Associate Professor Bernard McKenna

Bernard is an expert on communication and helps find practical ways for companies and governments to engage with communities. He is currently developing a theory of wisdom that can be applied to management and leadership.

Associate Professor David Rooney

David is renowned internationally for his work in the field of knowledge management. He helps businesses and policy makers understand how they can improve performance and bring about positive change through knowledge, creativity and wisdom.

Dr Hannes Zacher

Hannes is a researcher from the UQ School of Psychology whose interests include engaging the ageing workforce, leadership and wisdom. He has studied employees in organisations of all sizes to understand factors relating to performance, successful leadership and business growth.

At the core of their work are the five attributes of wisdom. They believe wise leaders have:

- achieved equinimity, conduct themselves using an aesthetic, mindful way, act as skilled and ethical communicators, members of society and social activists;
- an openness to new ideas and experiences;
- a developed and practised predisposition to strive for excellence;
- an understanding of how and when to adapt to, or to alter, an environment, or to leave a toxic environment;
- empathetic and careful consideration and understanding of one's own needs and those of others.

Evidence shows that there is a correlation between openness to experiences and levels of wisdom throughout a person's lifecycle.

"The problem is that by the time we reach our mid-50s, people tend to become less open. They think they have worked life out, and shut down. They become less wise." It's not simply new experiences but reflecting on them that is an attribute of the wise. "This is where you develop wisdom," says Bernard McKenna.

"Some people can be wise in some aspects of their lives but make unwise judgements at work," Rooney adds. "Categorising someone as wise can be problematic."

"When you think about the economic, social and ecological environment we are facing, nothing is getting simpler," David Rooney says. "This is where you need wise leaders with the courage and the foresight to make decisions that play out for the best, for the long term. These are not always the easiest decisions to make."

> "We are drowning in information, while starving for wisdom. The world henceforth will be run by synthesizers, people able to put together the right information at the right time, think critically about it, and make important choices wisely."
>
> E. O. Wilson

The getting of business wisdom

In the aftermath of the global economic crisis, many are asking for a new philosophy of capitalism, that puts purpose beside profit.

Conscious capitalism was born in the United States in 2006 and has spread to Australia through movements like WakeUp Sydney. Its focus is a recognition that every business has a purpose beyond profit.

"Rather than seeing business as a tube (money in, money out)," says Jeff Klein, a trustee of Conscious Capitalism Inc, in an interview with *Forbes Magazine*, "we look at business as an ecosystem of interdependent interrelated stakeholders. For stakeholder management, the business has to produce profits over time, but that doesn't mean that's its sole purpose. For the business to be sustainable, flourish, and be resilient, it needs to focus on the whole rather than its parts."

The **Responsible capitalism** debate emerged out of post-financial-crisis Great Britain. The argument is that trust in the capitalist economic model has crashed following the US subprime crisis, and the behaviour of banks and regulators that contributed to a raft of risky, unethical, even illegal, behaviour.

Responsible capitalism says business must re-earn trust for capitalism to function. This "requires a change in attitude and behaviour among key players in the system," argues Britain's Secretary of State for Business, Innovation and Skills, Vince Cable. "It is only by responding to these concerns that we can restore trust in markets."

MONEY, MARKETS AND THE MIDDLE KINGDOM

It's close to a quarter of a century since the People's Republic of China embraced the symbol of the capitalist economy: the share market. UQ Business School's Caroline Chen says reforms over recent years are improving corporate governance and will have a knock on effect for investor confidence. But the playing field isn't quite level yet.

Since the 1990s, the Chinese equities market has expanded rapidly. At the start of 2013, the total market capitalisation was over $3.8 trillion, 2,494 companies were listed and the average daily turnover was $33 billion.

The Shanghai Stock Exchange is now the world's sixth largest, ahead of exchanges in Canada, Germany and Australia, and its second bourse, the Shenzen Stock Exchange, the fifteenth largest.

Does this mean small investors and foreigners can grab a slice of the Chinese economic miracle through the share market?

Not quite, it seems. Or at least not quite yet. Foreign investment into the market sits at just 1 to 2 per cent of market capitalisation, much lower than Western markets, thanks in part to restrictions on share investment by foreigners, but also, perhaps, due to a lack of interest.

Equity markets are not all made equal; there are limits on foreign investments, share ownerships are structured differently, and of course legacy models of State Owned Enterprises continue to impact corporate governance and transparency.

Caroline Chen

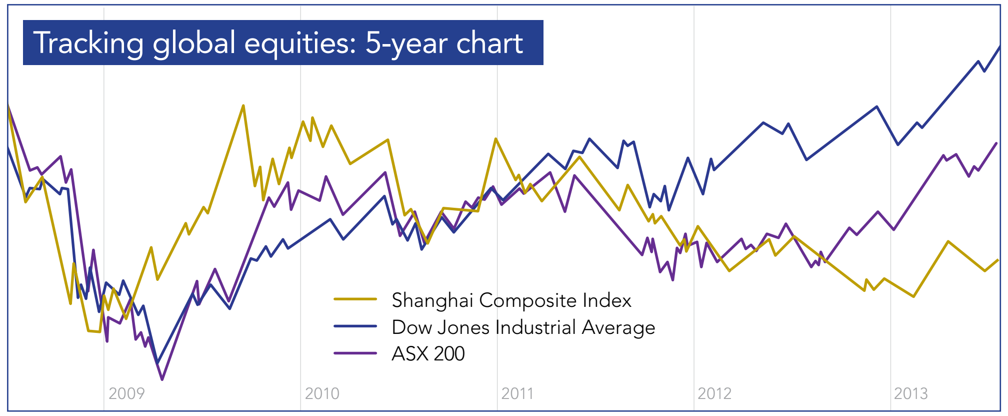
Caroline is an Associate Lecturer specialising in finance, accounting and actuarial studies. She is currently studying for a PhD and carrying out research into capital structures and equity offerings in China.

Small investors, wild rides

One difference in the Chinese market is the nature of shareholders. In Western markets, large investment funds set the tone and direction of trading. In the Chinese market, individuals with smaller holdings dominate – holding 85 per cent of the market by one estimate, compared to just 25 per cent in the US.

This changes market behaviour. "The market is more sentiment-driven and generally more short-term oriented," says David Cui, China Strategist at Bank of America Merrill Lynch in Shanghai. Stocks move sharply on rumour rather than fundamentals. Certainly, investors in the Chinese share market have had a wild ride. In 2007 speculative traders rushed into the market, pushing the benchmark Shanghai Composite Index to a record high of 6,124, only to have it plunge 65 per cent in the following months.

Does this make the stock analyst's job more difficult? Yes, but it also creates opportunities, says Cui. "If you are a more sophisticated investor obviously you can make money more easily by taking advantage of those short-term swings."



Whose company is it, anyway?

The key to any equity market is the link between ownership and control. Whoever owns the company, calls the shots. In the Western model, the shareholder is boss. When a company doesn't perform, the board can remove management. If the board isn't doing its job, shareholders can vote them out. This chain of command reassures investors that managers are working in shareholders' interests.

For investors in China, however, it's not so clear cut. Free market principles have been introduced, but the economy remains government-dominated. The majority of big cap stocks are state-owned enterprises, and it's the government that determines which companies can be listed on the stock exchange, not investor appetite.

The split share scheme

When a state owned enterprise listed on the stock market up until the mid-noughties, the shares were divided into two categories. About a third were tradable – freely available to be bought and sold on the market. The remaining two-thirds were held by the state or state-related entities, so the state had ultimate control.

This left the minority holders of tradable shares in an invidious position. They wanted to see their shares increase in value. But this did not necessarily chime with the needs of the majority shareholders (state-related entities) whose shares were non-tradable. No matter how much a stock rose, they could not sell or profit from them. Likewise, company management weren't concerned about share price, because they wouldn't benefit from any rises either.

The bureaucrats who ran the SOEs had other masters; the State-owned Assets Supervision and Administration Commission of the State Council (or SASAC) assessed their performance.

Another dynamic of share markets that keeps managers and directors responsive is merger and acquisition activity. With about two-thirds of the shares unavailable for sale, there was little threat of takeovers.

UQ Business School's Caroline Chen, who has examined the effect of the split share structure, says that a less liquid market created by the restrictions also opened the way for market manipulation and insider trading.

Time for reform

In 2005, the Chinese government took steps to address these structural problems. The goal was to remove the distinction between tradable and non-tradable shares, and build confidence in the equity market mechanism. Non-tradable shares were to be gradually released as tradable. Chen says the reform is a part of China's ongoing privatisation process. The block on the sale of non-tradable shares was essentially a block on the privatisation of SOEs, she says.

Reforms were introduced with care. To avoid the risk of flooding the market with newly tradable shares, companies were given 12 months to introduce the reforms, and were restricted after that on how quickly they sold their shares.

This was necessary because the SOEs had acquired their shareholdings cheaply – based on net assets – which meant the SOEs' large government shareholders could sell the shares on the market and still realise a large profit regardless of whether they caused the share prices to plunge.

Caroline Chen's research has examined how effective the reform has been at boosting governance and investor protection. Her goal was to understand whether the market reacted differently to capital raisings (when a company issues and sells more shares to raise cash) before and after the reforms were introduced.

She found that before the reforms, the market reacted negatively to seasoned equity offerings, and reacted positively after the reform.

However, when Chen delved deeper, she found that the market wasn't reacting more positively to seasoned equity offerings per se, but that they were reacting positively to the sort of companies now making offerings.

"The result implies that companies which are going to the share market to raise capital have changed," she says. "The reforms improved investor protection and corporate governance in China."

"Now these bureaucrats care about the share price because they might want to sell the shares in the future in the share market and if the share price is high that might benefit them politically."

5-year GDP growth

Despite China's impressive GDP growth rate over the past five years, the benchmark Shanghai Composite Index has languished at around a third of its 2007 high. By contrast, the US has seen only tepid growth, but the share market has roared back, surpassing its pre-crash peak.

Investment research house Morningstar found there was little correlation between Asia's economic growth and the performance of its share markets. This may be because investors have already priced in growth when buying stocks.

	China	US	Australia
2008	**9.6%**	0.4	3.8
2009	**9.2%**	3.5	1.4
2010	**10.4%**	3.0	2.3
2011	**9.2%**	1.7	1.9
2012	**7.8%**	2.2	3.1

Is now the time to invest?

While China has been moving to free up its economy and to privatise SOEs, it's far from being a free market economy, says Geoff Raby, who was Australia's Ambassador to China for four years to 2011 and now heads his own Beijing-based business advisory firm. "It's very heavily government controlled, regulated and dominated in every respect."

Raby says anything that makes directors and management more responsive to ordinary shareholder concerns will help improve corporate governance, but SOEs are still majority-owned by the state, and, "In a state owned enterprise, the most important body is still SASAC," he believes.

In fact, Raby says that in the five years since the global financial crisis there's been a strengthening of state control and the role of the state sector, as the state-owned banking sector clamped down on access to credit for smaller firms.

Bank of America Merrill Lynch's David Cui also isn't convinced that the split share reforms have resolved the governance challenges. "There's still a lot of scope for improvement," he says.

He notes that along with not answering to investors, most of the senior managers in SOEs don't own shares in the companies they're running, removing an incentive for good performance.

This is a factor for foreign investors thinking about investing in China, he says.

"From time-to-time, if the valuation is attractive, we do recommend direct exposure to A-shares," he says, in reference to listed domestic stocks. "Then you have to overlay corporate governance in the consideration of whether you want to buy foreign companies with a big exposure to China or you want to directly buy Chinese shares."

Either way, the outlook this year is not strong. Merrill Lynch expects China's domestic shares to fall about 10 per cent, because the government is likely to exert more control in the overheating property market and an increase of bad debts in the financial sector.