

# Chapter I Business Environment

## Section 3

## Business Ethics and Social Responsibilities



1. B	2. D	3. C	4. B	5. A	6. B	7. C	8. B	9. D	10. B
11. A	12. D	13. C	14. C	15. C	16. B	17. C	18. D	19. D	20. D
21. D	22. B	23. D	24. A	25. D	26. D	27. C	28. B	29. C	

- B**

By definition, stakeholders are people who would be affected by the company's decisions. Common classifications of stakeholders include employees, creditors, debtors, suppliers, distributors and competitors of a company as well as the government and the general public of the region in which the company operates.

A, C, and D are not the most appropriate definitions as stakeholders are not confined to any specific types of people or organisations which have relations to the company; instead, a more general definition would be more appropriate here.
- D**

Stakeholders are groups of people who would be affected by the actions of a company. All people in option D can be affected by a company.
- C**

Being socially responsible, a company should act for the benefits of society and minimise the negative impacts of its actions.
- B**

(1) is incorrect. Complying with ethical practices can improve the companies' reputation and image which are regarded as intangible assets. However, it cannot bring direct monetary benefits to the companies.

(2) is correct. It is the definition of business ethics.

(3) is incorrect. Law specifies clear punishments given to those violating it, whereas ethics have no fixed standards but vary among people. There are no clear punishments for those violating ethical standards. Thus, they have different nature.
- A**

(1) is correct. Being socially responsible, a firm can boost its reputation because of its ethical behaviour, enhancing the credibility of a firm and thus its image.

(2) and (3) are incorrect. Bearing social responsibility may incur a higher production and operation cost because the firm may be required to comply with a standard higher than the legal requirements. In the long run, a socially responsible firm can attract more customers, but taking up such responsibilities cannot directly increase the revenue of the firm.
- B**

(1) is incorrect. Complying with business ethics is not equivalent to distributing dividends to shareholders every financial year. It is unethical for the firm to distribute dividends when it is in great financial difficulties because this impairs the firm's financial situation and future development.

(2) is correct. Complying with business ethics can enhance the image and reputation of the firm because of its ethical behaviour to society. This in turn increases the credibility of the firm and attracts more customers. In the long run, the economic benefits of bearing social responsibility outweigh its additional costs. Thus, it is beneficial to comply with the business ethics so as to boost the economic development of the firm.

(3) is incorrect. It is not necessary to earn profits by sacrificing the benefits of workers. This may lead to the deprivation of workers' rights in serious cases, which is an unethical behaviour.

7. **C**

(1) is incorrect while (2) and (3) are correct. It is unfair to pay higher wages to employees who are family members of the owners. This act is socially irresponsible to the employees. Instead, a socially responsible company should give employees equal opportunities, provide them with a comfortable workplace and recognise employees' contribution to the firm.

8. **B**

Using smuggled chicken from the Mainland may adversely affect the food quality. This violates the right of customers to enjoy safe products.

9. **D**

It reduces profits earned by the company, which in turn harms the financial interests of its shareholders.

10. **B**

Being socially responsible does not lead to the loss of credibility but an enhancement in it instead. This is because the reputation of a firm is boosted by bearing social responsibility. More people have trust in it as a result.

A, C and D are correct. Being socially responsible hinders profit maximisation as higher costs are incurred. Besides, some people may believe that it is the responsibility of the government but not firms to help the community because firms have paid taxes.

11. **A**

(1) is incorrect. Being socially responsible does not necessarily help a firm obtain a longer credit period when borrowing loans. The length of the credit period is usually determined by rules and regulations of the financial institutions and the financial position of the firm.

(2) is correct. Customers who support the idea of social responsibility tend to buy goods from shops which bear social responsibility.

(3) is correct. Suppliers are more willing to provide raw materials to firms which pay the liabilities on time. Being socially irresponsible may as well lead to termination of supplies.

12. **D**

(1) and (3) are correct. If a firm is socially irresponsible to its employees, they will be dissatisfied with the firm and less committed to their work, resulting in an unstable workforce and low staff morale.

(2) is correct. The productivity of employees will be hindered due to unfavourable working environment and low staff morale.

13. **C**

Emphasising major advantages of the products that are unique to each other prevents direct competition. Companies can focus on their unique advantages over other companies and make good use of them as the major gimmicks in order to attract respective customers. This promotes a healthier business environment.

A is incorrect. Doing so is not ethical to customers, as they have to pay unreasonable prices for newspapers.

B is incorrect. Promoting a keener competition only worsens the competition atmosphere.

D is incorrect. Merging with its competitors is not a feasible approach as competitors are unlimited. Furthermore, the merger may hinder competition as the combined market power may result in the new firm dominating the market, hampering the benefits of customers.

14. **C**  
(1) is incorrect. It is neither ethical nor humane to deprive employees of their right to have lunch and breaks at a reasonable span, though imposing punishments is sometimes effective to correct one's behaviour.  
(2) and (3) are correct. By providing training on business ethics and a code of ethics for the staff, they will be more aware of business ethics in the daily operation of the firm. Besides, the company can raise ethical standards of workers by rewarding and punishing ethical and unethical behaviour respectively, or emphasising the importance of business ethics when employing.
15. **C**  
C is inappropriate. Providing a hostile and tidy working environment to subordinates whose behaviour is unethical and ethical respectively is an unethical behaviour as such an act constitutes discrimination against some of the employees.  
A, B and D are appropriate. They convey the message that the company lays much emphasis on ethical practices to employees.
16. **B**  
(1) is incorrect. All types of productions cause pollution. Although terminating the productions can avoid the emission of pollutants, it significantly affects the operation of business because no products would be produced. Hammer should take actions to reduce the pollution or take compensatory actions, but not terminate the production.  
(2) is correct. Implementing environmentally friendly measures is effective in alleviating pollution while not greatly affecting the interests of other stakeholders.  
(3) is incorrect. Relocating the production bases to a less polluted place is ineffective in protecting the environment because the way the factories emit pollutants would not be changed.
17. **C**  
(1) is incorrect. To fulfil social responsibility, a firm provides services at reasonable prices and it does not need to offer discounts. Offering discounts can be a marketing strategy to attract customers rather than a socially responsible behaviour. It does not necessarily constitute a socially responsible act.  
(2) and (3) are correct. A socially responsible law firm is concerned about how customers can benefit from using its services. It should provide quality services at reasonable prices, together with comprehensive follow-up services.
18. **D**  
(1), (2) and (3) are correct. A firm going bankrupt means that it is facing severe financial difficulties and that it has a low ability to repay its liabilities. In addition, customers cannot receive the services or products purchased upon the closure of the firm.
19. **D**  
The behaviour of the supplier is an act of bribery which is unethical and illegal. The ICAC is the body responsible for tackling such crimes.  
A and C are incorrect. If the general manager signs the contract in return for the diamond, he will violate the law. Thus, accepting the gift, be it after the discussion with others or not, is not an ethical action.  
B is incorrect. Reporting the crime is more ethical than not reporting it.



20. **D**
- (1) is correct. Taking social responsibility towards the environment means that a firm places emphasis on protecting the environment in its production of goods. This causes less harm to the environment and thus promotes sustainable development.
- (2) is correct. Being socially responsible towards the environment generally better the reputation and image of a firm.
- (3) is correct. Theoretically, the overall benefits of being socially responsible to the environment surpass its additional costs incurred. Thus, the firm earns more profits in the long run.
21. **D**
- (1) and (2) are correct. Charging children from low-income families a lower fee and participating in charity work with the use of coach services are seen as fulfilling social responsibilities towards the community because these measures can help the needy in society.
- (3) is correct. Providing drivers with additional safety training are regarded as fulfilling social responsibility towards customers because this is done to ensure that customers receive safe services.
22. **B**
- Using environmentally friendly fuels and engines reduces the pollutants emitted.
- A is incorrect. It greatly affects the operations of the firm and harms owners' interests.
- C is incorrect. If the working environment is too hot, health of the employees and customers may be deteriorated.
- D is incorrect. Suppose the demand for coach service is constant, those who cannot enjoy the coach service may turn to other means of transportation. If more cars are needed to meet the demand, more pollutants will be emitted.
23. **D**
- (1) and (2) are correct. Some companies may think that they have fulfilled their responsibilities towards different stakeholders by paying taxes and providing services or goods. They may think that they need not comply with standards higher than the law requirements.
- (3) is correct. Fulfilling social responsibility inevitably increases the cost of production and thus reduces the returns of investment of investors.
24. **A**
- (1) and (2) are correct. It demonstrates the principle of honesty and transparency. Providing detailed and accurate financial information prevents the investors from being misled. This allows them to make their investment decisions correctly. Enhancing the transparency of company strategies helps investors gain a better understanding about the situation of the company, which is essential to them when making investment decisions.
- (3) is incorrect. A company should place emphasis on long-term sustainability. Distributing all the profits earned to investors as dividends is not a sustainable measure. This measure harms the long-term interest and development of the company, which is considered as being socially irresponsible. Part of the profits earned should be retained for the future development of the company so as to facilitate sustainable development.

25. **D**  
(1) is correct. Employees are valuable assets of the company. They should be given chances to express their ideas over major decisions in the company, such as modifying the wage level. This can raise their job commitment and satisfaction.  
(2) is correct. Employees work in return for rewards in both monetary and non-monetary aspects. Equitable and fair remuneration should be given for their efforts devoted.  
(3) is correct. Employees should be provided with a safe and healthy working environment so that they can work safely and free from injuries.
26. **D**  
(1) is correct. Transacting with charitable organisations does not mean being socially responsible. As no special discounts or donations are mentioned, the aforementioned transactions with charitable organisations are assumed to be normal transactions.  
(2) is correct. A socially responsible company should consider both the local and foreign communities. Emitting more pollutants in other cities is not socially responsible.  
(3) is correct. Lowering prices is beneficial for consumers but it does not mean a company is socially responsible. The benefit of the owners should be considered as they are also stakeholders. Lowering prices may hurt the interest of the owners and may not be a socially responsible act.
27. **C**  
To address distributors' needs, a company should deliver quality products to them instead. It is the distributors' responsibility to repay the company on time. Repaying debts on time can only address the needs of creditors and suppliers.  
A is correct. Concern groups like environmental protection groups always give opinions to companies for more environmentally friendly operations. Companies should take into account their opinions for the benefit of the community.  
B is correct. The government regulates businesses and it is important for companies to follow laws and operate ethically.  
D is correct. Making profits benefits the shareholders in that a company can distribute some profits in the form of dividends or capital gains to the shareholders.
28. **B**  
Social responsibility refers to a firm's responsibility to stakeholders in society. Providing lunchboxes to the impoverished elderly shows Brother Kit's contribution to society.  
A is incorrect. Giving out free gifts in the purpose of promotion does not show that the firm is responsible to society.  
C is incorrect. If customers use the products, their health will be adversely affected. Joey does not discharge social responsibility.  
D is incorrect. A socially responsible company provides reasonable compensation and benefits to workers. As workers are only given extremely low salaries, Stephen is not socially responsible.
29. **C**  
Customers are the stakeholders of his business.  
A is incorrect. As the company is a sole proprietorship, there are no shareholders. Shareholders are not the stakeholders in this case.  
B is incorrect. The question mentioned that there are no workers.  
D is incorrect. Facing fewer competitions is not an adverse effect to competitors.