

■ COMMENTARY

Is Huawei's rise due to its corporate governance style?

By Lawrence Loh

NEVER mind the new foldable Huawei Mate X; the ongoing Huawei corporate debacle is an unfolding saga that has taken the world by storm. It is a storybook thriller on the quest for technology supremacy coupled with charges of espionage and theft, and even more, intertwined with geopolitics and state relations.

Huawei started innocuously in 1987 as a low-profile company in Shenzhen with an initial capital injection of just RMB 21,000 by a former engineer in the People's Liberation Army of China, Ren Zhengfei. It has advanced so fast that it is today the world's largest telecommunications equipment provider and the second largest smartphone maker, having just overtaken Apple only months ago.

Today's Huawei boasts of being a global multinational, with revenue surpassing US\$100 billion, employing 180,000 people in more than 170 countries and equipped with 36 joint innovation centres and 14 R&D institutes and offices. It is purportedly the world's leading player in the upcoming 5G technology for telecommunications.

The current global spotlight was cast on the company when Meng Wanzhou, daughter of Ren as well as deputy chair and chief financial officer of Huawei, was arrested in Canada last December at the request of the US. Charges were made ranging from fraud to sanction violations, although no evidence has so far been made public; there hasn't been any verdict delivered by a court of law either.

HUAWEI'S GOVERNANCE

Beneath the multitude of allegations levelled at Huawei is perhaps something that often escapes the notice of the usual business person – its unique, even strange, corporate-governance

approach. As in any other company, shareholders play a pivotal role in Huawei. Its shareholders' meeting is the authoritative body making major decisions related to capital and profit distribution as well as the selection of members of key governing bodies – board of directors and members of the supervisory board.

Interestingly, the shareholders' meeting has only two shareholders – the union and Mr Ren. The union, in turn, conducts its work through a representatives' commission, which represents the rights of all shareholders. Currently, the commission lists a total of 49 members.

The board of directors functions, like in most companies, globally, and protects the interests of the shareholders as well as another category of stakeholders – the customers. The board has 17 members, with a chairman, four deputy chairs, three executive directors and nine directors.

Having a supervisory board is required under China's company law. In Huawei's case, the supervisory board has 10 members and oversees the board of directors, the company's operational and financial status as well as its internal control and legal compliance. Besides the chairman and four members, five in the supervisory board are designated "executive members".

Having dual boards of supervisors and directors is not unusual as it arises from the continental European model used, in particular, in Germany, and has now been adopted by Asian countries such as Indonesia.

But what we see in Huawei is a corporate governance network that is a departure from the widely used Anglo-American model and is probably like no other in the world, let alone China.

First, Huawei is a fully employee-owned, private company. All shareholders are employees although not all employees are shareholders. This is a most intriguing aspect. Employees

are supposedly hired by the management, and yet they constitute the shareholder body. So there is an apparent tautology in that employees are owners who also report to management on a day-to-day basis.

Second, Huawei has a most novel practice of rotating chairmen in the board of directors. Each rotating term lasts only six months. There are currently three directors designated as chairs, and the rotation schedules are fixed in advance. The six-month terms for the period from April last year till March 2023 are already known. In essence, there may be an apparent challenge in viewing the chairman as a leader versus a caretaker.

Third, while Huawei has distinctive bodies of governance, there are high membership overlaps. The chairs of the board of directors and supervisory board are also members of the representatives' commission. Likewise, members of both these boards can be in the commission as well. Technically, this should not be a problem as the boards are supposed to represent the shareholders. However, the interlock needs a good separation of roles and viewpoints.

Fourth and perhaps most significantly, there is a central figure, CEO and founder Mr Ren, in all the governing bodies of Huawei, except the supervisory board. He is one of the two shareholders. He also sits on the representatives' commission as well the board of directors (but is not classified as an executive director).

Having iconic leaders in large companies who are founders is not new. In the US, we have legendary CEOs like Bill Gates and the late Steve Jobs who have concurrently served as chairman.

Thus, the case of Mr Ren playing both executive and governing roles in a multitude of organs is not unusual. Perhaps it may be this convergence that has enabled Huawei to move in an un-

distracted direction at such breakneck speed over the years.

Beyond the open governance system of Huawei or Chinese companies in general, there is another constituent that plays a crucial role – the Communist Party. In an interview this February, Mr Ren reportedly confirmed that there is a Communist Party in Huawei, as is the law for all companies operating in China, whether foreign or domestic. It is naturally important that the governing bodies exist in harmony with the party establishment.

PERFORMANCE

Indeed, Huawei's corporate governance model seems to be vindicated by its business performance, even if there are suspicions of undue external influences. The financial results have been most formidable. In the latest five years, the compound annual growth rates for revenue and operating profit were a formidable 26 per cent and 18 per cent respectively.

Huawei's case is a classic exemplification of the tension in corporate governance – the balance between purpose and pragmatism. While the starting point of the Anglo-American model is independence and control, Huawei seems to put the end point of performance first.

There is probably no absolute correct method of corporate governance, but Huawei seems to defy the critics. It is writing its own success story in its Chinese way, maybe called the "Hua Way".

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