

The Chartered Institute of Management Accountants (CIMA) Annual Conference 2023

Why governance failed?

What is the role of accountants?

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What is good governance?

Major shareholder monitors to ensure alignment of interest between manager and the company (*Berle & Means 1932*)

Model	HK	US
Shareholding	Concentrated	Dispersed
Agency cost	Reduce	Increase
Performance	Increase	Reduce
Board	$\geq 1/3$ INED	Dominated by INED

INED-dominant board monitors to ensure alignment of interest between manager and the company (*Jensen & Meckling 1976*).

Model	HK	US
Shareholding	Concentrated	Dispersed
Agency problems	Increase	Reduce
Performance	Lower	Increase
Board	$\geq 1/3$ INED	Dominated by INED

No one size fit all model



To safeguard the interest of shareholders,
it is important to establish “**appropriate**”
corporate governance structures.
Otherwise, manager will expropriate,
and firm value may decline.

Why governance failed?

Waste Management Scandal (1998)
Enron Scandal (2001)
Tyco Scandal (2002)

WorldCom Scandal (2002)

HealthSouth Scandal (2002)

Freddie Mac Scandal (2003)

ALG Scandal (2005)

Lehman Brothers Scandal (2008)

Bernie Madoff Scandal (2008)

Satyam Scandal (2009)

Top 10 accounting scandal

Fake earnings

Hide debt, inflated earnings

CEO & CFO stole cash from the company

Fraudulent accounts

CEO inflated earnings to profit from ESOP

Intentional inflating earnings

Accounting fraud and stock price manipulation

Hidden loans disguised as sales

Biggest Ponzi scheme

Falsification of accounts



Why **good** people can do **bad** things?

Why **professional** becomes **unprofessional**?

The legal aspects of compliance (or obedience) are important.

But they don't explain how most people behave in concrete situations.



Why ordinary people do terrible things?

Purpose of Stanley Milgram's experiment

(Click [here](#) to view the below video)



Milgram Experiment (Click [here](#) to view the below video)



Why ordinary people do terrible things?

Humans tend to obey people in authority, even if they have to violate their own codes of moral and ethical behaviour.



"I was only following orders" 遵循命令



Obedience of authority

Bystander Effect 袖手旁觀

A phenomenon where individuals are less likely to help a victim when others (bystanders) are present.

Diffusion of responsibility
(someone else will help)

Social influence
(intervention is not necessary)





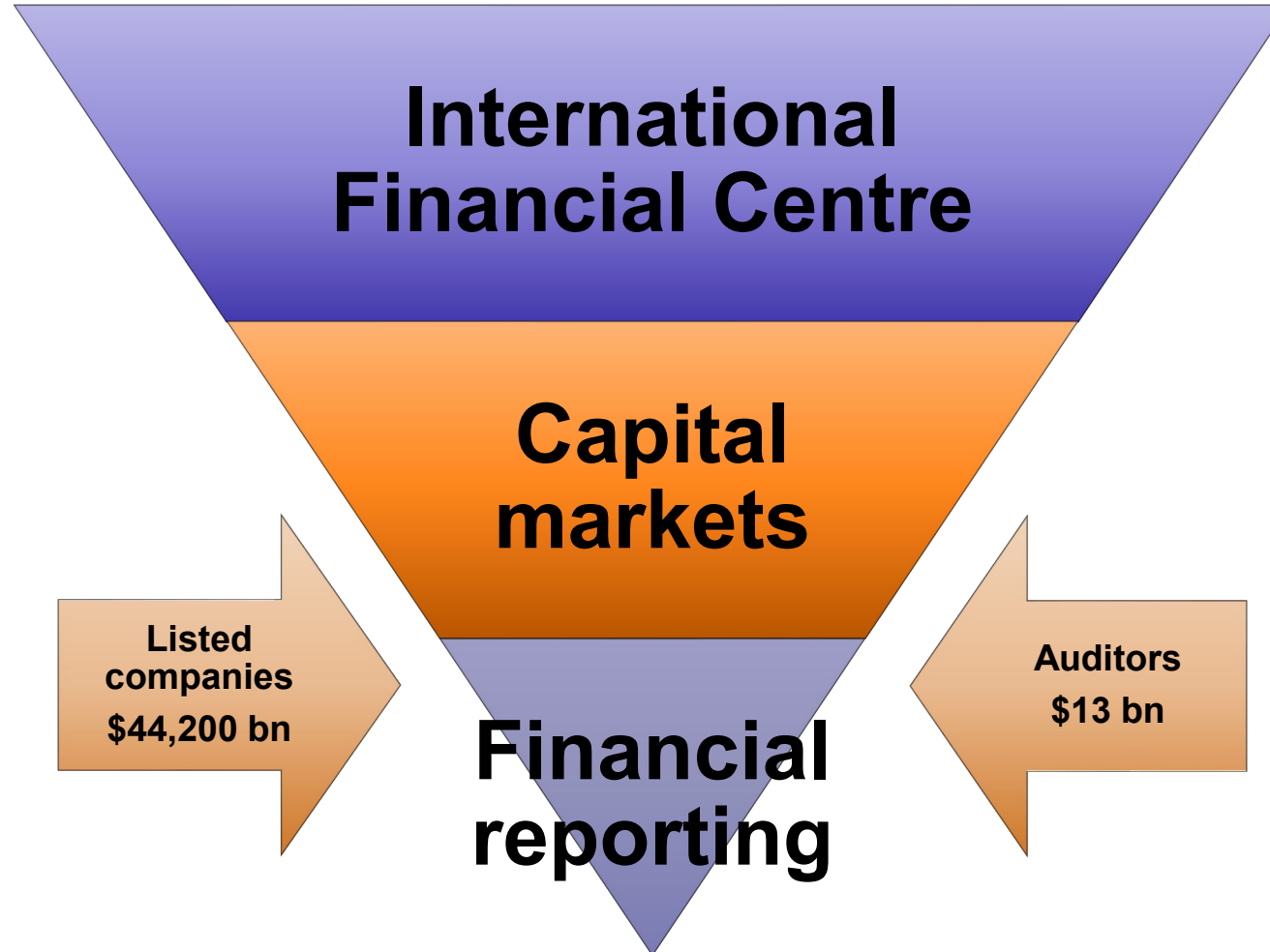
Tone from the top alone no longer work

- Traditional view: Ethical tone at the top is key to establishing an effective internal control environment

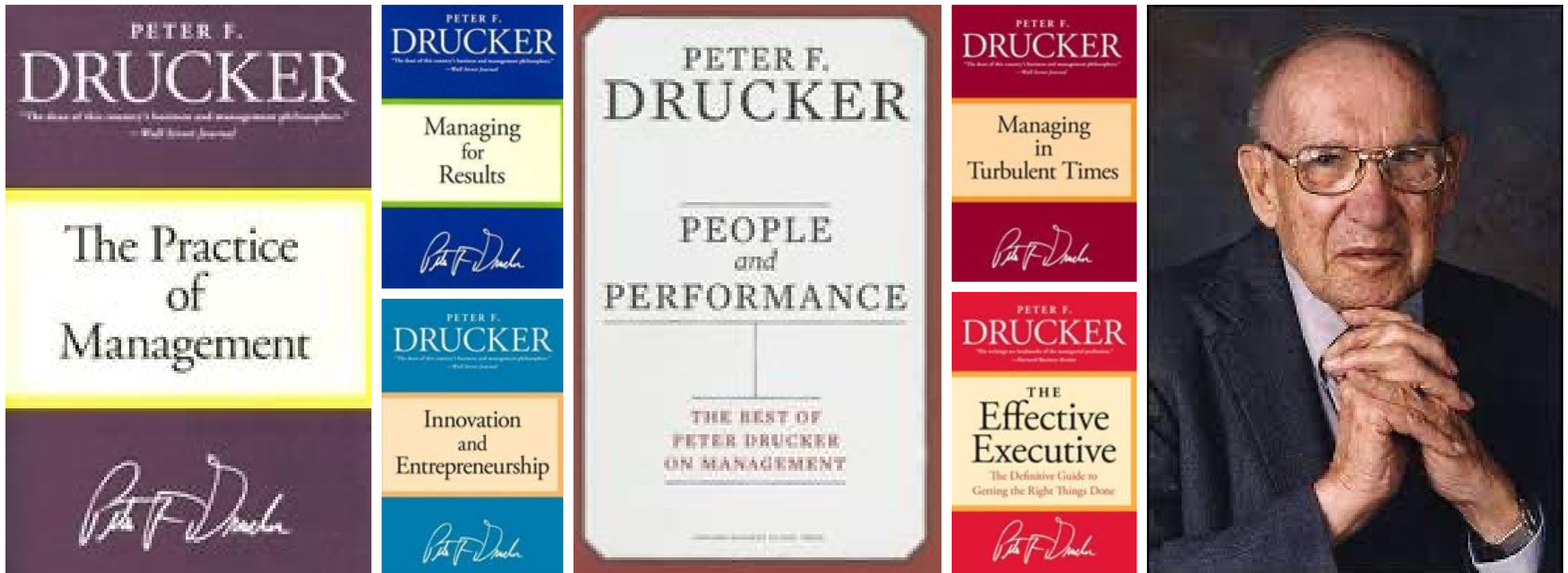
- New empirical view:
 - Junior staff will be more influenced by the tone of their supervising senior than the partner when these two individuals provide conflicting tones 近朱者赤, 近墨者黑
 - Junior staff made less ethical decisions as they were less likely to view the situation as an ethical dilemma when either the senior or partner exhibited low tone
 - Tone at the top alone is not sufficient to produce ethical decision
 - Firms must strive to foster a strong ethical tone throughout the entire organization, especially at lower levels

Roles of Accountants

Assure HK as a sustainable IFC



Orchestrate between effective board and efficient management team to ensure good performance



The Sum and Substance of an accountant

**Life is like a
piano, how well
is it depends on
how you play it!**

