

## VIEWS

# Dysfunctional boards: practical takeaways for directors

BY LEE OOI KEONG



The recent boardroom tussle at City Developments (CDL) between executive chairman Kwok Leng Beng and his son, group CEO Sherman Kwok, has provided a rare public glimpse into the governance challenges faced by family-controlled companies.

Though the dispute has been resolved with both parties agreeing to continue in their respective roles, it offers valuable lessons for boards and directors, particularly those serving in family-controlled businesses.

This article examines how the episode impacted CDL's share price as well as how the market and analysts responded, and distills practical lessons for directors.

## Sequence of events and market impact

The CDL dispute began with a contested board appointment of two independent directors (IDs) and escalated rapidly into a public legal confrontation.

From the start of the dispute on Jan 28 until the withdrawal of the lawsuit by Leng Beng against Sherman on March 20, each step was closely tracked by the market, with CDL's share price performance diverging sharply from its sector peers (see Chart 1).

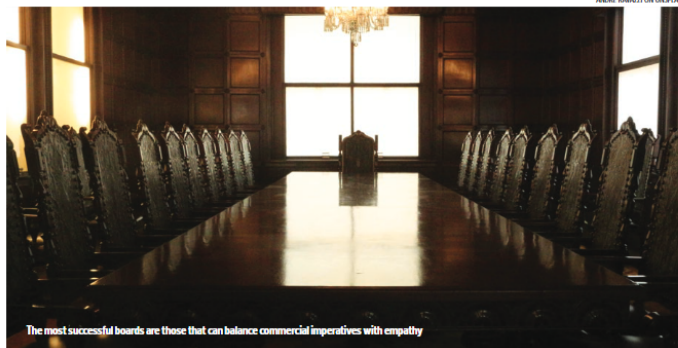
During this period, CDL's average trading volume was twice its average 30-day trading volume. Following a lawsuit by Leng Beng seeking the removal of Sherman as group CEO at the peak of the crisis, CDL's daily trading volume hit a high of 14.2x average trading volume on March 3, with its share plummeting ~7.0% to an intra-day low of \$4.76, a 16-year low.

On March 13, following the announcement that Leng Beng was withdrawing the lawsuit, CDL's share price jumped 4.7% intra-day before closing at \$5.09, essentially the same price level pre-crisis.

## Analysts' perspectives and target price changes

The market's scepticism about CDL's governance was mirrored in analyst downgrades and target price cuts:

- **DBS Group Research** cut its target price by 36% to \$6.70 (from \$10.50) citing "uncertainty about CDL's strategic direction in the near term". It widened its revalued net asset value discount to 60% from 45%, higher than the sector average of 50%.
- **UOB Kay Hian** downgraded the stock to "hold" (\$4.60 target), noting that "investor confidence may take time to recover".



- **OCBC Investment Research** lowered its fair value estimate to \$6.02 (from \$6.57) expecting "uncertainties over CDL's outlook and potential share price overhang until the boardroom tussle is resolved".
- **RHB Research** revised price targets down by 35% to \$4.75 (from \$7.30), citing "major lapses in board independence and governance issues".
- **JP Morgan** downgraded to "neutral" (\$4.85 target), highlighting "reputational damage outweighing fundamentals".

Peer companies saw no such analyst downgrades or target price cuts over the same period.

## Lessons for boards

### 1. Board disputes are a shareholder value liability

CDL's share price plunged to a 16-year low as the conflict escalated, while peers remained unaffected. The market's verdict was clear: public boardroom disputes, especially those relating to governance issues, are immediately penalised.

While CDL's price eventually recovered, other family-owned businesses have not been so fortunate.

Hong Kong-listed Sun Hung Kai Properties (13% drop in a day, US\$5 billion erased) and SJM Holdings (profit plunge, negative sentiment) experienced severe and immediate share price or market value losses. Yung Kee Restaurant's feud resulted in the complete loss of business value through liquidation.

A divided board means that the directors will be consumed by the internal dispute and be distracted from managing the business. Hence, most market investors would rather sell first and ask questions later.

**Takeaway:** Boards should always attempt to resolve matters internally before disputes escalate to formal board actions, litigation or spills into the public domain. Consider establishing board-level mediation protocols including engaging a neutral professional mediator to pre-empt escalation of conflicts, before disputes reach courts or media.

### 2. Shareholders are the ultimate stakeholders

When board disputes get contentious, directors must remember that they

are the agents of and appointed by shareholders. Having said that, the rules for board voting are distinct from shareholder voting.

Within the boardroom, each director typically has one vote, regardless of their shareholding or who nominated them. Most board decisions are made by a simple majority of directors present and voting at a duly convened meeting. The chair may have a casting vote in the event of a tie, but only if this is provided for in the constitution.

Majority shareholders cannot override board decisions at the board level simply by virtue of their shareholding without sufficient board representation. If the majority of the board votes for a course of action that the majority shareholder opposes, then the board's decision stands unless the matter is one that must be referred to shareholders under the law or the constitution.

However, shareholder voting is based on share ownership. Each share typically carries one vote, so shareholders with more shares have more voting power. At annual (AGM) or extraordinary general meetings (EGM), shareholders vote on matters reserved for them by law or the company's constitution. Also, majority shareholders have significant powers with the right to call an EGM to remove and replace directors.

**Takeaway:** Board disputes and disagreements are seldom resolved in

the courts as the ultimate stakeholders are the shareholders. Resorting to the uncertainties of the court process is almost always an act of last resort, where one party lacks sufficient board or shareholding votes to sway the decision.

### 3. Succession planning must be institutionalised

The episode highlighted the dangers of unplanned leadership transitions, especially in family businesses. Even in the best of times, intergenerational transfers of power in family businesses are difficult, further complicating board dynamics when interspersed with family issues. When there are no ratified succession plans, disagreement tends to escalate into litigation.

Family-owned businesses that faced boardroom disputes due to inadequate succession planning include:

- **Fasten Enterprises** — Despite being groomed for the top role, the CEO unilaterally retired his parents-founders from the business which led to his removal and lawsuits over director fees and alleged misuse of funds.
- **Yung Kee Restaurant** — The founder's death led to a family feud and decade-long legal battle over control of the holding company.
- **Tata Group** — There was a protracted legal battle between Tata Sons and the Mistry family after Cyrus Mistry was abruptly removed as chairman.

- **Sun Hung Kai Properties** — Boardroom infighting and high-profile corruption trial of Kwok brothers.
- **Samsung Group** — Succession crisis after patriarch's heart attack; legal battles and controversial merger to consolidate control.
- **Reliance Industries** — Bitter legal and public battles between the Ambani brothers over division of empire after father's death.

**Takeaway:** Without a meticulous, ratified succession plan, even a large, successful family business can be thrown into uncertainty, especially when multiple heirs are in contention and the business faces external challenges. The Singapore Institute of Directors recommends that boards initiate succession discussions five to 10 years before intended transitions.

### 4. "Influential insiders" undermine board authority

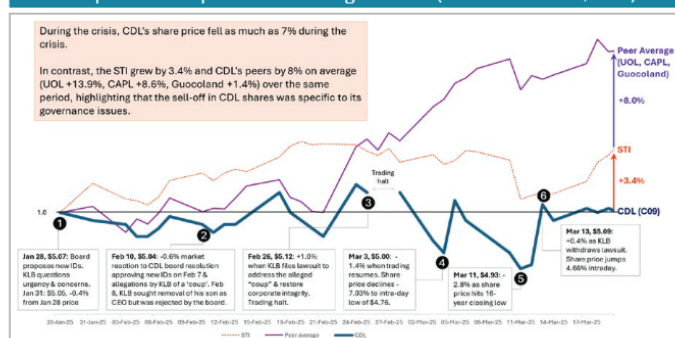
Allegations that an unpaid adviser in CDL was "interfering beyond her scope" exemplified the risks of unofficial but influential insiders. Any company with an unaccountable chain of command outside of formal governance channels will struggle to perform.

Family-owned companies with disputes involving influential insiders include:

- **Sun Hung Kai Properties** — Informal power structures with influential insiders influencing board decisions despite having no official role.
- **Yung Kee Restaurant** — Despite having no board role, the widow allegedly directed operations through loyal managers leading to a decade-long legal battle.
- **Tata Group** — Shifting power dynamics and influential insiders affected decisions.
- **Samsung Group** — Complex ownership and family influence over major business decisions.
- **SJM Holdings** — Multiple family factions and informal power structures.

**Takeaway:** As a matter of good governance, boards should insist on transparent and documented processes throughout the organisation. All

Chart 1: Impact on share price as the CDL saga unfolded (Jan 28 to March 20, 2025)



strategic advice and major decisions are channelled through formal governance structures, rather than being driven by informal advisers or “shadow directors”.

Additionally, formally request that all board and management decisions are properly documented in meeting minutes, including the rationale for any deviation from standard process. Dissenting views should also be recorded to protect your position and signal to stakeholders your commitment to fiduciary duty.

Lastly, if unofficial influence is suspected, ask for the origin of key proposals to be disclosed and documented. Where necessary, use the audit and risk committees to investigate, document and propose remedies for any lapses in governance protocols.

#### 5. Crisis communication is non-negotiable

CDL's four-day silence after the lawsuit filing exacerbated sell-offs. When unexpected events or crises occur, effective crisis communication becomes non-negotiable. It becomes imperative for boards to ensure that the right interpretation and messaging is conveyed to the media to avoid misperceptions.

Poor or non-existent communication creates a gap, which invariably leads to the media imposing their own version of the “truth”, which tends to sensationalise events and make things worse — all of which can be extremely damaging to share price performance.

Examples of family-owned businesses with poor communication include:

- **Yung Kee Restaurant** — Inconsistent and reactive communication throughout the dispute, with family members airing grievances in the media rather than presenting a unified front or providing stakeholders with clear updates.
- **Tata Group** — Poor communications dominated by legal proceedings and public allegations, damaging morale and reputation.

- **Samsung Group** — When succession disputes and lawsuits erupted in the Lee family, the company avoided open communication and public clarification which gave rise to media and investor speculation, undermining confidence in the group's stability and governance.
- **Reliance Industry** — Instead of coordinated statements or efforts to reassure stakeholders, both sides aired grievances through the press and legal filings. Inconsistent messaging and public mudslinging unsettled investors, distracted management and eroded the company's reputation.
- **SJM Holdings** — Public airing of disputes, lack of unified messaging, confusion among stakeholders led to confusion among employees, partners and investors, allowing rumours and negative perceptions to take hold, ultimately forcing the casino empire to split.

**Takeaway:** When disputes spill into the public domain, it is critical for boards to bring onboard experienced crisis communication specialists as soon as possible in order to proactively address investor concerns and mitigate impact on share price performance, even in the midst of legal proceedings.

#### 6. Substance over form

The recent debate over whether good corporate governance form has been observed misses the point.

Singapore's Code of Corporate Governance (CG) is a disclosure-based “comply or explain” regime, providing leeway for companies to deviate from strict adherence to corporate governance policies so long as they explain how their practices conform to the substance of the principles. While the CG Code is a useful best practice guide, it is not a regulatory requirement and does not carry the force of law.

While CDL did not strictly follow the letter of the Code in bypassing its nominating committee (NC) when

appointing the new IDs, its 2024 Corporate Governance Report details the extraordinary chain of events and explains its reasons for not going through the NC. The report also noted that all board directors, not just members of the NC, had been given the opportunity and were invited to interview the proposed candidates, as well as attend a Board meeting (on Feb 7) to deliberate on the election of the proposed IDs. While no vote was taken at the Feb 7 meeting, it was proposed (without objections) that a directors' resolution in writing be circulated to all directors in order to seek the definitive votes of the board on the appointments, following which approval was obtained from a majority of the board.

CDL's 2024 Corporate Governance report provides a more detailed discussion of the events behind the dispute. As it was signed off by all CDL board directors, one can reasonably assume that it provides an accurate accounting of what transpired. Under the CG code, it is then up to the individual shareholder to draw their own conclusions and act accordingly.

**Takeaway:** At the end of the day, boards are ultimately responsible for all that happens, not board committees. Directors should be mindful not to put form over substance when fulfilling their fiduciary duties.

#### Conclusion

At CDL's AGM on April 24, following robust discussion, the new IDs were voted in with over 99% shareholder approval. Post-AGM, CDL's share price returned to its pre-crisis level of \$5.05.

This episode highlighted how rapidly markets react to boardroom conflict and reinforced that governance must go beyond box-ticking. Directors today must focus on transparent processes, robust succession planning, and effective crisis communication to protect shareholder value.

Yet, governance is never purely clinical. As an independent observer with no shares or affiliation to CDL

and relying solely on public information, it is tempting to frame the saga as a straightforward case of market discipline at work.

However, boardrooms, particularly in family-controlled firms, are shaped by personal ties and emotional complexities that come with intergenerational leadership. These dynamics can amplify tensions, cloud judgment, and challenge even the most well-intentioned governance frameworks.

In the final analysis, the CDL episode is a cautionary tale for all boards, but especially for those in family businesses. While the preservation of shareholder value and the integrity of governance structures must remain paramount, directors should never lose sight of the human dimension.

When the dust settles, the true cost of boardroom battles may be measured not just in share price movements or analyst downgrades, but in fractured relationships and lost trust. Over the longer term, the most successful boards are those that can balance commercial imperatives with empathy, ensuring that in the pursuit of corporate victory, they do not lose sight of the ties that bind. ■

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## Similar challenges abound

CDL is by no means unique in its boardroom challenges. Other family-owned businesses also experience similar or even more challenging disputes.

- **Fasten Enterprises (Singapore, 2024–2025):** The CEO unilaterally retired his parent-founders, leading to his removal and replacement by his sister with lawsuits over director fees and alleged misuse of company funds.
- **Tata Group (India, 2016–2020):** Tata Sons' board, led by Ratan Tata, abruptly removed chairman Cyrus Mistry, triggering a protracted legal and public battle between the Tata and Mistry families.
- **Samsung Group (South Korea, 2014–2018):** Succession uncertainty after Lee Kun-hee's heart attack, with legal battles among his children and a controversial merger to cement Lee Jae-yong's control.
- **Sun Hung Kai Properties (Hong Kong, 2012–2014):** Sibling rivalry among the Kwok brothers over control of the company, culminating in Walter Kwok's ouster and a public corruption scandal involving Thomas and Raymond Kwok.
- **SJM Holdings (Macau, 2010–2017):** Succession battle among Stanley Ho's multiple wives and children over control of his casino empire.
- **Yung Kee Restaurant (Hong Kong, 2007–2016):** Family feud after founder's death, majority shareholder forced out brother, leading to a decade-long legal battle and winding up of the holding company.
- **Reliance Industries (India, 2002–2010):** Bitter feud between Mukesh and Anil Ambani over division of empire after father's death, legal and public battles. ■