

LEVEL 7 ASSESSMENT SPECIFICATION

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Submission method:	Each students needs to present to the class a summary of the research proposal within 10 minutes. The presentation is designed to gauge the student's ability to communicate and present information related to research and academic matters. A soft copy of the PowerPoint slides used for the presentation should also be submitted via Turnitin before the presentation.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

A critical analysis of the “comply or explain” approach of corporate governance in Hong Kong

HKBM7000 Approaches to Research and Academic Communication

In-class Presentation (Research Proposal)

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Presentation Date: 18 July 2020

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1.1 Background

- “Corporate governance describes the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations” (The Hon Justice Owen, 2003, p. xxxiii)
- “Good corporate governance practices contribute towards the overall well-being of a financial system” (Low, 2004, pp, 165-166)
- “Good corporate governance practices are consistent with value maximization” (Cheung *et al.* 2007, p. 86)

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1.1 Background (continued)

- “Firms that exhibit improvements in the quality of corporate governance display a subsequent increase in market valuation” (Cheung *et al.* 2011, p. 159)
- Good corporate governance promotes investor confidence, which is critical to the companies listed on the stock exchange to compete in capital (ASX Corporate Governance Council, 2019, p. 1)
- As an international financial centre, corporate governance practices at listed companies in Hong Kong are particularly important

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1.1 Background (continued)

- A vital of The Stock Exchange of Hong Kong Limited (the “SEHK”) is the promotion of good corporate governance by listed companies and an effective board is at the centre of it (Charltons, 2018, p. 6)
- The board consists of executive, non-executive and independent non-executive directors and all of them are subject to the same legal duties [Companies Ordinances (Cap. 622), 2014, section 465] but have different roles and functions in corporate governance

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1.2 Definition of problems

- The corporate governance regime for companies listed on the Main Board of SEHK is the Corporate Governance Code (“CG Code”) and Corporate Governance Report in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Appendix 14 to the Listing Rules”)
- The CG Code and Listing Rules provide a regulatory framework to achieve a corporate governance standard in line with international best practices
- The CG Code sets out the principles of good corporate governance followed by code provisions and recommended best practices

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1.2 Definition of problems

- Code provisions are based on a “comply or explain” approach
 - A listed company is required to comply with code provisions but may choose to deviate from them
 - Deviations from code provisions are acceptable provided that the listed company gives reasons for deviations because the SEHK does not envisage a “one size fits all” approach (Paragraph 1 of Appendix 14 to the Listing Rules)
- Recommended best practices are not mandatory rules but for guidance only (Paragraph 1 of Appendix 14 to the Listing Rules)
- As such, different listed companies may have different levels of corporate governance compliance

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1.3 Research objectives

(1) To investigate and understand whether there is any relationship between the level of corporate governance compliance and the board independence

RESEARCH QUESTION 1

Has the level of board independence affected the company’s decisions on complying with the corporate governance code provisions under “Part A –Directors” of Appendix 14 to the Listing Rules?

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1.3 Research objectives (continued)

(2) To investigate and understand whether there are any company specific factors which may affect the company's decisions on the level of corporate governance compliance

RESEARCH QUESTION 2

Have any company specific factors affected the company's decisions on complying with the corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules?

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1.3 Research objectives (continued)

(3) To investigate and understand whether there is any relationship between the level of corporate governance compliance and the share price volatility

RESEARCH QUESTION 3

Has the level of compliance with the corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules affected the share price volatility?

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2.1 Definition of variables

RESEARCH QUESTION 1

Has the level of board independence affected the company's decisions on complying with the corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules?

- Dependent variable
 - Level of corporate governance compliance
- Independent variables
 - Proportion of independent non-executive directors
 - Existence of duality of chairman and chief executive
 - Chairman is an independent non-executive director

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2.1 Definition of variables (continued)

RESEARCH QUESTION 2

Have any company specific factors affected the company's decisions on complying with the corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules?

- Dependent variable
 - Level of corporate governance compliance
- Independent variables
 - Number of listing years
 - Profitability
 - Company size
 - Growth rate
 - Level of debt

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2.1 Definition of variables (continued)

RESEARCH QUESTION 3

Has the level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules affected the share price volatility?

- Dependent variable
 - Share price volatility
- Independent variable
 - Level of corporate governance compliance

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2.2 Framework of relations

Three hypotheses for Research Question 1

- Hypothesis 1A
 - H_0 : The level of compliance with the corporate governance code provisions increases with an increase in the proportion of independent non-executive directors
- Hypothesis 1B
 - H_0 : The level of compliance with the corporate governance code provisions decreases if the roles of chairman and chief executive are performed by the same person
- Hypothesis 1C
 - H_0 : The level of compliance with corporate governance code provisions increases if the chairman is an independent non-executive director

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2.2 Framework of relations (continued)

Five hypotheses for Research Question 2

- Hypothesis 2A
 - H_0 : The level of compliance with the corporate governance code provisions increases with an increase in the number of listing years
- Hypothesis 2B
 - H_0 : The level of compliance with the corporate governance code provisions decreases with an increase in profitability
- Hypothesis 2C
 - H_0 : The level of compliance with the corporate governance code provisions increases with an increase in the company size

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2.2 Framework of relations (continued)

Five hypotheses for Research Question 2 (continued)

- Hypothesis 2D
 - H_0 : The level of compliance with the corporate governance code provisions increases with an increase in the growth rate
- Hypothesis 2E
 - H_0 : The level of compliance with the corporate governance code provisions increases with an increase in the level of debt

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2.2 Framework of relations (continued)

Hypothesis for Research Question 3

- Hypothesis 3
 - H_0 : The share price volatility decreases with an increase in the level of compliance with the corporate governance code provisions

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2.3 Research method

Various quantitative research methods are to be used

- Descriptive statistics
 - Measures of central tendency, variation, standard deviation, covariance and coefficient of correlation
- Inferential statistics
 - Hypothesis testing
 - Confidence level estimation
 - Simple linear regression and correlation
 - Multiple regression and correlation
 - Analysis of variance (ANOVA)
 - Z test, t test and F test

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2.4 Sampling

Population

- Consists of all listed companies in the Hang Seng Composite Index (“HSCI”) with a total of 476 companies
- The HSCI covers about the top 95th percentile of the total market capitalisation of companies listed on the Main Board of the SEHK (Hang Seng Indexes, 2020)

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2.4 Sampling (continued)

Sampling

- Stratified sampling technique (one of the probability sampling techniques) is used in this study instead of using non-probability sampling techniques in order to overcome the problems of inaccuracy due to selection bias and the poorer capacity to provide generalised results (Berenson *et al.* 2009, pp. 212-213)
- The HSCI is subdivided into 12 Hang Seng Composite Industry Indexes (“HSCIs”) namely consumer discretionary, consumer staples, healthcare, conglomerates, information technology, properties & construction, financials, utilities, telecommunications, industrials, materials and energy

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2.4 Sampling (continued)

Sampling (continued)

- Sample size
 - It depends on the desired confidence level, sampling error and standard deviation to be considered (Selvanathan and Selvanathan, 2011, pp. 407-411)
 - This study uses a table by Krejcie & Morgan (1970) to find the required sample size
 - As such, 214 samples are required for a population size of 476

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2.4 Sampling (continued)

Sampling (continued)

- There are 12 different industry sectors (strata) in accordance with the Hang Seng Industry Classification System
- Each company is allocated a code of three-digit numbers starting from “001” to “476” accordingly
- Having determined the number of samples for each industry sector, the corresponding numbers of random numbers are generated by MS Excel based on the codes of three-digit numbers

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2.5 Measures

- Level of corporate governance compliance
 - There are 38 corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules
 - For each corporate governance code provision, it has a dichotomous categorical outcome namely compliance or non-compliance
 - Data are coded with “1” for compliance and “0” for non-compliance
 - As such, a compliance index code ranging from zero to 38 can be construed

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2.5 Measures (continued)

- Proportion of independent non-executive directors
 - It is measured as the number of independent non-executive directors divided by the total number of directors on the board
- Existence of duality of chairman and chief executive
 - There are two categorical variables and therefore one dummy variable is required
 - $X = 0$ if the roles of chairman and chief executive are not performed by the same person
 - $X = 1$ if the roles of chairman and chief executive are performed by the same person

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2.5 Measures (continued)

- Chairman is an independent non-executive directors
 - There are two categorical variables and therefore one dummy variable is required
 - $X = 0$ if the chairman is not an independent non-executive director
 - $X = 1$ if the chairman is an independent non-executive director
- Number of listing years
 - It is measured as the number of years listed on the Main Board of the SEHK

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2.5 Measures (continued)

- Profitability
 - It is measured in terms of return on assets which is calculated as the net profit after tax divided by total assets
- Company size
 - It is measured in terms of total assets of the company as at the year-ended reporting date
- Growth rate
 - It is measured in terms of the annual growth rate of the company's total assets

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2.5 Measures (continued)

- Level of debt
 - It is measured as the total long-term debt divided by total assets
- Share price volatility
 - It is measured as the standard deviation of the movements in the historical share prices of the company

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3.1 Proposed data collection and processing

- Financial, non-financial and corporate governance data are sourced from the annual reports of the sample listed companies
- Historical share price data of sample listed companies can be downloaded from the website of the Hong Kong Exchanges and Clearing Limited
- Further information can be sourced from other public available information such as the websites of the sample listed companies, professional associations, regulatory bodies, government agencies as well as accounting and auditing firms

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3.2 Data analyses to be used

- Univariate techniques
 - Metric data (numerical): t test, Z test and F test to be used
 - Non-numerical data: frequency distribution and Chi-square analysis to be used
- Multivariate techniques
 - Cross-tabulation, analysis of variance and covariance and multiple regression to be used

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3.3 Expected findings and recommendations

- Expect to find out whether there is any relationship between the level corporate governance compliance with the board independence in particular:
 - Proportion of independent non-executive directors
 - Existence of duality of chairman and chief executive
 - Chairman is an independent non-executive director

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3.3 Expected findings and recommendations (continued)

- Expect to find out whether the level of corporate governance compliance is associated with some company specific factors in particular:
 - Number of listing years
 - Profitability
 - Company size
 - Growth rate
 - Level of debt
- Expect to find out whether the share price volatility is correlated with the level of corporate governance compliance

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3.3 Expected findings and recommendations (continued)

Recommendations

- Based on the findings in the study, recommendations can be made for:
 - considering whether there is a need of reform in the “comply or explain” approach in corporate governance adopted in Hong Kong
 - improving the corporate governance practices in Hong Kong in particular related to the board structure, composition and diversity
 - enhancing good corporate governance practices in Hong Kong with greater transparency and accountability in order to increase the investor confidence on the share market in Hong Kong
 - amending the corporate governance practices in Hong Kong in line with the international practices

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3.4 Report and organisation

- Title of the proposed research topic
- Background
- Review of the existing problems
- Research objectives
- Literature review
- Review of the existing corporate governance regulatory framework in Hong Kong
- Research questions and hypotheses

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3.4 Report and organisation (continued)

- Research design and methodology
 - Definition of variables
 - Framework of relations
 - Research method
 - Sampling
 - Measures
- Data collection
- Findings and analyses
- Recommendations
- Conclusions

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