



CHARTERED
SECRETARIES
特許秘書

Corporate Governance Paper Competition on 'How is good governance of Non-Governmental Organisations (NGOs) similar to, and different from, good corporate governance of public companies age' and Presentation Awards 2019



The Hong Kong Institute of Chartered Secretaries

(Incorporated in Hong Kong with limited liability by guarantee)

The Hong Kong Institute of Chartered Secretaries (HKICS) is an independent professional body dedicated to the promotion of its members' role in the formulation and effective implementation of good governance policies, as well as the development of the profession of Chartered Secretary and Chartered Governance Professional in Hong Kong and throughout the Mainland.

HKICS was first established in 1949 as an association of Hong Kong members of The Chartered Governance Institute, formerly known as The Institute of Chartered Secretaries and Administrators (ICSA) of London. It was a branch of The Chartered Governance Institute in 1990 before gaining local status in 1994 and has also been The Chartered Governance Institute's China Division since 2005.

HKICS is a founder member of Corporate Secretaries International Association Limited (CSIA), which was established in March 2010 in Geneva, Switzerland. In 2017, CSIA was relocated to Hong Kong where it operates as a company limited by guarantee. CSIA aims to give a global voice to corporate secretaries and governance professionals.

HKICS has more than 6,000 members and 3,200 students.

For more information, please visit www.hkics.org.hk.

香港特許秘書公會

(於香港註冊成立的擔保有限公司)

香港特許秘書公會（公會）是一個獨立專業團體，一直致力於制定與執行良好公司治理政策，在香港以及內地提升會員所擔當的角色，同時推動「特許秘書」和「Chartered Governance Professional」專業的發展。

公會於1949年成立，最初為設立在英國倫敦的特許公司治理公會（The Chartered Governance Institute）（原稱為：特許秘書及行政人員公會（ICSA））的屬會，於1990年成為特許公司治理公會的香港分會，並於1994年在香港正式註冊成為獨立專業團體，亦從2005年至今為特許公司治理公會的中國屬會。

公會亦是公司秘書國際聯合會（Corporate Secretaries International Association Limited；簡稱：CSIA）的創會成員之一。CSIA 於2010年3月在瑞士日內瓦成立，於2017年CSIA遷移至香港，並以香港擔保有限公司形式運作，在國際上代表全球公司秘書和治理專業人士發聲。

公會現擁有超過6,000名會員及3,200名學員。

更多資訊，請瀏覽 www.hkics.org.hk。

Contents

About The Hong Kong Institute of Chartered Secretaries	1
HKICS Corporate Governance Paper Competition	3
Winning Papers in Corporate Governance Paper Competition Champion Chan Pak Hay and Lee Ching Long City University of Hong Kong and Hong Kong Baptist University	4
First runner up Choi Hiu Tung and Ho Heily Hei Yin The Hong Kong University of Science and Technology	22
Second runner up Lai Hoi Shan, Lo Kin Kwan and Wong Hoi Keung The Hong Kong Polytechnic University	38
Photo Gallery	49
Acknowledgement	56

HKICS Corporate Governance Paper Competition

The HKICS Corporate Governance Paper Competition has been organised since 2006 in order to raise the awareness of the importance of good governance among undergraduates of local universities.

Participants are required to submit a paper of not more than 5,000 words in English on the theme of the year's competition.

Six teams with the highest total scores were invited to present their papers to compete for the Best Presentation Award.

Topics of previous years' competition:

- 2007** Corporate Social Responsibility
- 2008** Corporate Risk
- 2009** Investor Relations
- 2010** Disclosure & Transparency
- 2011** Best Practices vs Practicality
- 2012** The 21st Century Board
- 2013** Corporate Governance means more Reports and Disclosure?
- 2014** Changing Rules, Changing Roles – Managing It All
- 2015** Risk Management and Corporate Governance
- 2016** Internal and External Forces for Better Corporate Governance
- 2017** Corporate Governance and Business Sustainability
- 2018** Corporate Governance – Challenges and Opportunities in the Digital Age

Prizes of the competition:

Paper Competition

Champion journal of the Institute	HK\$11,000 plus publication of the paper in 'CSJ', the monthly journal of the Institute
First runner up	HK\$7,000
Second runner up	HK\$5,000
Three Merit Prizes	HK\$1,000 each

Paper Presentation

Best Presentation Award	HK\$6,000
First runner up	HK\$3,000
Second runner up	HK\$2,000
Three Merit Prizes	HK\$1,000 each



Champion

From left to right: Lee Ching Long and Chan Pak Hay

Hong Kong Baptist University, Bachelor of Arts (Honours) in English Language and Literature and Bachelor of Education (Honours) in English Language Teaching and City University of Hong Kong, Bachelor of Laws

'How is good governance of Non-Governmental Organisations ('NGOs') similar to, and different from, good corporate governance of public companies'

1. Introduction

Since the Second World War, NGOs have been playing a crucial part in developing communities through the provision of social services. While there has been no clear definition of NGOs, they are generally considered as non-profit entities independent of governmental influence. These NGOs actively engage in educational, healthcare and environmental campaigns to promote social or political change. After decades of development, some NGOs have emerged to be large organisations

with substantial budgets and human resources. Having a significant impact on the well-being of numerous stakeholders, there has been increasing attention on the governance of NGOs. In light of the public company corporate governance model, this study evaluates how good governance practices can be adopted in the NGO sector.

2. Concept of Corporate Governance

The modern-day concept of corporate governance is the product of years of regulatory reforms.

Following a series of business scandals in the 1980s, the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) was formed to review the British corporate governance system. A report was later published by the Cadbury Committee to offer suggestions in restoring the confidence of the investor (the Cadbury Report)¹. Defining corporate governance as 'the system by which organisations are directed and controlled',² three fundamental principles of corporate governance were emphasised by the Cadbury Report: namely transparency, integrity and accountability.

2.1 Transparency

The importance of transparency has been widely recognised by both academics and market regulators. The disclosure of information, whenever necessary, forms 'the basis for the confidence which needs to exist between business and all those who have a stake in its success'.³ If shareholders have confidence in the company, they are willing to invest more. This, in turn, facilitates the financing of the company in furtherance of its operations.

Of course, transparency is not only limited to the financial aspect. Stakeholders expect the corporate board to be open about their actions and willing to communicate with the stakeholders involved. For example, employees and investors will want to know about the direction in which the company is headed, and whether the regulatory or statutory requirements are complied with. The increased understanding of the company's activities and performance assists stakeholders, in particular shareholders and members, in making more informed decisions.

2.2 Integrity

Integrity is defined as 'fair and equitable dealing with stakeholders'.⁴ In terms of financial reporting, financial statements should be presented in an honest and objective manner as to the state of the company's affairs. Public disclosure of necessary financial information allows relevant stakeholders to have a better picture of where and how the funds are spent, and whether revenue is generated effectively.

Individuals within the company should maintain high personal standards and professionalism. For example, members of the governing board should declare their related interests in a timely manner to prevent conflict of interests. Failure to do so may have a serious impact on the reputation of the company, such as giving rise to criticism of favouritism, abuse of authority or even allegations of corruption. The principle of integrity requires a high standard of probity in the stewardship of resources.

2.3 Accountability

Accountability is the process whereby entities, and the individuals within the entities, assume responsibility for their decisions and performance.⁵ The concept of accountability applies to all personnel within the company, ranging from front line staff all the way up to the governing board. Clearly defined roles enable individuals to understand their responsibilities and carry out their tasks properly. This also prevents the overlap of responsibilities and enhances mutual trust among the parties.

¹ Cadbury Report (The Financial Aspects of Corporate Governance). (1992). ECGI. P.13 Retrieved from <http://www.ecgi.org/codes/documents/cadbury.pdf>

² Cadbury Report (The Financial Aspects of Corporate Governance). (1992). ECGI. P.15 Retrieved from <http://www.ecgi.org/codes/documents/cadbury.pdf>

³ Cadbury Report (The Financial Aspects of Corporate Governance). (1992). ECGI. P.15 Retrieved from <http://www.ecgi.org/codes/documents/cadbury.pdf>

⁴ Cadbury Report (The Financial Aspects of Corporate Governance). (1992). ECGI. P.15 Retrieved from <http://www.ecgi.org/codes/documents/cadbury.pdf>

⁵ Governance in the Public Sector: A Governing Body Perspective. (2001). IFAC. P.20 Retrieved from http://www1.worldbank.org/publicsector/pe/April2003Seminar/Course%20Readings/08.%20Internal%20Control%20and%20Audit/Study_13_Governance.pdf

3. Corporate Governance in Public Companies

As the principles of transparency, integrity and accountability are intertwined, it is impracticable to compartmentalise and illustrate them under each sub-umbrella. Having briefly introduced the principles of corporate governance, this part talks about how public companies adopt practices that enshrine principles of good corporate governance.

3.1 Engage with shareholders and other stakeholders

a) Shareholder meetings

Public companies hold an Annual General Meeting (AGM) regularly.⁶ While the annual report lists out the company's performance and activities, shareholders do not have a chance to query in-depth what is reported. The AGM enables shareholders, particularly minority shareholders, to meet face-to-face with the board of directors, who will address their concerns.

The company, upon the requests of its shareholders, has to circulate notice of the AGM and resolutions being moved or intended to be moved at that meeting.⁷ This allows shareholders to understand the schedule of the meeting and what the proposed resolutions are about.

b) Engage with other stakeholders

Apart from engaging with shareholders, public companies should ensure prompt dissemination of corporate communications so that other stakeholders may keep abreast of its business.⁸ For example, the

Stock Exchange of Hong Kong Limited (HKEx) conducted an extensive engagement programme for investors to interact with senior executives.⁹ This promotes a company's development of strategic policies as well as investors' confidence in the company's operation.

CLP Power Hong Kong Limited (CLP) took a step further in terms of stakeholder engagement through establishing the Community Energy Saving Fund. To encourage power saving, a CLP Power Connect programme has pledged that every unit of electricity saved would be used to support over 40,000 underprivileged households.¹⁰ More than 1,600 CLP volunteers contributed over 16,200 hours of service to the community.

3.2 Quality board of directors

The board should balance the number of non-executive and executive directors, preventing unfavourable treatment towards executives. According to the Listing Rules, every board must include at least three independent non-executive directors,¹¹ representing at least one-third of the board.¹² The AIA Group Limited (AIA) demonstrates the best practice of board composition, in which 90% of the board (10 out of 11) consists of independent non-executive directors (Figure 1). This arrangement ensures that the board's decision-making is driven by objective opinion and not dominated by a small group of individuals.

⁶ Section 610 of the Companies Ordinance (Cap. 622)

⁷ Section 615 of the Companies Ordinance (Cap. 622)

⁸ Corporate Governance Report. (2018). HKEx. Retrieved from https://www.hkexgroup.com/-/media/HKEX-Group-Site/ssd/Corporate-Governance/Documents/cgreport_e.pdf

⁹ Corporate Governance Report. (2018). HKEx. Retrieved from https://www.hkexgroup.com/-/media/HKEX-Group-Site/ssd/Corporate-Governance/Documents/cgreport_e.pdf

¹⁰ Annual Report. (2018). CLP Holdings Ltd. Retrieved from https://www.clpgroup.com/en/Investors-Information-site/Documents/Financial%20Report%20PDF/e_2018%20Annual%20Report.pdf

¹¹ Rule 3.10 (1) of the HKEx Listing Rules

¹² Rule 3.10 A of the HKEx Listing Rules

Name of Director	No. of Meetings Attended / No. of Meetings Held					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	2018 AGM
Independent Non-executive Chairman and Independent Non-executive Director						
Mr. Edmund Sze-Wing Tse	7/7	–	1/1	4/4	4/4	1/1
Executive Director, Group Chief Executive and President						
Mr. Ng Keng Hooi	7/7	–	–	–	4/4	1/1
Independent Non-executive Directors						
Mr. Jack Chak-Kwong So	3/7	3/4	1/1	4/4	–	1/1
Mr. Chung-Kong Chow	6/7	–	1/1	–	4/4	1/1
Mr. John Barrie Harrison	7/7	4/4	1/1	–	4/4	1/1
Mr. George Yong-Boon Yeo	6/7	4/4	1/1	3/4	–	1/1
Mr. Mohamed Azman Yahya	7/7	–	1/1	4/4	–	1/1
Professor Lawrence Juen-Yee Lau	7/7	–	1/1	–	4/4	1/1
Ms. Swee-Lian Teo	7/7	–	1/1	–	4/4	1/1
Dr. Narongchai Akrasanee	7/7	4/4	1/1	–	–	1/1
Mr. Cesar Velasquez Purisima	6/7	–	1/1	–	–	1/1

Figure 1 – Board Composition of AIA

A quality board should have members from diverse backgrounds. Members' differences in skills, experience, age and other qualities bring valuable insights to the board's decision-making. For instance, the board of NWS Holdings consists of members with legal, accounting, financing as well as management background (Figure 2).¹³ A diverse board not only enhances the quality of the company's performance but also ensures leadership continuity.

3.3 High transparency in financial reporting

Directors are accountable for the stewardship of the company's assets. As shareholders contribute a proportion of the funds, they will want to know where and how their investments are deployed in furthering the company's objectives. Being elected by the shareholders, directors are responsible for protecting their interest.



Figure 2 – Board Diversity of NWS Holdings

¹³ Governance Report. (2015). NWS Holdings Ltd. Retrieved from <https://www.nws.com.hk/html/eng/pdf/reportdetail/2015arF109.pdf>

For instance, directors of a public company must prepare yearly financial statements that give a true and fair view of its financial position and performance.¹⁴ Swire Pacific, alongside its Finance Director's Statement, provides relevant operational statistics of different business divisions in its annual report (Figure 3).¹⁵ This includes valuation of investments, a property lease expiry profile, and the outlook for each geographic area, all of which portray a full and concrete picture on how they are going to manage their resources accordingly.¹⁶ Detailed illustration of key financials helps assure shareholders that the company's resources are deployed properly and effectively.

Statement of Profit or Loss			
Revenue	2018 HK\$M	2017 HK\$M	Change in %
Property	14,604	18,443	-21%
Aviation	14,892	14,546	2%
Beverages	41,189	34,066	21%
Marine Services	3,018	3,066	-2%
Trading & Industrial	10,896	10,163	7%
Head Office	7	5	40%
	84,606	80,289	5%

Figure 3 – Access to Swire Pacific Group Annual Report

A public company's financial statements must include details of the emolument of directors. As emoluments includes not only basic salary but also bonuses, disclosure of such information ensures alignment of interests between shareholders, directors and the company's objectives. It also allows the distribution of performance-based rewards in driving corporate performance. While

emoluments vary by directors' experience and contribution, a direct correlation can be seen between the amount of emolument and the company's performance for the financial year. As CK Hutchison Holdings' (CKHH's) net profit increased by 7.5% in 2018, the total amount of emoluments received by directors increased by 9.6% accordingly (Figure 4).¹⁷

Financial Year	2017	2018	Percentage Change
Net Profit	43,513M	46,782M	+7.5%
Total Emoluments	511.95M	561.29M	+9.6%

Figure 4 – CKHH's change in net profit and total emoluments

3.4 Avoid conflicts of interest

Integrity is demonstrated in the presentation of financial reporting, which hinges on the integrity of those who prepare and present them. To achieve good corporate governance, individuals in a public company must maintain a high standard of probity. The senior executives, in particular, must act fairly and not be influenced by prejudice or bias. This can be done by taking necessary precautions to avoid conflicts of interest, which are mentioned below.

First of all, the directors should give full and frank disclosure of their interests and short positions in any shares and/or debentures of listed corporations.¹⁸ They should not participate in the decision-making process where conflicts of interest may occur. This equally applies to both executive and non-executive directors of the board.

¹⁴ Section 379 of the Companies Ordinance (Cap 622)

¹⁵ Annual Report. (2018). Swire Pacific Ltd. Retrieved from https://www.swirepacific.com/en/ir/reports/swirepacificAR2018/pdf/en/Swire_AR18_e_190410.pdf

¹⁶ Annual Report. (2018). Swire Pacific Ltd. Retrieved from https://www.swirepacific.com/en/ir/reports/swirepacificAR2018/pdf/en/Swire_AR18_e_190410.pdf

¹⁷ The statistics in the figure is available in CKHH's Annual Report for the year 2017 and 2018, which can be retrieved from <https://doc.irasia.com/listco/hk/ckh/annual/2017/ar2017.pdf> and <https://doc.irasia.com/listco/hk/ckh/annual/2018/ar2018.pdf>

¹⁸ Section 352 of SFO (Cap 571)

Name of Director	No. of Meetings Attended / No. of Meetings Held					2018 AGM
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	
Independent Non-executive Chairman and Independent Non-executive Director						
Mr. Edmund Sze-Wing Tse	7/7	–	1/1	4/4	4/4	1/1
Executive Director, Group Chief Executive and President						
Mr. Ng Keng Hooi	7/7	–	–	–	4/4	1/1
Independent Non-executive Directors						
Mr. Jack Chak-Kwong So	3/7	3/4	1/1	4/4	–	1/1
Mr. Chung-Kong Chow	6/7	–	1/1	–	4/4	1/1
Mr. John Barrie Harrison	7/7	4/4	1/1	–	4/4	1/1
Mr. George Yong-Boon Yeo	6/7	4/4	1/1	3/4	–	1/1
Mr. Mohamed Azman Yahya	7/7	–	1/1	4/4	–	1/1
Professor Lawrence Juen-Yee Lau	7/7	–	1/1	–	4/4	1/1
Ms. Swee-Lian Teo	7/7	–	1/1	–	4/4	1/1
Dr. Narongchai Akrasanee	7/7	4/4	1/1	–	–	1/1
Mr. Cesar Velasquez Purisima	6/7	–	1/1	–	–	1/1

Figure 5 – Composition of the Remuneration Committee of AIA Group Ltd

A recent directorial change demonstrates how conflicts of interest are prevented. Having been appointed as the Chief Executive of an insurance group, Chan Kin-por decided to step down as an Independent Non-executive Director (INED) of the Bank of East Asia Limited (BEA) with immediate effect.¹⁹ As the insurance sector has close ties with the banking industry, his newly held position may materially interfere with his exercise of independent judgment as an INED.

Secondly, members of the governing board should avoid setting their own remuneration. A company's remuneration committee, which decides the

executive directors' remuneration, should be mainly composed of INEDs.²⁰ AIA Group Ltd goes beyond the minimum requirement by having a remuneration committee wholly comprised of INEDs (Figure 5).²¹ With an independent board to decide on the remuneration packages of the executive directors and senior management, the risks of favouritism are minimised.

3.5 Comply with regulatory requirements

A public company must comply with relevant statutory and regulatory requirements. Registered in the Companies Registry, a public company is governed by the Companies Ordinance²² as well as

¹⁹ Resignation of Director. (2019). Bank of East Asia Ltd. Retrieved from https://www.hkbea.com/pdf/en/about-bea/investor-communication/other-corporate-announce/2019/E_Ann_Resignation%20of%20Director%20and%20Changes%20of%20Com%20Members_31%20May%202019.pdf

²⁰ Rule 3.25 of the HKEx Listing Rules

²¹ Annual Report. (2018). AIA Group Ltd. Retrieved from http://www.aia.com/content/dam/group/en/docs/annual-report/annual_report_2018_e.pdf

²² Cap.622, Laws of Hong Kong

the Securities and Futures Ordinance.²³ The company is further subject to the regulation of the Listing Rules if the company is listed on the Hong Kong Stock Exchange.

As regulatory frameworks are amended sporadically, directors must, to the best of their ability, comply with the relevant requirements, such as seeking professional advice or even consulting relevant regulatory authorities. Failure to do so may result in sanctions or even imprisonment.

4.Characteristics of NGOs

NGOs and public companies vary in several aspects owing to their organisational objectives, roles of directors and sources of funding. This part highlights the major differences.

4.1 Organisational objectives

To start with, there is a fundamental difference between the objectives of NGOs and those of public companies. For public companies, their main objective is to promote strong financial performance for the benefit of their shareholders. The adherence to corporate social responsibility (CSR), whereby companies integrate social and environmental agendas in their business operations, is made on a voluntary basis and is not binding.²⁴ Hence, CSR is often seen as an ancillary objective of public companies.

On the other hand, the objectives of NGOs are driven by the needs of society. These include the provision of public services such as education, healthcare assistance and relief of poverty. Each NGO is committed to serving the public with its own vision and mission and this is not affected by commercial decisions. In short, good corporate

governance in NGOs and public companies possess an entirely different organisational outcome.

4.2 Roles and responsibilities

Directors in NGOs bear more responsibilities than those of public companies. As directors, they are expected to formulate policies and prepare accurate financial statements. Being directors of NGOs, they must help promote the image of the organisation and build community relations. In discharging their governance role, they must make generous donations and actively participate in the NGOs' activities. This is particularly the case in large NGOs such as Tung Wah Group of Hospital (TWGH) and Po Leung Kuk, where directors are expected to make donations or great contributions proportionate to their rank.

Community Chest, for example, organises flagship events annually such as the Anniversary Charity Walk²⁵ and the Anniversary Charity Golf Day.²⁶ Both events showcase directors' efforts in collaborating with donors. Behind all these signature events are NGOs' arrangements for logistics, sponsorship, invitation of guests and volunteer management. The directors' responsibility, on the surface, is to raise funding for NGOs through these kinds of signature events. What is often neglected, however, is that they are also building a brand that is trustworthy for their services in the eyes of Hong Kong people.

Their stewardship responsibilities also differ from that of public companies. As NGOs' objectives are not commercially-driven, directors put less emphasis on the financial performance of the organisation. NGOs may record deficits occasionally if more resources are deployed in the delivery of services. More emphasis is being placed on the non-financial aspects of performance, including accountability

²³ Cap.571, Laws of Hong Kong

²⁴ Green Paper-Promoting a European framework for Corporate Social Responsibility. (2001). Commission of the European Communities. Retrieved from <https://ec.europa.eu/transparency/regdoc/rep/1/2001/EN/1-2001-366-EN-1-0.Pdf>

²⁵ The Community Chest 50th Anniversary Walk for Millions. (2019). Community Chest. Retrieved from <https://www.commchest.org/en/events/view/80>

²⁶ The Community Chest BEA Charity Golf Day 2019. (2019). Community Chest. Retrieved from https://www.commchest.org/en/news/press_release/854

for the organisation's priorities and the quality of service.

4.3 Financing

Public companies raise funding through the issue of stocks and debentures, both of which are absent in NGOs. As public companies generate profit, they are required to repay debenture holders as well as issuing dividends to shareholders for their capital investment.

Meanwhile, NGOs have diversified means of raising funds. While NGOs are independent of government influence, they are often funded by government departments as they ease the government's duties in the provision of social welfare. NGOs may also organise activities to encourage public donations. For example, Yan Chai Hospital²⁷ organises the Yan Chai Charity Show annually. Sponsored by a variety of magnates, the programme features performances from famous singers and actors to boost the fundraising amount. Flag-selling events and charity dinners are also organised regularly by reputed NGOs such as the TWGH.²⁸

Small-scale NGOs employ a creative approach by working with passionate individuals. A local charity called the Association Concerning Sexual Violence Against Women and its crisis helpline, RainLily, received funding from a charitable investment banker named Mo Yee-lam,²⁹ who participated in an ultra-marathon in Madagascar and gathered corporate support through her strong motive for charitable causes. A high-profile corporate lawyer

named Simon Holliday³⁰ spearheaded a 45km round Hong Kong Island swim to raise HK\$ 1 million for Splash Foundation, an NGO that offers free swimming lessons for under-resourced groups.

Unlike shareholders of public companies, donors do not expect monetary returns but do want their contributions to be used by NGOs to pursue socio-economic objectives. For instance, donors expect beneficiaries to repay the community in the long run as they profit from the services of NGOs. This promotes the sustainability of the operations of NGOs as well as the wellbeing of the community.

5. Do NGOs require different Governance?

In Hong Kong, the majority of welfare services are not directly provided by the Government, but by NGOs.³¹ With a sizeable NGO sector, these organisations play an important role in society. The principles of good corporate governance, originally targeted at public companies, are no longer confined to them. The principles are equally applicable to NGOs, which, as Blair suggests, ensures they run responsibly with due regard to the stakeholders.³² NGOs, by their unique nature, require a governance standard which should be on par with, if not surpass, the one set by public companies.

5.1 Comply with regulatory requirements

NGOs' tax-exempt status and the increasing expectations from the general public require them to be more accountable to their stakeholders than a

²⁷ Past activity for fundraising. (n.d.) Yan Chai Hospital. Retrieved from https://www.yanchai.org.hk/news/events_present

²⁸ Fund raising news. (2019). TWGH. Retrieved from <http://www.tungwah.org.hk/en/fund-raising-news/twghs-flag-day-2019-31-8-2019/> and <https://www.tungwah.org.hk/en/fund-raising-news/148-cb/>

²⁹ UBS banker fundraising for a local charity (n.d.) South China Morning Post. Retrieved from <https://www.scmp.com/lifestyle/health/article/1576103/fit-fab-charitable-banker-moyee-lam-it-long-run>

³⁰ Corporate lawyer fundraising for a local charity. (n.d.) South China Morning Post. Retrieved from <https://www.scmp.com/sport/hong-kong/article/2117097/i-keep-telling-myself-its-walk-park-simon-holliday-swimming-45km>

³¹ Review Report on the Lump Sum Grant Subvention System. (2008). Lump Sum Grant Independent Review Committee. Retrieved from [https://www.swd.gov.hk/doc/ngo/\(5\)-Report%20eng.pdf](https://www.swd.gov.hk/doc/ngo/(5)-Report%20eng.pdf)

³² Margaret M. Blair. (1995), Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century.

public company. According to the Home Affairs Department³³ and the Inland Revenue Department (IRD)³⁴, there has been an exponential increase as to the amount of approved charitable donations from HK\$2.91 billion in 2000/2001 to more than HK\$12 billion in 2016/2017. Given the considerable amount of money involved, the public want to know whether NGOs are properly run and that their donations are used responsibly.³⁵

NGOs that fulfil the charitable requirements under section 88 of the Inland Revenue Ordinance are eligible to apply for tax-exemption.³⁶ The IRD conducts periodic reviews on tax-exempt institutions to ensure their conformity with charitable objects.³⁷ However, IRD's spot-checks have been criticised for not being systematic and that most inquiries are 'relatively superficial' in nature.³⁸

For instance, the Hong Kong Arts Festival Society Ltd (a government-funded NGO) was criticised for the serious delay in submitting taxation documents and the fact that nearly half of their staff had failed to complete the Conflicts of Interest form since 2014.³⁹ The Audit Commission's Report also revealed that some charitable organisations breached their governing instruments by remunerating directors.⁴⁰ One charitable organisation even remunerated its directors in several occasions, with emoluments totalling HK\$18 million, regardless of

the IRD's request that they take remedial action.⁴¹ The organisation's tax-exemption status was maintained although the amount in question was not returned to the IRD.

In light of the complaints received (Figure 6), the Law Reform Commission published a report on the regulation of charities.⁴² While the recommendations in the report are non-binding, it is suggested that NGOs with charitable status should comply with the recommendations in the report for the sake of good governance. A Good Practice Guide on Charitable Fund-raising was published recently by the Social Welfare Department (SWD) together with the Home Affairs Department and the Food and Environmental Hygiene Department for NGOs to refer to when conducting fundraising activities.⁴³

	2014– 2015	2015– 2016	2016– 2017
No. of complaints	85	75	59
No. of substantiated cases about non-compliance of the permit conditions	10	10	8
No. of cases about violation of the law, such as unauthorized charitable fundraising activity	2	2	4
Prosecutions	1	0	0

Figure 6 – Number of complaints received arising from NGOs' fundraising⁴⁴

³³ Statistics on donations received by charitable organisations. (2007). Legislative Council Secretariat Research Office. Retrieved from <https://www.legco.gov.hk/research-publications/chinese/1718iss03-donations-to-charities-in-hong-kong-20171117-c.pdf>

³⁴ Annual Report. (2018). Inland Revenue Department. Retrieved from https://www.ird.gov.hk/dar/2017-18/table/en/ar_1718.pdf
Margaret M. Blair. (1995). Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century.

³⁵ Investigation Report: Monitoring of Charitable Fund-Raising Activities. (Feb 2003). Office of the Ombudsman.

³⁶ Cap. 112, Laws of Hong Kong

³⁷ List of Tax-Exempt Charitable Institutions. (n.d.) Inland Revenue Department. Retrieved from https://www.ird.gov.hk/eng/tax/ach_search.htm

³⁸ Stefano Mariani, Informal regulation of charities in Hong Kong. (2018). Retrieved from <https://www.deacons.com/news-and-insights/publications/informal-regulation-of-charities-in-hong-kong.html>

³⁹ Audit Commission Report criticized Hong Kong Arts Festival Society for poor compliance (n.d.). Hong Kong Economic Times. Retrieved from <https://topick.hket.com/article/2328052/%E3%80%90%E5%AF%A9%E8%A8%88%E5%A0%B1%E5%91%8A%E3%80%91%E8%97%9D%E5%8D%94%E6%9B%E6%BC%8F%E5%A0%B129%E7%A8%85%E9%A0%85%E3%80%80%E9%80%BE3%E6%88%90%E5%A7%94%E5%93%A1%E6%9C%AA%E7%B0%BD%E5%88%A9%E7%9B%8A%E8%A1%9D%E7%AA%81%E6%89%BF%E8%AB%E6%9B%B8>

⁴⁰ Report No.68 of the Director of Audit's reports (April 2017). Audit Commission. P.10. Retrieved from https://www.aud.gov.hk/pdf_e/e68ch01.pdf

⁴¹ Report No.68 of the Director of Audit's reports (April 2017). Audit Commission. P.48. Retrieved from https://www.aud.gov.hk/pdf_e/e68ch01.pdf bid.

⁴² Charities. (2013). Law Reform Commission. Retrieved from https://www.hkreform.gov.hk/en/docs/rcharities_e.pdf

⁴³ Good Practice Guide on Charitable Fund-raising. (2018). Social Welfare Department, Home Affairs Department and the Food and Environmental Hygiene Department. Retrieved from https://www.gov.hk/en/theme/fundraising/docs/good_practice_guide.pdf

⁴⁴ Statistics on donations received by charitable organisations. (2007). Legislative Council Secretariat Research Office. Retrieved from <https://www.legco.gov.hk/research-publications/chinese/1718iss03-donations-to-charities-in-hong-kong-20171117-c.pdf>

Furthermore, the consequences for non-compliance will now result in more serious sanctions, in which the tax-exemption status of these institutions may be invalidated.⁴⁵ The heightened scrutiny and regulatory framework is prompting NGOs to review internally and externally as to whether they have complied with the relevant requirements. This not only deters the possibility of fraud and but also maintains the image of reputable NGOs.

5.2 Disclosure of financial information

NGOs are generally not required to disclose their financial reports and remuneration policy unless they receive grants from relevant government departments. For example, the SWD established a Lump Sum Grant Subvention System (LSGSS) to offer flexible use of funds in furtherance of the organisations' objectives. As of 1 August 2018, 164 out of 169 subvented NGOs have joined the LSGSS and the subvention for these NGOs represents over 99% of the total recurrent subventions for 2017/2018.⁴⁶

To enhance transparency and public accountability on the use of public funds, NGOs participating in the LSGSS are required to disclose their annual

financial reports to the public.⁴⁷ NGOs receiving annual subventions of HK\$10 million or more from the SWD which amounts to more than 50% of their operating income must also disclose their remuneration packages for the top three tier staff.⁴⁸

However, the regulatory framework has been criticised for being ineffective. In the financial year 2016/17, 22 out of 68 NGOs failed to submit remuneration reports on time.⁴⁹ Despite receiving HK\$66 million from the SWD, the Chinese Rhenish Church HK Synod recorded a net loss of HK\$1.3 million in financial year 2017/18.⁵⁰ It was discovered that remuneration for its top three tier staff accounted for HK\$13 million, which is one-fifth of the total staff remuneration.⁵¹ Datapoint shows that many senior staff in NGOs receive more than HK\$2 million annually, far exceeding the remuneration of civil servants of the same rank.⁵² Meanwhile, junior or front-line workers received pay far less than civil servants of the same rank.⁵³ The alignment of salary between NGO staff and civil servants helps ensure NGOs have more stringent governance.

Even for NGOs that comply with disclosure requirements, not all of them are willing to disclose

⁴⁵ Strengthen your resilience to Inland Revenue Department's review on charitable organisations. (n.d.) HKCSS. Retrieved from [https://governance.hkcss.org.hk/sites/default/files/2019-02/Eng_Strengthen%20your%20resilience%20to%20Inland%20Revenue%20Department%20\(IRD\)%20review%20on%20charitable%20organizations.pdf](https://governance.hkcss.org.hk/sites/default/files/2019-02/Eng_Strengthen%20your%20resilience%20to%20Inland%20Revenue%20Department%20(IRD)%20review%20on%20charitable%20organizations.pdf)

⁴⁶ Lump Sum Grant (LSG) Subvention System (n.d.) Social Welfare Department. Retrieved from https://www.swd.gov.hk/en/index/site_ngo/page_subventions/sub_modesofsub/id_1sgmanual/

⁴⁷ NGOs' Annual Financial Reports and Review Reports on Remuneration Packages for Staff in the Top Three Tiers (n.d.) Social Welfare Department. Retrieved from https://www.swd.gov.hk/en/index/site_ngo/page_AFRandRR/

⁴⁸ Transparency of Remuneration for Staff in the Top Three Tiers. (2017). Social Welfare Department. Retrieved from <https://www.legco.gov.hk/yr16-17/chinese/panels/ws/papers/ws20170612cb2-1563-3-c.pdf>

⁴⁹ Top tier staff of TWGH earns more than 2 million per year. (2019). Hong Kong 01. Retrieved from <https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/313279/%E6%9D%B1%E8%8F%AF%E4%B8%89%E9%99%A2%E9%AB%98%E5%B1%A4%E5%B9%B4%E8%96%AA230%E8%90%AC%E5%85%83-%E7%9B%B4%E8%BF%AB%E7%A4%BE%E7%BD%B2%E5%89%AF%E7%BD%B2%E9%95%B7-%E5%B7%A5%E6%9C%83%E6%89%B9%E8%82%A5%E4%B8%8A%E7%98%A6%E4%B8%8B>

⁵⁰ Annual Financial Report for Social Welfare Department, the Chinese Rhenish Church HK Synod (2018). Retrieved from http://www.ssd.rhenish.org/sites/www.ssd.rhenish.org/files/Annual%20Financial%20Report%202017-2018_0.pdf

⁵¹ Review Report for Social Welfare Department, the Chinese Rhenish Church HK Synod (2018). Retrieved from <http://www.ssd.rhenish.org/sites/www.ssd.rhenish.org/files/Review%20Report%20on%20Remuneration%20Packages%20for%20Staff%20in%20Top%20Three%20Tiers%202017-2018.pdf.pdf>

⁵² Top tier staff of TWGH earns more than 2 million per year. (2019). Hong Kong 01. Retrieved from <https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/313279/%E6%9D%B1%E8%8F%AF%E4%B8%89%E9%99%A2%E9%AB%98%E5%B1%A4%E5%B9%B4%E8%96%AA230%E8%90%AC%E5%85%83-%E7%9B%B4%E8%BF%AB%E7%A4%BE%E7%BD%B2%E5%89%AF%E7%BD%B2%E9%95%B7-%E5%B7%A5%E6%9C%83%E6%89%B9%E8%82%A5%E4%B8%8A%E7%98%A6%E4%B8%8B>

⁵³ Social Welfare Department criticized for poor regulation (2019). Hong Kong 01. Retrieved from <https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/330046/%E7%A4%BE%E7%A6%8F%E6%A9%9F%E6%A7%8B%E8%82%A5%E4%B8%8A%E7%98%A6%E4%B8%8B-%E5%B7%A5%E6%9C%83%E7%94%B3%E8%A8%B4%E4%BF%83%E4%BF%AE%E4%BE%8B-%E5%B0%B9%E5%85%86%E5%A0%85-%E6%94%B7%E5%BA%9C%E7%B8%B1%E5%AE%B9%E5%A6%82%E6%80%9D%E8%A6%BA%E5%A4%B1%E8%AA%BF>

more information than they are required to do so. To promote accountability among NGOs and assist donors in making decisions, NGOs' audited annual financial statements should reach the same standard as those in public companies, such as providing a breakdown of expenses for programmes and administrative activities. Ms. Diana Chui, CSR director of KPMG, states that every NGO inevitably incurs operational expenses.⁵⁴ As the mission and size of each NGO vary, it is difficult to measure their financial effectiveness on equal grounds. Nonetheless, they should keep administrative fees at a minimum and allocate as many resources as possible to service delivery. As long as financial statements are kept transparent, the public will feel assured that those are reasonable costs.

NGOs are facing increasing challenges, where they must balance between community expectations and fierce competition in attracting and retaining talent. However, such dilemmas do not warrant a lower standard. The non-compliance incidents, while reflecting the inadequacies of governmental policies, also undermine the public's confidence in NGOs, which are supposed to be socially-driven in their missions. It is undesirable for NGOs to be passive in enhancing transparency as their sustainability is dependent on public trust. The public and donors should have access to information in evaluating the performance of NGOs and to help them decide whether to continue their support. Such voluntary disclosure cultivates an ecosystem for benign competition as every detail is accountable to the public.

5.3 Board composition

Large NGOs such as TWGH and Po Leung Kuk have advisory boards in place, the members of which come from different sectors with diversified backgrounds. Apart from giving opinions to the board of directors on matters affecting the NGOs,⁵⁵ the advisory board acts as a safeguard for the quality of board members. Before being eligible to stand for election, every directorial candidate requires the approval of the advisory board as a person with high esteem.⁵⁶

A higher standard on the selection of board members is expected in NGOs as directors' integrity directly affects the NGOs' reputation. It is suggested that the personal qualities required for those in public office, i.e. honesty and integrity, should apply to that of directors in NGOs.⁵⁷ For example, Roy Cho Kwai-chee was appointed as the Vice-Chairman of Yan Oi Tong in 2017/18.⁵⁸ He was discovered to be the former executive director of a listed public company Convoy Holdings, which was named by David Webb as one of the 50 stocks that carry a high risk of insider trading among board members.⁵⁹ Due to this, he failed to be re-elected the next year and was later charged for conspiracy to defraud.⁶⁰ As can be seen, serious distrust may arise if directors are involved in financial scandals.

It is often the case that directors of NGOs hold directorial positions in one or more public companies. For instance, Wong Yin-shun Vincent⁶¹ was elected as the chairman of the Yan Chai Hospital. While serving as the chairman, he is also the director of

⁵⁴ Myth of Charity Donation. (2013). HKCSS. Retrieved from http://www.hkcss.org.hk/c/cont_detail.asp?type_id=3&content_id=1105

⁵⁵ Schedule 1 section 19 (1) of Tung Wah Group of Hospitals Ordinance (TWGHO) and Schedule 1 section 18 (1) of Po Leung Kuk Ordinance (PLKO)

⁵⁶ Schedule 1 Section 6(2) of TWGHO and Schedule 1 Section 6(2) of PLKO

⁵⁷ Government of UK, The Nolan Committee, The Seven Principles of Public Life (1995). Retrieved from <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

⁵⁸ Newsletter. (April 2017). Yan Oi Tong. Retrieved from http://www.yot.org.hk/download/newsletter/2017/2017APR_Newsletter.pdf

⁵⁹ Yan Oi Tong Scandal. (2019). Apple Daily. Retrieved from <https://hk.finance.appledaily.com/finance/realtime/article/20190306/>

⁶⁰ ESCC 1787,1789/2019

⁶¹ Chairman's Profile. (2019). Yan Chai Hospital. Retrieved from <https://www.yanchai.org.hk/director/1.pdf>

various organisations. All these positions, in all likelihood, give suspicion that there may be a conflict of interest between various roles he concurrently holds. While there is no limitation on the number of positions one can hold, there is a concern to a certain extent when directors of NGOs hold various positions.










Young Women Christian Association (YWCA)⁶² upholds a high standard for choosing its board members. Diversity of the board is observed with a clear illustration on their reports and a balanced composition for members from different expertise (Figures 7 & 8). Moreover, the YWCA strives to build trust with its stakeholders by selecting board members with diverse professional skills. The adoption of board diversity policy lifts the bar of NGO governance and meets the expectation of the public.

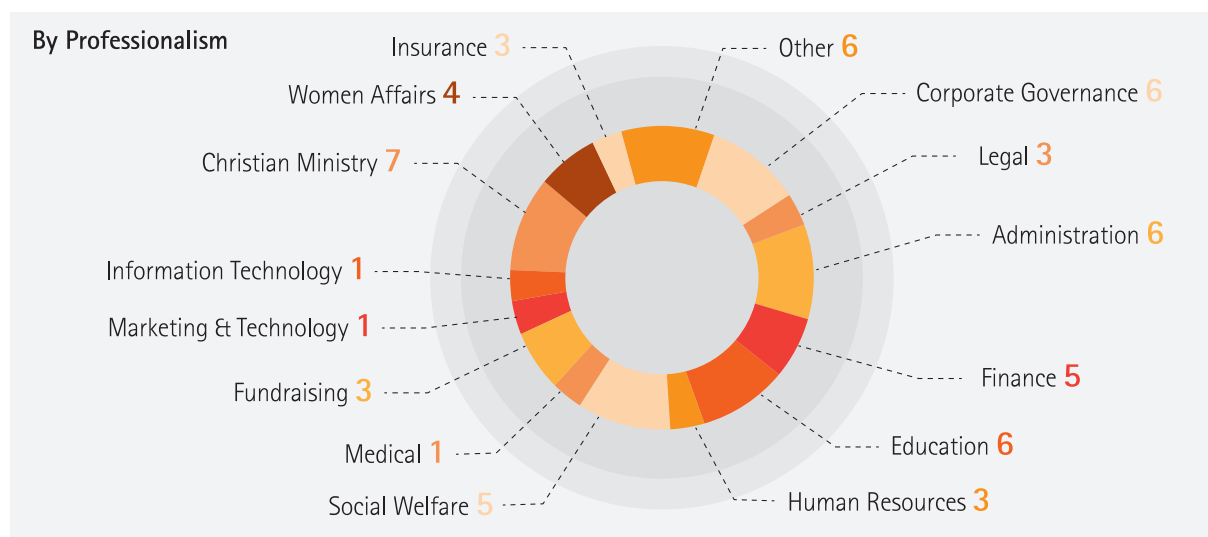
5.4 Engagement with stakeholders

NGOs are accountable to broader aspects of stakeholders. While public companies are mainly accountable to their shareholders, NGOs are accountable to stakeholders including the government, service users, donors as well as the

general public.⁶³ In respect of the resources received, NGOs should make informed communication with stakeholders. Effective engagement channels should help resolve complaints and improve stakeholders' understanding of the NGOs.

Some NGOs, such as TWGH⁶⁴, adopt a traditional approach by holding an AGM to keep their stakeholders informed about the latest developments, strategic changes, performance

Diversity in the Composition of the Board		
By Sector		
Business	 3	12%
Social Welfare	 3	12%
Medical / Health Services	 1	4%
Information Technology	 1	4%
Legal	 2	8%
Construction / Surveying	 2	8%
Education	 3	12%
Finance	 4	16%
Other	 6	24%



Figures 7 & 8 – Board Composition and Diversity of YWCA

⁶² Annual Report. (2018). Hong Kong Young Women Christian Association. P.16 Retrieved from https://www.ywca.org.hk/files/ywca/annualreport/HKYW-CA2017-2018_AnnualReport.pdf

⁶³ Governance in the Public Sector: A Governing Body Perspective. (2001). IFAC. P.9. Retrieved from http://www1.worldbank.org/publicsector/pe/April2003Seminar/Course%20Readings/08.%20Internal%20Control%20and%20Audit/Study_13_Governance.pdf

⁶⁴ Press Release. (2019). Tung Wah Group of Hospitals. Retrieved from <http://www.tungwah.org.hk/en/press-release/the-annual-general-meeting-of-the-association-of-past-and-present-directors-of-the-twghs-6/>

evaluation as well as financial updates. Other NGOs such as InspiringHK Sports Foundation⁶⁵ issue monthly newsletters on their websites so that donors, beneficiaries, supporters and the public can participate in different ways. Possible participation may include donations, volunteering and collaborating on campaigns.

NGOs should obtain feedback from service users through a variety of means to improve their services, changing the service delivery model and monitoring service performance, i.e. users' satisfaction. One professional practice is to invite a third party to conduct an organisational health audit. BLOOM Hong Kong⁶⁶, a local NGO specialising in fighting against destruction of marine life, has been distributing surveys and collecting data on the consumption of shark fins in luxury hotels. Despite their efforts, results showed that BLOOM failed to achieve their ultimate agenda in changing people's consumption behaviour as many hotels have

continued the practice of providing shark fin soup for Chinese banquets. These findings allow the NGO to reflect on its campaign's effectiveness and establish better engagement channels with stakeholders.

Other than engaging with service users, NGOs should also seek independent assessment in measuring their governance health. With the support of private foundations and the University of Hong Kong, the Hong Kong Council of Social Services (HKCSS) offers free assessments on individual governance health (Figure 9).⁶⁷ The assessment is in the form of a report, which includes a comparison with similar organisations and the sector's aggregate data, as well as consultants' comments and advice.⁶⁸ Such independent assessment allows NGOs to examine their governance strengths and areas for improvement.

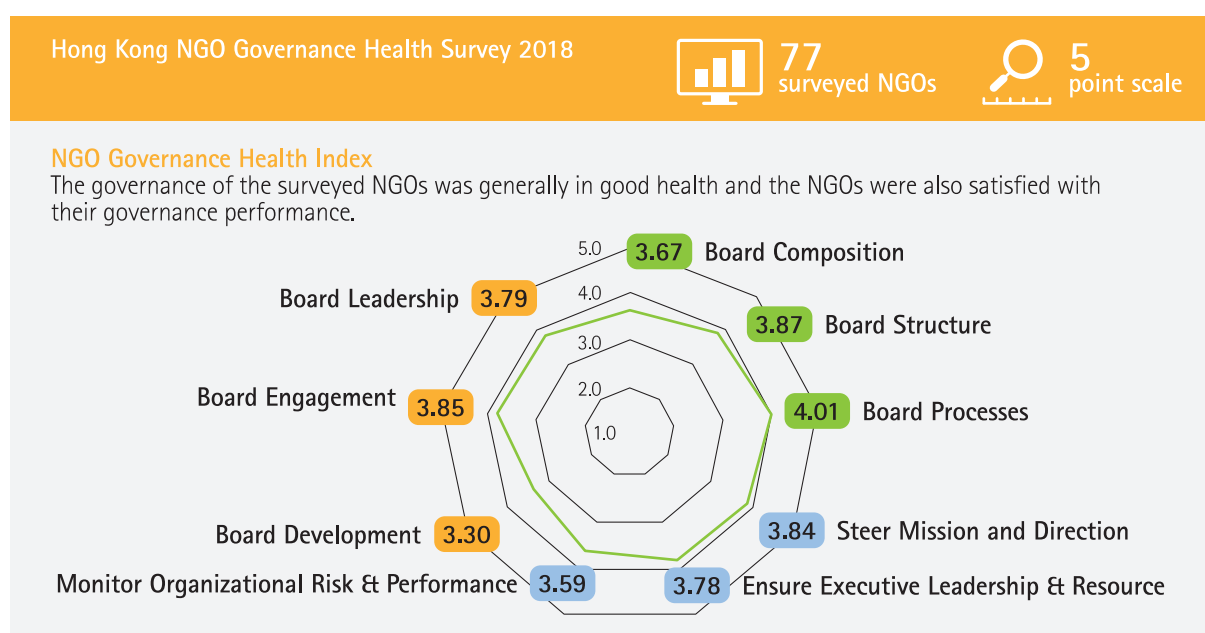


Figure 9—Sample of the NGO Governance Health Index⁶⁹

⁶⁵ Latest News. (2019). InspiringHK Sports Foundation. Retrieved from <http://inspiringhk.org/#/inspiringHK/latest-news>

⁶⁶ Bloom Hong Kong (2019). Retrieved from <https://www.bloomassociation.org/en/bloom-hong-kong/>

⁶⁷ Introduction of the Hong Kong NGO Governance Health Survey (2018). HKCSS Retrieved from <https://governance.hkcss.org.hk/node/251>

⁶⁸ Hong Kong NGO Governance Health Survey, Frequently Asked Questions (2018). HKCSS. Retrieved from https://governance.hkcss.org.hk/sites/default/files/2018-06/FAQ_Governance%20Health_E.pdf

⁶⁹ Hong Kong NGO Governance Health Survey (2019). HKCSS. Retrieved from https://governance.hkcss.org.hk/sites/default/files/2019-06/Infographic_eng.pdf

Most donors' donation behaviour is influenced by their understanding on NGOs. The data collected from the University of Hong Kong Public Opinion Programme (HKU POP) shows that the public can only remember large and reputable NGOs: while there are more than 8800 NGOs in Hong Kong, around 40% of the 1000 survey respondents associate TWGH as the NGO they could first associate with, followed by the Red Cross (35%), Community Chest (33%), Po Leung Kuk (28%) and Oxfam (27%), all of which have a long history in Hong Kong.⁷⁰

For smaller NGOs, effective engagement channels should be developed to enhance the public's understanding. As agreed by Wise Giving⁷¹ (an information portal managed by the HKCSS), small and medium-sized NGOs serve the function of filling the social gaps that traditional NGOs neglect, thereby introducing innovation, vibrancy and youthful spirit to the NGO sector. InspiringHK Sports Foundation, among some of the rising NGOs in Hong Kong, pioneers in cross-sector collaboration. As a charity developing youths through sports, they have engaged with over 50 local athletes to empower children from under-resourced backgrounds by paying home visits annually to understand their learning of sports and visiting their regular sports training class to encourage students.

6. Limitations

It should be noted that this study is subject to the following constraints. First of all, NGO is a general term and encompasses organisations of different sizes and forms of incorporation. As the data for

small and medium-sized NGOs is not readily available, the findings in this study are largely based on established NGOs or NGOs that receive tax-exemptions or government grants. It is acknowledged that NGOs outside the ambit of these frameworks may require other forms of governance that are not discussed in this study.

Secondly, NGO governance is a broad topic which encompasses more than this study can cover. Having regard to the word limitation imposed, this study does not attempt to address all of these issues. For example, the handling of IT governance or data governance is not properly illustrated. In fact, it is not until recently that public companies started formulating a rigorous governance framework to protect the interests of their employees and customers from threats of unscrupulous hackers. IT or data governance in NGOs is a topic that deserves more attention in the knowledge-based economies of the 21st century.

7. Conclusion

While good governance is indispensable for both public companies and NGOs, it has a bigger role in the NGO sector. Unlike public companies, NGOs bear the mission of achieving their positive social agenda and public trust is the very foundation of their success. According to the World Giving Index 2018 of the Charities Aid Foundation⁷², Hong Kong ranked 18th among 146 countries for charitable donations (Figure 10). Research by the HKU POP also reveals that the public's donation behaviour is largely affected by the good reputation and high transparency of the NGO concerned.⁷³

⁷⁰ Research on Public's Understanding on Hong Kong's Charitable Organizations. (2009). HKUPOP. Retrieved from <https://www.hkpop.hku.hk/chinese/report/twg10/content/finding.html>

⁷¹ Small Charities (2010). Wise Giving. Retrieved from <http://www.wisegiving.org.hk/en/smallcharities.aspx>

⁷² World Giving Index (2018). Charities Aid Foundation. P.37. Retrieved from https://www.cafonline.org/docs/default-source/about-us-publications/caf_wgi2018_report_webnopw_2379a_261018.pdf

⁷³ Research on Public's Donation Behaviour. (2017). HKUPOP. Retrieved from <https://governance.hkcss.org.hk/sites/default/files/201705/HKCSSWiseGIVINGresearch.pdf>

4 Donating money full table					
Country	Ranking	Score	Country	Ranking	Score
Myanmar	1	88%	Lao People's Democratic Republic	49	33%
Indonesia	2	78%	Chile	50	33% ▼
Australia	3	71% ▲	Tajikistan	51	32% ▲
United Kingdom	4	68% ▲	Kazakhstan	52	32%
New Zealand	5	68%	Honduras	53	31%
Netherlands	6	66%	Slovakia	54	31%
Norway	7	65% ▲	Cambodia	55	30%
Iceland	8	65% ▼	Tanzania (United Republic of)	56	30% ▼
Ireland	9	64% ▲	Ghana	57	30%
Malta	10	64% ▼	Ukraine	58	29%
United Arab Emirates	11	62% ▲	Iraq	59	29% ▲
United States of America	12	61% ▲	South Sudan	60	29% ▼
Switzerland	13	60% ▲	Paraguay	61	28% ▲
Singapore	14	58%	Gambia (The)	62	28%
Sweden	15	57%	Libya	63	28% ▲
Denmark	16	56%	Albania	64	28%
Canada	17	56% ▼	Pakistan	65	27% ▼
Hong Kong	18	55% ▲	Estonia	66	27% ▲
Germany	19	55%	France	67	27%

Figure 10 – Ranking and score by country (or area) in the World Giving Index 2018

As NGOs take an important role in a wide range of social and economic activities, stakeholders have the right to know what these organisations have achieved and how their missions are being accomplished. Expectations of NGOs' transparency, accountability and service quality will only get higher and higher. Having said this, it is acknowledged

that there is no one-size-fits-all as regards good governance. The governance model of every NGO should be tailored to its needs, which depend on the size, structure and complexity of the NGO in question. All in all, adherence to the spirit of good governance is the key.

Bibliography

Academic Journals and Authorities

Cadbury Report (The Financial Aspects of Corporate Governance). (1992). ECGI. P.13 Retrieved from <http://www.ecgi.org/codes/documents/cadbury.pdf>

Cadbury Report (The Financial Aspects of Corporate Governance). (1992). ECGI. P.15 Retrieved from <http://www.ecgi.org/codes/documents/cadbury.pdf>

Charities. (2013). Law Reform Commission. Retrieved from https://www.hkreform.gov.hk/en/docs/rcharities_e.pdf

Governance in the Public Sector: A Governing Body Perspective. (2001). IFAC. P.9. Retrieved from http://www1.worldbank.org/publicsector/pe/April2003Seminar/Course%20Readings/08.%20Internal%20Control%20and%20Audit/Study_13_Governance.pdf

Governance in the Public Sector: A Governing Body Perspective. (2001). IFAC. P.20 Retrieved from http://www1.worldbank.org/publicsector/pe/April2003Seminar/Course%20Readings/08.%20Internal%20Control%20and%20Audit/Study_13_Governance.pdf

Green Paper-Promoting a European framework for Corporate Social Responsibility. (2001). Commission of the European Communities. Retrieved from <https://ec.europa.eu/transparency/regdoc/rep/1/2001/EN/1-2001-366-EN-1-0.Pdf>

Margaret M. Blair. (1995), Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century.

Stefano Mariani, Informal regulation of charities in Hong Kong. (2018). Retrieved from <https://www.deacons.com/news-and-insights/publications/informal-regulation-of-charities-in-hong-kong.html>

Reports from Public Companies

Annual Report. (2018). AIA Group Ltd. Retrieved from http://www.aia.com/content/dam/group/en/docs/annual-report/annual_report_2018_e.pdf

Annual Report. (2018). CKHH Ltd. Retrieved from <https://doc.irasia.com/listco/hk/ckh/annual/2017/ar2017.pdf>

Annual Report. (2019). CKHH Ltd. Retrieved from <https://doc.irasia.com/listco/hk/ckh/annual/2018/ar2018.pdf>

Annual Report. (2018). CLP Holdings Ltd. Retrieved from https://www.clpgroup.com/en/Investors-Information-site/Documents/Financial%20Report%20PDF/e_2018%20Annual%20Report.pdf

Annual Report. (2018). Swire Pacific Ltd. Retrieved from https://www.swirepacific.com/en/ir/reports/swirepacificAR2018/pdf/en/Swire_AR18_e_190410.pdf

Corporate Governance Report. (2018). HKEx. Retrieved from https://www.hkexgroup.com/-/media/HKEX-Group-Site/ssd/Corporate-Governance/Documents/cgreport_e.pdf

Governance Report. (2015). NWS Holdings Ltd. Retrieved from <https://www.nws.com.hk/html/eng/pdf/reportdetail/2015arF109.pdf>

Resignation of Director. (2019). Bank of East Asia Ltd. Retrieved from https://www.hkbea.com/pdf/en/about-bea/investor-communication/other-corporate-announce/2019/E_Ann_Resignation%20of%20Director%20and%20Changes%20of%20Com%20Members_31%20May%202019.pdf

News and Reports of NGOs

Annual Financial Report for Social Welfare Department, the Chinese Rhenish Church HK Synod (2018). Retrieved from http://www.ssd.rhenish.org/sites/www.ssd.rhenish.org/files/Annual%20Financial%20Report%202017-2018_0.pdf

Annual Report. (2018). Hong Kong Young Women Christian Association. P.16 Retrieved from https://www.ywca.org.hk/files/ywca/annualreport/HKYW-CA2017-2018_AnnualReport.pdf

Bloom Hong Kong (2019). Retrieved from <https://www.bloomassociation.org/en/bloom-hong-kong/>

Chairman's Profile. (2019). Yan Chai Hospital. Retrieved from <https://www.yanchai.org.hk/director/1.pdf>

Fundraising news. (2019). TWGH. Retrieved from <http://www.tungwah.org.hk/en/fund-raising-news/twghs-flag-day-2019-31-8-2019/> and <https://www.tungwah.org.hk/en/fund-raising-news/148-cb/>

Hong Kong NGO Governance Health Survey, Frequently Asked Questions (2018). HKCSS. Retrieved from https://governance.hkcss.org.hk/sites/default/-files/2018-06/FAQ_Governance%20Health_E.pdf

Hong Kong NGO Governance Health Survey (2019). HKCSS. Retrieved from https://governance.hkcss.org.hk/sites/default/files/2019-06/Infographic_eng.pdf

Introduction of the Hong Kong NGO Governance Health Survey (2018). HKCSS Retrieved from <https://governance.hkcss.org.hk/node/251>

Latest News. (2019). InspiringHK Sports Foundation. Retrieved from <http://inspiringhk.org/#/inspiringHK/latest-news>

Myth of Charity Donation. (2013). HKCSS. Retrieved from http://www.hkcss.org.hk/c/cont_detail.asp?type_id=3&content_id=1105

Newsletter. (April 2017). Yan Oi Tong. Retrieved from http://www.yot.org.hk/download/newsletter/2017/2017APR_Newsletter.pdf

Past activity for fundraising. (n.d.) Yan Chai Hospital. Retrieved from https://www.yanchai.org.hk/news/events_present

Press Release. (2019). Tung Wah Group of Hospitals. Retrieved from <http://www.tungwah.org.hk/en/press-release/the-annual-general-meeting-of-the-association-of-past-and-present-directors-of-the-twghs-6/>

Research on Public's Donation Behaviour. (2017). HKUPOP. Retrieved from <https://governance.hkcss.org.hk/sites/default/files/201705/HKCSSWisegivingresearch.pdf>

Research on Public's Understanding on Hong Kong's Charitable Organizations. (2009). HKUPOP. Retrieved from <https://www.hkupop.hku.hk/chinese/report/twg10/content/finding.html>

Review Report for Social Welfare Department, the Chinese Rhenish Church HK Synod (2018). Retrieved from <http://www.ssd.rhenish.org/sites/www.ssd.rhenish.org/files/Review%20Report%20on%20Remuneration%20Packages%20for%20Staff%20in%20Top%20Three%20Tiers%202017-2018.pdf.pdf>

Small Charities (2010). Wise Giving. Retrieved from <http://www.wisegiving.org.hk/en/smallcharities.aspx>

Strengthen your resilience to Inland Revenue Department's review on charitable organisations. (n.d.) HKCSS. Retrieved from [https://governance.hkcss.org.hk/sites/default/files/2019-02/Eng_Strengthen%20your%20resilience%20to%20Inland%20Revenue%20Department%20\(IRD\)%20review%20on%20charitable%20organizations.pdf](https://governance.hkcss.org.hk/sites/default/files/2019-02/Eng_Strengthen%20your%20resilience%20to%20Inland%20Revenue%20Department%20(IRD)%20review%20on%20charitable%20organizations.pdf)

The Community Chest 50th Anniversary Walk for Millions. (2019). Community Chest. Retrieved from <https://www.commchest.org/en/events/view/80>

The Community Chest BEA Charity Golf Day 2019. (2019). Community Chest. Retrieved from https://www.commchest.org/en/news/press_release/854

World Giving Index (2018). Charities Aid Foundation. P.37. Retrieved from https://www.cafonline.org/docs/default-source/about-us-publications/caf_wgi2018_report_webnopw_2379a_261018.pdf

Yan Oi Tong Scandal. (2019). Apple Daily. Retrieved from <https://hk.finance.appledaily.com/finance/realtime/article/20190306/>

Government Reports and Statistics

Annual Report. (2018). Inland Revenue Department. Retrieved from https://www.ird.gov.hk/dar/2017-18/table/en/ar_1718.pdf

Good Practice Guide on Charitable Fund-raising. (2018). Social Welfare Department, Home Affairs Department and the Food and Environmental Hygiene Department. Retrieved from https://www.gov.hk/en/theme/fundraising/docs/good_practice_guide.pdf

Government of UK, The Nolan Committee, The Seven Principles of Public Life (1995). Retrieved from <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

Investigation Report: Monitoring of Charitable Fund-Raising Activities. (Feb 2003). Office of the Ombudsman.

List of Tax-Exempt Charitable Institutions. (n.d.) Inland Revenue Department. Retrieved from https://www.ird.gov.hk/eng/tax/ach_search.htm

Lump Sum Grant (LSG) Subvention System (n.d.) Social Welfare Department. Retrieved from https://www.swd.gov.hk/en/index/site_ngo/page_subventions/sub_modesofsub/id_lsgmanual/

NGOs' Annual Financial Reports and Review Reports on Remuneration Packages for Staff in the Top Three Tiers (n.d.) Social Welfare Department. Retrieved from https://www.swd.gov.hk/en/index/site_ngo/page_AFRandRR/

Report No.68 of the Director of Audit's reports (April 2017). Audit Commission. P.10. Retrieved from https://www.aud.gov.hk/pdf_e/e68ch01.pdf

Report No.68 of the Director of Audit's reports (April 2017). Audit Commission. P.48. Retrieved from https://www.aud.gov.hk/pdf_e/e68ch01.pdf bid.

Review Report on the Lump Sum Grant Subvention System. (2008). Lump Sum Grant Independent Review Committee. Retrieved from [https://www.swd.gov.hk/doc/ngo/\(5\)-Report%20eng.pdf](https://www.swd.gov.hk/doc/ngo/(5)-Report%20eng.pdf)

Statistics on donations received by charitable organisations. (2007). Legislative Council Secretariat Research Office. Retrieved from <https://www.legco.gov.hk/research-publications/chinese/1718issh03-donations-to-charities-in-hong-kong-20171117-c.pdf>

Transparency of Remuneration for Staff in the Top Three Tiers. (2017). Social Welfare Department. Retrieved from <https://www.legco.gov.hk/yr16-17/chinese/panels/ws/papers/ws20170612cb2-1563-3-c.pdf>

Legislation, rules and cases

HKSAR v Roy Cho Kwai-chee ESCC 1787,1789/2019

Rule 3.10 (1) of the HKEx Listing Rules

Rule 3.10 A of the HKEx Listing Rules

Rule 3.25 of the HKEx Listing Rules

Schedule 1 Section 6(2) of TWGHO (Cap. 1040)

Schedule 1 section 19 (1) of TWGHO (Cap. 1040)

Schedule 1 Section 6(2) PLKO (Cap. 1051)

Schedule 1 section 18 (1) of PLKO (Cap. 1051)

Section 88 of the Inland Revenue Ordinance (Cap. 112)

Section 352 of SFO (Cap 571)

Section 379 of the Companies Ordinance (Cap 622)

Section 610 of the Companies Ordinance (Cap. 622)

Section 615 of the Companies Ordinance (Cap. 622)

News reports

Audit Commission Report criticized Hong Kong Arts Festival Society for poor compliance (n.d.). Hong Kong Economic Times. Retrieved from <https://topick.hket.com/article/2328052/%E3%80%90%E5%AF%A9%E8%A8%88%E5%A0%B1%E5%91%8A%E3%80%91%E8%97%9D%E5%8D%94%E6%9B%BE%E6%BC%8F%E5%A0%B129%E7%A8%85%E9%A0%85%E3%80%80%E9%80%BE3%E6%88%90%E5%A7%94%E5%93%A1%E6%9C%AA%E7%B0%BD%E5%88%A9%E7%9B%8A%E8%A1%9D%E7%AA%81%E6%89%BF%E8%AB%BE%E6%9B%B8>

Corporate lawyer fundraising for a local charity. (n.d.) South China Morning Post. Retrieved from <https://www.scmp.com/sport/hong-kong/article/2117097/i-keep-telling-myself-its-walk-park-simon-holliday-swimming-45km>

Social Welfare Department criticized for poor regulation (2019). Hong Kong 01. Retrieved from <https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/330046/%E7%A4%BE%E7%A6%8F%E6%A9%9F%E6%A7%8B%E8%82%A5%E4%B8%8A%E7%98%A6%E4%B8%8B-%E5%B7%A5%E6%9C%83%E7%94%B3%E8%A8%B4%E4%BF%83%E4%BF%AE%E4%BE%8B-%E5%B0%B9%E5%85%86%E5%A0%85-%E6%94%BF%E5%BA%9C%E7%B8%B1%E5%AE%B9%E5%A6%82%E6%80%9D%E8%A6%BA%E5%A4%B1%E8%AA%BF>

Top tier staff of TWGH earns more than 2 million per year. (2019). Hong Kong 01. Retrieved from <https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/313279/%E6%9D%B1%E8%8F%AF%E4%B8%89%E9%99%A2%E9%AB%98%E5%B1%A4%E5%B9%B4%E8%96%AA230%E8%90%AC%E5%85%83-%E7%9B%B4%E8%BF%AB%E7%A4%BE%E7%BD%B2%E5%89%AF%E7%BD%B2%E9%95%B7-%E5%B7%A5%E6%9C%83%E6%89%B9%E8%82%A5%E4%B8%8A%E7%98%A6%E4%B8%8B>

UBS banker fundraising for a local charity (n.d.) South China Morning Post. Retrieved from <https://www.scmp.com/lifestyle/health/article/1576103/fit-fab-charitable-banker-moyee-lam-it-long-run>



First runner up

From left to right: Choi Hiu Tung and Ho Heily Hei Yin

The Hong Kong University of Science and Technology, Bachelor of Business Administration in Finance and Management and Bachelor of Business Administration in Management (Consulting Option)

Introduction

Good governance is the heart of organisations. It not only helps groups and entities achieve their objectives, but also proves that their legal standing and ethics are up to standard. There was a boom in the early 1980s where enormous funding was transferred to the NGO sector. As people became more aware of social and environmental issues, NGOs started to proliferate, with public support.

The explosive growth was conducive to the development of NGOs. As an organisation grows more prominently, the scale of problems grows along with it. Given the attributes of charitable institutions, discussions related to accountability,

regulations, and evaluations were made to iron out management loopholes.

There are many cases in which that civil society organisations have been unable to obtain offerings. An example can be seen from four years ago when the Haiti Earthquake happened and fundraising actions were immediately taken. Nevertheless, a substantial portion of the US relief operation went through American instead of Haiti-owned companies.

Rose Longhurst, the funding policy adviser at NGO Development Membership Agency Bond acknowledged that this phenomenon deserved attention. She mentioned that 'Sometimes donors require specific donation stipulations, saying that NGOs need to

provide certain services on designated areas⁷⁴. That raised the question of the autonomy and mobility of NGOs.

Meanwhile, there are impacts of changes in attitudes towards corporate sustainability on corporate governance in the business sector. Corporate sustainability is believed to be of utmost importance to them as it could affect the profits gained, profits which are available for business expansion.

This study aims to compare the governance of NGOs and enterprises, and investigate how their differences affect their management strategies and organisational structures, so as to perform the best outcomes.

Theoretical Background

Governance

The word 'governance' appears in the late twentieth century. J. Pierre, a distinguished scholar of culture

and community, claimed that governance involves a group of people or institutions in which related parties take different roles to sustain the operation. He pointed out that we can define governance from two perspectives: (1) top-to-down level (Figure1) and (2) the same level (Figure 2). Top-to-down management means the steering of leaders. From this perspective, people point hierarchies up. Decision making is regarded from the top managerial level (administrative level) to the middle level (executive level), then passing down to the first-line level (operational level). As for the same level perspective, it is about the coordination of employees⁷⁵.

Corporate Governance

Notwithstanding that there is no consistent definition of corporate governance, corporate governance broadly refers to the mechanisms whereby the board of directors can direct, control, and supervise companies⁷⁶. To be more specific, corporate governance encompasses four elements which are crucial to maintaining competitive

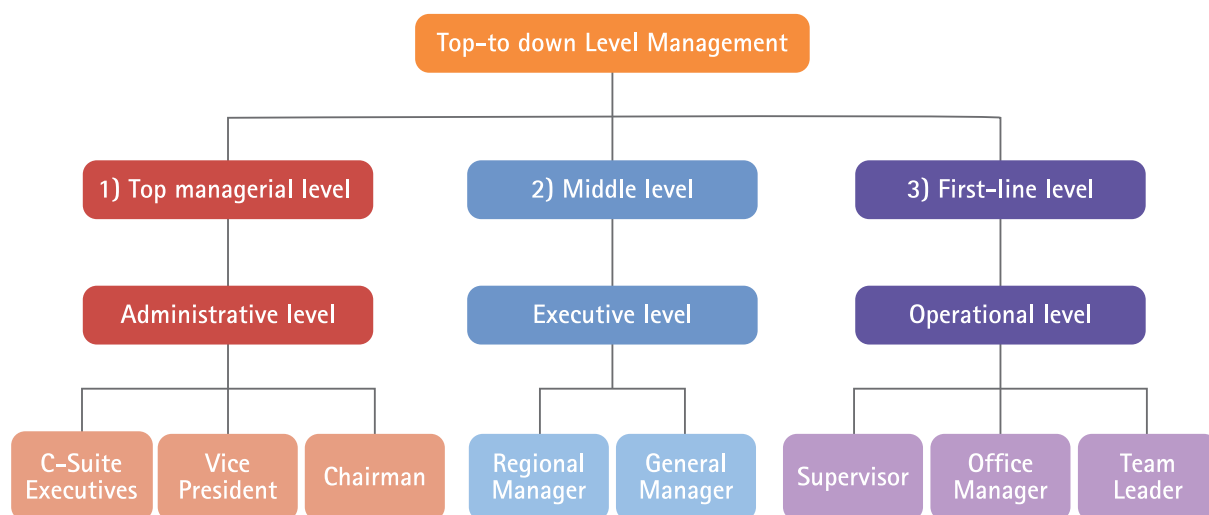


Figure 1

⁷⁴ <https://www.theguardian.com/global-development-professionals-network/2014/sep/10/sustainable-procurement-transparency-ngo-best-practice>

⁷⁵ https://www.unwe.bg/uploads/Alternatives/Polya_1_br2_2016_en.pdf

⁷⁶ <http://www.businessdictionary.com/definition/corporate-governance.html>

advantage and balancing stakeholders' interests (including the government, society, employees, suppliers, investors, and customers), namely⁷⁷:

- (1) Disclosure practices
- (2) Action plans
- (3) Internal controls
- (4) Performance evaluations

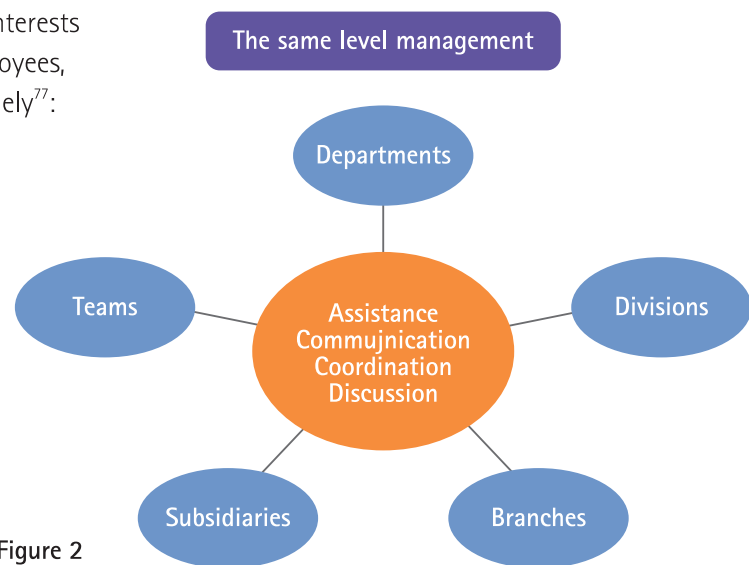


Figure 2

An Overview of Non-governmental Organisations and Public Companies

Non-governmental Organisations

Generally speaking, NGOs are varied in scope; they do not operate on a commercial basis but are altruistic to have manifold advocacies ranging from gender equality to a reduction of emissions. Meanwhile, they are independent of the government⁷⁸.

The development of NGOs is literally fast-moving, and they keep growing at an accelerating rate. As of 2019, the number of NGOs has reached around 10 million, with more than 50 million NGO workers. It is forecasted that the figure of NGO staff will rise substantially to 100 million by 2030⁷⁹. Despite the fact that charitable institutions cover a broad range of objectives, we can break them down into several types. Below are the six most common types of NGOs⁸⁰:

- Animal charities
- Environmental charities
- International NGOs

- Health charities
- Education charities
- Arts & culture charities

In recent years, no matter whether they operate in social sectors or environmental spheres, NGOs have indeed played a vital role in scrutiny and optimisation. Intending to ameliorate human rights and confront externalities of business activities, some social associations have initiated campaigns which assembled the public power to challenge corporations⁸¹. In response to social pressure, enterprises have altered their initial policies and planning in accordance with the requests of NGOs. A typical example is one of the leading fast-food restaurants, McDonald's, which started to eliminate plastic straws in 2018 owing to criticism⁸². Therefore, it can be seen that NGOs are genuinely influential at the moment.

Rising Concern about NGOs' Governance

In view of the far-reaching effects of NGOs on society, a host of scholars have been assessing their

⁷⁷ <https://searchfinancialsecurity.techtarget.com/definition/corporate-governance>

⁷⁸ <https://www.investopedia.com/ask/answers/13/what-is-non-government-organisation.asp>

⁷⁹ <https://worldngoday.org/toolkit2019.pdf>

⁸⁰ <https://topnonprofits.com/lists/types-of-charities/>

⁸¹ <https://www.iisd.org/business/ngo/roles.aspx>

⁸² <https://www.mnn.com/lifestyle/recycling/blogs/mcdonalds-tests-paper-straws-uk>

governance framework. It appears that the transparency of leveraged budgets is relatively low when compared to that over public companies. Unlike the situation for commercial businesses, it is by no means compulsory for NGOs to disclose their financial statements to the public. Without seeing the financial reports of charities, it is difficult for their stakeholders to oversee the management of their donations. Although charities themselves will monitor the process of resources and endowment allocation, there is a concern over the lack of public supervision; some NGO executives may take advantage of their authority to expropriate funding.

The existence of this problem was borne out by the Red Cross case of siphoning off aid intended to combat Ebola. In 2014, the Red Cross admitted that with the collusion of bank officials in Sierra Leone, their staff had embezzled US\$2.1 million of anti-Ebola donations⁸³. With this in mind, it is deemed that the approach NGOs take to manage their operation is not transparent enough.

Considering the unethical behaviour documents in certain NGOs, people share deep reservations about NGOs' accountability. In 2017, The Charity Commission undertook research pertaining to the public's level of confidence in civil society organisations. It was found that 45% of respondents remained sceptical about the operations of NGOs⁸⁴. From this survey, we can see that there is a close correlation between the stewardship of charities and their reliability.

Public Companies

According to Market Business News, public companies are enterprises listed either on a stock exchange or over-the-counter. Commercial businesses have the

authority to issue shares which can be traded in stock markets⁸⁵. Unlike the situation in NGOs, public companies are generally profit-oriented. One of the paramount aims of most corporations is to generate profits in the long run⁸⁶.

In fact, the development of enterprises indicates the economic status of their countries. Forbes published an article regarding the 2019 ranking of public companies in the world. The report stated that among 61 countries on the list, the US, China, and Japan consecutively account for the top three nations that possess the most significant number of world-class corporations⁸⁷. What is more, these three countries comprise the greatest assets. By using the GDP indicator, they rank the top three countries which have the highest nominal GDP in 2019⁸⁸. With this in mind, the conditions of public firms reflect the development of countries.

Corporate Governance and The Development of Public Companies

Given the broad spectrum of stakeholders involved in public companies, as mentioned above, people keep an eye on the corporate governance of public corporations. At a large-scale company, the decision making at the managerial level, particularly the board of directors, will undoubtedly affect the entire society, since the company has numerous branches, subsidiaries, and staff worldwide. If their leadership is loose, companies will lack effective policies as well as momentum to expand and improve, which presumably contributes to a failure of tempting the admission of talent. Even when there are regulations or schemes that they intend to implement, if their organisational structure is slack, their internal communications will be inefficient, which probably result in downfall.

⁸³ <https://www.theguardian.com/global-development/2017/nov/03/red-cross-outraged-over-pilfering-of-ebola-aid-millions-by-its-own-staff>

⁸⁴ <https://boardagenda.com/2019/06/11/ngo-governance-finding-solutions-future-challenges/>

⁸⁵ <https://marketbusinessnews.com/financial-glossary/public-company/>

⁸⁶ <https://financial-dictionary.thefreedictionary.com/Public+company>

⁸⁷ <https://www.forbes.com/global2000/#34ec0860335d>

⁸⁸ <http://statisticstimes.com/economy/gdp-indicators-2019.php>

The case of Volkswagen (VW) manifested the importance of corporate governance in public companies. This car giant was brought down by the scandal of getting its cars past diesel emission tests illegally. It was discovered that Martin Winterkorn, the CEO of VW, was actually an unwitting part of this: he never made such a decision, but his subordinates did so⁸⁹. Being accused of this irregularity, VW was subject to an immense loss. It spent €6.7bn to recall millions of cars and the company's value dropped by €30bn⁹⁰. In the wake of this critical issue, the public pays more attention to its grasp of the real details of business. When C-Suite executives fail to realise the behaviours of their staff, it is impossible for them to notice problems and task outcomes will easily be inconsistent. In addition, when facing unexpected circumstances, it is difficult for directors to address them. Accordingly, corporate governance directly affects the sustainability of firms; following this logic, we should examine how enterprises are managed.

Good Governance of NGOs and Good Corporate Governance of Public Companies

Good Governance

So far, we have explored how essential good governance is for both NGOs and public companies. This is because, as we have highlighted, by virtue of superior governance, organisations can bolster confidence in society, which is indispensable for their advancement and sustainability. When it comes to good governance, there are five universally recognised principles set by the United Nations Development Programme that can be applied to all types of governance. The principles include the following⁹¹:

- Legitimacy and voice: Can mediate interests to reach a consensus
- Direction: Leaders have a good sense to develop sustainability
- Performance: With excellent responsiveness and efficiency
- Accountability: Sufficient trustworthy information is released to the public
- Fairness: Everyone is entitled to human rights and fair treatment

Comparisons

Similarities in Good Governance between NGOs and Public Companies: Accountability

Probing into good governance of NGOs and public corporations, it is found that they have similar attributes. To begin with, both require high accountability. The 2010 Humanitarian Accountability Partnership (HAP) Standard in Accountability and Management outlined that accountability is comprised of three elements⁹²:

- Transparency
- Free flow of information
- Evaluation systems

With the establishment of open rules and procedures that comply with the law, the practices of institutions will become transparent. As society can supervise how they function, this could be a deterrent effect. Even if there are illegal acts, for instance, the staff receive kickbacks, records and documents mean it is easier for the public to discover them. When their information comes under public resources, people can review their actions to see whether they are moral or not. Under stringent supervision, organisations are less likely to engage in unethical activities.

⁸⁹ <https://www.telegraph.co.uk/finance/comment/11893886/Volkswagen-scandal-Bad-governance-is-often-a-sign-of-trouble-ahead.html>

⁹⁰ <https://www.bbc.com/news/business-34324772>

⁹¹ https://iog.ca/docs/2003_August_policybrief15.pdf

⁹² <https://www.icvnetwork.org/system/files/versions/Section%209%20new.pdf>

Consequently, only if NGOs and firms are reliable and trustworthy will the confidence of the public be elevated and this can lead to sustainability.

An Example of Accountable NGOs: BRAC

Well-developed NGOs tend to have supervisory boards. In the Top 20 NGOs World Report 2019, BRAC, which aims at reducing exploitation and promoting parity, got the first position⁹³. In line with its expansion and the rising international expectations, BRAC modifies its governance by setting up an 11-member supervisory board. The following stakeholders constitute the board⁹⁴:

- Executive directors
- Finance directors
- International programme directors

Each member engages in distinct tasks. The executive directors are responsible for keeping sight of the whole picture; finance directors are in charge of producing financial statements following the International Financial Reporting Standards and publishing them on a half-yearly basis; international programme directors liaise with external entities. Every year, the BRAC supervisory board will have a meeting to assess performance. If they detect inappropriate issues, they will undertake special investigations⁹⁵. Hence, BRAC has high accountability, which gives rise to its better governance.

An Example of Accountable Public Companies: DBS (Banking Industry)

For commercial corporations, accountability is a pivotal factor to building good governance. In 2018, the Singapore Corporate Award was conferred on DBS for its exceptional corporate governance⁹⁶. In order to consolidate its foundation, DBS is committed

to escalating its accountability. Its shareholders can take part in decision-making. As stated in its articles of association, ordinary investors have the right to attend and vote at the annual general meetings. The chairman is required to foster constructive discussions in the sessions⁹⁷.

In the area of disclosure, DBS provides timely and full quarterly and annual financial reports to shareholders⁹⁸. Through these materials, which are produced conforming to the Singapore Financial Reporting Standards, investors can comprehend the Group's financial position and performance. Thanks to a series of public engagement practices, people have sufficient trust in the management of DBS.

Similarities in Good Governance between NGOs and Public Companies: Sound Risk Management

In the context of acute situations, we can observe the governance level of organisations. In other words, risk management determines the level of governance. Risk management is concerned with a logical mechanism of identifying, analysing, evaluating, and tackling crises (Figure 3)⁹⁹.

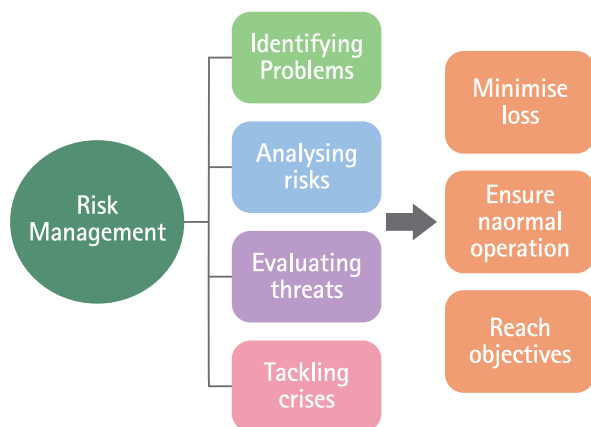


Figure 3

⁹³ <https://www.ngoadvisor.net/top-20>

⁹⁴ <https://www.bracinternational.nl/en/governance-structure/>

⁹⁵ <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.506.1124&rep=rep1&type=pdf>

⁹⁶ https://www.dbs.com/newsroom/DBS_wins_top_honours_at_the_Singapore_Corporate_Awards

⁹⁷ https://www.dbs.com/annualreports/2010/corporate_governance_report.htm

⁹⁸ <https://www.businesstimes.com.sg/hub-projects/singapore-corporate-awards-2018/building-trust-the-dbs-way>

⁹⁹ https://www.governancetoday.com/GT/Articles/The_foundations_of_good_governance_Part_3__Risk_management.aspx?WebsiteKey=0cf4306a-f91b-45d7-9ced-a97b5d6f6966

Prior to launching projects, administrators will undertake detailed research, thereby shaping the most desirable campaigns. Nevertheless, unpredicted conditions may suddenly emerge, hindering the implementation of schemes. Under predicaments, the management at all levels is the crux. In terms of planning, competent directors will take accidents into account. They not only prepare for initial schemes but also have strategic contingency plans by which they can cope with uncertainties. Managing threats in a productive way, the loss and harms can be diminished. If organisations cannot resolve risks, they will lose direction when problems hit home and will not be able to live up to their objectives. As a result, sound risk management is vital for systematic governance.

An Example of NGOs with High Risk Appetite: Doctors Without Borders

Doctors Without Borders is an influential charity which has the objective of assisting victims of armed conflicts. In light of its outstanding risk management, Doctors Without Borders was selected as the Top 10 Impactful Charity by Charity Intelligence in 2018¹⁰⁰.

To ensure it can offer aids to recipients successfully under any circumstances, Doctors Without Borders has four logistical centres coupled with the stores of emergency materials¹⁰¹. In unstable countries, wars and social conflicts are commonplace; even NGOs will be attacked. Their equipment, for instance, communication materials and power supplies, may be devastated. As an international association, Doctors Without Borders facilitates risk management to rule out such a threat. Instead of locating in the same areas, these centres are decentralised; they are based in Europe, East Africa,

and East Asia. By doing so, they can diversify risks. If a centre is subject to destruction, the rest can continue to provide services. The thoughtful risk management policy shows the outstanding governance of Doctors Without Borders.

An Example of Public Companies with High Risk Appetite: Siemens (Conglomerate)

Over the past few decades, Siemens has evolved its approach to tighten its risk management. Recognising the risk-based management of Siemens, Ethical Boardroom announced that Siemens was one of the winners of '2018 Best Corporate Governance' in Europe¹⁰². The risk management framework of Siemens can be classified into two approaches: (1) an internal risk-based approach and (2) an external risk-based approach.

From the internal perspective, Siemens has a rigorous screening process for suppliers. It regularly identifies the potential risks in its supply chain. During the shortlisting process, Siemens scrutinises the qualifications and audits the quality of suppliers. To find out the most suitable business associates, Siemens set a predefined benchmark for the selecting criteria. Qualifying companies which pass all the thresholds will be evaluated individually in the final round of selection.

At the external level, Siemens puts emphasis on compliance. In the course of procurement, Siemens utilises external sources, including government documents, news reports, and databases to inspect whether the suppliers have breached any ordinances or codes of conduct¹⁰³. These series of risk mitigation practices enable Siemens to phase out substandard suppliers, maintaining the quality of their services and products.

¹⁰⁰ <https://www.charityintelligence.ca/charity-details/81-doctors-without-borders>

¹⁰¹ <https://www.doctorswithoutborders.org/who-we-are/how-we-work/emergency-response>

¹⁰² <https://ethicalboardroom.com/corporate-governance-winners-2018-europe/>

¹⁰³ <https://w5.siemens.com/cms/supply-chain-management/en/sustainability/detection/risk-based/pages/approach.aspx>

Differences in Good Governance between NGOs and Public Companies: Serving Priorities

Although there are commonalities of good governance for NGOs and public companies, they still have unique governance attributes. After all, they differ in nature and in their organisational structures.

The serving priorities of NGOs and listed corporations vary widely. One of the governance standards for NGOs is always serve the public interest¹⁰⁴. Tracing back to the 1900s, the position of civil society organisations was consolidated¹⁰⁵. After that, more citizens took the initiative to give to charities. This was because their advocacy of serving the public and the pursuit of social transformation were acknowledged. People believed that they could act as intermediaries to distribute resources to underprivileged groups. The public is a critical source of funding for NGOs. Rather than making investments to generate more budgets, NGOs rely on the public to donate money. As a result, successful NGOs must stick to their original intention all the time – put the public interest as the top priority to maintain their sustainability; otherwise, people will no longer support them.

Conversely, public enterprises concentrate on the benefits of shareholders. Stockholders are the individuals or groups which hold the shares of organisations¹⁰⁶. The roles of shareholders are not simply investing, but also consist of voting on business matters and electing the board of directors¹⁰⁷. Investors are the primary sources of capital for commercial companies. When enterprises plan to carry out projects but lack venture capital, they may resort to issuing shares in exchange for funding. The more shareholders companies have,

the more capital they can gather. Without investors, firms may encounter financial pressure that leave them unable to carry out projects. To retain current investors and to appeal to potential investors, public companies should focus on maximising the profits for shareholders. Thus, corporations must always consider the benefits of shareholders and strive to bring earnings to them.

An Example of Committed NGOs: CloudHead

Through its commitment and dedication, CloudHead became one of the 38 most dedicated NGOs devoted to improving education¹⁰⁸. In all cases, the projects of CloudHead are concerned with technology, art, and education. To align all campaigns with their objectives, CloudHead has both (1) short-term and (2) long-term initiatives.

In the short-term plan, CloudHead provides opportunities for impoverished students to showcase their artistic talents. Students who are passionate about photography and shooting video can freely enrol in the classes of CloudHead to acquire digital editing skills and create their projects. Previously, CloudHead hosted exhibitions to display the work of students.

In the long-term plan, CloudHead coordinates with local NGOs and reliable companies. Over time, the number of students at CloudHead increases exponentially. Hence, it works jointly with other local NGOs, which also are enthusiastic about promoting balanced education. Further, it partners with Adobe to optimise its software and curricula¹⁰⁹. The more resources it has, the higher the quality of training that CloudHead offers. The systematic governance empowers CloudHead to serve the community.

¹⁰⁴ <https://www.charities.gov.sg/manage-your-charity/Day-to-Day-Operations-of-Charity-IPC/Pages/Code%20of%20Governance%20for%20Charities%20and%20IPCs.aspx>

¹⁰⁵ <https://pdfs.semanticscholar.org/5b42/5f2c896991e5ab7fce43ccd1fb9b9c1bf439.pdf>

¹⁰⁶ <http://www.businessdictionary.com/definition/stockholder.html>

¹⁰⁷ <https://www.inbrief.co.uk/company-law/shareholder-roles-duties/>

¹⁰⁸ <https://www.raptim.org/38-ngos-dedicated-improve-education/>

¹⁰⁹ <http://cloudhead.org/what-do-we-do/>

An Example of Committed Public Companies: Alaska Air Group (Aviation Industry)

Unlike charitable organisations, well-organised public companies should regard stockholders' interest as having the highest priority. On account of its optimal allocation of capital, Alaska Air Group (ALK) was perceived as one of the best-managed public companies by the US News¹¹⁰. It was noted that the CEO of ALK worked his way up. (1) On the one hand, he helped scale down the costs of operation. (2) On the other hand, he brought profits to investors.

For the costs part, 'low cost' is a fierce competitive advantage of Alaska Air Group. ALK facilitates disciplined cost management. In terms of operational efficiency, it saves US\$75 million through high productivity, schedule optimisation, and guest self-service. Beyond that, in the support function, it cut US\$85 million of supportive expenditure¹¹¹. Therefore, superb leaders can mitigate the cost pressure of corporations.

With regards to the revenue part, Alaska Air Group stands out among aircraft carriers. Compared to other competitors, the profitability of ALK is high. On average, the margin of ALK is 15%, which goes beyond that of its competitors. Meanwhile, a series of mergers let ALK be an air freight tycoon. Its market shares grew to over 84% in the past decade¹¹². Thus, with strong profitability, ALK lives up to the standard of being a 'well-organised enterprise'.

Corporate Governance and NGOs

Up to this point, we noticed that good governance is a premier factor that leads organisations to

collective success. Along with the importance of better governance, the similarities and differences between NGOs and public companies' governance were deeply analysed in the previous section.

The idea of the application of corporate governance to NGOs has aroused discussion. No matter whether an organisation is an NGOs or public enterprise, they have their unique management. The governance policies and processes of corporations are at variance with that of charities. Although they moderately have similar practices, to a small extent, corporate governance can be applied to NGOs.

Reason 1: Different Advocacies

To commence, there is a stark contrast between the advocacies of NGOs and public companies. As the entities which fill the gaps between social levels, NGOs are citizen-based associations. They want to foster a harmonious society by promoting mutual trust¹¹³. In opposition to this, commercial businesses are generally profit-oriented; they focus on compliance to prevent the risks of being penalised¹¹⁴.

Mutual trust is the foundation of NGOs. Svetlana Rubashkina has contended that most charities cannot offer competitive salaries; the pleasant working atmosphere is the key to attracting employees¹¹⁵. Under the loving environment, team members cooperate hand in hand. When the employees have identical philosophies to achieve social missions and get along well with each other, the NGO staff are willing to continue to serve the public.

If NGOs adopt the governance practices of corporations, this will probably give rise to lower staff morality. Some widely-enforced listed companies have a whistleblowing policy. To avoid

¹¹⁰ <https://money.usnews.com/investing/articles/2017-06-12/10-of-the-best-managed-public-companies>

¹¹¹ <https://alaskaairgroupinc.gcs-web.com/static-files/94dea078-6b34-4db7-837a-452723220c5b>

¹¹² <https://www.macrotrends.net/stocks/charts/ALK/alaska-air/revenue>

¹¹³ <https://ngosindia.com/>

¹¹⁴ <https://www.reference.com/business-finance/nature-business-372673bbec5000ed>

¹¹⁵ <https://www.alliancemagazine.org/feature/why-work-for-a-non-profit/>

falling short of integrity, AIA provides channels, such as a multilingual compliance hotline for insiders to report misconduct¹¹⁶. Assuming that NGOs also set up a whistleblowing scheme, the team spirit of the staff will deteriorate. According to a case study of job satisfaction at NGOs, having an intimate relationship with colleagues is a strong driving force for the employees of charities to expand abilities¹¹⁷.

A whistleblowing programme seems to encourage employees to monitor each other rather than working jointly as a team. Additionally, there may be misconceptions and allegations that the reported cases lack grounds. These issues will result in widening the distance between colleagues. In the long run, the cornerstone of NGOs – mutual trust – will collapse and lead to lower staff morality. Therefore, due to the differences in the natures of objectives, to a small extent, NGOs should apply the management styles of companies.

Reason 2: Different Task Natures

Apart from the above, the natures of work are radically different between charitable institutions and enterprises. Natural disasters, wars, terrorist attacks, accidents, and diseases will happen at any time. What NGOs need to do is to offer emergency aid right away. For example, in the wake of flooding, houses are wrecked, Relief International will immediately save citizens and provide shelters for them¹¹⁸. Still, for public companies, most of their tasks require a decision-making process which entails much time and many layers of communication, so as to make more deliberate and meticulous decisions¹¹⁹.

Emulating commercial businesses with step-by-step planning, it is difficult for NGOs to

provide timely services. The decision-making process of Cisco, a cybersecurity company, is called 'Decision-driven Collaboration' in which all stakeholders, such as employees and shareholders, are connected to have solicited input; consider viable alternatives; and execute decisions¹²⁰. Time is of utmost importance for NGOs to handle emergencies, for instance, relief for victims and cure for casualties. The more time they take, the more severe the crises become. If, prior to every operation, NGOs need to negotiate with, seek approval from, and inform all stakeholders, the entire decision-making procedure takes too much time. Even if the process enables them to make more thoughtful strategies, the planned solutions maybe not be applicable anymore, since the conditions keep altering swiftly. Thus, to a small extent, the NGO sector could employ the governance processes of commercial institutions.

Rebuttal: Material Incentives Versus Intangible Motivations

Naysayers may be against our stance, arguing that material incentives programmes are applicable to NGOs. They may think that if charitable institutions offer monetary incentives to employees, for example, the staff could earn commissions as long as they successfully reach out to enterprises for sponsorships, meaning the staff will be inclined to broaden the networks of NGOs and serve more recipients. This is because the more they contribute, the more additional benefits they receive.

This argument seems valid at first glance; however, it is fundamentally flawed. For NGO employees, intangible motivations outweigh tangible rewards. Holcombe stated that in the NGO sector, only bringing about individual values and employee identification could create employees' personal

¹¹⁶ <http://www.aia.com/en/about-aia/esg/governance.html>

¹¹⁷ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2910857

¹¹⁸ <http://www.globalcorps.com/jobs/ngolist.pdf>

¹¹⁹ <https://online.csp.edu/blog/business/decision-making-process>

¹²⁰ <https://community.cisco.com/t5/collaboration-voice-and-video/improve-decision-making-collaborate-to-evaluate/ba-p/3665012>

commitment to associations¹²¹.

The intrinsic motivation theory stipulates that engagement in tasks arises from self-desire and internal satisfaction. Offering external rewards will cause counter-effects, since employees may pursue desired outcomes less eagerly when incentives are removed¹²². When the workers of charities gain job satisfaction and a sense of meaning, feeling delighted at serving the community, they will put their heart into service projects. Material incentives may adversely affect their performance. Consequently, to a small extent, NGOs could adopt the managerial systems of businesses.

Strategic Management Practices

As we have elaborated, NGOs and public companies have different goals, structures, and natures. The characteristics of NGOs can be summarised as¹²³:

- Non-profit making
- Not shareholder-owned
- Focus on social and environmental outcomes

With tailor-made strategic management, NGOs can allocate resources efficiently, control managerial activities, and ultimately enhance performance. According to an academic paper written by Alan Fowler, shaped strategic management helps NGOs operate under complexities, potential risks, and financial uncertainties¹²⁴. Furthermore, NGOs are non-shareholder-owned, their management board is always composed of the staff only, unlike private companies where they have separate governance and management parties. Meanwhile, NGOs take up social and environmental responsibility, for example,

reducing pollution, animal protection, and human rights protection.

Strategic management encompasses clear goals and comprehensive strategies that can create satisfactory results and quality services. The suggestions below are tailor-made to accommodate the characteristics of NGOs.

For Non-profit Making Characteristic

Suggestion: Elevate Employees' Autonomy (Stewardship Theory)

The Stewardship Theory is suggested to establish autonomy within organisations. The main idea is to merge the staff's sense of worth with their engagement. NGOs should fully trust managers and acknowledge their positions¹²⁵. The entrusted confidence in the staff allows them to develop a sense of belonging to associations. There are no boundaries for the staff to showcase their talents; meanwhile, it makes organisations more flexible to the ever-changing environment. By doing so, the staff will have the same visions as the organisations and believe that they are psychologically content with their positions in the company.

Outcomes

Giving proper authority to employees is conducive to their internal satisfaction. NGO staff in Mogadishu said that their most immense satisfaction was driven by their self-actualisation in organisations¹²⁶. Also, the Staff Satisfaction Index reflected that the companies which introduced stewardship theory have a relatively higher index number¹²⁷. The staff genuinely regard themselves as the members of organisations, wanting to facilitate collective

¹²¹ file:///C:/Users/user/Downloads/181-523-1-PB.pdf

¹²² <https://www.verywellmind.com/what-is-intrinsic-motivation-2795385>

¹²³ https://www.fbe.hku.hk/ug/f/page/252163/253167/EVENT_A_2644_CG%20Paper%20Competition%20202019_Flyer.pdf

¹²⁴ <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-7679.1991.tb00175.x>

¹²⁵ <https://onlinelibrary.wiley.com/doi/abs/10.1111/1467-8683.00076>

¹²⁶ <https://corporate-rebels.com/the-proof-happy-employees-drive-success/>

¹²⁷ https://www.academia.edu/36412761/Staff_Motivation_and_Performance_of_NGOs_in_Mogadishu_Somalia.pdf

success. Attaining discretion and trust, employees can engage in decision making. When their sense of achievement links up with the performance of NGOs, even if there are deficient material incentives, they will deliberate on how to integrate their rights and intelligence to meet social and environmental outcomes.

For Non-shareholder-owned Characteristic

Suggestion: Increase the Diversity of Ideas (Transformational Leadership Theory)

NGOs are not shareholder-owned. Often, aside from their original positions, the NGO staff will take a dual role in the management board to monitor the operation of organisations. Thus, it is challenging to collect multi-dimensional ideas. A reform of the management structure is suggested by utilising the Transformational Leader Theory to choose influential directors.

The concept of Transformational Leadership suggests leaders should encourage teammates to come up with new views¹²⁸. During the process of

inspiring and stimulating followers to exchange perceptions, the vision towards a project will be broadened. The objective is by no means to make quick decisions, but to explore greater creativity from diversified perspectives.

Outcomes

Findings have revealed that the Transformational Leadership Theory greatly enhances NGOs' task effectiveness and diversification (Figure 4)¹²⁹. Transformational leaders act as role models to motivate group members to buy into higher levels of goals. Together with sufficient discussions and communications, the content of tasks can be articulated clearly to the staff. Everyone realises their roles and duties; consistent directions will then be shared. It is hard to notice the defects in campaigns by relying on a few people. The more perspectives are involved, the better the planning will be. Providing recognition to subordinates, employees will feel empowered to take on challenges, express extraordinary ideas, and look beyond status quos. Under this line of thinking, even without shareholders, innovative opinions can be gathered to deliver better outcomes.

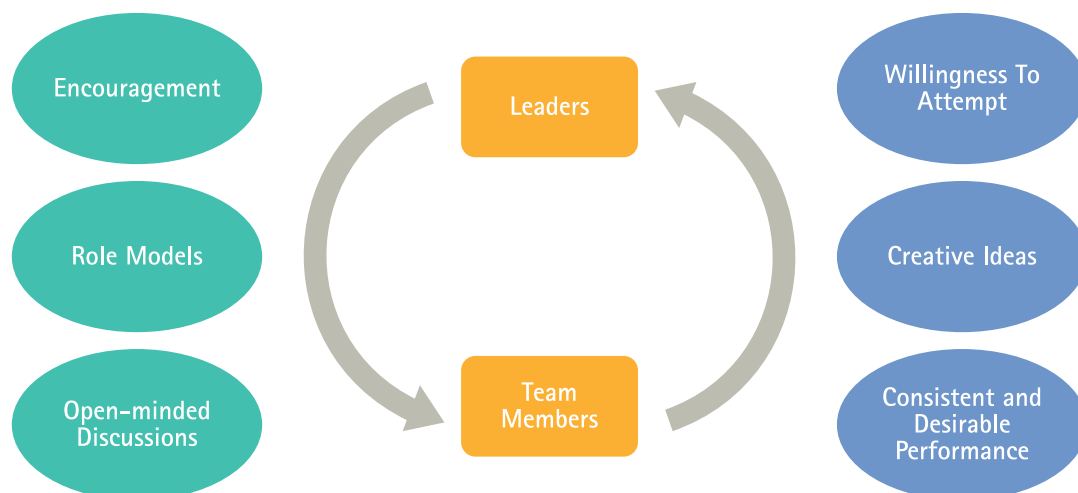


Figure 4

¹²⁸ <https://www.mindtools.com/pages/article/transformational-leadership.htm>

¹²⁹ https://www.researchgate.net/publication/257672594_Transformational_Leadership_Organizational_Culture_Organizational_Effectiveness_and_Programme_Outcomes_in_Non-Governmental_Organizations

For Social and Environmental Responsibility Characteristic

Suggestion: Follow Social Values and Beliefs (Legitimacy Theory)

The Legitimacy Ideology states that company activities are undertaken according to social norms, values, and expectations¹³⁰. The actions of organisations should be desirable, proper, and appropriate within a constructed system of values, beliefs, and definitions. A code of conduct can be structured by using the legitimacy theory as the base. Codes of conduct act as guidelines for all employees to follow and as benchmarks to judge whether each other's behaviours comply with the guidelines.

Outcomes

It has been found that a company with a code of conduct can maintain satisfactory organisational ethics. It is especially essential for NGOs to be corrupt free and have clear guidelines on terms and conditions¹³¹. Developing a sound feedback system provides a communication channel for staff to voice opinions on policies and report malpractices so as to further improve the company in the future. Also, the code of conduct contains the company's core values and missions so that staff can be reminded and follow to achieve a common goal of improving the world.

Conclusion

No matter whether the subject is NGOs or enterprises, governance has far-reaching effects on them both. Only with remarkable management can organisations gain support and have sustainability. While NGOs and firms share similar governance characteristics, due to their differences in organisational structures and natures they should have their own management styles and strategies to achieve their goals.

¹³⁰ <https://www.ventureline.com/accounting-glossary/L/legitimacy-theory-definition/>

¹³¹ <https://www.tandfonline.com/doi/abs/10.1080/00344893.2015.1023102?journalCode=rrep20>

Bibliography

- Advisors, N. (n.d.) NGO governance: finding solutions to future challenges. Board Agenda. Retrieved from <https://boardagenda.com/2019/06/11/ngo-governance-finding-solutions-future-challenges/>
- Alim, A.M. (2007, December). Facilitating Good Governance at Grass Roots: BRAC and the Women Members of Union Parishad?. BRAC Research Report. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.506.1124&rep=rep1&type=pdf>
- ALK Investor Day 2018. (2018). Alaska Air. Retrieved from <https://alaskaairgroupinc.gcs-web.com/static-files/94dea078-6b34-4db7-837a-452723220c5b>
- Alaska Air Revenue 2006-2019 | ALK. (2019). Macrotrends. Retrieved from <https://www.macrotrends.net/stocks/charts/ALK/alaska-air/revenue>
- Bakhtawar, S. (2017, February 3). Impact of Motivation on Job Satisfaction: A Case Study of NGOs in Karachi. SSRN. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2910857
- Code Of Governance For Charities And IPCs. (2019, January 11). Charity Portal. Retrieved from <https://www.charities.gov.sg/manage-your-charity/Day-to-Day-Operations-of-Charity-IPC/Pages/Code%20of%20Governance%20for%20Charities%20and%20IPCs.aspx>
- Corporate Governance. (n.d.). Business Dictionary. Retrieved from <http://www.businessdictionary.com/definition/corporate-governance.html>
- Corporate Governance Winners 2018 – Europe. (2018). Ethical Boardroom. Retrieved from <https://ethicalboardroom.com/corporate-governance-winners-2018-europe/>
- Corporate Governance Report. (2011). DBS. Retrieved from https://www.dbs.com/annualreports/2010/corporate_governance_report.htm
- Corporate Governance Paper Competition and Presentation Awards 2019. (2019). The Hong Kong Institute of Chartered Secretaries. Retrieved from https://www.fbe.hku.hk/ug/f/page/252163/253167/EVENT_A_2644_CG%20Paper%20Competition%202019_Flyer.pdf
- Cherry, K. (2019, July 26). Intrinsic Motivation. Very Well Mind. Retrieved from <https://www.verywellmind.com/what-is-intrinsic-motivation-2795385>
- DBS wins top honours at the Singapore Corporate Awards. (2018). DBS. Retrieved from https://www.dbs.com/newsroom/DBS_wins_top_honours_at_the_Singapore_Corporate_Awards
- Doctors Without Borders. (n.d.). Charity Intelligence Canada. Retrieved from <https://www.charityintelligence.ca/charity-details/81-doctors-without-borders>
- Environmental Social Governance. (2018). AIA. Retrieved from <http://www.aia.com/en/about-aia/esg/governance.html>
- Emergency Response. (2013). Doctors Without Borders. Retrieved from <https://www.doctorswithoutborders.org/who-we-are/how-we-work/emergency-response>
- Folger, J. (2019, July 7). What is an NGO (Non-Governmental Organization)? Investopedia. Retrieved from <https://www.investopedia.com/ask/answers/13/what-is-non-government-organization.asp>
- Foler, A. (1991, March). The Role of NGOs in Changing State-Society Relations: Perspectives from Eastern and Southern Africa. Wiley Online Library. Retrieved from <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-7679.1991.tb00175.x>
- GDP Indicators 2019. (2019, January 4). Statistics Times. Retrieved from <http://statisticstimes.com/economy/gdp-indicators-2019.php>
- Governance Structure. (2016). BRAC. Retrieved from <https://www.bracinternational.nl/en/governance-structure/>
- Graham, J. (2003). Principles for Good Governance in the 21st Century. Institute On Governance. Retrieved from https://iog.ca/docs/2003_August_policybrief15.pdf
- Hotten, R. (2015, December 10). Volkswagen: The scandal explained. BBC. Retrieved from <https://www.bbc.com/news/business-34324772>
- Hussein, A.A. (n.d.). Staff Motivation Et Performance of NGOs in Mogadishu Somalia. Academia. Retrieved from https://www.academia.edu/36412761/Staff_Motivation_and_Performance_of_NGOs_in_Mogadishu_Somalia.pdf
- Hussung, T. (2017, February 10). 7 Steps of the Decision Making Process. Concordia. Retrieved from <https://online.csp.edu/blog/business/decision-making-process>
- Improve Decision Making: Collaborate to Evaluate. (2013, January 23). Cisco. Retrieved from <https://community.cisco.com/t5/collaboration-voice-and-video/improve-decision-making-collaborate-to-evaluate/ba-p/3665012>
- Katsamunskia, P. (2016). The Concept of Governance and Public Governance Theories. Retrieved from https://www.unwe.bg/uploads/Alternatives/Polya_1_br2_2016_en.pdf
- Khoo, L. (2018, July 19). Building trust, the DBS way. The Business Times. Retrieved from <https://www.businesstimes.com.sg/hub-projects/singapore-corporate-awards-2018/building-trust-the-dbs-way>

Laver, N. (n.d.). The roles and duties of shareholders. In Brief. Retrieved from <https://www.inbrief.co.uk/company-law/shareholder-roles-duties/>

Lewis, D. (2009, April 6). Nongovernmental Organizations, Definition and History. Semantics Scholar. Retrieved from <https://pdfs.semanticscholar.org/5b42/5f2c896991e5ab7fce43ccd1fb9b9c1bf439.pdf>

Lewis, D. (2003, September). Theorizing the organization and management of non-governmental development organizations. Research Gate. Retrieved from https://www.researchgate.net/publication/247517585_Theorizing_the_organization_and_management_of_non-governmental_development_organizations

Legitimacy Theory Definition. (n.d.). Venture Line. Retrieved from <https://www.ventureline.com/accounting-glossary/L/legitimacy-theory-definition/>

List of Relief Organisations. (n.d.). Global Corps. Retrieved from <http://www.globalcorps.com/jobs/ngolist.pdf>

Maclean, R. (2017, November 3). Red Cross 'outraged' over pilfering of Ebola aid millions by its own staff. The Guardian. Retrieved from <https://www.theguardian.com/global-development/2017/nov/03/red-cross-outraged-over-pilfering-of-ebola-aid-millions-by-its-own-staff>

McVeigh, I. (2015, September 26). Volkswagen scandal: Bad governance is often a sign of trouble ahead. The Telegraph. Retrieved from <https://www.telegraph.co.uk/finance/comment/11893886/Volkswagen-scandal-Bad-governance-is-often-a-sign-of-trouble-ahead.html>

Murphy, A. (2019, May 15). GLOBAL 2000 The World's Largest Public Companies. Forbes. Retrieved from <https://www.forbes.com/global2000/#71cebc3c335d>

Nesbitt, H. (2014, September 10). How can NGOs meet the challenges of ethical spending?. The Guardian. Retrieved from <https://www.theguardian.com/global-development-professionals-network/2014/sep/10/sustainable-procurement-transparency-ngo-best-practice>

NGOs India: NGO Network of India - To Support NGO. (n.d.). NGOs India. Retrieved from <https://ngosindia.com/>

Public Company. (2012). The Free Dictionary. Retrieved from <https://financial-dictionary.thefreedictionary.com/Public+company>

Rouse, M. (2019, April). Corporate Governance. TechTarget. Retrieved from <https://searchfinancialsecurity.techtarget.com/definition/corporate-governance>

Risk-based Approach. (n.d.). Siemens. Retrieved from <https://w5.siemens.com/cms/supply-chain-management/en/sustainability/detection/risk-based/pages/approach.aspx>

Rubashkina, S. (2002, December 1). Why work for a non-profit? Alliance. Retrieved from <https://www.alliancemagazine.org/feature/why-work-for-a-non-profit/>

Section 9: Good Governance and NGO Performance. (n.d.) Retrieved from <https://www.icvanetwork.org/system/files/versions/Section%209%20new.pdf>

Shreeves, R. (2018, June 15). McDonald's to eliminate plastic straws in U.K. mnn. Retrieved from <https://www.mnn.com/lifestyle/recycling/blogs/mcdonalds-tests-paper-straws-uk>

Schultz, M. (n.d.). Governance Today. Retrieved from https://www.governancetoday.com/GT/Articles/The_foundations_of_good_governance_Part_3___Risk_management.aspx?WebsiteKey=0cf4306a-f91b-45d7-9ced-a97b5d6f6966

Suar, D. (2012, September). Transformational Leadership, Organizational Culture, Organizational Effectiveness, and Programme Outcomes in Non-Governmental Organizations. Research Gate. Retrieved from https://www.researchgate.net/publication/257672594_Transformational_Leadership_Organizational_Culture_Organizational_Effectiveness_and_Programme_Outcomes_in_Non-Governmental_Organizations

Muth, M.M. (2008, June 28). Stewardship Theory and Board Structure: A Contingency Approach. Wiley Online Library. Retrieved from <https://onlinelibrary.wiley.com/doi/pdf/10.1111/1467-8683.00076>

The rise and role of NGOs in sustainable development. (2013). BSD global. Retrieved from <https://www.iisd.org/business/ngo/roles.aspx>

The Proof: Happy Employees Drive Success. (2015, December 11). Corporate Rebels. Retrieved from <https://corporate-rebels.com/the-proof-happy-employees-drive-success/>

Transformational Leadership. (n.d.). Mind Tools. Retrieved from <https://www.mindtools.com/pages/article/transformational-leadership.htm>

Thrandardottir, E. (2015, March 19). NGO Legitimacy: Four Models. Informa UK. Retrieved from <https://www.tandfonline.com/doi/abs/10.1080/00344893.2015.1023102?journalCode=rrp20>

Top 20 NGOs World. (2019). NGO Advisor. Retrieved from <https://www.ngoadvisor.net/top-20>

Types of Charities. (n.d.). Top Nonprofits. Retrieved from <https://topnonprofits.com/contact/>

38 NGOs Dedicated to Improve Education. (2017, December 28). Raptim. Retrieved from <https://www.raptim.org/38-ngos-dedicated-improve-education/>

What Is A Public Company? Definition And Meaning. (n.d.) Market Business News. Retrieved from <https://marketbusinessnews.com/financial-glossary/public-company/>

What Is the Nature of Business? (n.d.). Reference. Retrieved from <https://www.reference.com/business-finance/nature-business-372673bbec5000ed>

What Is Stockholder? (n.d.). Business Dictionary. Retrieved from <http://www.businessdictionary.com/definition/stockholder.html>

What We Do? (n.d.). CloudHead. Retrieved from <http://cloudhead.org/what-do-we-do/>

Whittaker, M. (2017, June 12). 10 of the Best-Managed Public Companies. U.S. News. Retrieved from <https://money.usnews.com/investing/articles/2017-06-12/10-of-the-best-managed-public-companies>

World NGO Day 2019 Toolkit. (2019). Retrieved from <https://worldngoday.org/toolkit2019.pdf>



Second runner up

From left to right: Wong Hoi Keung, Lo Kin Kwan and Lai Hoi Shan

The Hong Kong Polytechnic University, Bachelor of Business Administration (Honours)
in Accountancy

Introductio

Corporate governance (CG) has been well developed. However, there is still room for improvement regarding the governance of Non-Governmental Organisations (NGOs). As the nature of NGOs is fundamentally different from that of public companies, the question is to what extent well-established CG practices can be adopted by NGOs. This study first discusses the closeness and disparities between CG and governance for NGOs, then suggests measures to enhance the effectiveness and efficiency of the governance process for NGOs.

Definitions

NGOs are a form of association that are usually

non-profit-making, operating independently from the government, and aim at serving the community interest as their priority. By comparison, public companies are organisations that aim at making profits and maximising the profit for their shareholders (Willets, 2002). When evaluating the value of different public companies, shareholders or management use different standards to monitor their performance. One of the major indicators that the public uses when evaluating firms' performance is corporate governance.

Corporate governance is about how a firm is controlled and directed by an internal framework consisting of rules, practices and processes in order to manage the relationship with all its stakeholders, such as employees, customers, government and the

community (Love & Klapper, 2002). Effective corporate governance helps a company achieve its business objectives by making improvements in management quality and working efficiency (Council, 2007). People usually apply the term 'corporate governance' to public companies for performance measurement. This term might apply to NGOs for the same purpose. It means that although some characteristics of NGOs differ from those of public companies, most of the time the governance approach used in public companies could still apply to NGOs with the intention of attaining better working efficiency. These governance practices encompass clear organisational strategies, disciplinary measures, transparency and regular performance evaluation.

Similarities

1) Clear Organisational Strategies

Clear organisational strategies help employees align the company's objectives and values with their own. Clear strategies and objectives are the starting point of good corporate governance as these can reduce information misunderstanding (Best, de Valence & Langston, 2007). There is research agreeing that a consistent direction concerning the company's future development could produce a tremendous improvement in employee performance (O'Reilly, Caldwell, Chatman, Lapiz & Self, 2010). This means that when employees have a clear understanding of a company's future objectives, they could link the company's target back to their daily work and eventually figure out how valuable their work is. This raises their job satisfaction and drives the workers to work harder. Thus, their working quality will improve.

While this theory has justified its power in public companies, it could also apply to NGOs and could even bring a greater effect. The rationale behind is that while staff in public companies work for remuneration, most NGO employees work on a voluntary basis (Fee & Gray, 2013). As a consequence, the meaning of work seems to be a more vital incentive in deciding whether to work in NGOs. The

power of a clear organisational strategy can be seen via the success of the Blind People's Association (BPA), an NGO based in Ahmedabad working in the field of blindness. In this case, the NGO has not collapsed under huge pressure from expansion since it has had a clear strategy allowing employees' goals to be associated with that of the NGO (Shukla, 2016). The story shows that a clear organisational strategy might help workers form a stronger bonding and better team work by having a consistent goal, which is doubtless a good practice for the development of NGOs.

2) Disciplinary Measures

After public companies have established clear organisational strategies, the next step to consider is implementation. Public companies without reasonable and acceptable disciplinary measures find it impossible to achieve effective corporate governance as employees' implementation performance is not under supervision (Salas, Goodwin & Burke, 2008). Based on research from Denis and Kruse (2000), when disciplinary events happen, the control of managers declines significantly. If disciplinary policies which form a system of rewards and penalties are absent from public companies, it is difficult to alert employees not to make mistakes and it is also unfair to employees who have behaved properly. As a result, well-behaved employees would show dissatisfaction with such a bad working environment. Eventually, this would probably result in low work motivation and even result in emotional problems due to unfair treatment.

Discipline is also necessary for NGOs in pursuit of higher rates of employee commitment. Staff in NGOs, especially at the entry-level, usually work on a part-time schedule that is more flexible and allows them to continue their full-time jobs. As part-time members usually consume less time in NGOs compared to full-time members, without disciplinary measures acting as guidelines there might be chaos in the NGOs when the part-timers are less familiar with the rules. To prevent this from happening, NGOs should have adequate practices

to foster responsibility in their members (Irawanto, Ramsey, Rochman & Rosita, 2016). In such a way, disciplinary measures can have a positive influence on employees' commitment toward their organisations. It could improve employee performance and satisfaction in all probability.

3) Similarity in Transparency

Another notable point in the implementation stage relevant to effective governance is transparency, which builds trust and maintains relationships with stakeholders both internally and externally. Governance with transparency helps a company minimise or even eradicate corruption. According to Hood and Heald (2006), transparency refers to the availability of information to the public and clarification about decisions and regulations. In other words, transparency encourages information exposure to citizens while not making discretionary decisions. Information disclosure to the public could be beneficial to a company's management in two major ways. On one hand, the public acts as a detector to monitor the companies' operation. It might find out faults or mistakes and subsequently alert the company when doubtful decisions are made. On the other hand, the function for allowing the public to get access to information is through public opinion, which helps companies achieve effective governance by building up mutual trust and respect with the public so as to maintain a good relationship with society.

The major sources of funds for most NGOs are public donations and government funding, and these directly influence the NGOs' operations and success. This implies the huge importance of maintaining good relationships with citizens and the government. NGOs with undesirable governance practices and which do not disclose adequate information to the public may suffer from penalties or have added restrictions by the government (Agati, 2006). Moreover, NGOs classified as low transparency and having corruption issues seem more likely to face the problem of a vigorous decline in funding because the general public

would have less confidence in them. For instance, the bad news about corruption of donation funding for the Red Cross in China illustrates how inadequate disclosure can lead to a sharp decrease in reputation (Hong Kong Economic Journal, 2018). A lack of organisational reputation may also weaken the governing power of the management board within the NGOs as the workers may also lack confidence towards their leaders. Hence, their governing capability would become inefficient.

4) Regular Performance Evaluation

Regular performance evaluations allow public companies to find out weaknesses in the current governance policy and to make improvements when necessary. Globalisation accelerates changes over the world. However, in the fast-changing environment, the current policy or operational procedure might become out-of-date. Incompatible policies might not function well or be suitable for solving problems in the new era (Dunning, 2002). Hence, problems arise in different projects and stack up in companies, resulting in inefficient governance. To wrestle with this problem, regular performance evaluations done by both ordinary workers and managers help public companies discover and focus on any non-functioning matters. Findings in the Journal by Outa and Waweru (2016) point out that evaluation is positively and significantly related to firm performance. It stands to reason that evaluation through different levels allows companies to have a better understanding of their strengths and weakness, which is conducive to achieving better governance.

Conducting different types of evaluation is also crucial for NGOs as their performance can never be directly measured by profit, due to the fact that the operational objective for NGOs is serving the community, which is hard to measure quantitatively. Thus, it is hard to establish an direction for improvement that can help companies achieve efficient governance. Setting up different criteria for performance evaluation can solve this problem. Besides, from financial perspective, there are a

variety of indicators which can be adopted in performance evaluation, such as collaborative ability. As the performance of an NGO has a positive link with collaboration in this fast-changing world, collaborative ability could be used as one of the evaluation criteria for NGOs (Mitchell, O'Leary & Gerard, 2015). If the evaluation of NGOs shows that the collaborative ability of the organisations is low, it alerts the NGOs to strengthen this ability through training of their members and active collaboration between organisations and communities. The governance power of NGOs increases when they can detect and address this problem.

Differences

1) Source(s) of Capital & Financial Sustainability [Non-Profit-Making Nature]

It is well known that nearly all commercial enterprises aim to maximise their profits (Ählström, 2010). To pursue their goal, they might conduct a series of business activities. However, in principle, they all capture revenue from their clients by selling and providing different services and products at prices which are higher than their costs. During a recession, the demand for some commercial products decreases (Pope, 2009). In light of this, related businesses might curtail significantly the scale of operations to balance market demand and production costs (Lazear & Spletzer, 2012). For instance, they may reduce their production levels and hire fewer workers. As a result, although their sale figures decline, their bottom line might have less fluctuation.

Unlike commercial enterprises, NGOs show the opposite story. NGOs are mainly not-for-profit organisations (Willettts, 2002). They rely on government grants and public donations to survive (The Hong Kong Institute of Chartered Secretaries [HKICS], 2017). This implies that there is a potential financial crisis for NGOs. It is suggested that people become more conservative in donating money during times of economic hardship (Meer, Miller & Wulfsberg, 2017). This matches with the results of research conducted by Reich and Wimer in the US (2012). They found that donation amounts in the

US dropped by more than 6% in both 2017 and 2018 because of the economic downturn. This could be fatal to NGOs as recessions are often their peak seasons. Generally, the worse the economic situation, the higher demand for NGOs' services (HKICS, 2017). This might be explained by the fact that some workers might be released from their position as the production lines are scaled-down (Lazear & Spletzer, 2012). Because people have less disposable income, they might seek help from NGOs, making the demand for NGOs' services increase significantly. For example, according to research conducted in South Africa during the economic downturn in 2009, the usage of community services like library services rose significantly (Mnkeni-Saurombe, 2010). This would doubtless create a financial burden for service providers as demand was increasing but the resources allocated were declining. Therefore, NGOs face a completely different financial situation compared to that of commercial enterprises.

The non-profit-making characteristic of NGOs makes them less flexible. As discussed above, commercial enterprises may scale down their operational sizes during an economic recession. However, NGOs cannot. Worse, they need to provide even more resources to the needy even though they have lower income than before. In other words, NGOs lack the flexibility to scale-up or scale-down. This makes financial management even more important in NGOs than in commercial businesses. If they cannot reserve adequate monetary resources in ordinary times, they are unlikely to be sustainable during economic hardship. Therefore, the non-profit-making characteristic of NGOs requires them to have a more secure financial management system.

2) Employment & Deployment [Not Shareholder-Owned Characteristic]

Commercial enterprises are shareholder-owned, giving their employees incentives to act bona fide in the interest of the firms. A common belief is that major investors may control the company as any decisions of a corporation might affect their

economic benefits (Black & Kraakman, 1996). Therefore, investors have voting rights proportionate to their equity-ownership percentage of the firm as they are risk-suffering (CFA Institute, 2018). As a result, to encourage their employees to act bona fide to the benefits of the company, top management may sometimes receive equity-settled share-based payments (Ross, Westerfield, Jaffe, Lim, Tan & Wong, 2015). Some companies may give options to executives at a bargain price which is significantly lower than the market price. Besides that, officers may even receive bonuses which are tied to the financial performance or the stock value of the company. These kinds of measure might provide an economic incentive for employees to work hard as their dollar amounts are usually higher than their basic salary. For instance, Robert Kotick, CEO of Activision Blizzard, was earning a bonus which was three times higher than his original salary in 2012 (New York Times, 2013). Being stockholder-owned enables corporates to eliminate agency problem. Therefore, if employees of businesses are bona fide acting in the interest of firms maybe they are part owners.

However, NGOs are not shareholder-owned. Unlike corporates, NGOs are not owned by anyone. Therefore, employees have no primary incentives to act bona fide in the interest of their organisations. Senior management staff might have fewer reasons to work hard (HKICS, 2017). It may be because although their duties in NGOs are crucial to the underprivileged, they inevitably receive little rewards as NGOs have fewer financial resources to recruit people. They may work for no return as some positions in NGOs are on a voluntary basis. Capable individuals might not be willing to work in NGOs. In the long run, a lack of suitable talent to lead an organisation reduces its competitiveness (McCauley & Wakefield, 2006). NGOs may thus lose the opportunity to develop and to serve more people in need. Ultimately, NGOs might not be sustainable in the new era. Therefore, not being stockholder-owned is one of the features of NGOs that may hinder their development.

As NGOs are non-shareholder-owned, they are at a

disadvantage in recruiting talented personnel. NGOs generally find it more difficult to hire suitable candidates for their positions. Meanwhile, general commercial enterprises find it easier to recruit the people they want. Moreover, because companies can offer their equity, directors have stronger economic incentives to work hard and act for the benefit of the organisation. This helps businesses grow faster and stronger. However, NGOs cannot enjoy these advantages and they need an effective measure to attract more talent to work for the community.

3) Level of Transparency [Social & Environmental Outcomes Focus Feature]

Transparency is important for corporates. As discussed previously, being transparent to shareholders is essential for the effectiveness of a sound corporate governance system in business settings. Indeed, building up a healthy relationship between potential customers and the company is crucial as well. Practitioners and scholars generally believe maintaining a good relationship with customers increases sales (Crosby, Evans & Cowles, 1990). As examined above, the ultimate goal for all commercial enterprises is to increase their profit. It seems that relationship management is important to them as well. To be more precise, the question businesses are facing is how to enhance bonding. According to research covering various industries, a strong correlation is found between the perceived transparency level and the perceived value (Eskildsen & Kristensen, 2007). In other words, it is presumed that the higher the degree of perceived value of customers, the higher the level of customer satisfaction. Meanwhile, customer satisfaction is highly related to customer loyalty and eventually the profitability of a firm (Heskett, Jones, Loveman, Sasser & Schlesinger, 2008). Therefore, being transparent to stakeholders is material to commercial enterprises. Yet, to what extent information should be disclosed to outsiders remains a question.

Considering NGOs, information transparency is important as well. As discussed previously, the financing mechanism of NGOs is inflexible and

passive. NGOs mainly rely on support from governments, huge economic groups and the general public. Burger & Owens believe that donors would find it very difficult to monitor NGOs' behaviour if NGOs are reluctant to disclose their information (2010). To avoid losing faith from donors, NGOs might need to eliminate the situation of asymmetric information. That is to say, NGOs should provide full and accurate data to their stakeholders. Besides this, NGOs should be held to a higher standard of integrity, according to contract failure theory (Hansmann, 1980). This is because traditionally NGOs are less regulated by the government (Burger & Owens, 2010) and some studies have suggested that the free-rider problem might happen in monitoring NGOs (Olken, 2007). Without independent third-party monitoring, NGOs might need a tighter self-regulatory mechanism. Disclosing data to the general public might help NGOs keep alert to their behaviour. Therefore, having some degree of information transparency is important for the internal auditing and management of NGOs.

Although both commercial enterprises, as well as NGOs, might need to disclose their information to the public, the degrees of disclosure are different. Companies' decision-making processes may involve a myriad of commercial secrets (Levy, 2007) sensitive to their stock price or affecting their future strategic development. It would not be appropriate to disclose them. Therefore, the management of for-profit firms need to strike for the balance between being transparent to the general public and safeguarding the interests of the company. Meanwhile, consumers might observe companies' performance and reflect their disagreement with the company by purchasing products from the company's competitors. This would act as an automatic mechanism to alert for-profit firms to their acts (Burger & Owens, 2010). This helps to further enhance the internal management of commercial businesses.

However, for not-for-profit NGOs, the above statements do not apply. As the outcomes of major

NGOs are concerned with social or environmental issues, there are fewer direct service recipients. As such, the above customer-driven self-monitoring mechanism does not exist (Burger & Owens, 2010). That is to say, there is no incentive for NGOs to consider the dilemma between their working integrity and services delivered. NGOs will not be punished by their service recipients when they are not doing well. No assumptions should be made that all staff in NGOs will behave well, as if they have a strong commitment to serve the society and environment. After all, they are all human beings. Not only altruism is the nature of being human; also egoism is the essence of men. Some scholars even suggest that people are more likely to benefit themselves than helping others (Slote, 1964). Considering that NGOs have fewer automatic mechanisms to be self-regulated, NGOs should be transparent to a larger extent than public companies.

Recommendations

1) Developing an Operating Reserve Policy

In light of the non-profit-making nature of NGOs, an operating reserve policy should be well-established for the sake of their survivability when economic recession strikes. As pointed out by Samy (2018), reserves play an important role in NGO governance because they can safeguard operations by providing emergency capital when needed, without contravening the non-profit making substratum by downsizing the scale of production. On the other hand, after the financial crisis 2008 caused a multitude of under-capitalised organisations to close down, funders nowadays tend to donate money to organisations which are financially stable and have proper management of funds (Foley, 2016a). Hence, having an operating reserve policy could enhance funders' confidence to donate money at times of economic hardship. In addition, it provides greater flexibility to make strategic moves such as to gain discounts from bulk purchases (Funds-for-NGOs, n.d.). Under this line of thinking, higher confidence and flexibility could reflect the importance of having a standardised reserve regulation. Nevertheless, for approximately 3,400 NGOs operating in the US,

half of them had less than or equal to three months of unrestricted cash as operating reserve capital, and nearly 10% had less than one month's cash to hand (Nonprofit Finance Fund, 2018). This probably shows that the NGOs might easily go bankrupt when they face an economic shock.

With this in mind, some regulations relating to managing reserves should be written into NGOs' policies. Foley (2016b), an experience consultant in non-profit financial management, suggests that a generic operating reserve ratio of at least 25% of annual operating expenses might be referenced by policy makers as such a ratio could provide enough money for operating when there is a short-term crisis. It is notable that the ratio could be adjusted according to a list of revenue volatility factors and spending flexibility factors. As for revenue volatility factors, policy makers have to consider whether donations from primary sources are stable; whether the NGOs rely on grants to provide services; whether the NGOs are dependent on a few donors; and whether negative publicity adversely affects the current or future income (Foley, 2016b). The rule provides that the less reliable and regular the income is, the higher the reserve ratio could be. For instance, due to a scandal in which seven staff members of Oxfam Great Britain used prostitutes in Haiti in 2010, Oxfam Hong Kong lost over 700 local donors in about ten days – people who altogether had donated more than HK\$1.1 million per year to the organisation (Su, 2018). This piece of news provides the significant insight that Oxfam should have a higher reserve ratio because of the sudden drop in donations induced by the negative publicity. For spending flexibility factors, NGO leaders should consider whether economic or environmental events would affect demand for services; whether there are obligations to labour unions; whether there are obligations resulting from funding commitments made for longer than one year; and whether they carry a huge amount of unsecured debt (Foley, 2016b). This mechanism tells that the less controlling power the NGOs have over spending, the higher the recommended reserve ratio.

Besides, more specific rules should also be written down in the policy. Firstly, in order to sustain the optimal service level, NGOs should set their operating reserve not exceeding an amount of two years' budget (Propel Nonprofits, 2018). Secondly, NGOs should disclose the amount, staff in charge, and future planning of reserve to the general public as organisations with low transparency are likely to suffer from penalties or an increase in restrictions from the government (Agati, 2006). Under these specifications, NGOs could be more financially sustainable while holding proper levels of transparency as they could be more likely to get grants from the government. Ultimately, this could lead to a sustaining delivery of positive outcomes to the community.

2) Refining Human Resources Management (HRM)

Due to the non-shareholder-owned characteristic of NGOs, inevitable challenges of little economic incentives for employees to work hard and the difficulty of retaining talents are all possible challenges for NGOs. In the hope of wrestling with these problems, it seems to be high time for NGOs to rebuild their internal management with respect to human resources. According to Brewster and Lee (2006), in an in-depth study which interviewed over 60 international NGOs such as the Roman Catholic Church and the International Committee of the Red Cross, it was found that most of the NGOs do not put many resources into HRM while concentrating more seriously on their main campaigns. This is possibly because NGO leaders regard HRM as a matter diverting resources from beneficiaries to internal staff. Nonetheless, a halt should be put to this myth as HRM could ameliorate the employees' productivity and thus improve NGOs' performance.

Considering the reality that many NGOs have a lower capacity to allocate an enormous amount of financial resources to boost employees' productivity or willingness to work, constructing a conducive working culture for staff might be one of the cost-effective approaches.

Dantanarayana (2014) notes that if leaders provide an environment in which subordinates could contribute their best, creativity and innovation would probably emerge. A common form of the best contribution could be free expression and the permitted application of staff's own ideas. By such means, employees would have the freedom to show their talents in favour of the NGO's development, and hence innovative outcomes could arise. This might justify the productivity of employees being stabilised without tangible incentives. Moreover, Batti (2014) demonstrates that a strong NGO culture is needed because it could be a critical foundation for motivation and commitment among the staff. When a powerful and cohesive organisational culture comes to existence, core values can be widely shared. As a result, employees can have a greater sense of belonging, and thus there is a greater chance of staff retention.

Apart from shaping a positive organisational culture, a more concrete and measurable approach which could be introduced is the allotment of affordable incentives. As explained by Céline Foireau, General Secretary of WWF France, the younger generation nowadays tends to seek a job that adds meaning to their lives and might help them understand the socio-economic environment, instead of taking a meaningless job with high salary (Sodexo Group, 2018). According to a study in the US, millennials would take a pay cut of US\$7,600 in return for a better quality of work life, for instance, work-life balance and career development (Fidelity, 2016). This might possibly bring a significant message to NGOs that providing other incentives conducive to employees' quality of life could be a feasible substitute for the monetary one. For example, NGOs could consider offering workers flexible working time, on-site childcare, meal provisions, fitness memberships and career training opportunities (Ohara, 2018). It is believed that these incentives are not as costly as economic incentives and NGOs could adjust the options of these actions according to their financial position, so it might lower their staff turnover rate.

In a bid to shape better governance for NGOs, such benefits could even be set as conditional, which means that they could become rewards under certain circumstances. When employees perform well, NGOs could reward them as positive reinforcement. Otherwise, the organisation might refuse or delay the reward as negative reinforcement. Aside from this, in order to further utilise the advantage of public company governance, the incentives might also be offered when the employees attain remarkable achievements in their regular performance evaluation. With these finesses, the NGO staff could have other incentives to work diligently.

3) Formulating a Donor Reporting System

As mentioned above, if low transparency leads to unethical conduct by NGO staff, donors are likely to lose their faith into the NGO. To take this into consideration, NGOs are strongly recommended to set up a system responsible for reporting their internal conditions to donors. The most popular types of reports disseminated to donors include the annual report and endowment report. The annual report provides the big picture of an NGO's activities and financial condition for a fiscal year. Particularly, when writing the report, an NGO should disclose its audited financial statements regarding the financial position, profit of loss, change in equity as well as cash flow (Association of Advancement Services Professionals, 2017). In addition, higher transparency should also be complemented with higher accountability (Kolstad & Wiig, 2009). This means that if the NGO defines punishments and practices as effective monitoring, raising transparency by forming a donor reporting system could lower the risk of corruption and inform donors about the use of donations. As a result, donors' confidence could be increased.

Additionally, some donors might decide to grant NGOs endowed funds for specific purposes, such as scholarships, programme-supporting funds and building funds. What's more, in order to make the funds financially sustainable, some investment

activities could be undertaken (Schroeder, 2016). With regards to raising transparency, NGOs should also produce annual endowment reports for each fund to send to the respective funder. The report should include outcomes that the NGO has used the fund to generate. At the same time, it should also disclose the gain or loss of the endowed fund from investment activities. Besides, NGOs should not forget to provide a donor survey in receiving donor feedback in relation to the utilisation of the charitable gifts and satisfaction about the transparency of the fund uses (Association of Advancement Services Professionals, 2017). After all, the reports should show donors that the NGOs have used their gifts for the purposes specified, and hence they can help retain donors' trust.

Conclusion

To sum up, this investigation has discovered some notable similarities and differences between public companies and NGOs as to governance issues. Similarities include having a clear organisational strategy, disciplinary measures, transparency and regular performance evaluation. These are usually adopted by public companies are good applications that NGOs could take as reference to form their governance structure. Hence, to a large extent the governance policies, practices and processes of

public companies can and should be applied within the NGO sector.

On the other hand, the nature of being non-profit making, not shareholder-owned and focusing on social and environmental outcomes might hinder NGOs from attaining a satisfactory level of financial sustainability and talent retention. For these reasons, as well as a greater need to focus on organisational reputation, NGOs require a different type of governance.

To take the concerns into account, it is high time for NGOs to formulate an operating reserve policy in pursuit of higher financial sustainability. Furthermore, the human resource management should be ameliorated by building an open culture and providing alternative incentives to retain competent employees. Besides, it is high time for NGOs to establish a donor reporting system in order to raise transparency and thus donors' confidence.

With the utilisation of advantages of public company governance and further refinement, it is hoped that NGOs could triumph over adversity and the study of corporate governance could gain more serious scrutiny from the public.

References

- Agati, M. (2006). Undermining Standards of Good Governance: Egypt's NGO Law and Its Impact on the Transparency and Accountability of CSOs. *Int'l J. Not-for-Profit L.*, 9, 56.
- Ählström, J. (2010). Corporate response to CSO criticism: Decoupling the corporate responsibility discourse from business practice. *Corporate Social Responsibility and Environmental Management*, 17(2), 70-80.
- Association of Advancement Services Professionals. (2017). Best Practices in Donor Reporting. Retrieved from www.advserv.org/
- Batti, R.C. (2014). Human resource management challenges facing local NGOs. *Science Publishing Group*, 2(4). Retrieved from www.sciencepublishinggroup.com/home/index
- Best, R., de Valence, G., & Langston, C. (2007). Strategic management. In *Workplace Strategies and Facilities Management* (pp. 91-102). Routledge.
- Black, B. & Kraakman, R. (1996). A Self-Enforcing Model of Corporate Law. *Harvard Law Review*, 109, 1911-2122.

- Brewster, C., & Lee, S. (2006). The success of NGOs hinges on their people-but HR is neglected in the sector (human resources management in non-governmental organizations). *People Management*, 12(6), 44.
- Burger, R. & Owens, T. (2010). Promoting Transparency in the NGO Sector: Examining the Availability and Reliability of Self-Reported Data. *World Development*, 38(9), 1263-1277.
- CFA Institute. (2018, August). Dual-class Shares: The Good, the Bad, and the Ugly A Review of the Debate Surrounding Dual-Class Shares and Their Emergence in Asia Pacific. Retrieved June 25, 2019, from CFA Institute: www.cfainstitute.org/-/media/documents/survey/apac-dual-class-shares-survey-report.ashx
- Council, A. C. G. (2007). Corporate governance principles and recommendations.
- Crosby, L, Evans, K., & Cowles, D. (1990). Relationship Quality in Services Selling: An Interpersonal Influence Perspective. *Journal of Marketing*, 54(3), 68-81.
- Dantanarayana, I. (2014). Global best practices in HR. The Sunday Times online. Retrieved from www.thetimes.co.uk/
- Denis, D. J., & Kruse, T. A. (2000). Managerial discipline and corporate restructuring following performance declines. *Journal of Financial Economics*, 55(3), 391-424.
- Dunning, J. H. (2002). Regions, globalization, and the knowledge-based economy. Oxford University Press.
- Eskildsen, J., & Kristensen, K. (2007). Customer Satisfaction – The Role of Transparency. *Total Quality Management & Business Excellence*, 18(1-2), 39-47.
- Fee, A., & Gray, S. J. (2013). Transformational learning experiences of international development volunteers in the Asia-Pacific: The case of a multinational NGO. *Journal of World Business*, 48(2), 196-208.
- Fidelity. (2016). Better Quality Of Work Life Is Worth A \$7,600 Pay Cut For Millennials. Retrieved from www.fidelity.com/hk/en
- Foley, B. (2016a). 5 Cases for Building Nonprofit Operating Reserves. Retrieved from <https://npengage.com/>
- Foley, B. (2016b). How To Develop Your Nonprofit Operating Reserves. Retrieved from <https://npengage.com/>
- Funds-for-NGOs. (n.d.). The Great Debate: Non-Profits and Financial Reserves. Retrieved from www.fundsforngos.org/
- Hansmann, H. (1980). The Role of Nonprofit Enterprise. *Yale Law Journal*, 89(5), 835-901.
- Heskett, J. L., Jones, T. O., Loveman, G. W., Sasser, W. E. Jr. & Schlesinger, L. A. (2008). Putting the service-profit chain to work. (The Best of HBR) (Reprint). *Harvard Business Review*, 86(7 8), 118-129.
- Hong Kong Economic Journal. (2018, September 21). Red cross corruption incident, Charity should start its revoulution. Retrieved from <https://forum.hkej.com/node/153839-%E7%B4%85%E6%9C%83%E5%8F%88%E7%88%86%E8%B2%AA%E8%85%90%E9%86%9C%E8%81%9E-%E6%85%88%E5%96%84%E6%A9%9F%E6%A7%8B%E5%BF%85%E9%A0%88%E6%94%B9%E9%9D%A9>
- Hood, C., & Heald, D. (2006). Transparency: The key to better governance? (Vol. 135). Oxford University Press for The British Academy.
- Irawanto, D. W., Ramsey, P. L., Rochman, F., & Rosita, N. H. (2016). Good Governance Perception: Enhancing Paternalistic Leadership Action and Employee Commitment. *Research Journal of Business Management*, 10, 44-50.
- Kolstad, I., & Wiig, A. (2009). Is Transparency the Key to Reducing Corruption in Resource-Rich Countries? *World Development*, 37(3), 521-532.
- Lazear, E. P., & Spletzer, J. R. (2012). Hiring, churn, and the business cycle. *American Economic Review*, 102(3), 575-579.
- Levy, G. (2007). Decision Making in Committees: Transparency, Reputation, and Voting Rules. *The American Economic Review*, 97(1), 150-168.
- Love, I., & Klapper, L. F. (2002). Corporate governance, investor protection, and performance in emerging markets. The World Bank.
- McCauley, C. & Wakefield, M. (2006). Talent management in the 21st century: How to help your company find, develop, and keep its strongest workers. *The Journal for Quality and Participation*, 29(4), 4-7,39.
- Meer, J., Miller, D., & Wulfsberg, E. (2017). The Great Recession and charitable giving. *Applied Economics Letters*, 24(21), 1542-1549.
- Mitchell, G. E., O'Leary, R., & Gerard, C. (2015). Collaboration and performance: Perspectives from public managers and NGO leaders. *Public Performance & Management Review*, 38(4), 684-716.
- Mnkeni-Saurombe, N. (2010). Impact of the 2009 economic recession on public / community library services in South Africa: Perceptions of librarians from the Metropolitan Municipality of Tshwane. 28(1), 89-105.
- New York Times. (2013, June 29). Executive Pay by the Numbers. Retrieved July 28, 2019, from <https://archive.nytimes.com/www.nytimes.com/interactive/2013/06/30/business/executive-compensation-tables.html>
- Nonprofit Finance Fund. (2018). State of the Nonprofit Sector Survey. Retrieved from <https://nff.org/>

- O'Reilly, C. A., Caldwell, D. F., Chatman, J. A., Lapid, M., & Self, W. (2010). How leadership matters: The effects of leaders' alignment on strategy implementation. *The Leadership Quarterly*, 21(1), 104-113.
- Ohara, B. (2018). How to 4 ways for non-profits to attract and retain top talents. Retrieved from <https://knowhow.ncvo.org.uk/>
- Olken, B. (2007). Monitoring Corruption: Evidence from a Field Experiment in Indonesia. *Journal of Political Economy*, 115(2), 200-249.
- Outa, E. R., & Waweru, N. M. (2016). Corporate governance guidelines compliance and firm financial performance: Kenya listed companies. *Managerial Auditing Journal*, 31(8/9), 891-914.
- Pope, R. (2009). Consumption and Demand. *American Journal of Agricultural Economics*, 91(5), 1176-1186.
- Propel Nonprofits (2018). Nonprofit Operating Reserves and Policy Examples. Retrieved from www.propelnonprofits.org/
- Reich, R., & Wimer, C. (2012). Charitable giving and the Great Recession. Palo Alto, California: The Russell Sage Foundation and the Stanford Center on Poverty and Inequality.
- Ross, S., Westerfield, R., Jaffe, J., Lim, J., Tan, R., & Wong, H. (2015). *Corporate Finance (Asia global ed.)*. Singapore: McGraw-Hill Education (Asia).
- Salas, E., Goodwin, G. F., & Burke, C. S. (2008). *Team effectiveness in complex organizations: Cross-disciplinary perspectives and approaches*. Routledge.
- Samy, D. (2018). Reserve and financial sustainability [PowerPoint slides]. Retrieved from www.hkicpa.org.hk/en
- Schroeder, T. (2016). Share a Yearly Endowment Report. *Major Gifts Report*, 18(8), 4.
- Shukla, K. (2016). Charity to Parity: New Dimensions of NGO Management. *South Asian Journal of Management*, 23(4), 208.
- Slote, M. (1964). An Empirical Basis for Psychological Egoism. *The Journal of Philosophy*, 61(18), 530-537
- Sodexo Group. (2018). How can NGOs attract and retain top talent? Retrieved from www.sodexobenefits.com/
- Su, X.Q. (2018). "Oxfam Hong Kong loses 715 donors worth over HK\$1.1 million a year as prostitution scandal rocks charity's British arm". *South China Morning Post*. Retrieved from www.scmp.com/
- The Hong Kong Institute of Chartered Secretaries (2017). In an interview with CSJ, Chua Hoi Wai, Chief Executive, The Hong Kong Council of Social Service, discusses the challenges facing NGO boards in Hong Kong. *The Journal of The Hong Kong Institute of Chartered Secretaries*, 7, 12-15.
- Willetts, P. (2002). What is a non-governmental organisation?

Photo Gallery

The top six teams were invited to present their papers on 21 September 2019 and compete for the Best Presentation Award. The six final teams are:



Team 1

(From left to right)

Kwong Jasmine Nicole and Leung Yu Yan Ruby
City University of Hong Kong, Bachelor of Laws



Team 2

(From left to right)

Chan Pak Hay and Lee Ching Long
City University of Hong Kong, Bachelor of Laws and
Hong Kong Baptist University, Bachelor of Arts
(Honours) in English Language and Literature and
Bachelor of Education (Honours) in English
Language Teaching



Team 3

(From left to right)

Chang Kwok Ho, Wu Junlin and Poon Ling Shan
The Hang Seng University of Hong Kong, Bachelor
of Business Administration (Honours) – Banking
and Finance concentration, Bachelor of Business
Administration (Honours) – Accounting concentra-
tion and Bachelor of Business Administration
(Honours) – Banking and Finance concentration

Photo Gallery



Team 4

(From left to right)

Wong Hoi Keung, Lo Kin Kwan and Lai Hoi Shan

The Hong Kong Polytechnic University, Bachelor of Business Administration (Honours) in Accountancy



Team 5

(From left to right)

Ho Heily Hei Yin and Choi Hiu Tung

The Hong Kong University of Science and Technology, Bachelor of Business Administration in Management (Consulting Option) and Bachelor of Business Administration in Finance and Management



Team 6

Simran Sanjaybhai Kalathiyat

The Open University of Hong Kong, BBA in International Business

Awardees of Paper Writing Competition

Michael Ling, Member of Mainland China Focus Group, HKICS, and Deputy Company Secretary, CLP Holdings Limited, presenting certificates to the awardees of Paper Writing Competition 2019 in appreciation of their achievement.



(From left to right)

Chan Pak Hay and Lee Ching Long

City University of Hong Kong and Hong Kong Baptist University



(From left to right)

Choi Hiu Tung and Ho Heily Hei Yin

The Hong Kong University of Science and Technology



(From left to right)

Wong Hoi Keung, Lai Hoi Shan and Lo Kin Kwan

The Hong Kong Polytechnic University

Awardees of Paper Presentation Competition

Dr Eva Chan FCIS FCS(PE), Council member and Chairman of Education Committee, HKICS, and Head of Investor Relations, C C Land Holdings Limited, presenting the certificates to the awardees of Paper Presentation Competition 2019 in appreciation of their achievement.



Simran Sanjaybhai Kalathiya
The Open University of Hong Kong



(From left to right)
Ho Heily Hei Yin and Choi Hiu Tung
The Hong Kong University of Science and Technology



(From left to right)
Leung Yu Yan Ruby and Kwong Jasmine Nicole
City University of Hong Kong

Merit Certificates

Margaret Yan, Member of Technical Consultation Panel, HKICS, and Director – General Counsel & Company Secretary, Hang Lung Properties Limited, presenting the Merit Certificates to awardees of Paper Writing and Paper Presentation Competition.



Paper Writing Competition

(From left to right)

Kwong Jasmine Nicole and Leung Yu Yan Ruby
City University of Hong Kong



Paper Writing Competition

Simran Sanjaybhai Kalathiya
The Open University of Hong Kong



Paper Writing and Paper Presentation Competition

(From left to right)

Poon Ling Shan, Chang Kwok Ho and Wu Junlin
The Hang Seng University of Hong Kong

Merit Certificates



Paper Presentation Competition

(From left to right)

Lee Ching Long and Chan Pak Hay

Hong Kong Baptist University and City University of Hong Kong



Paper Presentation Competition

(From left to right)

Wong Hoi Keung, Lo Kin Kwan and Lai Hoi Shan

The Hong Kong Polytechnic University



Group photo of the participants, judges and guests

Samantha Suen FCIS FCS(PE), the Institute's Chief Executive, presenting the souvenirs to the judges of the Corporate Governance Paper Competition and Presentation Awards 2019 in appreciation of their support.



Panel judges

(From left to right)

Michael Ling, Member of Mainland China Focus Group, HKICS, and Deputy Company Secretary, CLP Holdings Limited

Dr Eva Chan FCIS FCS(PE), Council member and Chairman of Education Committee, HKICS, and Head of Investor Relations, C C Land Holdings Limited

Margaret Yan, Member of Technical Consultation Panel, HKICS, and Director – General Counsel & Company Secretary, Hang Lung Properties Limited

Acknowledgement

HKICS would like to thank the following individuals and organisations for their contributions to the Corporate Governance Paper Competition and Presentation Awards 2019.

(Names are in alphabetical order of surname)

Reviewers

1. Dr Derek Chan, Associate Dean (Undergraduate), Faculty of Business and Economics, The University of Hong Kong
2. Prof David Donald, Professor, Faculty of Law, The Chinese University of Hong Kong
3. David Lai, Former Lecturer, Department of Accounting, The Hong Kong University of Science and Technology
4. Carmen Lam FCIS FCS, Senior Lecturer, Lee Shau Kee School of Business and Administration, The Open University of Hong Kong
5. Prof Kevin Lam, Head, Department of Accountancy, The Hang Seng University of Hong Kong
6. Dr Claire Wilson, Assistant Academic Vice President, Head, Department of Law and Business, Hong Kong Shue Yan University
7. Aileen Wong ACIS ACS, Lecturer, Caritas Institute of Higher Education
8. Dr Raymond Wong, Associate Dean (Undergraduate Programmes), College of Business, City University of Hong Kong
9. Dr Davy Wu, Senior Lecturer, Department of Accountancy and Law, Hong Kong Baptist University
10. Dr KP Yuen ACIS ACS, Senior Teaching Fellow, School of Accounting and Finance, The Hong Kong Polytechnic University

Papers Panel Judges

1. Loretta Chan FCIS FCS, Council member and Chairman of Professional Services Panel, HKICS, and Partner, Tax – Corporate Services, PricewaterhouseCoopers Limited
2. Joseph Mau FCIS FCS, Member of Company Secretaries Panel, HKICS, and Managing Director-Listing & Regulatory Affairs & Group Company Secretary, Hong Kong Exchanges and Clearing Limited
3. Paul Yeung, Senior Director and Commission Secretary, Securities and Futures Commission

Papers Presentation Judges

1. Dr Eva Chan FCIS FCS(PE), Council member and Chairman of Education Committee, HKICS, and Head of Investor Relations, C C Land Holdings Limited
2. Michael Ling, Member of Mainland China Focus Group, HKICS, and Deputy Company Secretary, CLP Holdings Limited
3. Margaret Yan, Member of Technical Consultation Panel, HKICS, and Director – General Counsel & Company Secretary, Hang Lung Properties Limited

Acknowledgement

Sponsors



公 司 註 冊 處
COMPANIES REGISTRY



SINO GROUP
信和集團

In associate with



LOOK
FORWARD

CUHK Business School
The Chinese University of Hong Kong

The Hong Kong Institute of Chartered Secretaries Foundation Limited
香港特許秘書基金有限公司

Venue Sponsor



Department of Accountancy

香港城市大學
City University of Hong Kong

DISCLAIMER

The copyright of this publication is owned by HKICS. This publication is intended for public dissemination and any reference thereto, or reproduction in whole or in part thereof, should be suitably acknowledged.

Chartered Secretaries. More than meets the eye.
特許秘書. 潛能. 超越所見.

The Hong Kong Institute of Chartered Secretaries 香港特許秘書公會
(Incorporated in Hong Kong with limited liability by guarantee)

Hong Kong Office

3/F, Hong Kong Diamond Exchange Building, 8 Duddell Street, Central, Hong Kong

Tel: (852) 2881 6177 Fax: (852) 2881 5050

Email: ask@hkics.org.hk Website: www.hkics.org.hk

Beijing Representative Office

Rm. 15A04, 15A/F, Dacheng Tower, No.127 Xuanwumen West Street

Xicheng District, Beijing, 100031, PRC

Tel: (8610) 6641 9368 Fax: (8610) 6641 9078

Email: bro@hkics.org.hk Website: www.hkics.org.cn

