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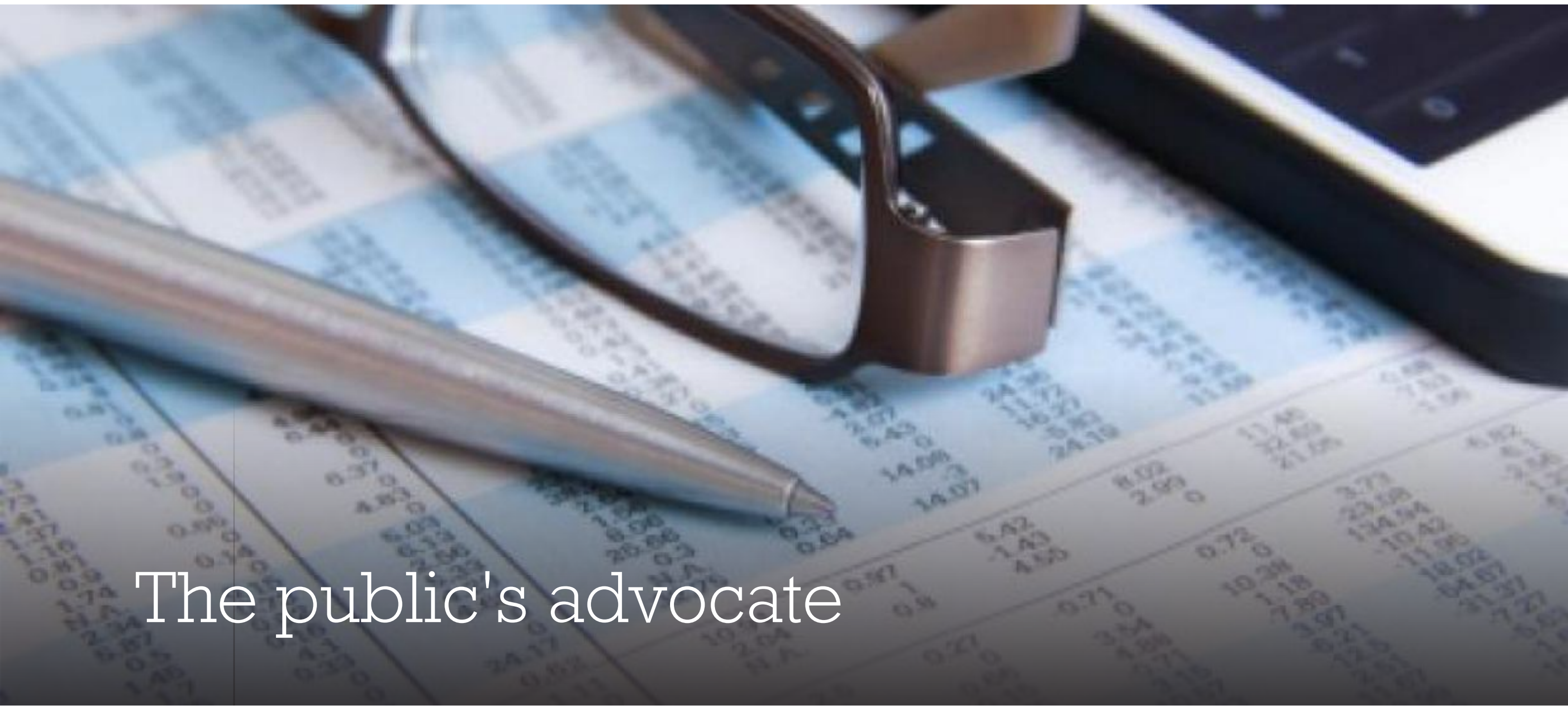

The public's advocate

Public service takes many different forms. In the case of David Webb, who jokingly calls himself a 'reformed investment banker', public service comes in the form of being a non-profit corporate governance watchdog and an advocate for minority shareholders in Hong Kong.

Webb, a retired investment banker and a former independent director of the Hong Kong Exchanges and Clearing (HKEx), is known for being a critic of the back-room dealings of the territory's tycoons and for pushing for greater financial transparency from Hong Kong-listed firms. Last year, he shone the spotlight on irregularities in the shareholder vote for a US$2.1 billion buyout of telecom operator PCCW, spearheaded by tycoon Richard Li, which brought about an investigation by Hong Kong regulators. The buyout was subsequently over-ruled by an appeals court that sided with the securities regulator. "I've reached a stage of financial security where I can afford to spend some of my time contributing to the community," says the 44-year-old Webb, who also spends his time as a private investor focusing on Hong Kong's small-cap market. "And I think if you are in that fortunate position, then you really should try to do something." Asked why he thinks minority investors are getting a raw deal, Webb says it's characteristic that the predominance of controlling shareholders, be they families or governments, suppresses the voices of minority investors and stymies the development of what he terms a "dynamic market". "When you have a large shareholder, there is no prospect of a dynamic market for corporate control, which exists in, say, the UK with no major shareholders in the blue-chip companies," Webb told INSEAD Knowledge. "If you have that dynamic market, then the companies are always trying to satisfy shareholder wishes in terms of information flow and control over executive pay and things like that." "That tends to moderate bad behaviour by companies. But without the market for corporate control, then thereâ€™s always the risk that the major shareholders would abuse the minority shareholders in terms of asset injections or overpaying themselves as directors when they are also the controlling shareholders." Webb adds that the rights of minority shareholders vary around with world. For instance, minority shareholders in the US have recourse to class-action lawsuits but they face 'draconian' corporate charters, because each state has its own set of corporate laws. In the absence of major shareholders, that allows corporate management to entrench itself in the boardroom through 'poison pills', 'golden parachutes' and de facto ownership of the companies. Over in Hong Kong and in some Asian markets, minority shareholders have no recourse to class-action lawsuits, although there are "theoretical legal comebacks", says Webb. Indeed, underdeveloped company laws and shareholder rights in Hong Kong mean that shareholders can't sue a company for marketing a false prospectus unless they can prove that they have read the prospectus, and that they have held the shares since the initial public offering and have not bought them in the secondary market, Webb says. "Having said all that, the idea that you can simply sell your shares is rather a false one because it's a bit like saying to somebody that after an arsonist has torched your house, you can always sell it. It doesn't tend to be worth so much as when it's fully built." So how can minority shareholders get fair and equitable treatment? Webb says part of the answer lies in campaigning for reforms. But he laments that reforms of corporate governance in Hong Kong continue to be impeded by the lack of democracy, as the territory's Chief Executive was elected by an 800-member election committee, which itself was heavily influenced by business tycoons. Webb cites as an example the government's reluctance to mandate the quarterly reporting of financial results by listed companies - which has been required in most markets in Asia, including China, since 2003. Webb, who has been lobbying the Hong Kong government to take such a step, attributes the lack of progress to the political clout of the tycoons, who are loath to disclose their financial performance on a more regular basis. "So the reform process is very slow and all you could do in the meantime is to apply not just valuation metrics to companies but also corporate governance metrics," says Webb. "So I, as a value investor in small caps in Hong Kong, treading through a minefield, choosing around - at any given time - about 30 or 40 stocks out of 1,000 possible stocks, and looking for not just apparent low value but also good governance." "A stock might appear to be cheap. But if you don't expect to get a fair share of its returns in the future, then it's not cheap."

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