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THE LEX COLUMN

Sparks at Marks

Even when times are good, companies rarely have justification for breaching corporate governance rules.

Marks and Spencer has failed to comply with not just one but two unequivocally stated principles of the UK's Combined Code on Corporate Governance. Not only has its chief executive, Sir Stuart Rose, stepped up to become chairman, but he will combine both roles until 2011. The board of M&S has failed to make a convincing case for this decision, which is likely to be challenged by shareholders at the retailer's annual meeting on Wednesday.

Sometimes, but only sometimes, there are good reasons to appoint an executive chairman. In an emergency, just one hand on the tiller – like Ron Sandler's at Northern Rock or Rod Kent's at Bradford & Bingley – may provide welcome reassurance. But flouting the Code generally suggests, at the very least, a lack of effective succession planning. And all too often it smacks of pandering to large egos. It is surely no coincidence that so many executive chairmen are to be found in the boardrooms of retail or media companies such as Viacom or ITV. While the benefits are difficult to quantify, violating good governance guidelines carries clear costs. When things go wrong, not abiding by them makes companies – and their share prices – unnecessarily vulnerable. The fortunes of Icelandic retailer Baugur, for example, are too closely tied to those of its executive chairman, Jón Ásgeir Jóhannesson.

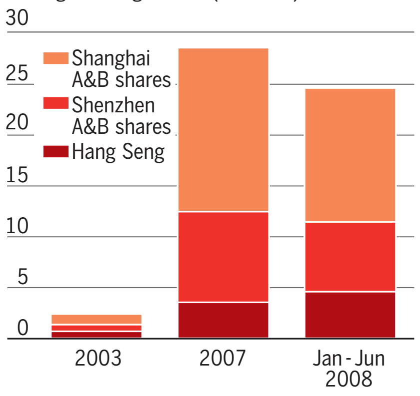
Separating the chairman and chief executive roles at M&S will not provide a quick fix to its problems. But historians argue persuasively that Europe lurched into the first world war partly because power was concentrated in one leader in Austria-Hungary, Germany and Russia. The carnage on the UK's high street is hardly comparable. But, try as it might to attribute its woes to the slowdown, M&S has only itself to blame for the criticism it faces.

Chinese stock cube

When Hong Kong was handed back in 1997, China became one country with two systems. And three stock markets: Hong Kong, Shanghai and Shenzhen.

Does it need all three? "Socialism with Chinese characteristics" has clearly created huge demand for equities. In spite of a halving of mainland share values over the past eight months, the three markets combined still account for 9.6 per cent of the world's total stock market capitalisation (unadjusted for free float). That is well behind the US, at 30 per cent, but puts it ahead of Japan, at 8.3 per cent.

Chinese and Hong Kong stock markets
Average trading values ($'000m)



Source: Thomson Datastream

The position of Hong Kong, a world-class financial centre with a century-old stock market, is assured. Were it not for China's relatively tight restrictions on capital movement, the territory would naturally dominate. Already about a third of the HK$10,600bn (US$826bn) capitalisation of the Hang Seng index is attached to mainland companies that have listed in Hong Kong. But while restrictions remain, China requires at least one mainland stock market.

Shanghai is recapturing its pre-revolutionary glamour as a financial centre, and is Beijing's favoured spot for multibillion-dollar flotations: some of the world's biggest companies – from ICBC to China Mobile to PetroChina – are all listed in Shanghai. By comparison, Shenzhen, the spiritual home of capitalism in communist China, is unloved. The former fishing village was singled out by Deng Xiaoping to be the first Special Economic Zone in 1979. But such favour from the regime's ruling bureaucrats has faded. Shenzhen's market cap, at Rmb3,430bn ($235bn) is a small fraction of the Rmb14,270bn in Shanghai. Shenzhen has tried several times to reinvent itself and is about to launch a new high-tech market for start-ups. But then so is Hong Kong.

Sustained only by Beijing's habit of central planning, it is hard to see a future for Shenzhen beyond further marginalisation. Allowing the two exchanges to compete for business would let the market decide.

Lessons from the Land

What can the world's biggest banks and mining companies learn from modest Land Securities (market capitalisation £5.5bn)? The UK real estate company plans to split into three listed units. Whereas the likes of UBS and BHP Billiton believe that scale and diversification matter, Land Securities thinks specialisation will create more value for shareholders.

Separating Land Securities' retail, London and outsourcing businesses makes sense. For a start, possible alternative strategies such as, say, shifting out of London office space and into retail parks, are costly. Investors can buy and sell quoted securities far more efficiently. Standalone entities also benefit from an acquisition currency and an appropriately tailored balance sheet. Finally, Land Securities argues that, assuming markets are inefficient, value creation would be better reflected in separate share prices.

Some of this logic applies to banks and miners. The revenue gains from running a wealth management business alongside an investment bank, for example, are limited. And in the mining sector, projects are often discrete and therefore not scalable. So investors attracted by HSBC's Asian operations are also lumbered with an underperforming investment bank. Some shareholders in mining companies may want higher payout ratios commensurate with more mature commodities; others may prefer their capital to be reinvested.

Still, there is a reason why banks went universal and miners diversified. While smoothing revenues does not create value in itself, banks often diversify because clients want them to. Subsequent cross-subsidisation also makes it tricky to untangle businesses (although that is no excuse not to do it). For the miners, size helps fund multibillion-dollar capex programmes and gives purchasing power. That said, BHP and Rio would still get a good deal on truck tyres if they were half the size.

Investors undervalue their component parts, banks and miners regularly complain. Perhaps they can learn from plucky Land Securities.

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BEST OF FT.COM

US slowdown goes global

ASK THE EXPERT
Professor Mauro Guillén
www.ft.com/guillen

Just when many emerging market companies were starting to flex their muscles on the global stage, developed economies suffered in the wake of the US subprime crisis and the credit crunch. Mauro Guillén, professor of international management at the Wharton School of the University of Pennsylvania, answered readers' questions. Here is an edited extract:

How successfully have Asian emerging economies decoupled themselves from the struggling western markets? Will rising domestic demand save them?
Sohaib Naim, Karachi, Pakistan

Professor Mauro Guillén: As you point out, emerging economies have developed more of a domestic market, not just for consumer goods but also for investment in equipment and in infrastructure. If consumer and business confidence does not fizzle, growth in emerging economies is likely to continue its upward trend.

Emerging economies are increasingly trading with each other, thus buffering themselves from the downturn in [developed] countries.

Although China is hugely dependent on the US market, it is less so today than a decade ago. Chinese exports to the other three Bric (Brazil, Russia, India and China) countries, for instance, have surged by more than 50 per cent from last year.

Another important factor is that prices for raw materials and energy are not likely to fall as a result of the downturn. This is due to surging demand from China, India and the Latin American economies.

Keep an eye on inflation, though. It could spoil the party.

Now Americans can't afford to buy made-in-China deer hides and other rubbish to clog up their garages, how much will this affect Asian exporters?
David Lyttle, New Zealand

MG: I agree that Americans have spent way too much on consumer durables and non-durables they did not need. What's worse, most have borrowed to indulge in such short-sighted behaviour. The decline of the dollar is mostly a reflection of the ballooning fiscal and trade deficits and the low savings rate.

Asian exporters will be affected by these developments, but one should keep in mind that, as their domestic consumer markets grow, they are increasingly selling to each other.

Having said that, a long and deep downturn in Europe and the US would hurt them, but not as much as, say, five or 10 years ago.

What will be the real impact of the slowdown on third world countries?
Jimmy, New York

MG: I do not believe third world countries are being hurt by the slowdown in the US and Europe. As long as emerging economies continue growing, demand for energy and raw materials will remain solid.

I see the problem in a different area, namely food prices. Increased demand from the rapidly growing emerging economies and wrong-headed biofuel policies have caused a quintupling in the price of some staples such as wheat, corn and beef. This, and not the slowdown, is devastating some of the poorest countries in the world.

Do you think the Sarbanes-Oxley legislation in the US and other such accounting procedures forcing companies to write down losses are more responsible for current problems than anything else?
Nitesh Bansal, India

MG: Sarbanes-Oxley has been (justifiably) blamed for inducing a number of problems, including the loss of global competitiveness of US financial markets and of corporate America in general.

Writing down losses in asset values, however, is a reasonable and highly desirable accounting practice prevalent around the world, which predates recent regulatory changes.

We are living through a crisis that is fundamentally one of declining confidence. If companies were able to carry assets on their balance sheets at the inflated values of the recent past, investor confidence would plummet. I would then fear a drastic drop in stock market turnover, further fuelling the liquidity problems afflicting the global economy.

If the banks have lost money somebody has gained in the transactions, so the wealth in the economy as a whole has not been destroyed. How is this creating a slowdown in the economy as a whole?
Bikramjit Bhawal, Italy

MG: Financial stability is important. It should be remembered that the credit crunch is a crisis of confidence, and it will be very difficult to rebuild. There have been "winners", to be sure, including those who shorted financial stocks, the buyers of certain securities at bargain prices.

But the pain being felt around the world is huge. Let us not forget that many people are losing their jobs, their homes, or both.

TODAY ON FT.COM

Moving up

The latest video lecture in the executive education series looks at how to make the transition to leadership
www.ft.com/insead

Is GM food the answer?

Q&A: Should leaders rethink bans on GM crops as the dramatic increase in global food prices threatens millions with starvation
www.ft.com/gmq&a

Week's most read

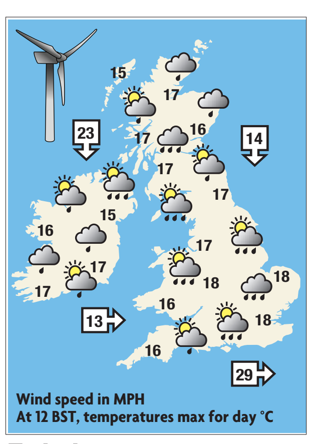
1. American, Iberia and BA plan joint deal
2. What we can do in this dangerous moment
3. 'Anti-China' groups threaten Olympics
4. Citigroup to overhaul bonus system
5. FT global 500 2008

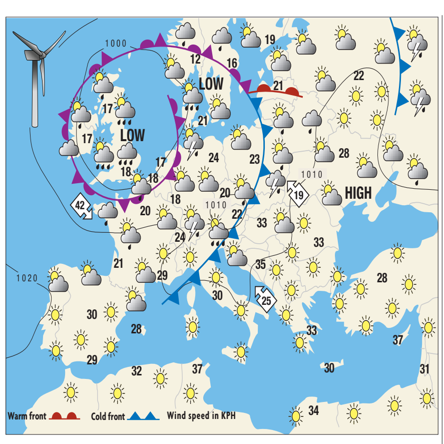
WEATHER

Britain and Ireland today
Much of Britain and Ireland will be cloudy and cool with showers, heavy and thundery in places. The afternoon should see some brighter weather. Western Ireland and north-west Scotland will have lighter showers.

Europe today
Parts of northern Europe and also the Alps will have showers. Much of southern Europe and the Mediterranean will be dry, sunny and very warm. North Spain and south-west France will be cloudier with the odd shower.

UK and Europe outlook
The UK will have showers tomorrow, mainly in the north and east. Rain will spread from the west on Wednesday, clearing to leave scattered showers for the rest of the week. Northern Europe will also be rather unsettled over the coming week with showers for a time, then more persistent rain. Southern Europe will remain mostly dry, sunny and very warm.



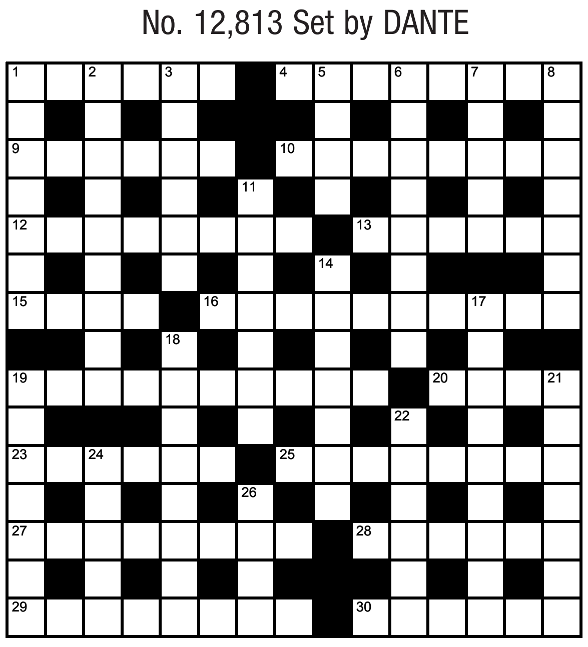


Today's temperature — Maximum for day °C & °F

Abu Dhabi	Sun	37	99
Amsterdam	Shower	17	63
Athens	Sun	33	91
B'ham	Shower	18	64
Bangkok	Thunder	31	88
Barcelona	Fair	25	77
Beijing	Rain	31	88
Belfast	Cloudy	16	61
Belgrade	Sun	35	95
Berlin	Fair	24	75
Bombay	Thunder	31	88
Brussels	Thunder	18	64
Budapest	Thunder	33	91
Buenos Aires	Drizzle	16	61
Cardiff	Shower	17	63
Chicago	Shower	29	85
Cologne	Shower	21	70
Copenhagen	Shower	21	70
Delhi	Thunder	32	90
Dubai	Sun	37	99
Dublin	Shower	17	63
Edinburgh	Shower	16	61
Frankfurt	Fair	24	75
Geneva	Sun	24	75
Glasgow	Cloudy	18	64
Hamburg	Shower	19	66
Helsinki	Fair	19	66
Hong Kong	Thunder	29	84
Istanbul	Sun	30	86
Jersey	Shower	17	63
Lisbon	Sun	25	77
London	Shower	18	64
Los Angeles	Sun	24	75
Luxembourg	Shower	18	64
Lyon	Sun	24	75
Madrid	Sun	30	86
Manchester	Shower	17	63
Miami	Thunder	31	88
Milan	Shower	28	82
Montreal	Sun	30	87
Moscow	Sun	22	72
Munich	Rain	19	66
New York	Cloudy	29	84
Nice	Sun	28	82
Paris	Shower	20	68
Prague	Fair	20	68
Reykjavik	Fair	18	64
Rio	Sun	24	75
Rome	Sun	30	86
San Francisco	Sun	22	71
Stockholm	Rain	16	61
Strasbourg	Fair	24	75
Sydney	Cloudy	18	64
Tokyo	Thunder	27	81
Toronto	Fair	31	88
Vancouver	Sun	21	70
Vienna	Thunder	22	72
Warsaw	Thunder	23	73
Washington	Shower	28	82
Zurich	Shower	22	72

Forecasts by MeteoGroup

MONDAY PRIZE CROSSWORD
No. 12,813 Set by DANTE

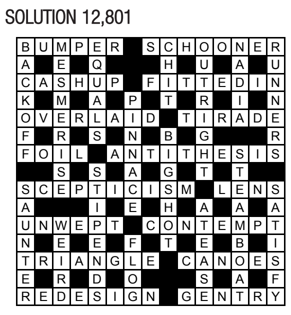


A prize of the Bloomsbury Concise English Dictionary, published by A&C Black, and the Good Word Guide by Martin Manser will be awarded for the first correct solution opened. Solutions by Wednesday July 16, marked Monday Prize Crossword 12,813 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 21.
NAME...
ADDRESS...

ACROSS
1 Hold and tie in knots (6)
4 Learn lines for speaking (8)
9 A broken romance (6)
10 Lack a little time (8)
12 Nowadays, treat it as comparable with plenty (8)
13 Milan university turning out graduates (6)
15 Corner disallowed (4)
16 Camping equipment leaking on the outside is alarming (10)
19 The sound of rats opting out of the race? (10)
20 Rudder made of hard wood (4)
23 Bill has little money, resulting in stress (6)
25 Story covering Frank's first time – time on earth (4,4)
27 Quaint description of the eastern hemisphere (3,5)
28 Code word for "S" is rare in use (6)
29 Under no obligation to observe established customs? (4,4)
30 A kiss, say, indicates an attachment (6)

DOWN
1 It's said wildly in a row, to show contempt (7)
2 Time for a waltz? (5-4)
3 Legendary vulture of soaring ambition (6)
5 Some darts pro cheats by overstepping this line (4)
6 About to turn evil, with deadly consequence (8)
7 Actual number in the kingdom (5)
8 Foes seem in confusion after battle finishes (7)
11 A prize for waste (7)
14 Representative – a good man, and popular (5-2)
17 Frank gets contract with unlimited resources (4,5)
18 Keep one's distance in an impasse (5-3)
19 Naval man, opposite to a landlady? (3,4)
21 It's crazy wearing hair that's artificial (3-4)
22 Plan to uplift soldiers in retreat (6)
24 Young trainee acted badly (5)
26 Unhappy choice of colour (4)

SOLUTION 12,801



The winner's name will be published in Weekend FT on July 19.