

**“Ethics – The Core Value of Leadership” – 2007 Directors’ Forum  
(14 September 2007)**

**Speech by The Hon. Mrs. Laura Cha, GBS, JP,  
Chairman,  
Advisory Committee on Corruption**

Mr Tong, Mr Wardell, Distinguished Guests, Ladies and Gentlemen,

I am glad to be invited to address such a distinguished audience. Your presence here today demonstrates the importance you accord to the subject of ethical leadership.

In the corporate world, ethical leadership is the cornerstone of good corporate governance. My own belief in the importance of corporate governance is shaped in no small measure by my 14 years as a securities regulator in Hong Kong and in the Mainland. In the last few years, my belief in good corporate governance has been further strengthened by my experience as a director of listed companies both here and abroad.

Speaking from personal experience, I would stress that corporate governance must start with ethical personal governance. When one examines some of the recent cases of corporate fraud and corruption both internationally and locally, one would see that many of the companies involved all had governance rules in place. It was not a lack of internal rules or ignorance of the law, but the lack of ethics on the part of the persons who disregarded the rules and broke the law. Lack of ethics leads to a lack of respect for the law and the integrity of the system, and results in fraudulent behaviour such as false accounting and misappropriation of company funds, among other things. Such actions are detrimental to the company as well as to the investors. Indeed, the title of today’s conference describes it perfectly: ethics is the core value of leadership.

Most of us are familiar with the Chinese wisdom which says 修身、齊家、治國、平天下 (i.e. personal governance leads to better governance of your home, leading in turn to better governance of the nation and ultimately the reign over the world). Our Chinese wisdom infers that if we excel in personal governance, we are on the track to success at the next level. This also aptly applies to the management of a company which should start with the basics - personal governance. Many of you are directors and/or in the senior management of public companies. You are the leaders of your companies, and the basics of corporate governance starts with your personal governance and attitude towards how business should be conducted within your company and your company's interaction with the larger corporate world and society.

The corporate scandals in the last few years have focused investors' attention on corporate governance and prompted vigorous discussion of this important subject. New law was passed, and old rules tightened. While some of the corporate governance practices have been enshrined in rules and regulations, many aspects of this are in fact no more than the good practice of adherence to rules, abiding to law, following procedures, and having adequate checks and balance within the company. These principles and practices cannot all be codified. Ethics is more than just complying with the law, being unethical may not necessarily be illegal. The culture of ethical practice starts from the top, with the board of directors and senior management of a company setting the tone and establishing the core value of the company.

This brings me back to the foundation of corporate governance: i.e. personal governance, of which ethics is the key ingredient.

Let me perhaps spend a few minutes on the responsibilities of which directors like you in the practice of good corporate governance – here I use the term “director” to include both the executive directors and the independent non-executive directors, but obviously their roles are different in some areas.

✧ Directors should be aware of the operation of the company and the work of the management. Directors, especially the INED's, should ask probing questions to ensure that they get a full and accurate picture of the status of the company.

- ✧ Directors should demonstrate personal governance in both words and actions; they should lead by example, and perform their fiduciary duty with honesty and fairness. I have seen quite a few examples where the top management did not practice what they preached, and the staff lost respect for their leader, as well as the rules and internal structure which only applied to them but not their seniors. Talk the talk, walk the talk.
- ✧ Directors should concern themselves with the integrity of the staff and management of the company, and help develop an ethical culture to lead their company towards good corporate governance.

Mr Warren Buffett, the well-known investor, once remarked that “...in looking for people to hire, you look for three qualities – integrity, intelligence and energy. If they don’t have the first, the other two will kill you.” This aptly sums up the importance of ethics and integrity.

Let me now turn to the larger environment in which ethical standards and practices in the corporate world are most important: the capital market. We all know that the financial services sector is one of the four pillars of Hong Kong’s economy. We can be justifiably proud of the achievements that we have made in this area in the last decade. The soundness of our regulatory structure, the respect for the rule of law, the free flow of information, and a clean civil service, have contributed to our success and inspired the confidence of investors, both international, local as well as those from the Mainland. Hong Kong is not only attractive to investors but also to Mainland companies wishing to raise capital. The basis of such confidence is that the rules are clear and the market transparent, and the business environment largely ethical.

Hong Kong has tried hard in establishing ourselves as a quality market. The quality of a market comes from the quality of its regulatory structure, the quality of its products, i.e., the listed companies, and the quality of its professionals. The quality of listed companies is reflected in the quality of corporate governance. While the standard of corporate governance of our market is generally good, there is still room for improvement.

However, it is no secret that international investors have been critical of the corporate governance of some of the Mainland enterprises listed on our market. I might add, such criticism is equally applicable to some of our local companies. The Mainland authorities have been loud and clear about their view that they have a long way to go to bring corporate governance standards on the Mainland to international standards, and we have seen resolve in the various regulatory and institutional reforms in this direction in the last few years.

Ladies and gentlemen, as an international financial centre, Hong Kong is uniquely positioned to benefit from as well as contribute to the economic development of the Mainland. We have helped many State-owned enterprises raised capital internationally, and have attracted international institution investors to invest in the Mainland economy via Hong Kong. I would not hesitate to suggest that by raising the standard of corporate governance in our market, we are also helping to promote corporate governance standards on the Mainland.

To ensure that we have a continuing role as a conduit for Mainland companies and international capital and investors, it is of vital importance that we make every effort to preserve and strengthen our attributes described above. And judging from the enthusiastic reaction of Mainland investors upon the recent announcement of the policy allowing them to invest directly in the Hong Kong market, I would say we now have a new reason to ensure our market continues to uphold our standards.

In this regard, every stakeholder, including company directors like you, has an important role to play here. Not only are you responsible for ensuring your companies observe and conform to law and rules and regulations, you should also be committed to conduct ethical business practices, which give the best assurance for a level-playing field, the foundation of the “quality stamp” of our market.

Hong Kong is blessed with a strong civil society underpinned by professional bodies which uphold the professional standards of their constituents. They are valuable partners to the regulators and the ICAC in

promoting good corporate governance practices at the corporate level. With the opening of the Mainland market and the implementation of CEPA, Hong Kong professionals such as accountants, lawyers and company secretaries, are now able to operate and practice in the Mainland. Participating in the corporate sector of the Mainland would enable them to influence the corporate governance standards of their Mainland clients, and also influence their professional counterparts in meeting international standards.

In this connection, I note that the Hong Kong Ethics Development Centre of the ICAC has already forged strong alliance over the years with various professional bodies in promoting professional ethics. With a high standard of personal governance and professional practices, I am confident that our professionals can maintain their competitive edge in operating on the Mainland.

I have sometimes heard that ethical practices in fact put our professionals and businessmen at a disadvantage. However, for each horror story I heard of how Hong Kong businessmen were cheated on the Mainland, there are equal numbers of stories on the Mainland of how naïve and ignorant officials and investors were taken advantage of by unscrupulous Hong Kong businessmen and professionals. But I can assure you from my own working experience in the Mainland that government officials as well as the corporate sector in the Mainland do recognize and appreciate the distinction of ethical practices. With the continuous improvement of standards in the Mainland and the increased demands of Mainland investors on their own market, the tolerance for unethical practices has decreased.

Hong Kong businessmen are in a position to demonstrate to our Mainland counterparts their professionalism and dedication to ethical leadership. With more and more Hong Kong businessmen tapping into the enormous potentials of the Mainland market, corporate leaders in Hong Kong could meet the challenges of ethical leadership in the highly competitive market environment through the “4-Ts” efforts developed by the ICAC:

- **First, Tackle** all cross-border investments in accordance with legal provisions and announced economic policies. Do not rely blindly or solely on the so called “customary practices” in order to avoid disputes, as this may result in inadvertent violation of the anti-bribery laws;
- **Second, Take** positive actions to examine the risks and causes of corruption on the operational and management fronts; and formulate a comprehensive management system to provide clear guidance to staff on compliance;
- **Third, Train** your employees at all levels to enhance their ethical standards and cultivate an ethical culture in the company , and
- **Fourth, Take** firm action against any corrupt acts detected in order to send a clear message to all staff and business associates of your commitment to ethical governance.

I believe the above “4-Ts” efforts would be useful in creating an environment which enhances the integrity and reputation of the company , and also contribute to the growth of corporate governance standards both here and in the Mainland.

I may add, this Conference is indeed timely. Media articles today indicated that the Central Government has just established a new Prevention of Corruption Bureau. This is a strong signal of the determination of the Central Government to tackle this important subject.

### **Concluding Remarks**

Finally, I would like to conclude with the Chinese wisdom from the “Book of Changes” (易經) which says, “天行健，君子以自強不息”， that is, a gentleman (or woman in this modern day) must constantly improve himself/herself. I would urge corporate leaders like you to keep pursuing excellence, and in doing so, always remember the basics --- be vigilant about maintaining your integrity, and at the same time,

enhance the ethical standard and skills of your staff in meeting ethical challenges in the business environment.

I am glad to see the partnership between the ICAC and the 12 organisations in initiating a coordinated training programme to help directors to constantly update new development of ethical leadership and corporate governance. I wish the programme every success and wish you all the best in your road to ethical leadership and the ethical governance of your company. Thank you.

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