

# Highlights of 2021 Hong Kong Spencer Stuart Board Index

Alice Au HKIoD 區妙馨

## 《史賓沙2021年香港董事會年度指數》的主要亮點

**T**he 2021 Hong Kong Spencer Stuart Board Index is a comprehensive study of the governance practices of Hang Seng Index (HSI) and Hang Seng Composite LargeCap Index (HSLI) constituents. This board index provides a snapshot of key governance practices, including board structure and composition, diversity, committees, meetings, remuneration and board evaluation.

### Trending Toward Smaller Board Size

The average board size for HSI companies is 11.3 directors, a decrease from 12.4 directors in 2018, consistent with a global trend towards smaller boards. The share of HSI boards with eight or fewer directors increased from 18% to 21%, while the percentage of boards with 12 or more directors decreased from 51% to 41%.

The trend is similar among the broader group of HSLI companies. The average board size of HSLI companies also decreased to 10.7 directors in 2021, compared with 11.7 directors in 2018. The percentage of boards with eight or fewer directors increased from 17% to 25% this year, while the share of boards with 12 or more directors decreased from 48% in 2018 to 34% in 2021. The 41 new companies included in the



HSLI since 2018 have an average of 8.9 directors, consistent with the trend of smaller boards. Based on our experience globally, most boards consider around 10 directors the optimal size.

### **More HSI Boards Splitting The Chair And CEO Roles**

There has been a slight increase in the number of HSI boards with separate chair and CEO roles — from 69% in 2018 to 71% in 2021. Four more companies split the roles, while one company combined the roles since our last study. This is a positive trend as corporate governance best practice suggests a separation of the two roles to maintain a healthy system of checks and balances. Only 9% of HSI company chairs are independent.

### **Downward Trend In Board Tenure**

HKEX recently revised the Corporate Governance Code and the Listing Rules: effective since January 2023, independent non-executive directors (INEDs) who are serving more than nine years will be regarded as "long-serving INEDs," and if all INEDs on the board are long-serving INEDs, the board will be required to appoint a new INED at the forthcoming annual general meeting (AGM).

INEDs at HSI companies have an average tenure of 7.5 years, compared with 8.3 years in 2018, while INEDs at HSLI companies have an average tenure of 6.9 years, compared with 7.7 years in 2018. Six HSLI boards have all long-serving INEDs.

Only five companies in both indexes have explicit term limits for their INEDs. With a very low rate of board evaluation, Hong Kong boards might be missing a

mechanism to trigger board refreshment. As indicated in our survey earlier this year: with nomination committee members and INEDs, boards seem to rely on voluntary retirement even with non-performing board members.

### **Very Slow Progress On Gender Diversity**

Progress on gender diversity in Hong Kong remains embarrassingly slow, far behind countries like the U.S. and the UK, and Singapore in the Asia region. The representation of female directors inched up from 12.9% in 2018 to 13.9% on HSI boards in 2021, and from 11.9% to 14% on HSLI boards over the last three years. 28% of HSI companies and 27% of HSLI companies have no female directors.

The representation of women among senior management, which provides a talent pipeline for women on boards, is not much better – only 16.6% and 17.8% of the senior executives of HSI and HSLI companies, respectively, are women.

176 new directors were appointed by HSLI companies in the past financial year. Overall, the representation of first-time directors among new directors has increased from 34% in 2018 to 43% in 2021. The percentage of first-time INEDs has increased from 16% to 29% during the same period, indicating that boards are looking for new blood.

However, female directors only account for 18% of the new class of directors, with no improvement from 2018. We note that close to 50% of the S&P 500 new director class are women, helping S&P 500 boards reach 30% female representation in 2021. HKEX has recently mandated no single gender board by 31 December 2024, the first

major exchange that has mandated such. If HSLI boards get more ambitious and work toward ensuring that 50% of new directors are women, they can reach 30% female representation by 2026 even if 25% of the retiring directors each year are women.

### **Boards Met More Often, But Nomco Activities Stay Low**

In a year of unprecedented changes, boards met more often, going from six meetings in 2018 to 7.3 and 7.1 for HSI and HSLI boards, respectively. Nomination committees, which generally are accountable for reviewing board composition, met less often, typically having two meetings a year. HKEX has recently made it mandatory for the nomination committee to be chaired by either the board chair or an INED. Currently, only 56% and 54% of the nomination committees of HSI and HSLI companies, respectively, are chaired by INEDs.

### **Increase In ESG Committees**


Expanding/enhancing environmental, social and governance (ESG) oversight features as the 4th highest priority in our survey of nomination committee directors and INEDs. Currently, 48% of HSI companies have an ESG committee at the board level, and 31% have an ESG committee at the executive level. Among the HSLI companies, 33% have a board-level ESG committee and 33% have an executive-level ESG committee.

### **A Decline In Board Evaluations**

While an annual board evaluation is often the norm in many other countries, it is a bit disconcerting to see the prevalence of board evaluations decline among Hong Kong boards, from 39% (both internally and externally facilitated) in 2018 to 28%

in 2021 for HSI companies, and from 27% to 20% for HSLI companies.

### Average INED Compensation Has Stayed Generally Flat

While average INED compensation has increased 48% from 2015, it has stayed flat from 2018 at US\$96,000 for HSI companies and increased slightly from US\$85,000 to US\$95,000 for the broader-based HSLI companies. 

**Ms Alice Au** FHKIoD is a member of Spencer Stuart's global board of directors and leads Spencer Stuart's Board Practice in the Asia Pacific since 2011.

## 《史

賓沙2021年香港董事會年度指數》報告全面研究了恆生指數 (HSI) 和恆生綜合大

型股指數 (HSLI) 成分公司的治理實踐。本報告概括了這些公司董事會的重要企業管治實踐，包括董事會架構與組成、多元化、委員會、會議、薪酬以及董事會績效評估。

### 董事任期呈縮短趨勢

香港交易所近期修訂了《企業管治守則》及《上市規則》：自2023年1月起，在任超過9年的獨立非執行董事（獨董）將被視為“連任多年的獨董”，而如果董事會內所有獨董均為連任多年的獨董，董事會必須在下一屆股東大會上任命新的獨董。

HSI公司的獨董平均任期從2018年的8.3年縮短至2021年的7.5年，同期HSLI公司的獨董平均任期從7.7年縮短至6.9年。有6家HSLI公司的所有獨董均為“連任多年的獨董”。

在兩大指數成分公司中，只有5家公司設立了獨董任期限制。由於香港上市公司進行董事會績效評估的比率非常低，這些董事會可能缺乏繼任規劃的策略。從我們在2021年對董事會提名委員會成員和獨董調查來看，即


便在董事表現欠佳的情況下，董事會似乎也更依賴於董事的自願退休。

### 性別多元化進展非常緩慢

香港公司的董事會性別多元化進展緩慢，不僅遠遠落後於美國和英國，亦落後於亞洲區內的新加坡。過去三年，HSI公司女性董事的比例從2018年的12.9%略升至2021年的13.9%，同期HSLI公司的這一比例從11.9%升至14%。在2021年，有28%的HSI公司和27%的HSLI公司沒有女性董事。

而作為女性董事的重要人才儲備，女性高管的比例也並不樂觀：HSI和HSLI公司女性高管的比例分別僅為16.6%和17.8%。

過去一個財年，HSLI公司新任命了176位董事。總體而言，新任董事中首次擔任董事的人數比例從2018年的34%升至2021年的43%，同期首次擔任獨董的人數比例從16%升至29%，這表明董事會正在吸納新血。

然而，女性董事僅佔新任董事的18%，相較於2018年的情況毫無改善。我們注意到，2021年在標普500指數成分公司中，新任女性董事的比例接近50%，使其總體女性董事比例達到了30%。香港交易所近期規定，單一性別董事會須在2024年12月31日前至少任命一名其他性別的董事——這是全球首個提出此類要求的主要交易所。若香港上市公司能夠採取更積極主動的態度，努力確保新任董事中的女性比例達到50%或以上，而每年退休的女性董事佔比在25%以下，我們將能在2026年把女性董事的比例提升至30%。 

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