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CHUN CHEONG STEVE FONG

Macao Polytechnic Institute, Macau

RELATIONSHIP BETWEEN CORPORATE GOVERNANCE & COMPANY PERFORMANCE OF HONG KONG BASED & CHINA BASED FAMILY-CONTROLLED PROPERTY DEVELOPMENT COMPANIES

Abstract:

This study is to investigate the relationship between Corporate Governance (CG) disclosure and financial performance of both Hong Kong based and China based family-controlled property development companies listed on Hong Kong Stock Exchange. 10 leading companies with the largest market capitalization are studied in each category. Evaluation of the quality of CG disclosure is conducted through a checklist of mandatory and recommended disclosures developed with reference to the Hong Kong Listing Rules about CG disclosure and financial information, the Best Practice Guidance of CG disclosure provided by Hong Kong Institute of Certified Public Accountants (formerly Hong Kong Society of Accountants), and the information about the specific performance evaluation indicator in the property development companies. It is found that there is a positive relationship between CG disclosure and financial performance in Hong Kong based companies, especially operating profit margin and net profit margin. This study provides evidence to support the relationship between CG disclosure and financial performance.

Keywords:

Corporate Governance, financial performance, Hong Kong property industry,

JEL Classification: O53, M41

Background of the Study

In Hong Kong, the New Code on Corporate Governance (CG) applies to all companies listed on Hong Kong Stock Exchange since 2005. It lists out the mandatory disclosure requirements and criteria of good CG with code provisions and recommends best practices for the listed companies (HKex, 2005).

Referring to the New Code, this study is to investigate the relationship between CG disclosure and family-controlled company financial performance. Hong Kong based and China based family-controlled property development companies listed on SEHK are studied. The samples chosen of Hong Kong based property companies are Cheung Kong, Henderson, Sun Hung Kai, New World, Wharf, Hang Lung, Great Eagle, Hopewell, Sino Land and Hysan. China based property companies are Agile, China Resources Land, Guangzhou R & F, China Overseas, Hopson, Guangzhou Investment, Sinolink, SRE, NEO-China Land and New World China. These are the leading property development companies listed in Hong Kong which have the largest market capitalization in the property industry (Bank of China (Hong Kong), 2008).

Motivation of the Study

Many companies are family-controlled in Asian countries (Filatotchev et al., 2005). La Porta et al. (1999) state the family-controlled company has a controlling shareholder or family members whose direct and indirect voting rights in the company exceed 20%. Fama and Jensen (1983) stated that family-controlled businesses need not incur much agency costs as the major shareholders involved in the management process. Others like Thaler and Shefrin, 1981 (as cited in Schulze et al., 2001) found that the agency threats are raised by the family based control. Besides, there are inherent conflicts between the controlling and minority shareholders (Villalonga and Amit, 2004). These affect the company performance (Martinez, et al., 2007). CG mechanism is involved to minimize the agency threats and hence to protect the minority shareholders (Lee, 2001; Ho, 2003). There is an open question of the relationship between CG and family-controlled company performance. This creates the opportunity to reconcile the divergence of evidence in the relationship between them.

No research has been conducted to examine the relationship between CG and company performance in family-controlled companies listed in Hong Kong before. In fact, nearly 90% of property development companies listed on SEHK are family-controlled (ETnet, 2009) which the stock market capitalization is approximately 34.5% of the total stock market capitalization in the Hang Seng Industry Classified System (HKex, 2009). It is representative to choose this industry to examine the CG disclosure and company performance relationship. Moreover, there are China based property development companies listed on SEHK. It draws study interests that not only to investigate the relationship between CG disclosure and company financial performance in Hong Kong based family-controlled property development companies, but also the China based property development companies.

Importance of Corporate Governance after the Financial and Accounting Scandals

For the financial and accounting scandals of the collapse of the US companies - Enron Corporation and WorldCom Corporation in 2001 and 2002 respectively, it showed the critical importance of the structure reforms of governance in companies (Lee, 2006). Corporate Governance was in need of improvement. Afterwards, the Sarbanes Oxley Act (SOX) was enacted in USA to introduce the new standards for financial practices and CG in 2002 so as to reduce the agency costs and to provide the investors with reliable and accurate corporate disclosure and financial reporting.

CG was not a main concern in East Asia (Nowland, 2007). After the Asian Financial Crisis in 1997, it was discovered that the crisis was mainly caused by the structural weaknesses with lack of CG in Asian's companies (Ho, 2003). It was proved that the companies with poor CG had a larger plunge in asset prices and stock market declines (Johnson et al., 1998). Thus CG has been identified as an important area needed to improve for protecting the stakeholder interests (McGunagle, 2007).

Many Asian companies are controlled by families with concentrated ownership (Ho, 2003; Filatotchev et al. 2005; La Porta et al. 1999). It is stated that the family-controlled companies expose to the agency problems without separation of ownership and control. Hence, the governance mechanisms may not be necessary for the family-controlled company (Schulze et al., 2001). There are the studies of the agency threats and costs in family-controlled company with influence on company performance.

Effects of Family-Controlled Company on Company Performance

Demestz and Lehn (1985) state that the concentrated ownership by the family-owners has greater incentives in monitoring the managers, thus the agency costs reduced by aligning the interests between the shareholders and managers, and the profits and company value are maximized. Moreover, the family-owners view the company as the capital and assets transfer to the next generation (Bartholomeusz and Tanewski, 2006). Hence, they aim to maximize the firm value and profitability. Chen et al. (2006) and Kapopoulos and Lazaretou (2007) find that a more concentrated ownership with less diffused ownership positively relates to higher company profitability. Martinez, et al. (2007) also suggest that the family-controlled company perform better than the non-family-controlled company with a higher profitability.

In contrast, the families tend to assign the management position to family members who may not possess the relevant and proper knowledge and skills (Schulze et al., 2001). Moreover, the controlling shareholders may extract private benefits at the expense of the minority shareholders through the related-party transactions and special dividends (Ho, 2003; Villalonga and Amit, 2004; Braun and Sharma, 2007). It impairs the ability of the companies in strategic planning and maximizing profits. Thus, there is no systematic relation between corporate ownership and company performance (Demestz and Villalonga, 2001). Even there is poor performance in family-controlled business (Morck et al., 2000).

It is an open empirical issue of family-controlled companies performing more successful and with a higher profitability (Ho, 2003). Some researches indicate that CG can mitigate the agency threats in family-controlled business through monitoring the controlling shareholders and disclosure requirements, and enhancing company performance (Schulze, 2001; Ho, 2003; Bartholomeusz and Tanewski, 2006; Braun and Sharma, 2007).

Impacts of Corporate Governance on Family-Controlled Company Performance

CG helps in monitoring the controlling shareholders and protecting the minority shareholders, not all the scholars and economists agree it can enhance the performance in family-controlled company. From the empirical study in Taiwan, it shows there is no direct relationship between CG and performance in family-controlled companies where the existence of the independence Chairmen does not appear to affect company performance (Filatotchev et al., 2005). Thus, CG has no impact on family-controlled company performance.

Braun and Sharma (2007) suggest the separation of CEO and Board chair roles in CG. It benefits the shareholders returns and company performance while the family cannot be entrenched through high controlling power. Kula and Tatoglu (2006) in Turkey show that an effective board process in CG contributes to family-controlled company performance as it increases the accountability to both controlling shareholders and minority shareholders. For the overall CG in family-controlled company, Chen et al. (2006) indicate it can re-align the interests between family members in the company and the minority shareholders. Thus, CG has a positive impact on company profitability and operational efficiency.

Relationship between Corporate Governance and Family-Controlled Company's Performance in Hong Kong

The new Code on CG started to apply to all companies listed on SEHK from 1 January 2005 onwards. It lists out the principles and criteria of good Corporate Governance with code provisions and recommended best practices for the listed companies (HKex, 2005). In addition, almost 90% of Hong Kong listed companies are family-controlled company with a family or shareholder owning more than 25% or more of the company total shares (Jordan, 2008). However, there is lack of empirical evidence in the relationship between CG and family-controlled company performance in Hong Kong (Ho, 2003).

Hypotheses Development

With regard to the effects of CG, the agency costs, self control and moral hazards problems are minimized and hence the family-controlled company performance is affected (La Porta, 1999; Ho, 2003). Divergence exists between CG and family-controlled company performance while more empirical researches suggest a better CG results a better family-controlled company performance. Hypothesizes are set to test and tackle with the literature gap of the positive relationship between CG disclosure and family-controlled company financial performance, by using a representative industry – property development industry of different operational based, Hong Kong and China, listed on SEHK.

To test the relationship between CG disclosure and company financial performance in Hong Kong, it is expected that:

Hypothesis 1 (H1): For Hong Kong based family-controlled property development companies listed on SEHK, CG disclosure positively relates to company financial performance.

In Hong Kong Chinese mainland-registered property companies with main operation in China have started to list on SEHK since 1993 (HKex, 2003). These companies follow the Hong Kong Listing Rules and disclosure requirements likewise, such as the New Code of CG. It draws study interests that not only to investigate the relationship between CG disclosure and company financial performance in Hong Kong based family-controlled property companies, but also the China based property companies. Thus it is expected that:

Hypothesis 2 (H2): For China based family-controlled property development companies listed on SEHK, CG disclosure positively relates to company financial performance.

Research Methods

Checklist for Evaluating the Quality CG Disclosure

A checklist is developed for evaluating the quality of CG disclosure of the sample companies. In the checklist, it is divided into two main bodies, 75 mandatory CG disclosure requirements and 40 recommended CG disclosures. The mandatory disclosure requirements are developed according to the Code on CG Practices, CG Report and Disclosure of Financial Information in Listing Rules issued by HKex. The recommended disclosures are developed according to the CG Report and Disclosure of Financial Information of the Listing Rules, the Best Practice Guidance of CG disclosure provided by HKSA (renamed as HKICPA) in 2001 and the performance evaluation indicators of property development companies such as progress, time and revenue of the development of different types of properties suggested by Yeung at el. (2008).

The Parts in both Mandatory and Recommended CG Disclosure Requirements

The mandatory disclosure requirements include 20 parts which are a) CG practices, b) directors' securities transactions, c) board of directors, d) chairman & chief executive officer, e) non-executive directors, f) independent non-executive directors, g) remunerations & share options, h) nomination of directors, i) auditors' remuneration, j) audit committee, k) external auditors, l) internal control, m) related party transactions, n) share buy back, o) employees, p) accounting policies, q) operating review, r) financial review, s) equity capital & t) borrowings. The recommended disclosures include 16 parts which are a) non-executive directors, b) internal control, c) share interests of senior management, d) shareholders' right, e) investor relations, f) management functions, g) share options, h) dynamics of business, i) post balance sheet events, j) attributable return to shareholders, k) relations with shareholders, l) social responsibility, m) human resources, n) quality of key relations, o) community services & p) specific disclosures for property development companies.

Evaluation of the Quality of CG Disclosure of the Sample Companies

In the evaluation, two scores are given to every mandatory and recommended CG disclosures of the sample companies in their annual reports and web sites while no scores are given to those without disclosure, except for which with an explanation, that one score is given. The total scores in the checklist are 150 scores from mandatory disclosures and 80 scores from recommended disclosures. Each part makes up of 50% when calculating the final scores in CG disclosure of the sample companies. The principle behind is that a company can only get a pass if it fulfills all the mandatory disclosure requirements.

Tables 1 and 2 show the scores of both mandatory and recommended CG disclosure and the final scores for Hong Kong based and China based property development companies in three financial years[1].

Table 1: Scores of Mandatory and Recommended CG Disclosure of Hong Kong Based Family-Controlled Property Development Companies

	12/2007		12/2006		12/2005	
Cheung Kong						

[1] The sample companies have different financial year end which ended in April, June and December. Hence, there are three types of financial year ended (12/2005-12/2007, 04/2006-04/2008 and 06/2006-06/2008) in examining the relationship between CG disclosure and financial performance.

Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	71	44.4	71	44.4	71	44.4
		94.4		94.4		94.4
Wharf						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	69	43.1	69	43.1	69	43.1
		92.8		92.8		92.8
Hysan						
Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	76	47.5	76	47.5	76	47.5
		97.5#		97.5#		97.5[#]
Great Eagle						
Mandatory disclosure requirements[1]	148	49.3	148	49.3	148	49.3
Recommended disclosures[2]	69	43.1	69	43.1	69	43.1
		92.5		92.5		92.5
	06/2008		06/2007		06/2006	

[1] The denominator is 150
[2] The denominator is 80
[#] The highest scores of CG disclosure in the three financial years

Sun Hung Kai						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	60	37.5	60	37.5	60	37.5
		87.2*		87.2*		87.2*
	06/2008		06/2007		06/2006	
Henderson Land						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	60	37.5	60	37.5	60	37.5
		87.2*		87.2*		87.2*
Hang Lung						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	70	43.8	70	43.8	70	43.8
		93.4		93.4		93.4
New World Development						

*The lowest scores of CG disclosure in the three financial years

1 The denominator is 150

2 The denominator is 80

*The lowest scores of CG disclosure in the three financial years

Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	64	40.0	64	40.0	64	40.0
		90.0		90.0		90.0
Sino Land						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	66	41.3	66	41.3	66	41.3
		90.9		90.9		90.9
Hopewell						
Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	65	40.6	65	40.6	65	40.6
		90.6		90.6		90.6

Data Sources: 2005 – 2007 Annual Reports of respective companies

Table 2: Scores of Mandatory and Recommended CG Disclosure of China Based Family-Controlled Property Development Companies

	12/2007		12/2006		12/2005	
Agile						
Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	65	40.6	65	40.6	63	39.4
		90.6		90.6		89.4
China Resources Land						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	66	41.3	66	41.3	66	41.3
		90.9		90.9		90.9
China Overseas						
Mandatory disclosure requirements[1]	149	49.7	148	49.3	148	49.3
Recommended disclosures[2]	62	38.8	62	38.8	63	39.4
		88.4		88.1		88.7

[1] The denominator is 150
[2] The denominator is 80

Guangzhou R & F						
Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	69	43.1	68	42.5	68	42.5
		93.1#		92.5#		92.5#
Hopson						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	65	40.6	60	37.5	60	37.5
		90.3		87.2		87.2
Guangzhou Investment						
Mandatory disclosure requirements[1]	148	49.3	148	49.3	148	49.3
Recommended disclosures[2]	61	38.1	61	38.1	61	38.1
		87.5		87.5		87.5

[#] The highest scores of CG disclosure in the three financial years

	12/2007		12/2006		12/2005	
Sinolink						
Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	55	34.4	55	34.4	55	34.4
		84.4		84.4		84.4
SRE						
Mandatory disclosure requirements[1]	150	50.0	150	50.0	150	50.0
Recommended disclosures[2]	55	34.4	55	34.4	55	34.4
		84.4		84.4		84.4
	04/2008		04/2007		04/2006	
Neo-China Land						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	55	34.4	55	34.4	55	34.4

[1] The denominator is 150
[2] The denominator is 80

		84.0*		84.0*		84.0*
	04/2008		04/2007		04/2006	
New World China						
Mandatory disclosure requirements[1]	149	49.7	149	49.7	149	49.7
Recommended disclosures[2]	66	41.3	66	41.3	66	41.3
		90.9		90.9		90.9

Data Sources: 2005 – 2007 Annual Reports of respective companies

The Measurement of Financial Ratios of Sample Companies

The evaluation of financial performance focuses on profitability of the sample companies. It is measured by operating profit margin (OPM) and net profit margin (NPM). The results of the financial ratios of the sample companies of both Hong Kong based and China based family-controlled property development companies for three financial years[1].

Data Analysis

For the mandatory CG disclosure requirements, only four companies can get full scores, including Cheung Kong, Hysan, New World and Hopewell. The other six companies, Wharf, Great Eagle, Sun Hung Kai, Henderson Land, Hang Lung, and Sino Land have no separation between the roles of the chairman and chief executive that are exercised by the same individual. However, they have an explanation in their CG report. As a result, they lose one score which can only get 149 scores. In addition, Great Eagle loses further one score that it is only an explanation in CG report in not appointing the non-executive director for a specific term and subject to re-election.

For the recommended CG disclosures, Hysan scores the highest – 76 scores while Sun Hung Kai and Henderson Land score at the lowest – 60 scores. The percentages of the scores get in each part of the recommended CG disclosure of the sample companies are calculated in Table 3. It compares the differences of scores among companies.

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*The lowest scores of CG disclosure in the three financial years

Table 3: Scores of the Recommended CG disclosure in the Hong Kong Based Family-Controlled Property Development Companies

	Total Scores	Cheung Kong	Wharf	Hysan	Great Eagle	Sun Hung Kai	Henderson Land	Hang Lung	New World Development	Sino Land	Hope-well
a)Non-executive directors	2	100%	0%	100%	0%	0%	0%	0%	100%	0%	0%
b) Internal	26	84.6%	77%	96.2%	84.6%	61.5%	61.5%	92.3%	69.2%	88.5%	69.2%
c) Share interests of senior management	6	83.3%	100%	100%	100%	66.7%	66.7%	83.3%	66.7%	66.7%	100%
d) Shareholders right	6	66.7%	100%	100%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%
e) Investors relations	10	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
f) Share option	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
g) Dynamics of business	4	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
h) Post balance sheet events	2	0%	100%	0%	0%	0%	0%	0%	0%	0%	100%
i) Attributable return to	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

shareholders											
j) Relations to shareholders	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
k) Social responsibility	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
l) Human resources policies	2	100%	50%	100%	50%	50%	100%	100%	50%	50%	50%
m) Quality of key relationship	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
n) Community services	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
o) Property development companies	8	100%	100%	100%	100%	75%	75%	100%	100%	75%	75%

For the special discoveries in Table 3, some companies get 50% scores in human resources policies as there is only the disclosure of policies of human resources but not the management structure. Another aspect - internal control also is of main concern. It is discovered that not all companies disclose the items of internal control in the recommended CG disclosure, especially the procedures and internal controls for the handling and dissemination of price sensitive information and the criteria for the directors to evaluate the effectiveness of the internal control. Some companies only disclose the benchmark for evaluation that one mark is given but others have not. Even some companies do not declare any details of significant areas of concern which may affect the shareholders. This weakens the monitoring processes to the companies.

Analysis of the Quality of CG Disclosure of the Sample of China Based Family-Controlled Property Development Companies

Referring to Table 2, Guangzhou R & F gets the highest final scores – 93.1%, while Neo-China Land gets the lowest – 84.0%. Generally, not all the China based family-controlled property development companies have the consistent scores in CG disclosure, such as Agile, China Overseas and Guangzhou R & F. The scores in the three financial years do not have significant differences which limit to 2 scores. For these companies, there is an improvement in the CG disclosure during the three financial years which have the declaration in the review of the effectiveness of the internal control by the directors, the segregation of the roles of the chairman and chief executive officer, and the quantitative impact on the potential risks and uncertainties respectively. However, China Overseas does less well than before for which it has not indicated the criteria for the directors to evaluate the effectiveness of internal control.

For the mandatory CG disclosure requirements, only four companies can get full marks, including Agile, Guangzhou R & F, Sinolink and SRE. Other companies such as China Resources Land, China Overseas, Hopson and Neo-China Land loses one score that it is only an explanation in CG report in not appointing the non-executive director for a specific term and subject to re-election. On the other hand, New World China loses one mark with only the explanation in having no separation between the roles of the chairman and chief executive that are exercised by the same individual.

For the recommended CG disclosures, Guangzhou R & F scores the highest – 69 scores while Sinolink, SRE and Neo-China Land scores the lowest – 55 scores. The percentages of the scores get in each part of the recommended CG disclosure of the sample companies are calculated in Table 4. It helps to compare the differences of scores among companies in different aspects. For the special discoveries in Table 4, more disclosure items in the internal control of China based companies are not disclosed than in Hong Kong based. For example, some companies even not define the internal control system. Some companies only get the scores of 0% in acknowledging the responsibility in the social aspects and contributing to the community.

Table 4: Percentage of the Scores in Each Part of the Recommended CG Disclosure in China Based Family-Controlled Property Development Companies

	Total Scores	Agile	China Resources Land	China Overseas	Guangzhou R & F	Hopson	Guangzhou Investment	Sinolink	SRE	Neo China Land	New World China
a)Non-executive directors	2	100%	100%	0%	100%	100%	0%	0%	0%	0%	0%
b) Internal control	26	07:61.5% 06:61.5% 05:53.8%	69.2%	07:53.8% 06:53.8% 05:57.7%	84.6%	07:77% 06:69.2% 05:69.2%	77%	53.8%	76.9%	76.9%	69.2%

c) Share interests of senior management	6	100%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%
d) Shareholders right	6	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%	66.7%
e) Investors relations	10	100%	80%	100%	80%	80%	80%	80%	80%	80%	100%
f) Share option	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
g) Dynamics of business	4	100%	100%	100%	07:100% 06:75% 05:75%	07:100% 06:75% 05:75%	100%	100%	100%	100%	100%
h) Post balance sheet events	2	0%	100%	100%	100%	100%	0%	0%	100%	0%	100%
i) Attributable return to shareholders	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
j) Relations to shareholders	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
k) Social responsibility	2	100%	100%	100%	100%	0%	0%	100%	0%	0%	100%
l) Human resources policies	2	50%	100%	100%	50%	50%	50%	50%	50%	50%	100%
m) Quality of key relationship	2	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
n) Community services	2	100%	100%	100%	100%	100%	100%	100%	0%	0%	100%

o) Property development companies	8	100%	100%	100%	100%	100%	100%	75%	75%	75%	75%

The recommended CG disclosures for the China based family-controlled property development companies are weaker than in Hong Kong based. It hinders the monitoring process on the controlling shareholders and hence reducing the ability to protect the minority shareholders. It may be caused by the recently listed companies on the SEHK, such as Agile which was listed on 15.12.2005 that the companies may not have a good establishment in CG disclosure. Also it may be affected by the differences in the culture between Hong Kong and China that China has a higher tolerance in uncertainty about the business operations, internal and external environment (Hofstede, 2003).

Analysis of the Financial Ratios of the Sample Companies

In order to examine the relationship between CG disclosure and performance in terms of financial ratios, the analysis of the financial ratios can be divided into two parts. First is the trend, and the second is the highest and the lowest average scores of the three financial years[1] for each of the financial ratios of the sample companies. This helps to compare with the trends in the CG disclosure scores. In addition, the scores of financial ratios are subject to fluctuations during the three financial years. It is fair to use the highest and the lowest average scores of the financial ratios which have taken all the three financial years into accounts to compare with the CG disclosure scores.

Analysis of Financial Ratios of the Sample of Hong Kong Based Family-Controlled Property Development Companies

For the Hong Kong based property development companies, the overall profitability of Cheung Kong, Sun Hung Kai, Hung Lung, New World and Hopewell improved with an increasing trend in OPM and NPM. However, others have an adverse profitability, except for Sino Land with an increase in OPM and NPM.

On the other hand, New World gets the lowest average scores in OPM and NPM respectively. At the same time, Hopewell gets the highest average score in NPM. Following by this, Hysan scores at the highest average financial ratio in OPM.

[1] The sample companies have different financial year end which ended in April, June and December. Hence, there are three types of financial year ended (12/2005-12/2007, 04/2006-04/2008 and 06/2006-06/2008) in examining the relationship between CG disclosure and financial performance.

Analysis of Financial Ratios the Sample of China Based Family-Controlled Property Development Companies

For the China based property development companies, China Resources Land, China Overseas, Guangzhou R & F, Sinolink and Neo-China Land improved the profitability with an increasing OPM and NPM. And so did Hopson and SRE.

On the other hand, Neo-China Land gets the lowest average score in OPM. China Resources Land and SRE get the lowest average scores in NPM respectively. However, SRE gets the highest average scores in OPM. Simultaneously, Sinolink, New World China and Guangzhou Investment get the highest average scores in NPM.

Relationship between CG Disclosure and Financial Performance of the Sample Companies

After the analysis of the quality of CG disclosure and the financial ratios of the sample companies, the relationship between them is examined. First, the correlation is calculated which is shown in Table 5.

Table 5: Correlation between CG Disclosure and Financial Performance of Ten Hong Kong Based Family-Controlled Property Development Companies

CG disclosure for the year ended:	12/2007 - 06/2008	12/2006 - 06/2007	12/2005 - 06/2006
OPM	0.715*	0.658*	0.478
NPM	0.144	0.378	0.386

Pearson correlation, listwise, N = 10, *P< 0.05

Only OPM and NPM have a medium to high positive correlation with CG disclosure. This evidence supports the analysis of the relationship between CG disclosure and financial performance in the followings. The overall scores in CG disclosure in Hong Kong based property development companies are consistent during the three subsequent financial year end, while the profitability is subject to fluctuations with increasing or decreasing trend in the financial ratios generally.

The final scores of CG disclosure do not have significant differences among Wharf, Great

Eagle, New World, Sino Land and Hopewell. They range from 90% to 93%. However, there are many differences in the scores of financial ratios they get. First, it shows that New World gets the lowest average scores in five types of financial ratios where Henderson Land gets one. Other than this, Hopewell and Great Eagle score at the highest in the total of five types of financial ratios. Thus, the small range of the CG disclosure scores is inconsistent with the considerable differences in the scores of financial ratios among these companies. It does not seem to have a relationship between CG disclosure and financial ratios.

Besides, Hysan gets the highest scores while Sun Hung Kai gets the lowest. However, Hysan has an opposite trend in the profitability and only get the average highest scores in OPM among companies. Furthermore, Sun Hung Kai has an increasing trend in profitability instead. Hence, it seems to have a little relationship between CG disclosure and financial ratios other than with OPM.

To conclude, the data only indicate partially support for H1 which is the positive relationship between CG disclosure and financial performance of the Hong Kong based family-controlled property development companies. There are two financial ratios – OPM and NPM, indicate the positive relationship between them and CG disclosure while others do not. These findings apply to the Literature Review that CG disclosure requirements help in monitoring the controlling shareholders and protecting the minority shareholders (Ho, 2003), in together with improving the profitability to some extent (Chen et al., 2006).

In the China based family-controlled property development companies, the relationship between CG disclosure and financial performance is first examined by the calculation of the correlation. It is shown in Table 6.

Table 6: Correlation between CG Disclosure and Financial Performance of Ten China Based Family-Controlled Property Development Companies

CG disclosure for the year ended:	12/2007 - 06/2008	12/2006 - 06/2007	12/2005 - 06/2006
OPM	0.150	-0.103	0.293
NPM	-0.209	0.221	0.100

Pearson correlation, listwise, N = 10, *P< 0.05

There is nearly no correlation between CG disclosure and the two types of financial ratios. This evidence supports the analysis of the relationship between CG disclosure and financial performance.

For the China based family-controlled property development companies, although Guangzhou R & F gets the highest scores of CG disclosure, it does not have significant differences with Agile, China Resources Land, Hopson and New World China. Their scores range from 90% to 93%. To compare, there are much more differences in the financial ratios they get. New World China does not get the highest or the lowest scores in CG disclosure but it gets the highest average scores in NPM. At the same time, Agile and Hopson get a medium score of financial ratios among the companies. Hence, the small range of the CG disclosure scores is inconsistent with the considerable differences in the scores of financial ratios among these companies.

On the other hand, SRE, Neo-China Land and Sinolink are the three of the lowest scores in CG disclosure with consistency in the three financial years examined. Simultaneously, SRE and Neo-China Land get the lowest average scores in OPM and NPM respectively. Oppositely, SRE and Sinolink get the highest average scores in OPM which is inconsistent with the lowest scores of CG disclosure they get. Thus, the lowest scores in CG disclosure do not indicate the lowest or the highest scores in financial ratios.

Furthermore, Neo-China Land and Sinolink have the increasing trend in OPM and NPM, while SRE has the increasing trend in OPM and NPM. The overall improvement in profitability is not conformable with the consistence in the CG disclosure scores in the three financial years.

To conclude, the data do not indicate support for H2 which is the positive relationship between CG disclosure and financial performance in the China based family-controlled property development companies listed on SEHK. These findings apply to the Literature Review that even if CG disclosure requirements help in monitoring the controlling shareholders and protecting the minority shareholders (Ho, 2003), it does not affect the financial performance of the family-controlled companies (Filatotchev et al., 2005).

Conclusions

CG concerns the rights and responsibilities of a company's management, its board, its shareholders and other stakeholders (OECD, 1999). It is derived by agency theory which the agency problems aroused due to the conflicts of interests between management, directors and shareholders, and the stakeholder theory that the corporation should take into account of all the stakeholders' interests.

CG mechanism and CG disclosure play important roles in reducing the agency threats, monitoring the controlling shareholders and protecting the interests of minority shareholders (Ho, 2003). Hence, the performance of the family-controlled companies is affected. Nevertheless, the divergence exists in the relationship between CG and performance that some scholars suggest the positive relationship between them but others disagree (Kula and Tatoglu, 2006; Filatotchev et al., 2005).

Considering the divergence of the view in the relationship between CG and performance and lack of this type of research in Hong Kong, there is a gap in the existing literature. However, it is taking into account that CG disclosure is a powerful tool to influence the behavior of the company and protect the minority shareholders (HKSA, 2001). It is used in investigating the relationship with financial performance. Hence, the hypotheses are set and test the positive relationship between them in both Hong Kong based and China based family-controlled property development companies listed on SEHK which are representative companies in Hong Kong.

In the Hong Kong based companies, the data collected from the scores of CG disclosure and financial ratios only indicate partially support for H1 which is the positive relationship between CG disclosure and financial performance. There are only two financial ratios – OPM and NPM, indicate the positive relationship. The consistency scores in CG disclosure do not conform to the fluctuation of the trends in the financial ratios during the three financial year ends[1]. Also, the small differences in the scores of CG disclosure among the companies are not consistent with the significant differences in the scores of financial ratios. However, there is an indication that the highest scores in CG disclosure get the highest scores in both OPM and NPM. As a result, there is only a positive relationship between CG disclosure and OPM and NPM. H1 is partially supported. These findings apply to the Literature Review that CG disclosure requirements help in monitoring the controlling shareholders and protecting the minority shareholders (Ho, 2003), and improving the profitability to some extent (Chen et al., 2006).

In the China based companies, the data form the scores of CG disclosure and financial ratios do not indicate support for H2 which is the positive relationship between CG disclosure and financial performance. First, it is supported by the calculation of correlation in Microsoft Excel. Second, the small differences in the scores of CG disclosure are inconsistent with the considerable differences in the scores of financial ratios among these companies. Third, the lowest scores in CG disclosure do not indicate the lowest or the highest scores in financial ratios. These findings apply to the Literature Review that even if CG disclosure requirements help in monitoring the controlling shareholders and protecting the minority shareholders (Ho, 2003), it does not affect the financial performance of the family-controlled companies (Filatotchev et al., 2005).

[1] The sample companies have different financial year end which ended in April, June and December. Hence, there are three types of financial year ended (12/2005-12/2007, 04/2006-04/2008 and 06/2006-06/2008) in examining the relationship between CG disclosure and financial performance.

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