Changes in Hong Kong and the UK improve the corporate governance landscape.

RULES of the HIGH ROAD

ILLUSTRATION: JAMES YANG

GLOBALLY, CORPORATE FAILures, governance weaknesses and the emergence of conduct risk during and since the financial crisis of 2008 have damaged trust and prompted calls for stricter regulation. Recent changes in the UK and Hong Kong corporate governance codes are in part a response to these pressures and seek to push the corporate world toward greater transparency and integrity.

The UK led the development of corporate governance practices with the Cadbury Report in 1992 and significant improvements in governance have been seen since then. The July 2018 Update to the UK Corporate Governance Code aims to create a simpler and clearer set of principles to promote long-term stability and success for a greater range of stakeholders. Key changes include:

• Broadening the definition of governance. An effective and entrepreneurial board should be in place whose mission is to promote long-term sustainable success, generating value for shareholders and contributing to wider society.
• Emphasizing that the board should establish the company's purpose, values and strategy, and satisfy itself that its culture is aligned with those plans.
• Improving the quality of relationships with a wider range of stakeholders. The annual report should describe how the interests of all have been considered in board decision making.
• Engaging meaningfully with the workers through a formal workforce advisory panel, a director or designated non-executive director appointed from the workforce.
• Emphasizing the necessity for a high-quality board with an appropriate combination of executive and non-executive independent directors to ensure constructive challenge, with no one director dominating the decision making.
• Focusing on diversity, length of tenure of the board as a whole and effective board refreshment including the need for higher-quality external board evaluations as well as nomination committee responsibility for more effective succession planning.
• More demanding criteria for remuneration practices including clearer reporting on remuneration, how it delivers company strategy, long-term success and alignment with workforce remuneration.

Hong Kong also started its governance journey in 1992 and published its Code on Corporate Governance Practices in 2005 in place of the previous non-mandatory approach. Last month, the Hong Kong Stock Exchange published the results of its latest consultations on the Code and related Listing Rules.

The changes are a welcome improvement to address concerns around director independence and board diversity. Among improvements bringing Hong Kong more into alignment with the UK:

• Strengthening the transparency and accountability of the board and nomination committee on election of directors, including Independent Non-Executive Directors (INEDs), who may be overstretched. The new code requires explanation for how an INED with seven or more directorships could devote sufficient time to the job.
• Improving transparency of INEDs' relationships with companies, particularly factors affecting independence. These include extending the cooling off period where an INED is a former adviser, audit partner or has a material interest in the company; taking into account immediate family relationships; as well as considering INEDs' cross-directorships.
• Promoting board diversity, including gender diversity, by requiring companies to have a diversity policy and to disclose the policy in the corporate governance report.
• Requiring greater dividend policy transparency by disclosing it in the annual report.

While gaps remain between the two markets with regard to code and practice, these changes should help to improve investor and community confidence in corporate leadership. At a minimum, governance practices help protect against material risk and failure. The greater value, however, comes through underpinning a long-term investment focus that benefits investors, customers, employees and the community. ◆

Jane McAloon is a Senior Adviser for Brunswick and former President of Governance at BHP Billiton.

AFRICA & the Promise of AI

The coming population boom could provide benefits.

AFRICA MAY NEED A Hari Seldon.

Isaac Asimov's science fiction classic *Foundation* series introduced the character of Hari Seldon, the developer of "psychohistory," an algorithmic sociology he uses to predict the Galactic Empire's future, using what we would now call big data.

Africa's data needs examining. Its much-hyped population explosion is a looming threat. By about 2050, at current trends, almost one in three humans will be African. This may not present the same catastrophic climate implications posed by China and India. But over the next 20 to 70 years the continent will be unignorably significant.

There is reason to be hopeful. Economic and social development is increasing, if not exponentially then at least by leaps. Between 2010-17, 27 million Africans gained access to new electricity connections, with that many again expected in just the two years from 2018 to 2020. Even more are benefiting from improved access to transport and financial services. With such structural changes,

BETWEEN 2010-17, 27 MILLION AFRICANS GAINED ACCESS TO NEW ELECTRICITY CONNECTIONS.

the population boom could return a so-called demographic dividend: economic benefits as the pool of workers increases and the proportion of dependents declines. Greater consumption, production and investment could drive growth upward and increase per capita income fourfold.

But the inverse risk is immense. According to the IMF, Africa will need to create 18-20 million more jobs a year for the next quarter century to keep up with its growing population.

Africa's embrace of technology sets it apart from other continents, with an explosion in early adoption in many sectors, including the world's biggest 3-D printer at the Centre for Scientific and Industrial Research in South Africa. But the overall effect on employment is difficult to predict.

The Fourth Industrial Revolution could bring increased productivity in agricultural and services sectors. Challenges include poor levels of the STEM skills necessary for the digital economy and the risks that robotics poses in traditional manufacturing.

Stanford Social Innovation Review argues that AI has the potential to bring myriad positive changes in sectors such as healthcare and finance, bridging the gap between physical infrastructure inadequacies and consumer demands, while freeing up more time for skilled labor and increased labor productivity. These types of "intelligent machinery and processes present a rare opportunity for economic transformation," SSIR writes.

Of course, the problem is we have absolutely no idea what is actually going to happen. This isn't Asimov's fictional *Foundation.* Blending big data with sociology cannot yet eliminate the futility of such a prediction.

Governments, NGOs and business interests in Africa might do well instead to recall a quote from another *Foundation* series character: "To succeed, planning alone is insufficient. One must improvise as well." ◆

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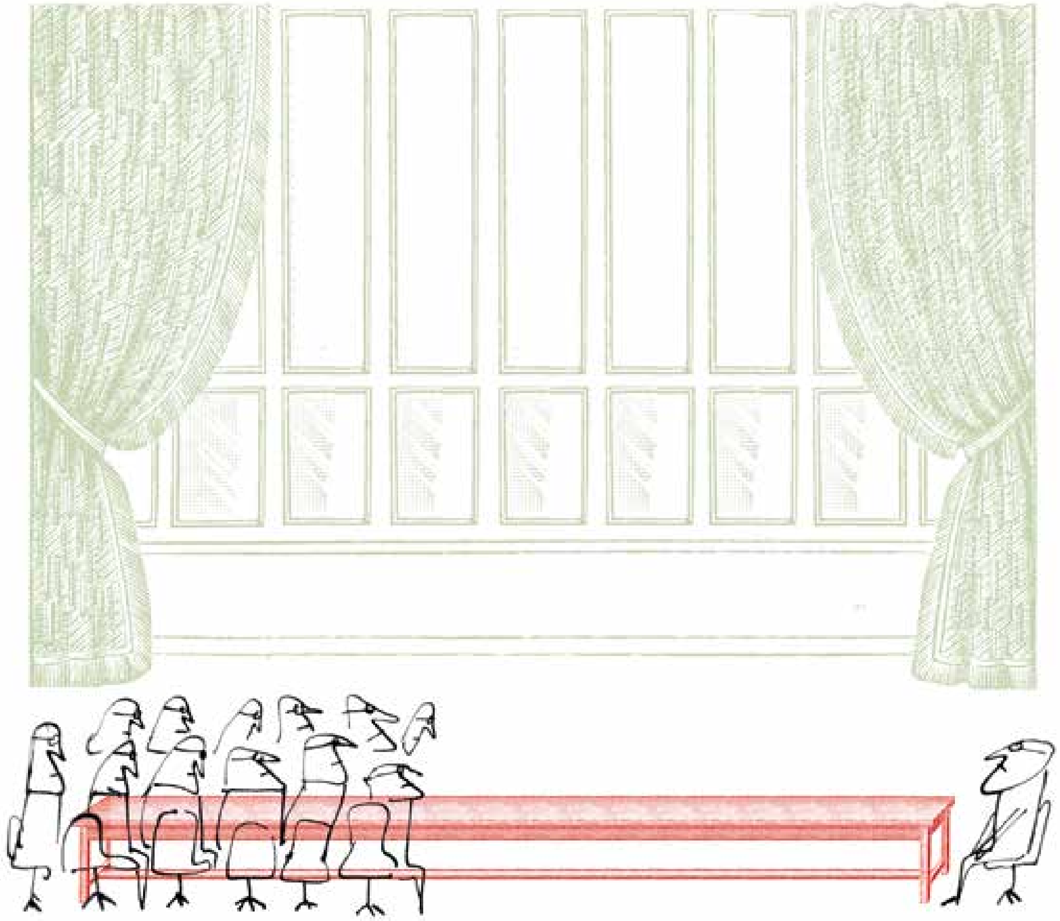

A Rare Breed: The Communications Board Member

There are more living ex-Presidents of the Swiss Confederation (18) than there are Chief Communications Officers serving on boards of S&P 500 companies today (16).

Recently published research by executive search firm Spencer Stuart estimates that of the 5,473 board seats at S&P 500 companies, less than 0.3 percent are occupied by top communications professionals.

The near-complete absence of communications professionals from the boardroom seems difficult to reconcile given how many companies stress the critical importance of building trust, safeguarding their reputation, and connecting with their stakeholders – areas where communications plays a driving role. The field is talked about as business-critical, yet its leaders are all but excluded from the boardrooms of big businesses.

Part of the challenge, according to Spencer Stuart, is a dearth of vacant seats. S&P 500 boards appointed 397 new independent directors in 2017, the largest number in more than a decade – yet still a paltry turnover rate of 7 percent. That same year, almost half of S&P 500 boards (48 percent) didn't appoint a single new member.

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NUMBER of CHIEF COMMUNICATIONS OFFICERS serving on boards of S&P 500 companies today.

And the reason these hard-to-come-by seats aren't being filled by Chief Communications Officers, according to the report's authors, is "the belief that communication skills – while valuable in their own right – aren't enough on their own to contribute significantly to a board's larger mandate." That's why most boards look for – and ultimately hire – the high-level leadership experience and strong financial acumen associated with CEOs, CFOs and COOs.

But here's some consolation: A separate Spencer Stuart study found that a majority of global CCOs (64 percent) report directly to a company's President or CEO. ◆

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ILLUSTRATION: SERGE BLOCH