

CITY UNIVERSITY OF HONG KONG
香港城市大學

**Board Independence and Company
Financial Performance: Evidence from
Hong Kong**
董事會的獨立性與公司的財政表現：
有關香港的論証

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Abstract

The global economic crisis that began in 2008 has cast the spotlight on the board of directors as a critical element of corporate governance. This focus on company boards is the continuation of a long tradition of corporate governance discussion, both in academic and regulatory circles. Much of the discussion to date has been dominated by the agency theory, which postulates that greater independence in board and leadership structures will reduce agency costs and enable companies to achieve better financial performance.

However, the universal adoption of regulatory standards in this direction has failed to avoid the collapse of major companies. In addition, extensive empirical research, which has followed a quantitative and deductive tradition, has not been able to confirm the conventional wisdom about board or leadership independence. This research study has therefore sought to re-examine the problem from a new perspective.

Departing from established tradition, the study has applied a qualitative and inductive approach by drawing on a series of in-depth, semi-structured interviews of independent non-executive directors (INEDs) from listed companies in Hong Kong. The results have identified serious conceptual flaws in the belief that greater independence in board or leadership structures would necessarily improve a company's financial performance. The findings suggest that the relationships between structural independence and company performance are indirect, circuitous, and fraught with different levels of uncertainties.

In addition, the results of this study include observations about the roles of INEDs, the factors which influence the nature and effectiveness of such roles, as well as common processes and dynamics which are found to operate on company boards. These findings have filled a void in prior research and indicate that a power-based framework with behavioral and relational dimensions may offer a more holistic perspective. The use of such a framework suggests opportunities for future research and improvement efforts, with academic and practical implications. These opportunities would require stronger academic collaboration with the business and professional communities in the spirit of engaged scholarship.

Keywords: Board Governance, Board Structure, Leadership Structure, Structural Independence, Company Financial Performance