions and asks questions during the board meetings and share their expertise and connections. And they usually communicate with the management to pay close attention to the company’s policies and practices.

4. Are board members evaluated on their performance?
   Right now they are not doing that. The CG Code has been changed, being effective from 1 April. Every listed company has to have a Nomination Committee, and one of its jobs is to evaluate the directors’ performance. So, I am sure they have to do it.
5. Which of the function (resources/ services/ control/management) does the board plays the most important role? Why?

Management and control are the most important functions of the board. The board steers the company. These functions are important because they ensure the company goes in the direction as agreed and planned. Otherwise, the company would get lost. Resoruce sharing and services are also important, but they could be acquired from outside, while management and control must be done by the directors themselves.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive advantage?

The company has a diversify board. All areas are taken care of, for example, an accountant, a financer and an IT man act as the Independent Non-Executive Directors in the Board. These people are experts in their own field, with a lot of experience and connections, which can introduce somebody to the company. These are the ways how they contribute. They are doing very well and the entire board has a good working relationship so directors are very helpful to the company.

How about the importance of guanxi, how do you feel about that?

In Asia, guanxi is of particular importance. This is unlike the western world. The centre in Asia is the family, but not the individuals. The western world is used to rely on a common set of law and equity which everybody knows acts accordingly. Asian people, being family-centred, do not have the same set of common rules. Therefore, to be a friend, I have to know you for a long time before I can trust you. And guanxi starts from there. Say, if you want me to help, you don’t know whether I can help you wholeheartedly and I don’t know whether by helping you will hurt me. So a mutual friend is needed to know both parties well. That is the original guanxi. Basically, we don’t need benefits first; we want to protect ourselves from harm first. And the next step is about benefits. If I have a good product to sell, I want to sell it to somebody I know as a favor to my friends. Say, if you have something, you want to pass it on to your brothers, sisters or relatives first, instead of advertising in newspaper. When you recommend a friend to me, you want to benefit me and also give a favor to your friend. That is guanxi too. Guanxi protects people from getting hurt, and second is to pass benefits to somebody you want, but not to everybody. So, I think the main difference between western and eastern countries are the sense of society. Guanxi seems to be more important in Asian countries.

Is guanxi associated with Independent Non-Executive Directors?

Sometimes INED pass on their connections. On the other hand, people also judge a company by looking at the INEDs. If there is a very reputable man in the board of the company, people
would say this is a good company and would not cheat people and feel more comfortable dealing with it. Otherwise, the reputation of that reputable Independent Non-Executive Director will be destroyed.

1.2b Services
7. What are the roles of board in the operational management?
   The company of course has all those Board Committees. As for the delegation of power, since the business nature of this company is uncommon and the lottery business is not known by many people, so the CEO and the other executive director get most of the support from the Non-Executive Directors.

8. Do you think the board plays a strong advisory role to the CEO? Why?
   We can separate the questions into two areas. One is on business. Other board members contribute very little to the business to the company because it is a particular trade and a particular market. But for the other Executive Directors, they can help. Right now, only one Executive Director knows how the lottery shops run because he knows about the related technology, the government officials, the finance department and also the Ministry of Civil Affairs, as lottery is monitored by these two departments. Something can be done here. For example, market and site visits to show the INEDs how the lottery shops are run, let them visit the lottery shops, and talk to the staff and introduce them to the local city officers. This way the INEDs will know more about the business. Maybe by site visits, knowing more about the business, they can help better to the company. Another area is about financial, resources, guanxi, control and fairness, the board is doing very well.

   They actively participate in the board. It is a GEM board company; he has to present the accounts every quarter. Some Main Board companies do not publish their accounts, only publish the accounts twice a year, so the directors do not know what is happening in the company until it is about to publish the interim or annual reports. But for GEM board, it does quarterly. But this company has monthly management accounts 10 years ago with full analysis reports. Because when the company was listed, there were outside investors, including the Applied Research Council. The company has to provide regular and detail information to keep them informed. Previously, many non-executive directors complain they don’t know much about the business, so they cannot help and monitor. The new CG Code requires the management has to keep the directors informed and tell the non-executive directors more about the business of the companies, starting form 1 April this year. In this aspect, the company is doing well.
9. What kind of advices provided by the non-executive directors (both Non-Executive Directors and INEDs)? Do advices offered by them usually being accepted by the CEO?

Expertise, of course, they are experienced management people. They know the market and know what the world is like. When the Executive Directors are busy in the day-to-day work, other non-executive directors will keep watch from new angles and remind them to be careful and get prepared. Many companies die because of cash problems, for example, having a big and long outstanding accounts receivable. Executive Directors normally are too busy in doing good results on business, forgetting this secondary but important matter. So, the non-executive directors contribute. They remind the Executive Directors to look at the whole thing form different perspectives, and from a high plain. Good ideas are always taken in the board.

10. How often do the board members meet? (Meeting frequency)

Four to five meetings per year, as the board has to approve accounts four times a year.

11. How long does the meeting usually last?

On average, it is about 45 minutes.

12. How is the process of the board meetings?

Agenda and board papers are prepared well in advance. This is supplemented by the Company Secretary Memo on changes since the last meeting and what to expect in the coming months. This Company Secretary Memo is sent to directors as reminders before the meeting. After the accounts and board papers are circulated, Directors would raise questions which are answered before the meeting. For these regular decisions, it does not take a lot of time. But the board do discuss on other matters. It is a good board.

• What is the meeting atmosphere? (formal or informal/ conflict or harmony)

It is a harmonious board. It is formal in terms of reports. The directors have a high demand on the reports. They do not accept poor quality reports. But they also have informal interactions besides the Board meetings, they go for dinners or drink, just to chat. Sometimes, this way produce better results than the formal meetings. Because people stick to the agenda in formal meetings, when in informal gathering, they are more willing to express their opinions as there is no minutes for formulating of their words.

Do all conversations during the meeting being recorded?

Only minutes are taken, which includes the discussion content. Tape-recording sometimes is no goods. During the board meeting, in order to have free discussion, it will not be a prepared statement; not all discussion content is useful for writing the minutes, for example, many questions are asked. If some directors ask a stupid question or quote a wrong example, it will make them feel embarrassed knowing that such face-losing remarks are permanently kept. After that, the Company Secretary would send them the draft to give them a chance to clarify. And the clarification is open to all directors.
1.2c Control

13. How does the board supervise the management?

It depends on how the organization is set up. It does not have a big head office staff in this company. Many staffs are local people in China. Through the shops managers, the operation hand books, they report daily on the business to the head office. The operation of the business is simple; the system is the same in all shops. We have people in visiting the shops regularly to monitor the people in shops to make sure rules and procedures are followed. Yet, the board cannot manage too details of the operation. They have manuals like control manual and operation manual, and managers visit the shop to check the procedures. The internal control is well done.

14. How does the board help align the interests of shareholders and managers? (avoid agency problem)

The board does the internal control. Also, the company does not have leverage of nomination to the executive or the staffs. There is the share option scheme to align the interest of shareholders and managers, which is making money.

15. How does the board control the succession process of CEO?

I don’t think there is a plan yet. The CEO is nominated by the controlling investor. I don’t think they need the plan now. Maybe two to three years later, when the company is more mature, the company will need to consider it. Now the board is too busy and has no time to think about it.

16. How does the board help align the interests of majority shareholders and minority shareholders?

It is already well balance. There are three major shareholders. They split the roles, one takes care of the market, one takes care of the technology, and the last one takes care of the manufacturing. There are actually very few minority shareholders. Including the convertible bonds, these companies have nearly 70% of the shares. When there are more shareholders in the future, they need to consider it.

2. Challenges and special problems

17. Do you think more or fewer regulations are better for the company? Why?

After the recent CG Code is updated, it is good enough. And the consultation of the Companies Ordinance Rewrite is finished. The revised Companies Ordinance will be passed soon. The updated CG Code and the CO will together do all that are needed for some time to come.

18. What are the challenges and special problems that the board face?

The board is operating very well, except the Executive Management can prepare other board members better by introducing them more in-depth into the business and the business
environment of the company. Now the information is not presented in a desired extent to board members, maybe because the Executive Directors are struggling with the business.

19. What are the difficulties in board practices between family-owned companies and non-family owned companies?

For family-owned business, the family members make the decisions while other non Executive Directors are good friends of the family, so the decision is same. If the head of the family-owned business is open-minded, he will accept the ideas of Non-Executive Directors and Independent Non-Executive Directors, and invite good people to the board. The company would have talents and expertise beyond the family members and their friends, and is more likely to succeed.

In other case, if the owner is not open-mined, he will appoint people who always stay quiet, and therefore cannot get wise counsel. The same thing happens to other non-family owned companies as well. They need outside non-executive directors, but they sometimes invite non-executive directors just be on the board. Such companies will have the risk of limited talents and expertise.

I won’t say the Board of the family-owned companies is always bad; it depends on the owner of the company. If the owner is fair and open-minded, he may not invite friends who agree with everything he says, but invite good people, and listen to their advices.
Interview Transcript 8

1.1 Composition

1. How many and what types of directors are in the board?
   Total: 8; Executive Directors: 3; Non-Executive Directors: 2; Independent Directors: 3
   Chairman is the founder and a major shareholder of the company. Other directors are either employees or friends of him.

2. How does the board composition influence the decision making?
   Decisions are decided by the chairman. As he is the major shareholder, he influences the decision making. It is so common in family business that the chairman does not want to hire someone who is always opposed to him into the board. If the chairman is open-minded, he may listen to advices from other directors.

1.2 Functioning:

3. What are the roles and contribution of independent directors?
   They give opinions.
   • Do they play an active role in operational issues? Do they actively participate in the board?
     They do not actively participate. They just take part in the two board meetings to pass standard resolution issues, which are the distribution of dividends, and the interim and annual results.

4. Are board members evaluated on their performance?
   No.

5. Which of the function (resources/services/control) does the board plays the most important role?
   Why?
   Control. It is held by the chairman indeed, but not the board.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive advantage?
   The board through the chairman, who is the ‘true CEO’, brings connections and business opportunities to the company.

• What information is usually provided by the board members?
  Business opportunities are brought through the chairman.

1.2b Services (provide advices for CEO)

7. What are the roles of board in the operational management?
   Power is delegated to the management unless major transactions which needed to be approved by the
board. And the company mostly acquires business opportunities via the chairman.

8. Do you think the board plays a strong advisory role to the CEO? Why?
   In fact, CEO is just an employee of the chairman, and most decisions are decided by the chairman.

9. Do advices offered by the non-executive directors usually being accepted by the CEO?
   The chairman dominates in the decision-making.

10. How often do the board members meet? (Meeting frequency)
    All members meet 2 times a year and the executive directors attend 3 other board meetings.

11. How long does the meeting usually last?
    Around an hour

12. What is the usually setting of the board meetings?
    - What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      Information is circulated to directors before the meetings and there are papers to follow. But most of the time the directors chat on non-business issues during board meetings.
    - Do all conversations during the meeting being recorded?
      Only transactions and results are recorded.

13. Do family members lead to enormous influence in decision making?
    Yes. The chairman makes most of the decisions

1.2c Control

14. How does the board supervise the management?
    Via the chairman.

15. How does the board control the succession process of CEO?
    There is not yet a succession planning for the Managing Director. Yet, the chairman has started to train his second generation who will take up important position in the company for a couple of years.

16. How does the board help align the interests of shareholders and managers? (avoid agency problem)
    Now the manager is also the major shareholder. So it is difficult to avoid the agency problem. In the eastern countries, founders prefer passing down their business to the next generations. Thus, family-owned companies in Hong Kong need to learn from good western practices/ systems to adopt professional management systems. Say, the recruitment and remuneration system should be learnt from the West and add into companies’ corporate governance practice. As for the recruitment system, companies ought to go through open recruitment and evaluation procedures to consider both inside and outside candidates. Or they ought to find a headhunter to hire professionals for the positions of CEO, managers and directors. As for the remuneration system, the compensation packages for directors, especially the family members should be aligned with the market. Companies should also keep the transparency, following the Listing Rules to disclose the conflicts of interests and avoid the participation of related parties in voting.
2. Challenges and special problems

17. How can the board balance the interests of the controlling family and the non-controlling minority shareholders?

Via the disclosure of connected transactions: When the major shareholder has potential conflicts of interests, he should voice out in the board meetings to discuss with other directors, the representatives of the minority shareholders. If conflicts of interests really exist, he should abstain from the meeting and voting. No privileges should be given to the connected businesses, and they should only be treated as one of the choices.

17. Do you think more or fewer regulations are better for the company? Why?

Now the regulations for CG are not enough. Many of them are just recommended best practices but not compulsory. Corporate governance is one of the factors helps the company successes. The profitability of a company is influenced by many other market factors, like the products, pricing, and the legal system etc. Corporate governance is more about rules and regulations. There are both pros and cons, say connected transactions may not be harmful as well, but all transactions should be done fairly and transparently. Clarifications should also be made if there are conflicts of interests.

18. What are the challenges and special problems that the board face?

The company may face difficulties when it transforms the business nature. It is common that family companies are very focus on their current business. In a family business, major shareholder successfully developed the business in the past, with his or her background and experience. However, business environment keeps changing from time to time. New technology, new products and new competition raise in the industry. If major shareholder only relies on his or her background and experience to run the business, the company may not catch up the change of the business environment now and in the future. Major shareholder should keep an open mind on obtaining advice from other board members and other professionals.

Major shareholder of family business wishes to train his or her 2nd generation to take up the management of the company. The best way to find a suitable successor is to go through an open recruitment process. However, it is unlikely that major shareholder will go through this process but to appoint his or her 2nd generation directly. Such an appointment probably is the best interest of the major shareholder but may not be the best interest of the company as a whole. This problem appears in most of the family business in HK, e.g., Cheung Kong, New World, Henderson Land, Sun Hung Kai.......etc.

Should there be a higher control for family business?
I think the corporate governance system for family and non-family business should be the same.

19. What are the differences in the boards practices/ functioning between the family business and non-family business?

In family business, there are family members who are also the large shareholders sitting in the board, they may have a great influence in the decision making of the boards.
Interview Transcript 9

1.1 Composition

1. How many directors are on the board?
   Total: 13; Non-Executive Directors: 4; Executive Directors: 6; Independent Directors: 3

2. How many directors are on the board?
   6 senior management; 3 subsidiary shareholders; Chairman previously was an ED, and now become a NED

3. How does the board composition influence the decision-making?
   Subsidiary shareholders have major decision-making roles. Major decisions must first get the approval of them before bringing to the discussion in the board.

1.2 Functioning:

4. What are the roles and contribution of non-executive/ independent directors?
   Roles: Through Board committee:
   1. Audit Committee (All are INEDs) plays an important role in monitoring, e.g. review reports, code of conduct
   2. Remuneration Committee

5. Are board members evaluated on their performance?
   Up to this moment, we do not have a system for the evaluation of directors’ performance although the Stock Exchange of Hong Kong suggests companies to do so. And we are going to have it.

6. Which of the function (resources/ services/ control) does the board plays the most important role? Why?
   Control. The company expands quickly. Its businesses are so diversified that it should do better on the control of operations and finance.

1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage?
   EDs are heads of different departments so they directly in charge of the projects. INEDs have less contribution in this function.
   • What information is usually provided by the board members?
     New projects

1.2b Services

8. What are the roles of board in the operational management?
Executive directors are heads of the business units, they are responsible for the operations and they need to report to the CEO and hand in projects to the board.

9. Do you think the board plays a strong advisory role to the CEO? Why?
   I am not sure about that.

10. Do advices offered by the non-executive directors usually being accepted by the CEO?
   Yes. CEO and CFO always accept the suggestions from the audit committee.

11. How often do the board members meet? (Meeting frequency)
   4 times a year

12. How long does the meeting usually last?
   Around 1 hour

13. What is the usually setting of the board meetings?
   In register office (headquarter)
   - What is the meeting atmosphere? (formal or informal/ conflict or harmony)
     Harmony and formal and we prepare the chairman script
   - Do all conversations during the meeting being recorded?
     Yes

1.2c Control

14. How does the board supervise the management?
   As there are 4 meetings a year, the board supervises the management via business reports handed in to the board

15. How does the board control the succession process of CEO?
   Both the succession of the CEO and the Chairman is a big challenge in the company. All executive directors have for 30-40 years; they are sensitive to the succession planning. Many directors are aged above 60. With the requirement of Listing Rules for the remuneration committee and nomination committee, they are now more willing to discuss this issue. Now I cannot see a clear succession planning for the CEO.

16. How does the board help align the interests of shareholders and managers? (avoid agency problem)
   Actually the management (EDs) is not aware of the agency problem. Main shareholders (NEDs) are the agent, thus, 3NDs sit in the board to monitor the management to ensure strong monitoring function.

2. Challenges and special problems

17. Do you think more or fewer regulations are better for the company? Why?
   I think more regulations are better as the company has to follow.
   This size of the company is large; it has resources to perform better in Corporate Governance,
like the establishment of better Code of Conduct and in monitoring function.

18. What are the challenges and special problems that the board face?

I think SEHK’s suggestion of more training to INEDs is a good idea. Some INEDs do not have the background in auditing, so they may not be familiar with the Listed Rules. I encountered a situation that an INED asked me not to give him so much information review. And they should be more familiar with the operation and business of the company. More information shown in management reports can help INEDs to review the company business and do better in monitoring. I think now the agency problem is serious.

Also, the internal control system should be improved. More INEDs and auditors are needed for the company. Now, only one INED is an auditor in the board.

19. What are the differences in the boards practice/functioning between the family business and non-family business?

Family business may be more careful in spending money as the business belongs to the founder. Yet, large shareholders are non-executive directors in this company; they are not involved in daily operations, so they can just monitor the big issues. Internal auditors only conduct financial reviews randomly and external auditors only review on the financial statements. There is room for improvements in the internal control system.
Interview Transcript 10

1.1 Composition

1. How many and what type of directors are on the board?
   
   Total: 17
   
   Executive Directors: 3; Independent Non-Executive Directors: 7; Non-Executive Directors: 7
   
   6 of the Non-Executive Directors have association with family members.

2. How does the board composition influence the decision making?
   
   Directors have different professional backgrounds, which form a balance mix in the board. And there are more than 1/3 of Independent Non-Executive Directors in our board, to whom shareholder concerns can be conveyed.

1.2 Functioning:

3. What are the roles and contribution of non-executive/ independent non-executive directors?
   
   • Actually the board makes collective decisions in the board meetings, so there are no big differences in terms of roles between directors. Indeed, the law requires some board committees should be chaired by an Independent Non-Executive Director. There is no such relationship as between the Chairman and CEO. We have clear guidelines on how to deal with conflicts of directors’ interests. Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and withdraw from the meetings as appropriate.
   
   • Do they actively participate in the board?
     
     All board members are encouraged to actively participate in the board meetings.

4. Are board members evaluated on their performance?
   
   The evaluation is done on the Board as a whole. We hire external consultants to undertake the performance evaluation of the board and board committees.

5. Which of the function (resources/ services/ control) does the board plays the most important role?
   
   All three functions are important.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive advantage?
   
   Directors possess various geographical and professional backgrounds. They give useful advices and ask the management appropriate questions to make further clarification. With a dynamic and balance mix of directors, this contributes to the effective direction of the Company.
1.2b Services

7. What are the roles of board in the operational management?
   The board is responsible for high level issues, including the establishment of strategic directions of the company, overseeing the management relationships with stakeholders, setting values and standards and the like.

8. Do you think the board plays a strong advisory role to the CEO? Why?
   Every member is encouraged to participate in the board meetings.

9. How often do the board members meet? (Meeting frequency)
   The board meets at least five times per annum and additional meetings are called for special issues.

10. How long does the meeting usually last?
    Around 3 hours.

11. What is the usually setting of the board meetings?
    • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      Formal and harmonious
    • Do all conversations during the meeting being recorded?
      Meeting proceedings are recorded to facilitate the company secretary in writing the minutes. The recordings are destroyed after the minutes has been finalized.

1.2c Control

12. How does the board supervise the management?
    There is stringent internal control in place. Board Committees have different responsibilities and functions in supervising different aspects. For example, the Audit Committee oversees the internal audit function, reviews the financial reports and monitors financial reporting of the company.

13. How does the board control the succession process of CEO?
    A Management Development and Succession Planning Program (MDS) is introduced by the Human Resources & Remuneration Committee to monitor the succession planning of all senior management, including the CEO.

14. How does the board help align the interests of shareholders and managers? (avoid agency problem)
    There is a large proportion of Independent Non-Executive Directors in the board, which is more than the legal requirement (1/3 of the board), to ensure shareholders’ interests are represented. Independent Non-Executive Directors form the majority in most board committees. Also, when determining the amount of performance related pay to Executive Directors/Senior Management, the Human Resources & Remuneration Committee takes a broad and balanced view of Group
performance in the relevant year. This means that the Committee considers all aspects of the 
company performance including financial, operational, safety, environmental, governance and 
compliance related. Account will also be taken of progress made in longer term corporate 
development initiatives that year. Therefore, management is encouraged to pursue on the long-
term interests of the company and shareholders instead of short-term profits.

15. How does the board help align the interests of majority shareholders and minority 
shareholders?
The interests should be the same for all shareholders. First, the board makes decisions for the 
interests of all shareholders. For example, since 2011 the board changed its dividend practice to 
declare a fourth interim dividend instead of the final dividend to shareholders. This decision is 
made with the consent of all shareholders at the Annual General Meeting and the company 
emphasized that such a change is made in the interests of all shareholders. Another 
consideration is about the conflicts of interests. If there is potential conflict of interests, the 
subject director has to declare his/her interest and withdraw from the discussion as appropriate. 
In fact, our company has published Guidelines on Disclosure of Related Party Transactions and 
we have very few connected transactions. Last, Independent Non-Executive Directors occupy a 
large proportion in the board composition to ensure the interests of all shareholders are 
represented.

2. Challenges and special problems
16. Do you think more or fewer regulations are better for the company? Why?
It doesn’t matter if there are more or fewer regulations. Instead, the practicality and 
enforceability of these regulations are more important. There is a trend of increased 
regulations in order to enhance Hong Kong’s corporate governance standard to align with 
international standards. And our company actively responds to public consultation papers when 
there are new rules introduced by the Stock Exchange of Hong Kong Limited.

17. What are the challenges and special problems that the board face?
We always review the composition of the Board and would like to have more Independent 
Non-Executive Directors joining our Board. Yet, our business is so diversified that it is not easy 
to find an appropriate Independent Non-Executive Director who has the related geographical 
and professional background and yet is available to join our board.
Interview Transcript 11

1.1 Composition

1. How many directors are in the board?
   Total: 10; Non-Executive Directors: 1 Executive Directors: 4 Independent Directors: 5

2. How many and what are the types of board members in the company?
   Executive Directors include the Chairman (the founder), CEO and CFO and all (4) are company staff. The NED is retired ED, retained by the founder who is the controlling shareholder, to represent his interest as a major shareholder. Among the 5 INEDs, 2 of them are previous staff: one worked as a lawyer for the holding private company, and the other one was in charge of the construction materials division. Others are outsiders. Chairman is the only family member. In this company, the largest shareholder has set up a trust, and the beneficial interests are for his family.

3. How does the board composition influence the decision-making?
   A balanced composition of executive directors and non-executive directors help give a strong independent element in the board, which can effectively exercise an independent judgment in the decision making process. Directors from a diverse background also contribute their knowledge and expertise to the discussion, thus enhancing the quality of decision making.

1.2 Functioning:

4. What are the roles and contribution of non-executive and independent directors?
   Operations are mainly delegated to the management. Major decisions like business expansion and acquisitions are reserved for the board to decide. INEDs participate in the meetings and provide independent judgment to decision making, especially when connected transactions, which involves the interests of major shareholders, are considered. INEDs are responsible to take care of the interests of minority shareholders, and to resolve the conflicts of interests. As the company is a listed company, INEDs have the responsibility to oversee the management, to make sure the business of the company are conducted within a prudent risk framework, to ensure the company operates smoothly, and to avoid the collapse of company. Thus, they are responsible for supervising the executive management.

Do independent directors play an active role in operational issues?
   They play active role because they have their own judgment when considering different proposals like investment proposal. Besides, they sit in different various committees: Audit Committee, Remuneration Committee, Investment Committee, Finance Committee and Nomination Committee, and the Executive Committee which is formed by senior management and executive directors to oversee the daily operation. Viewing from the board level, it focuses on setting strategy, directions, and policies, and oversees if policies are implemented.

5. Are board members evaluated on their performance?
Yes. In 2008, the company hired an external consultant to conduct a board evaluation, to review the functioning of the board, the individual directors’ performances and the chairman’s performance. The objective of the evaluation is to find out rooms for improvement of the board.

6. Which of the function (resources/services/control) does the board plays the most important role? Why?

Monitoring is relatively important. Under resources dependency theory, directors have social network and can refer customers, advisers and consultants to the company. Resources function is not so important in our board because our executive directors will seek external advisers when there are problems in the operations. Occasionally, the INEDs may help in some cases, like the referral of lawyer regarding legal issues. Actually, executive directors manage to recruit talents and acquire necessary resources for the business requirements, while INEDs contribute their knowledge and expertise in the decision making process. The INEDs are in fact playing a more important role in monitoring by, say, reviewing the financial statements, cash flow and liquidity, ensuring a robust internal control system and effective risk management, and overseeing the performance of executive management and its remuneration.

1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage? What information is usually provided by the board members?

It depends on the background of the directors. In our board, there are lawyer, bankers, accountant and business executive. Their experience can help the board in decision-making. For example, when considering some acquisition projects, the lawyer focuses on the legal perspective to raise out related legal questions, and the banker focuses on financial implications, like the ROI, returns. As for the EDs, there are certainly responsible for the running of the company. This company is carrying on property and development businesses, and EDs have experience in this field. For example, when there is an acquisition project, they need to investigate the budget, the return, and prepare the proposal, and then submit it to the board for approval.

Regarding how the board approves a proposal to make decisions (decision-making process), normally, senior management assists EDs to draft the proposal, and then submit to the investment committee which includes some INEDs. They consider if the proposal is viable and evaluate the risk. After that, it is submitted to the finance committee to consider the funding. Lastly, the proposal is submitted to the board and final decision is made.

1.2b Services

8. What are the roles of board in the operational management?

In the operational management, the management is responsible for managing the operations. The board provides long-term directions, strategy, and decides on what kinds of business and investment to pursue.
9. Do you think the board plays a strong advisory role to the CEO? Why?
   The board plays a strong advisory role to the CEO, in particular in the long-term strategy planning of the company. In other areas, the CEO has the expertise to run the company.

10. Do advices offered by the non-executive directors usually being accepted by the CEO?
    Advices are generally accepted.

11. How often do the board members meet? (Meeting frequency)
    Actually, we follow the Listing Rules to hold 4 routine meetings per year. For some projects and proposals that require the approval of directors, there are some ad-hoc meetings.

12. How long does the meeting usually last?
    Normally two hours.

13. What is the usually setting of the board meetings?
    At the registered office (headquarter)
    • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      Formal meetings; directors sometimes give constructive opinions, but they are not diametrically opposed to each other, so you can say the meetings are harmonious.
    • Do all conversations during the meeting being recorded?
      We have minutes to mark down all major decisions and also the opinions of directors when there are different views among them.

1.2c Control

14. How does the board supervise the management?
    I think there are two aspects. In the operation, power is delegated to the audit committee to see if the internal control and risk management perform well. The audit committee is in charged by the INEDs; they review the overall risks of the company’s operations. The internal audit manager is responsible for reviewing and investigating controls on each operation to identify any internal control weaknesses and other problems and new risks. All are highlighted to the audit committee members. Besides, the Remuneration Committee monitors the appraisal on the performance of the management and its remuneration. The Company issues share options to motivate the management, and the share options are based on the performance. The performance of the management is monitored through these compensation packages.

15. How does the board control the succession process of CEO?
    We have succession planning, not only for CEO, but also for other senior management. A change of the CEO occurred in 2009. A business division head was identified and promoted to this post. The nomination committee considered if he is appropriate and then made recommendations to the board. Thus, there is a process to choose a new CEO; basically, some executive directors help prepare the proposal.

16. How does the board help align the interests of shareholders and managers? (avoid agency problem)
We have the long-term incentive scheme. Our chairman thinks that if the management also holds the shares of the company, they would devoted to the company. We also set long-term performance targets. We just roll out a 3-year plan, for example, under this plan, the management is required to double the profits within 3 years. If they meet the performance targets, a large amount of share options will be awarded to them. They can sell the shares at the current market price to earn the profits after 3 years. The interests of the management and shareholders are aligned through this incentive scheme.

2. Challenges and special problems

17. Do you think more or fewer regulations are better for the company? Why?

In fact, the law only sets the minimum. There are already many complex regulations in the Listing Rules. If there are too many regulations, the board’s decision-making process on the company business may be hindered. I heard some bosses said that they need to get things done quickly, but they also have to take care of the disclosures set by the rules, therefore, they cannot sign the contract without making an announcement. By the way, I believe the regulations are appropriate, and many of them are not compulsory. It depends on the compliance culture of the company in adopting the best recommended practices voluntarily and if the company and the management is committed to follow the rules.

What are the different outcomes to the companies when they decide to follow or not to follow the ‘best practices’?

Those rules are helpful for the check and balance to a certain extent. But not following the best recommended practices doesn’t mean being harmful to the company. It really depends on the situation of the company. For example, it is recommended that the role of chairman and CEO should be separated, but dual roles also exist in some companies and they still perform well. Thus, the situation of the company should be considered.

18. What are the challenges and special problems that the board face?

I think problems mainly come from the external factors, like changes in economic environment. For example, our company business suffered during the financial tsunami in 2008. Thus, the board has to decide on how the company can operate the business on ongoing basis.

19. How can the board balance the interests of controlling family and the non-controlling minority shareholders?

Actually the law regulates the transactions related to the involvement of the major shareholder. The major shareholder has to abstain. Also, the transaction should be approved by the INEDs, and financial advisers are engaged to give advices to INEDs. I think this mechanism works so far. There are many connected transactions in our company and we use this mechanism to ensure non-controlling minority shareholders’ interests are not affected.
20. Does family member lead to an enormous influence in decision making?
   Of course.

What are the influences of the family member?
Actually the executive management consults the chairman first regarding the decisions and proposals. The proposal is submitted to the board, after the chairman gives the direction. Sometimes, the chairman gives instructions to the management, asking them to investigate and see if the projects work or not when he has some ideas in mind.

Does the family member in decision making affect other INEDs?
It depends on the characteristics of them. In our board, the directors are willing to give different opinions. Indeed, one INED has given various ideas to the board and the family member did not like him as he seemed to have micromanaged the company.

21. What other issues that you would like to add?
In the board, its function on strategy is important; it provides direction for the management to run the company. We have the strategy session each year to discuss the long-term strategy and the direction of the company. One problem is identified that we may compete with another sister company, which is also in the property industry. The board spends a lot of time to argue on the long-term direction of the company in order to clearly differentiate them to the investing public.

Another issue is about the communications and relationship between the directors. For example, one previous INED was active. He gave many comments when reviewing the proposal and even corrected the grammar for the annual report. He was so careful that some directors disliked about that because they thought the INED micromanaged the company. Therefore, how to maintain a good relationship among all board members is a big challenge.

So, how to maintain the relationship between board members?
I think it actually relies on communications. In 2008, the directors know the thoughts of others and the expectations of executive directors on INEDs through the board evaluation exercise. Also, directors often have informal meetings apart from the board meeting. For instance, they have dinner appointment after the formal meeting. In addition, there was another board evaluation in 2011, with no external consultant this time. The board members did the self-evaluation to point out the problems in the board. Information was collected through distributing questionnaires. One recommendation is that more activities like workshops should also involve INEDs’ participation in order to strengthen the communications between board members.
1.1 Composition

1. How many and what types of directors are on the board?
Total: 8; Non-Executive Directors: 1; Executive Directors: 3; Independent Directors: 4

2. How does the board composition influence the decision-making?
In this board structure, power is distributed to audit committee, nomination committee and remuneration committee. Half of the board members are Independent Non-Executive Directors; they all sit in these three committees. Audit Committee is responsible for the internal control, financial reporting and auditing by meeting with the external auditor. Nomination Committee is responsible for board member selection, retirement and re-appointment, as well as review of board structure; and Remuneration Committee is responsible for salary adjustment of directors and senior management as well as review of remuneration policy. Operational management is only carried out by Executive Directors, who together with senior management by forming Management Committee in review, control and resolve operational matters. Basically, directors sit in different Board Committees have different functions. Yet, all board members in the board meeting discuss major decisions.

1.2 Functioning:

4. What are the roles and contribution of non-executive/ independent directors?

• Do they actively participate in the board?
IDs only appear in the board meetings and they are actively participated in general through their membership in different Board Committees.

5. Are board members evaluated on their performance?
Preset objectives are set to monitor company’s activities. Performance appraisal is used to evaluate the performance of executive directors, but we do not have evaluation system for all board members. Nevertheless, attendance records are maintained in evaluating participation of each board member to assess their suitability to act on.

6. Which of the function (resources/ services/ control) does the board plays the most important role?
I think all three functions are important.

1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage? What information is usually provided by the board members?
Several departments, like Marketing Department, Human Resources Department, Sales Department, Finance and Accounting Department, perform the functions of the company. Different professionals lead one department. For example, the director of the Sales Department have 25 years sales experience in the electronics industry, thus, he has certain networks, and sense of touch of the market. Therefore, the company can keep relationships with customers and adapt to the external business environment. In fact, not all board members are familiar with the company business. Say, the INEDs mainly perform the internal control, instead of bringing resources to the company.

1.2b Services

8. What are the roles of board in the operational management?

Board’s decisions are carried out by Executive Directors, who together with senior management by forming Management Committee in review, control and resolve operational matters. Management Committee is formed in the hierarchy bridging between the board and the management and avails for the management (who is doing daily operational management) sitting together regularly for operational matters. Accordingly, the board is playing roles in the operational management through Management Committee.

9. Do you think the board plays a strong advisory role to the CEO? Why?

It depends on the discussion topic/ area. CEO has the strongest knowledge in the IC area, so we trust him and (other board members) seldom have challenges on his expertise. When the discussion topic is about the general market and economic trends, we can exchange more useful ideas. In general, board members actively take part in the discussion.

10. Do advices offered by the non-executive directors usually being accepted by the CEO?

Not a must. It depends on which issues we are talking about. No one knows all knowledge and board members have different expertise, we trust the one who have expertise in that particular area.

11. How do you describe the actual level of independence of independent directors?

First, they do not hold any company’s shares. Second, they are not the relatives of any board members. Third, they do not have any business connections with our company and lastly, they are mostly independent professionals who give personal advices.

12. How many times does the chairman meet with the non-executive directors without the presence of the executive directors present?

Not applicable → Chairman is also a non-executive director.

13. How often do the board members meet? (Meeting frequency)

At least 4 times a year, more meetings will be held for special events

14. How long does the meeting usually last?

30 minutes up to an hour more

15. What is the usually setting of the board meetings?
• **What is the meeting atmosphere? (formal or informal/ conflict or harmony)**
  The meetings are formal and we have agenda to follow. The atmosphere is harmony and the processes are smooth.

• **Do all conversations during the meeting being recorded?**
  Unless requested by board members, otherwise, only decisions are recorded in the meeting.

**1.2c Control**

16. **How does the board supervise the management?**
   The board directly supervises the management: Management includes the 3 executive directors and some senior staff. We are target-oriented, thus, Executive Directors carry out the budgeted control to supervise the activities. We also have internal control procedures. The board reviews the operational menu and staff handbook, and then introduces them to control the behaviors of management and staff. Management Committee is formed in the hierarchy bridging between the board and the management and avails for the management sitting together regularly for operational matters.

17. **How does the board control the succession process of CEO?**
   Principally, we do not have much planning for the succession of CEO. The succession of the CEO is either by promotion or hired from the external. In urgent case, managers are selected to take up the position (promoted from the internal).

18. **How does the board help align the interests of shareholders and managers? (avoid agency problem)**
   The board formulates corporate governance policy, internal control system, operational manual and business objectives for the company. To carry out business, the board delegates to the management and Management Committee being formed as a bridge for review, control and resolve operational matters. For communication with the shareholders, the board monitors and publishes regular reporting such as annual report, interim report and quarterly report and communicates with shareholders through annual general meeting.

**2. Challenges and special problems**

19. **Do you think more or fewer regulations are better for the company? Why?**
   I think the CG regulations in Hong Kong are quite tight. Many rules do not represent that deceits can be fully avoided. Regarding the requirement of audit and internal control in HK, there are requirements from the Stock Exchange of Hong Kong, Companies Registry and ICAC. In fact, the Stock Exchange of Hong Kong states clearly about internal control, I think the rules are enough. There were only few closing down of companies in Hong Kong in these eight to ten years and the requirements for the audit and internal control are improved to a relatively high standard. For example, the Stock Exchange of Hong Kong requests Board members review the
internal control annually and confirm the adequateness of the internal control. Thus, the board has to bear this responsibility. From the perspectives of aims and behaviors, the regulatory system in Hong Kong is active. A Corporate Governance Report is also required to show in the annual report about the related CG practice. Additionally, we release the necessary information, e.g. price sensitive information in our company’s website.

20. What are the challenges and special problems that the board face?

Board members come from different expertise. For some independent directors, they may not familiar with the business of the company, so they may have some difficulties in doing the internal control as they may not identify the appropriateness of the operational procedures. But some other independent directors have relevant working experience and expertise and their involvement can help make a balance.

As for resources, sizable companies can hire consultant companies to help make decisions and make reports. But our company is small to middle size, so we need to spend money carefully and make more self-efforts.

21. What are the differences between family business and non-family business?

I think the board of non-family business is more open than that of family business, especially in decision-making and strategy planning. The strategies and targets are mainly decided by the family, others have to coordinate to reach that target. Instead, there are more discussions and brainstorming in non-family business companies. Therefore, board members in non-family business are not required to follow someone’s instructions or initiatives.

22. How can the board balance the interests of the controlling family and the non-controlling minority shareholders?

All shareholders can only operate their rights in the shareholders’ meetings. Some board members (Executive Directors and Non-Executive Directors) are also the shareholders, but no special treatments/ favors are given to them. They still only have one vote in the board meeting.
Interview Transcript 13

1.1 Composition

1. How many directors are on the board?
   Total: 9; Executive Directors: 6; Independent Non-Executive Directors: 3

2. What types of board members on the company?
   2 brothers, a father and a son

3. How does the board composition influence the decision making?
   No impact in our case.

1.2 Functioning:

4. What are the roles and contribution of non executive/ independent directors? Do they play an active role in operational issues?
   1. To approve the remuneration of Executive Directors;
   2. To approve the accounts;
   3. To review company’s accounting policies and internal controls; and
   4. To approve the appointment of directors, that is required by the Listing rules by 1 April, 2012.

5. Are board members evaluated on their performance?
   We have records for the attendance of each director.

6. Which of the function (resources/ services/ control) does the board plays the most important role?
   Control, because it is the last part which determines if a company can make profits or loss.

1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage?
   Acquiring information from the externals and building relationships with external parties are the daily duties of board members.

1.2b Services

8. What are the roles of board in the operational management?
   Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the executive directors of the company. Plans and budgets are reviewed on a monthly basis to measure actual performance against the budget. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Different guidelines and procedures have been established for the approval and control of operating expenditures, capital expenditures and
the unbudgeted expenditures and acquisitions.

The executive directors of the company review monthly management reports on the financial results and key operating statistics of each business unit and hold periodical meetings with the senior management of each business unit and the finance team to review these reports, discuss business performance against budgets, forecasts and market conditions, and to address accounting and finance related matters.

9. Do you think the board plays a strong advisory role to the CEO? Why?
   Sure, this is the duty of the Board.

10. Do advices offered by the non-executive directors usually being accepted by the CEO?
    Yes, we fully respect the advice from the independent directors.

11. How do you describe the actual level of independence of independent directors?
    Sufficient, we have to meet Listing rule’s requirements.

12. How many times does the chairman meet with the non-executive directors without the presence of the executive directors present?
    At least two

13. How often do the board members meet? (Meeting frequency)
    Monthly

14. How long does the meeting usually last?
    2 to 3 hours

15. What is the meeting atmosphere?
    Formal with open discussion
    • Do all conversations during the meeting being recorded?
      Minutes are prepared for each meeting. Of course, not all conversations will be recorded.

Do family issues being discussed in the board meeting?
Never

Do family members lead to an enormous influence in decision making?
Never

1.2c Control

16. How does the board supervise the management?
    The Board is responsible for internal control of the group and for reviewing its effectiveness. Procedures have been designed to safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for management use and for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against
material errors, losses or fraud.

For the year under review, the Board has designated a risk management team to review the effectiveness of the group’s internal control system. The team performed evaluation of the principles and controls of the group’s control environment, risk assessment, control activities, information and communication and monitoring so as to ensure that key business and operational risks are identified and managed. Significant findings on internal controls are to be reported to the audit committee every year.

17. How does the board control the succession process of CEO?
   A nomination committee is responsible for the succession process of CEO, directors and senior management.

18. How does the board help align the interests of shareholders and managers? (avoid agency problem)
   I think shareholders and managers should have the same interests.

How does the board avoid inefficient participation from unqualified family members or relatives?
   We do not have this case.

2. Challenges and special problems

19. Do you think more or fewer regulations are better for the company? Why?
   It depends on whether the regulations are reasonable or not. For example, we welcome those regulations which can strengthen the internal controls or provide more updated information to the public. We object to extend the blackout period for directors to deal with the shares before the results announcement because the public are fully aware of the share dealing of the directors who are required to give a notice within 3 days.

20. What are the challenges and special problems that the board face?
   I don’t think there are big challenges and special problems in our board. And these two are the duty of the Board.

21. How can the board balance the interests of controlling family and the non-controlling minority shareholders?
   They should have same the interests.

Do you think there are differences between the family business and non-family business?
In our company, I think our practice is no difference with those non-family business firms because all listing companies have to follow the Listing rules.
Interview Transcript 14

1.1 Composition

1. How many directors are in the board?
   There are total 7 directors in the board.

2. How many & what types of board members are in the company?
   3 family members, 3 are from the management, and 1 external director who has no relationship with the company.

3. How does the board composition influence the decision making?
   The chairman has two votes, so his subjective view affects the final decision making in the board. And the presence of the external director can enhance the transparency of the board, reduce the bias, and he will be helpful in the crisis management.

1.2 Functioning

4. What are the functions of the board?
   A founder began the business with a small company, and there are some successful factors. When the founder passes away, the wealth including money in bank and shares, the non-measurable assets like invention and goodwill, and the resources of business-know how are left. Usually, the eldest of the family becomes the administrator to success the business. However, whether the non-professional can run the professional business management is an issue. Therefore, the directors-board strikes a balance between the family and the business operation. First, the board is the representative of the investors to protect the interest of them. Second, it acts as a moderator to make sure management can meet the expectation of investors, can convey investors’ assets, ROI and goodwill. Last, the board determines whether invest or not invest.

5. Are board members evaluated on their own performance?
   Board members act as guidance and auditors to balance sheet, profit and loss and good will of the company.

1.2a Resources

6. How does the board director assist the company in acquiring resources in order to create competitive advantage?
   The needs of resources for development should be applied by CEO with detail reasoning of the application for approval.

7. How about guanxi? Is it important?
Guanxi should not apply in making investment decision.

1.2b Services

8. What are the roles of board in the operational management?
The board is not involved in the operation. It can just call for meeting, and request the management for explanation if necessarily.

9. Do you think the board plays a strong advisory role to the CEO? Why or why not?
CEO is a professional leader and should be trusted to carry out the management of the company.

10. How often do the board members meet? (Meeting frequency)
The board holds a prior meeting before the annual general meeting (AGM). Board directors review all related documents and settle all things before the AGM, which is normally held at the end of a year. In the AGM, the CEO has to report what happened in the year, other family members can sit to listen although they may not be the voting members. Issues are formulated in the AGM.

11. What is the usually setting of the board meetings?
• What is the meeting atmosphere? (formal or informal/ conflict or harmony)
  It is formal, and minutes are taken by the company secretary, and then signed by the board members and all executers, thus it is legally binding.
• Do all conversations during the meeting being recorded?
  Minutes are taken, unless request is made by directors.

1.2c Control

12. How does the board supervise the management?
The business target is clearly defined, for example, management should make about 5% to 10% profits. If the management cannot reach the target, the board calls for meeting and ask for the explanation.

13. How does the board control the succession process of CEO?
There is a clear succession plan for the CEO.

2. Challenges and special problems

14. Do you think there should be more rules on corporate governance to regulate the company? Why?
Again, CEO should be trusted. There should be no rules for corporate governance. The CEO
should perform professionally under corporate ordinance and standards.

15. What are the challenges and special problems that the board face?
There are feelings and affections factors. When family members, like the spouse have opinions about the business, how to the board face? In our company, I play a fair and just role that my wife and children are not involved in the business. I set an example to ensure that public and private affairs are separated.

16. What are the differences in functioning between listed-family companies and private family companies like yours?
Listed companies have to protect the interests of all shareholders, and in private companies, the board also have to balance the interests of all stakeholders, which are the family, the business and society. The board in private family business has to think about how the business can be run in the long term to avoid wasting the founder’s knowledge.

17. What other issues that you would like to add?
As for listed companies, it is systematic that the talent of the CEO is the premier requirement. As for private company, we invite a member who has passion with sufficient skills to be the CEO, in so that other board members are willing to believe on him.
Interview Transcript 15

1.1 Composition

1. How many directors are in the board?
   Total: 9; 1 Chairman, and others are Executive Directors

2. How many & what types of board members are in the company?
   2 family members and 7 senior staffs

3. How does the board composition influence the decision-making?
   In our family business company, the chairman is of course a family member and others are senior management. We respect him and he has a great influence in the decision-making. We have board Resolution. Major decisions should be unanimously adopted in the board.

4. What are the functions of the board?
   The function of the board is to protect the interest of the company, which means no hurts to the company business values, including being responsible to society. Therefore, given this premise, board members should voice out if there are any decisions that may hurt our society.

1.2 Functioning

5. Are board members evaluated on their performance?
   We have unwritten evaluation. Family members and very few executives (board members) do the evaluation. It is not an informal evaluation. When it comes to the remuneration, the evaluation is taken seriously.

6. Which of the function (resources/ services/ control) does the board plays the most important role?
   All three are important. The board members have the responsibility to provide services. During the services process, we all need to monitor the operation of the system. In operating one system, there must have some control points. If control points are not secure enough, review must be taken, and followed by changes. Sometimes decisions are proposed from the board, what the board members need to concern about is discussed and follow-ups are conducted. As in resources, Guangxi is important for board members. The Guangxi is not new-built; it is instead about the good will maintenance. Board members may bring new business opportunities via daily working and interact with the external parties, thus having connections is needed.

   Does the board make direction planning?
   The board checks on the company’s direction. Take myself as an example: I am responsible for occupational health and safety, I remind all board members about the related issues. Then, they
need to execute their business unit. All directors should consent with the practice, and then it steers to the bottom.

1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage?
   The family brings all resources. Reinvestment is from the profits of the business. And board members mainly provide their talents to help the company to grow soundly.

8. What information is usually provided by the board members?
   There are two parts in financial resources: one part is investment; another part is about cost saving, controlling the expenditures.

How about guangxi? Is it important?
   Normal partnership relationship is necessary, but unusual partnership relationship, which means not go through the principles of fair trade to get businesses. In China, Guangxi also involves interests, and always lead to confusion. But in this civilization society, and under the fair trade condition and fair policy, we need to have some normal partnerships.

1.2b Services

9. What are the roles of board in the operational management?
   All board members are all paid executives, they communicate constantly. They have their executive roles. Under the responsibility, they have the executive roles and also bear the board responsibility. Thus, no matter small or big stuff, the operational management is done through daily communication.

10. Do you think the board plays a strong advisory role to the CEO? Why?
    We don’t have CEO. The family member is the leader in both administration and in the board. I believe we play a significant role, as we facilitate the decision-making.

11. Do advices offered by the non-executive directors usually being accepted by the Chairman?
    Advices are often accepted. Chairman and board members mutually have a strong participation in the decision making process.

12. How often do the board members meet? (Meeting frequency)
    We have an annual general meeting and all board members attend. If necessary, we hold extraordinary meetings. Apart from that, we have monthly management meetings.

13. What is the usually setting of the board meetings?
    • To take place in Board Room.
    • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      Formal and harmonious
• **Do all conversations during the meeting being recorded?**
  Key points, there are minute taking. No family issues are discussed in the board meeting.

1.2c **Control**

14. **How does the board supervise the management?**
   All board members carry their functional executive roles in daily operations. Board members supervise different business units.

15. **How does the board control the succession process of Chairman?**
   Because we are family business, it is very sensitive to talk about the succession process. Up to this moment, we haven’t touch on this issue. And absolutely the family makes decision.

2. **Challenges and special problems**

16. **Do you think more or fewer regulations are better for the company? Why?**
   The regulatory system in Hong Kong is sound. Under the regulatory system, is the power strong enough to make board members bear the personal responsibility? As for me, the previous Labour Ordinance is not so effective. But because of too many labor disputes and arrears of wages, it is now criminal, so the control is quite well. I think the rules are enough.

   As we are not listed company, we are not subject to the strict control of the appointment of the board members. But as our company has status in society, we are careful to the ethical issues. In our company, we have Code of Conduct for board members and all staff.

17. **What are the challenges and special problems that the board face?**
   So far, there are not many difficulties. For challenge, is each board member fulfilling their responsibility? I think more education is useful and understanding of board members is needed to be strengthened. In private companies, historical issues are included. Some old senior staffs have the directorships and carry the posts for a long period of time. Are they fulfilling their directors’ roles in this keen competition environment? Can they keep up with changing times? Are there any sleeping directors?
Interview Transcript 16

1.1 Composition

1. How many directors are on the board?
   Total: 6

2. How many & what types of board members are on the company?
   All are family members. Chairman and CEO is the same person.

3. How does the board composition influence the decision making?
   Personal preferences of the family members are involved in the company. Subjective decisions may be made because of family ties and feeling.

4. What are the functions of the board?
   Strategy planning and decisions making about the increment

1.2 Functioning

5. Are board members evaluated on their performance?
   Evaluation reports are used for reviewing board members’ business roles.

6. Which of the function (resources/services/control) does the board plays the most important role?
   These three functions are important but I think control is particularly important. It is because the control function protects the family rights and equity.

1.2a Resources

7. How does the board assist the company in acquiring resources in order to create competitive advantage?
   Relationships with external parties can help the company in investment, for example, easier to borrow money.

8. How about guanxi? Is it important?
   The importance of guanxi is more or less the same in family or non family business, and even in eastern or western companies. Good relationship with the externals can help companies to develop business opportunities, as all companies hope to bring something to the table via acquiring more market information.

1.2b Services

9. What are the roles of board in the operational management?
   Each director is responsible for one business area/business place and each bears the onus to manage its area.

10. Do you think the board plays a strong advisory role to the CEO? Why?
Board members mutually give advice to others. Casual meetings are often held between board members, views are often exchanged, and the general direction is decided before the board meetings, details are discussed in the board meetings.

12. How often do the board members meet? (Meeting frequency)
   We have meetings 3 times a year.

13. What is the usually setting of the board meetings?
   • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
     Informal. We have board documents and financial statements but we don’t have minutes.
   • Do all conversations during the meeting being recorded?
     Only decisions are marked down.

1.2c Control

14. How does the board supervise the management?
   First, we have internal control to do the check and balance, regarding the accounting. Second, control is done from the bottom line.

15. How does the board control the succession process of Chairman?
   We don’t have a succession plan. Since the Chairman is the founder, the succession is according his preference.

2. Challenges and special problems

16. Do you think more or fewer regulations are better for the company? Why?
   I think company ordinance is enough for non-listed company. More rules may hinder the development of the company.

17. What are the challenges and special problems that the board face?
   1. Communications between board members are not formal enough, thus the monitoring function is affected, being not strong enough to force directors to make the commitment.
   2. Personal preferences of the family members are involved in the company. Subjective decisions are made because of family ties and feeling, which may make the company being outdated in the market.
   3. Too conservative of the family results in being afraid to take risks.
   4. The involvement of family members in the business is unavoidable.

18. What are differences in functions between the listed family companies and non listed family companies like yours?
   For listed companies, there are many public announcements and the timing to release the information is regulated. They have to add values to the shareholders via distributing dividends. For non-listed companies, we don’t need to release announcement to the public. Also, we protect the family equity.
Interview Transcript 17

1.1 Composition

1. How many and what types of directors are on the board?
   Total: 14; Non-Executive Directors: 4; Executive Directors: 6; Independent Directors: 4

2. How does the board composition influence the decision-making?
   Executive Directors are for implementation. The largest shareholders nominate independent directors who have no relationship with the company. If the ratio of the INEDs is higher, we say that the monitoring function would be stronger. I think the number of INEDs in our company is appropriate. If there are too many INEDs, there will be lack of trust and time is needed for the communications. Then the control and monitor function is too strong. But if most of the board members are Executive Directors, the board is trend to be more aggressive in execution, without check and balance. Therefore, beyond the number of the board members, other micro level factors in individuals and the interactions of the board members also affect the wellness of the board.

   Our decision making process includes a good check and balance, which considers the management proposal with the check and balance/ monitoring from INEDs. The independent directors have an oversight, perform the monitoring role and request on issues facilitate the decision making process. Thus, with appropriate number and ratio of INEDs in the board, there is a lower risk for the company, e.g. INEDs prevent the company have excessive investment or make the investment blindly.

1.2 Functioning:

3. What are the roles and contribution of non-executive/ independent directors?
   [See answer to Q.2]

4. Are board members evaluated on their performance?
   No. We have Key Performance Indicators like market share control, profits margin control and liabilities, but these KPIs only evaluate company performance, but not the performance of board members.

1.2a Resources

5. How does the board assist the company in acquiring resources in order to create competitive advantage? What information is usually provided by the board members?
   Different Expertise is brought to the board. Of course Executive Directors and Non Executive Directors are specialists in the shipping business. As to INEDs, they are experience in finance,
management, law and accounting. One of them can also help strategy planning as he has experience in investment banking. To conclude, they give specialty ideas, strengthen internal control and extend market network to our company.

1.2b Services

6. What are the roles of board in the operational management?
   Executive Committee is formed by Executive Directors in Hong Kong. It is authorized to execute jobs like projects cost under $ US 30 million.
   The board is not involves day to day operational management, but we have regular meetings.

7. Do you think the board plays a strong advisory role to the CEO? Why?
   I am not sure about that.

8. Do advices offered by the independent directors usually being accepted by the CEO?
   Often accepted
   INDs have met with auditors without the presence of the EDs, which HKEX has mentioned

9. How often do the board members meet? (Meeting frequency)
   4 times a year

10. What is the usually setting of the board meetings?
    In register office (headquarter)
    • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
      Formal
    • Do all conversations during the meeting being recorded?
      Yes. Every verb is taped in the meetings.

1.2c Control

11. How does the board supervise the management?
    The board supervises the management through different committees. Audit Committee review cash flow, capital investment, finance, accounts reports and internal control, hold meetings quarterly, and all members are Independent Non-executive directors. We also have a Risk Investment Committee to monitor big development plans. And there is a Corporate Governance Committee, which comprise of Executive Directors and management, to enhance the company’s corporate governance system. Nomination Committee is responsible for proposing of new board members. I think it is more obvious that the Audit Committee bears the role of supervising the management.

12. How does the board control the succession process of CEO?
    The nomination comes from the major shareholders, approved by Nomination Committee and it seldom has rejection on the nomination. The CEO is normally changed every four to five years.

13. How does the board help align the interests of shareholders and managers? (avoid agency
problem) How to deal with the conflicts of interests?

Empirical building (CEO use company resources to build its power) and misalignment of interests are some kinds of agency costs. To balance the conflicts of interests/align the interests of majority and minority shareholders, declaration of interests is required if there are connected transactions. Board members will not vote when they have interests involved.

2. Challenges and special problems

14. Do you think more or fewer regulations are better for the company? Why?

About the appropriateness of the regulatory system in Hong Kong, the economic, finance and political systems tend to be consistent with the worldwide systems. One major difference is that they are a number of state enterprises and family firms in Hong Kong. In US, there are no major shareholders, CEO often want to conduct empirical building, so companies hire a non-executive directors to be the chairman in order to monitor CEO, and make sure CEO’s interests to be the same as the shareholders. In Asia, major shareholders always appoint the CEO, so we should focus more on how to align the interests of major shareholders and minority shareholders. Listing rules in Hong Kong guide the declaration of interests, connected transactions and the duties of the Audit Committee to ensure connected transactions are fair to all shareholders. Although there is room for improvement, the level of governance of Listing Rules is high in Asia.

15. What are the challenges and special problems that the board face?

Our board is harmony, reports to management are sufficient, so the INDs are trustful to the management and board members interact frequently, so we don’t have big challenges in our board communications.

16. How to balance the interests between the majority shareholders and minority shareholders?

Independent non-executive directors give comments in reviewing the connected transactions; transactions cannot be taken if they have questions or objections. So, it ensures the connected transactions is fair to the whole company, but not just favor the majority shareholders, in order to align the interests of both major and minor shareholders.

17. Do the major shareholders lead to influences in decision-making?

Major shareholders have certain influences but 4 Independent Non-Executive Directors and other board members will propose questions in major decisions, thus other directors play the check and balance function.
Interview Transcript 18

1.1 Composition

1. How many and what types of directors are on the board?
   Total: 9; Executive Directors: 6; Independent Directors: 3
   Chairman represents state enterprise. CEO is the second largest shareholder.
   The controlling shareholder, the state enterprise, nominates the three executive directors.

2. How does the board composition influence the decision-making?
   Something is delegated to the executive directors; aspects like budget, strategy and control,
   including internal control and risk management are included in the agenda of the board
   meetings. Executive directors have their responsibility and paper meeting is not accepted.
   INEDs act as superintendents and Executive Directors make explanations and supplements on
   the proposals. Thus, directors actively participate in the board. In some projects, when related
   parties and benefits are involved, the INEDs make major decisions; so the INEDs need to have
   knowledge about the business.

1.2 Functioning:

3. What are the roles and contribution of non-executive/independent directors?
   - Are they actively participated in the board?
     Yes, they supervise the executive directors and take care the interests of shareholders.

4. Are board members evaluated on their performance?
   Evaluation is taken on the whole board, like measuring whether the mission is achieved. But the
   evaluation is not systematic enough

5. Which of the function (resources/services/control) does the board plays the most important role?
   To rank these functions, services is more contribution as our CEO has many plans in mind and
   other board members provide him useful advices.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive advantage?
   Under the obligation of the employment, executive directors are required to perform by using
   their expertise. Among the INEDs, one is a finance specialist, one is a cultural worker, one is a
   teacher, they are expected to monitor the executive directors and be subjective, but they are not
   expected to bring extra profits and reputation to our company.
1.2b Services

7. **What are the roles of board in the operational management?**
   The board makes decisions, and then senior management and executive directors follow to do so.

8. **Do you think the board plays a strong advisory role to the CEO? Why?**
   Yes. The CEO has to report, sometimes he may be subjective, and he is required to listen to other board members’ advices and suggestions. In reality, the board atmosphere is not hostile; there are few conflicts in the board. Before the meeting, we have a practice: the chairman always communicates with other directors (Company Secretary, CEO and Chairman → smooth operation of the board meeting) Advices form the chairman may affect the CEO.

9. **How do you describe the actual level of independence of independent directors?**
   First, they do not hold any company’s shares. Second, they are not the relatives of any board members. Third, they do not have any business connections with our company and lastly, they are independent professionals who give personal advices.

10. **How often do the board members meet? (Meeting frequency)**
   4 to 5 times a year

11. **How long does the meeting usually last?**
   Around 3 hours

12. **What is the usually setting of the board meetings?**
   • **What is the meeting atmosphere?** (formal or informal/ conflict or harmony)
     Formal and not hostile
   • **Do all conversations during the meeting being recorded?**
     Conversations are recorded and discussion notes are taken.

1.2c Control

13. **How does the board supervise the management?**
   Through budget control and the reporting system.

14. **How does the board control the succession process of CEO?**
   We don’t have the succession planning of CEO in the short term. And division head is from promotion in our subsidiaries.

15. **How does the board help align the interests of shareholders and managers? (avoid agency problem)**
   There are committees like Audit Committee and Remuneration Committee. INEDs perform in these committees to help align the interests of shareholders and managers.

2. **Challenges and special problems**

16. **Do you think more or fewer regulations are better for the company? Why?**
   Stricter regulations are better. Many new regulations are introduced this year. If there is no
establishment of laws, companies may tend not to be aware of corporate governance.

17. **What are the challenges and special problems that the board face?**

I think the post of directors is different from management. The board should clearly define its roles. Board members may not really realize the aim of corporate governance. In the board meetings, too many issues are covered, and I think some of them can be delegated to the management. For example, instead of discussing details, tables, and numbers, the development of industry and market, strategy should be discussed in the board. Direction and clear messages are given out and the implementation is given to the management. Proper agenda should be set and training should be given to board directors.

18. **What are the differences in the boards practice/functioning between the family business and non-family business?**

Family members may dominate the functioning of boards. There are preferences for the interests of the family. Family members may make right or wrong decisions; shareholders may suffer with the decisions made by the family. And the next generations of the family always succeed the business. I encountered one situation in a family company that it hired an external one to be the CEO was just for the transitional stage of the company.

In this company, directors are free to voice out the opinions. Although there is a controlling shareholder (the state enterprise), it carries out a high level of standard. For example, when one director resigns from the company, the state enterprise appoints people to examination and evaluation on that director.
Interview Transcript 19

1.1 Composition

1. How many and what types of directors are on the board?
   Total: 11
   Executive Directors: 7; Independent Non-Executive Directors: 3; Non-Executive Directors: 1

2. How does the board composition influence the decision making?
   There are 3 types of directors in the board, non-executive directors and independent directors act as monitors to protect the interests of minority shareholders and there are related requirements set by the Stock Exchange of Hong Kong Limited (SEHK).

1.2 Functioning:

3. What are the roles and contribution of non-executive/ independent non-executive directors?
   • Non-executive directors and Independent non-executive directors are not employees of the company so they do not take part in the company’s business. Instead, they play a monitoring role. They also play an advisory role to make suggestions in the decision making of the board.

   Are they actively participated in the board?
   Yes, each director provides a lot of suggestions and asks questions during the board meetings. And they usually communicate with the management to pay close attention to the company’s policies and practices.

4. Are board members evaluated on their performance?
   Evaluation is mainly conducted by the Nomination Committee and the Remuneration Committee when they review the remuneration and the performances of executive directors annually.

5. Which of the function (resources/ services/ control) does the board plays the most important role?
   Services and control seems to be more important than the resources function. It is because services and control help set the corporate values, help enhance the competitive advantages of the company and ensure the company can develop steadily. As resources are already sufficient in our company, I don’t think directors need to particularly add values to this aspect.

1.2a Resources

6. How does the board assist the company in acquiring resources in order to create competitive advantage?
   The company is a government-state owned company; some executive directors carry key management roles in the parent company, and have a strong relationship with the government.
Thus, the strong support from the parent company helps develop the company business. For example, these executive directors can help arrange meetings with senior officials, which facilitate the expansion of new business. Besides, expertise of different directors help the board makes collective decisions.

1.2b Services

7. What are the roles of board in the operational management?
Board members vote for the major decisions. Executive directors are responsible to execute the board’s decisions and report the progress to the board.

8. Do you think the board plays a strong advisory role to the CEO? Why?
We make collective decisions. CEO is one of the management who execute the decisions. He needs to ensure the decisions are executed orderly. We give opinions in each meeting and make a resolution at last. Advices of directors are usually accepted.

9. How often do the board members meet? (Meeting frequency)
4 times per year. Board meetings are held quarterly.

10. How long does the meeting usually last?
Around 1 to 2 hours.

11. What is the usually setting of the board meetings?
   • What is the meeting atmosphere? (formal or informal/ conflict or harmony)
     Formal, we go through the agenda of the meeting. And the meeting atmosphere is harmony.
   • Do all conversations during the meeting being recorded?
     All conversations are recorded to facilitate the company secretary in preparing the minutes. Opinions of directors during the discussion and major decisions are taken in the minutes.

1.2c Control

12. How does the board supervise the management?
First, the board periodically reviews the company business, like conducting the budget review. Second, there is a Management Committee formed by the Executive Directors and the senior management. The committee has to ensure the daily operations are orderly executed.

13. How does the board control the succession process of CEO?
The Nomination Committee is responsible for the proper delegation of authority of the general management, including the CEO.

14. How does the board help align the interests of shareholders and managers? (avoid agency problem)
It is aligned through the share option and bonus giving. Share option is provided to the Executive Directors. If the company performs well, the managers can get bonus too.
15. How does the board help align the interests of majority shareholders and minority shareholders?

Independent directors play an important role. The Listing Rules state the related requirements in protecting the interest of all shareholders. And we fully comply with the legal requirements.

2. Challenges and special problems

16. Do you think more or fewer regulations are better for the company? Why?

In these ten years, the SEHK and the company law, especially the Listing Rules have many amendments, which intensify the legal restrictions. I think the rules are revised according to the market situation in order to ensure companies can operate efficiently and effectively. I think regulations that related to corporate governance are appropriate now, although it is costly for companies to fully comply with the rules.

17. What are the challenges and special problems that the board face?

The company should put more resources in the compliance with the related corporate governance rules. And continuous educations like training courses and field visits should be held to ensure all board members are thoroughly aware of the rules and have the understanding about the company business.

18. What are the difficulties between family-owned companies and non-family owned companies:

As for family business, the independence level of directors is doubted. Relatives and family members are always sitting in the board. Board members may not be chosen with their abilities. Thus, there is a risk that the family controls the company business and the board may take part in the management functions.
Interview Transcript 20

1.1 Composition

1. How many directors are on the board?
   Total: 7
   Executive Directors: 3; Independent Non-Executive Directors: 3; Non-Executive Directors: 1
   2 of the Executive Directors are family members.

2. How does the board composition influence the decision making?
   The composition of the board is in compliance with the Listing Rules. Two family directors manage two different geographical areas. Another Executive Director looks after the finance function to give advices on the related issues, e.g. budget, cost control etc. As for Independent Non-Executive Directors and Non-Executive Directors, they give advices and make decisions according to their expertise instead of involving in the management operations.

1.2 Functioning:

3. What are the roles and contribution of non executive/ independent non-executive directors?
   • Their role include control (they are not management of the Company), balance of power (they are not interested in shares of the Company); advisory (they are from different professional and would bring in their view in discussion of issues).
   • Do they actively participate in the board?
     I think so.

4. Are board members evaluated on their performance?
   There is no evaluation done on the individual director’s performance.

5. Which of the function (resources/ services/ control) does the board plays the most important role?
   Control is relatively important because the senior management has to report to the board periodically and Non-Executive Directors and Independent Non-Executive Directors pay more contributions in the controlling function.

1.2a Resources

6. How does the board assist the company in acquiring resources (business opportunities/ reputation/ guanxi/ competitive information) in order to create competitive advantage?
   The directors contribute to the Company in different areas, including referring business opportunities to the company, referring relationships in their field to the company, and giving advice in their own professional area. Executive directors contribute their knowledge in the business, relationships in the field and time in the daily operation of the Company. While the Non-executive
directors may give suggestions and contributions to the Company based on their professional areas. For instance, the director working in capital market could contribute his relationship and knowledge when there is fund raising exercise, the director in legal field can advise on legal issues. The composition of the board could then drive the Company to better performance.

1.2b Services

7. What are the roles of board in the operational management?
   Operational management is delegated to the senior management, including the Executive directors. Key decisions e.g. strategic planning is made by the board.

8. Do you think the board plays a strong advisory role to the CEO? Why?
   Yes, because directors make suggestions and the CEO also sit in the meetings to hear advices.

9. How often do the board members meet? (Meeting frequency)
   Normally 4 times a year

10. How long does the meeting usually last?
    It depends on the agenda. Meetings for making approvals of financial results normally last for half an hour, as audit committee meetings to discuss the results were already held before the board meeting and all Non-Executive Directors and Independent Non-Executive Directors are audit committee members. And other meetings may last three to four hours.

11. What is the usually setting of the board meetings?
    • What is the meeting atmosphere?
      There are very few disputes between directors. When Non-Executive Directors and Independent Non-Executive Directors are not clear about the business or the on-going situation of the industry, the chairman explain and make clarifications.
    • Do all conversations during the meeting being recorded?
      Not all conversations are recorded. Only major decisions are marked in the minutes.

1.2c Control

12. How does the board supervise the management?
    Senior Management is led by the Executive Directors.
    The Internal Audit Department is responsible for the internal control and reports to the audit committee formed by a Non-Executive Director and three Independent Non-Executive Directors regularly. The management regularly submits in financial reports to the board.

13. How does the board control the succession process of CEO?
    We have not yet planned for the succession of CEO.

14. How does the board help align the interests of shareholders and managers? (avoid agency problem)
We have share option for the managers in order to encourage them acting for the company rather than personal interests. It is hoped that managers will pursue the long-term interests for the company when they become a part of the shareholders.

15. How does the board help align the interests of majority shareholders and minority shareholders?

The number of Independent Non-Executive Directors and Non-Executive Directors is more than that of the Executive Directors in the composition of the board. As Independent Non-Executive Directors and Non-Executive Directors do not hold the company shares, they can make decisions without bias and help align the interests of all shareholders.

2. Challenges and special problems

16. Do you think more or fewer regulations are better for the company? Why?

I think the current regulations are appropriate and enough. Although there must be regulations to promote good governance in listed companies, too much regulation may lead to exhaustive administration work and loss of flexibilities.

17. What are the challenges and special problems that the board face?

There are not many challenges our board faces. Yet, Independent Non-Executive Directors may not fully understand the business when they read some of the proposals. Thus, the chairman has to explain to them and refer to previous projects before the board made decisions.

18. Do family members lead to an enormous influence in decision making?

Some influence since proposals put forward may have been discussed and agreed by family members before bringing up to the board. When family members has the same standpoint, they may stronger influence during the decision making process.

19. Are initiatives of new projects always given by the family members?

Yes. Since there are two executive directors being family members and proposals for new projects are generally initiated by them. However, the new projects are generally proposed by members of the senior management being family member or non-family member alike.

20. What maybe the differences in the board between family-owned companies and non-family owned companies in Hong Kong?

In family-owned companies where family members are involved in the senior management and the board, interest of the family would be given priority. Also family member may form majority of the board giving less opportunities for the board to share different views from directors with different background. As for non-family owned companies, different view could be considered and shared, interests of different stakeholders could be taken into account in the decision making process.