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Patriarch can also benefit from independent directors' advice

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I refer to the report about the stock exchange requiring that at least a third of the board of a listed company be made up of independent directors by the end of next year ("Boardroom rule puts HK on par with mainland", February 8).

The article notes that independent directors play a key role in corporate governance and ensure that business decisions are in the interests of smaller shareholders. It is interesting to compare this report with the extensive coverage of the share ownership dispute concerning the complex family of Stanley Ho Hung-sun. Many of the listed companies in Hong Kong are essentially family businesses and there will be many more succession dramas and family feuds played out over the next 10 to 15 years. This is very bad news for retail investors.

Research by Chinese University shows that when the founder in a family-controlled listed firm here in Asia passes away there is very significant value destruction for all shareholders. In the US, independent directors in a family business (in the private company context) are seen as being one significant tool to help the family operate the business in a professional manner. They ensure that there is a succession plan in place; help mentor and give feedback to the next generation of family leaders, and bring a degree of objectivity thereby helping to avoid family conflicts.

This might be a radical idea, but I wonder whether retail investors in Hong Kong would in fact be better off if there were more non-family, non-executive directors, who could play an active role in advising the patriarch to ensure that proper ownership and management succession planning has been done and that all steps possible to prevent predictable family business conflicts have been taken.

Such advice to the patriarch might take this independent director role beyond strictly looking at minority protection issues, but I believe this advice would add value for all stakeholders.

Christian Stewart,

