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Business Ethics and Social Responsibilities

Name : _____

Class : _____ ()



Revision notes

Stakeholders

- A stakeholder is a person or a party who affects and can be affected by a firm's decisions and behaviour.
- Common stakeholders of a firm include owners and shareholders, managers and employees, customers, suppliers and distributors, creditors, the government, community and society.

Social responsibility

- Social responsibility refers to the responsibility of a firm to society.
- Social responsibility is often used to describe the responsibility of a firm to its community and the environment.
- Broadly speaking, it covers a firm's responsibility to all its stakeholders.

Stakeholders and social responsibility

The importance of the various stakeholders to a firm is listed as follows:

Stakeholder	Importance to a firm	Implication for a company
Owners or shareholders	They have invested money in the business.	The management should make decisions in the interests of the owners/shareholders.
Managers and other employees	<ul style="list-style-type: none"> • Managers are responsible for using a firm's resources to earn profits for its owners. They can affect the performance of the firm. • Employees' performance will affect a firm's performance. 	<ul style="list-style-type: none"> • Treat the managers and other employees fairly and equitably in the areas of recruitment, development and performance appraisals. • Not being socially responsible to employees will lead to high staff turnover and low morale.
Customers	<ul style="list-style-type: none"> • Customers are sources of revenues for a firm. • The success of a firm depends on whether it can attract customers to buy its products or services 	<ul style="list-style-type: none"> • Produce products and/or services to meet customers' needs and wants. • Adopt production methods that meet safety and quality standards.

Stakeholder	Importance to a firm	Implication for a company
Suppliers and distributors	<ul style="list-style-type: none"> Suppliers supply manufacturing inputs, like raw materials, component parts or semi-finished products. Distributors distribute a firm's products to customers. 	<ul style="list-style-type: none"> Honour contracts with suppliers and distributors and make payment promptly. Supply quality products up to the standard specified in contracts with distributors.
Creditors	Creditors provide financing to firms and, in return, receive interests and loan repayments.	<ul style="list-style-type: none"> Report true financial data so that creditors can assess and manage their risk. Pay interest and repay the loans on time.
The government	Government policies can help and restrain business operations.	<ul style="list-style-type: none"> Pay taxes promptly and honestly. Comply with laws and regulations imposed on them by the government.
Community and society	<ul style="list-style-type: none"> The operation of firms can influence the environment of the neighbourhood and society as a whole. Society has established a set of values and ethical standards for firms to follow. 	<ul style="list-style-type: none"> Protect the environment and take the interest of the community into account. Provide employment opportunities and supply goods and services.

- Social responsibility to the environment is one of the issues in current discussions of social responsibility. Some firms are starting to think of ways of protecting the environment and doing less to harm the environment, like producing environmentally-friendly products and recycled products, etc.
- Social responsibility is a subject of discussion at many corporations, since it may increase the costs of products or services.

Business ethics

Business ethics are the rules or standards that govern the conduct of a firm. They guide firms in their business operations and decision-making.

Differences and similarities between ethics and laws

- Ethics are different from laws as shown below:

Laws	Ethics
Illegal activities are clearly specified.	Unethical behaviour is not clearly specified.
Sanctions and punishments are clearly specified.	Sanctions and punishments are not clearly specified.
Legal standards do not vary among people.	Ethical standards vary among people.

- Unethical and illegal actions will surely affect the goodwill of a firm. If customers have less faith in the products and/or services of a firm, it may ruin the firm's business prospects.

Ways of enhancing business ethics

- 1 Emphasising the importance of business ethics in recruitment
- 2 Compiling a code of ethics for staff to guide them in day-to-day operations
- 3 Training and/or educating staff members about the importance of business ethics
- 4 Rewarding good ethical practices and punishing bad ethical practices
- 5 Senior management making a public announcement of its commitment to ethical practices
- 6 Taking part in activities organised by the Hong Kong Ethics Development Centre.

Corporate governance

- Corporate governance is about how firms are managed and controlled.
- This is related to the establishment of corporate mechanisms to monitor goals and decision-making processes so that the corporations can be effective and ethical.

Importance of corporate governance

- In modern corporations, professional managers are hired by owners to manage their operations but there is a possibility that they will serve their own interests, instead of those of the owners.
- With effective corporate governance programmes and procedures, conflicts can be reduced. The wants and needs of the owners of a firm may be satisfied.
- Corporate governance is important to firms, as it can help maintain good relationships with various stakeholders whose interests may conflict with one another.
- Corporate governance is also important to society since it can help improve economic competitiveness and social cohesion.

Corporate governance in practice

- Principles of good corporate governance include openness, transparency, integrity, accountability, responsibility, commitment, trust, respect, honesty, etc.
- A company with good corporate governance should:
 - (i) respect the rights of its owners or shareholders
 - (ii) recognise its legal and ethical responsibilities to other stakeholders
 - (iii) form a board of directors with an appropriate mix of executive and non-executive directors
 - (a) Executive directors are directors who are actively involved in the management of the company and are usually employees of the company or paid for their work.
 - (b) Non-executive directors are directors who do not have close business relationships with the company, and are not employees of the company.
 - (iv) develop a code of ethics for its managers and employees to follow
 - (v) disclose information in a timely and transparent manner



Demo Question

Read the news article below and answer the question accordingly.

Gome chairman arrested in market manipulation investigation

The chairman of Gome Electrical Appliances, Wong Kwong Yu, was detained by police in Beijing for questioning on 24 November 2008. It is rumoured that he was involved in share-price fixing. His case bears similarities to the case of Chau Ching Ngai, the former chairman of Shanghai Land, who was arrested in 2003 and sentenced to three years in jail for fraud and share manipulation.

Wong, the founder of China's largest electrical appliance retail chain, is being investigated for allegedly manipulating the shares of Shandong Jintai Group, a pharmaceutical company listed on the Shanghai Stock Exchange. This company is owned by his elder brother, Huang Junqin. The shares of Shandong Jintai rose dramatically in July and August 2007.

Gome shares have been suspended from trading in Hong Kong for many days. According to the mainland financial magazine *Bossline*, Wong has moved large sums of money overseas in recent years. There are rumours circulating via text messages which say that Wong is being investigated for bribery and embezzlement. It is also rumoured that the chief financial officer of Gome, Zhou Yafei, has been questioned by the police and that Wong's wife Du Juan, an executive director of Gome, has gone missing.

November 2008

- (a) Identify the stakeholders likely to be affected if the share-price fixing allegation against Wong Kwong Yu is true. (1 mark)
- (b) Explain how stakeholders are being affected. (6 marks)
- (c) Explain how the personal conduct of the head of a company can affect the company as a whole. (3 marks)



Troubleshooter

- 1 The headline can provide valuable hints. The second part of the headline ‘market manipulation investigation’ means the case is related to alleged manipulation of the share price of Shandong Jintai Group.
- 2 Ignore irrelevant information. As the news article is not short, you have to screen out irrelevant information and focus on the key points. For example, the part about Chau Ching Ngai may be irrelevant to the case of Wong Kwong Yu. You need to obtain important information from the text in order to answer the questions accurately and precisely.
- 3 Apart from the apparent information, the questions challenge your ability to extract important information hidden in the text. There will be some hidden information that you have to think about.
- 4 Question (c) may require you to expand your knowledge about the relationship between the personal conduct of the CEO and the performance of the company. This is not a difficult question. In fact, some of the effects are shown in this case. Wong’s alleged acts in relation to another company and his detention have endangered the reputation of the company and Gome was forced to suspend trading on the stock exchange for several days. In public examinations, it is common to encounter questions that have not been covered in textbooks or in class.



Answers

- (a) Shareholders and workers of Gome and Shandong Jintai Group. (1 mark)
- (b)
 - As Shandong Jintai Group is a listed company whose shares are traded on the Shanghai Stock Exchange, the primary stakeholders mostly likely to be affected by the price-fixing activities are the shareholders of the Shandong Jintai Group. When the head of Gome is arrested, its share price will also fall and the shareholders will suffer losses. Also, if Gome’s business is adversely affected by this incident, its profits will fall and result in lower dividend payments to its shareholders. (3 marks)
 - The business prospects of Gome, an employer with 300,000 employees, will be adversely affected if their chairman is charged. For example, its expansion plans will be put on hold. Worse still, the company might shrink in size and need to reduce the number of jobs. The workers will be affected too. (3 marks)
- (c) If the head of a company has acted unethically or broken the law, the company’s reputation will suffer. In this case, Gome was forced to suspend trading on the stock exchange for several days following the detention of its chairman. (3 marks)



Revision Exercises

Multiple Choice Questions

(2 marks for each question)

- 1 Which of the following are the stakeholders of a fast-food chain?
- (i) The government
 - (ii) Banks
 - (iii) Suppliers
 - (iv) Distributors
- A. (i) and (ii)
 B. (ii) and (iii)
 C. (i), (ii) and (iii)
 D. (i), (iii) and (iv)
- 2 Which of the following statements correctly explain why employees are key stakeholders of a company?
- (i) They can go on strike and/or take other industrial actions.
 - (ii) Their unions have bargaining power.
 - (iii) They can contact the creditors of the companies and ask them to demand loan repayments.
 - (iv) They can seek support from the general public when they are mistreated by their employers.
- A. (i), (ii) and (iii)
 B. (i), (ii) and (iv)
 C. (i), (iii) and (iv)
 D. (ii), (iii) and (iv)
- 3 Which of the following is not an argument for corporate social responsibility?
- A. It balances corporate power with responsibility.
 - B. It increases economic efficiency and profit.
 - C. It enhances the corporation's values and reputation.
 - D. It corrects social problems caused by businesses.
- 4 Which of the following is not a characteristic of illegal or unethical behaviour?
- A. Certain types of unethical behaviour are absolutely wrong.
 - B. People can take legal action against illegal behaviour.
 - C. Unethical behaviour is not specifically written down.
 - D. Illegal behaviour affects a society's citizens.

- 5 Which of the following is not a kind of socially responsible corporate behaviour?
- A. Increasing the salary of employees
 - B. Promoting volunteerism among employees
 - C. Producing environmentally-friendly products
 - D. Increasing dividends to shareholders
- 6 Which of the following are values in the principles of good corporate governance?
- (i) Integrity
 - (ii) Accountability
 - (iii) Honesty
 - (iv) Versatility
 - (v) Transparency
 - (vi) Utilitarianism
- A. (i), (v) and (vi)
 - B. (ii), (iii) and (vi)
 - C. (i), (ii), (iii) and (iv)
 - D. (i), (ii), (iii) and (v)
- 7 Which of the following statements concerning good corporate governance mechanisms for a company is correct?
- (i) Shares are concentrated in the hands of a small number of shareholders.
 - (ii) Senior managers and directors own shares in the company.
 - (iii) The CEO of the company is also the chairman on the board of directors.
 - (iv) The compensation and benefits for senior management are linked to the performance of the company.
- A. (i) and (iii)
 - B. (i), (ii) and (iv)
 - C. (ii), (iii) and (iv)
 - D. All of the above
- 8 Which of the following is not a characteristic of a non-executive director?
- A. Non-executive directors can receive a monthly salary from the company.
 - B. Non-executive directors are usually professionals and/or celebrities.
 - C. Non-executive directors are not involved in the day-to-day operations of the company.
 - D. There are no specific educational requirements for non-executive directors.

- 9 The following are correct descriptions concerning principles of good corporate governance except that
- A. a company needs to educate its staff regarding corporate governance.
 - B. a company can be considered as having good corporate governance if it discloses information to the public, regardless of the timing of reporting.
 - C. a company should recognise its ethical responsibilities to all stakeholders, including suppliers.
 - D. a company should respect the rights of its shareholders.
- 10 Which of the following statements concerning corporate social responsibility to the environment is incorrect?
- A. Many firms wish to be perceived by the public as responsible corporate citizens. As a result, they are willing to spend more on environmental protection.
 - B. Many corporations have tried their best to produce products in a more environmentally-friendly manner.
 - C. Many companies have implemented family-friendly policies for their employees, particularly their female staff members.
 - D. Many firms will consider balancing economic benefits with environmental protection policies when formulating sustainable development strategies.
- 11 Which of the following statements concerning the supplier-distributor relationship in the stakeholder management of firms is incorrect?
- A. A firm has an obligation to make payments promptly according to the terms of its contracts.
 - B. A firm should supply quality products to its distributors.
 - C. The supplying firm has to treat its distributors fairly, regardless of their size, accordingly to anti-monopoly laws.
 - D. Distributors are insignificant stakeholders of a firm, as the firm offers them products and business opportunities.
- 12 Which of the following statements regarding good stakeholder management is incorrect?
- A. A firm increases spending on TV advertising.
 - B. Fair and equitable training and development policies at a company are important.
 - C. Good after-sales service is a basic responsibility of a firm to its customers.
 - D. A firm should comply with the government requirements.
- 13 Which of the following is not a company's practice in caring for employees?
- A. Providing an elderly day care centre for employees
 - B. Giving a box of mooncakes to each staff member during the Mid-Autumn Festival
 - C. Timely payment of salaries in accordance with employment contracts
 - D. Establishing a sports club that organises a wide range of cultural events and recreational activities for employees

- 14 Which of the following policies can help a firm enhance awareness of business ethics among its employees?
- A. Punishing unethical practices
 - B. Adopting a code of ethics that employees must comply with
 - C. Assessing the business ethics of candidates during the recruitment process
 - D. All of the above
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- 15 When a garment retailer chooses its suppliers based on their performance regarding environmental protection and management, the employees raise a number of criticisms. Which of the following criticisms is irrelevant to the selection policy used by the garment retailer?
- A. It is hard to assess the performance of suppliers.
 - B. The firm will become less competitive.
 - C. It is not fair.
 - D. The firm may incur more costs.
-
- 16 A firm which establishes a corporate volunteer team is an example of
- A. social responsibility.
 - B. corporate governance.
 - C. business ethics.
 - D. cost minimisation.
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- 17 The social responsibilities of a firm include
- (i) producing recyclable products.
 - (ii) providing a healthy working environment for employees.
 - (iii) maximising profits made by the firm.
- A. (i) and (ii)
 - B. (i) and (iii)
 - C. (ii) and (iii)
 - D. All of the above
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- 18 Good corporate governance includes the following principles except for
- A. protecting the interests of all shareholders.
 - B. stressing the timely disclosure of information.
 - C. taking up the company's responsibilities to all of the stakeholders.
 - D. being held accountable for management decisions.
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- 19 A company is considered socially responsible to its creditors if it
- (i) repays loans on time.
 - (ii) updates creditors regularly on its financial position.
 - (iii) informs them of the decision to cease production of products which sell poorly.
- A. (i) and (ii)
B. (i) and (iii)
C. (ii) and (iii)
D. All of the above
- 20 Which of the following is not a stakeholder of ABC bank?
- A. Mr Lo lent \$10,000 to a customer service officer of ABC Bank, who has been a friend of Mr Lo for more than 10 years.
B. Mr Chan has taken out a mortgage loan with ABC bank, which he has to repay in instalments over 20 years.
C. Lee and Leung Solicitors is one of the legal firms used by ABC Bank to advise it on corporate legal matters.
D. Ms Lee has bought shares in ABC Bank, a bank listed on the Hong Kong Stock Exchange.
- 21 What would happen if firms are not socially responsible to their employees?
- A. The productivity of staff members would be low.
B. They would have high staff turnover rates.
C. Their products would be of poor quality.
D. All of the above
- 22 A company sets up a corporate volunteer team and awards two paid holidays to team members who perform social services for charitable organisations. We can describe this company as one that
- A. practises good corporate governance.
B. is socially responsible.
C. has good business ethics.
D. is a caring employer.
- 23 In Hong Kong, employers are legally required to
- (i) make Mandatory Provident Fund contributions for their employees.
 - (ii) pay employees a minimum wage.
 - (iii) pay disabled employees a special travel allowance.
 - (iv) provide employees with paid sick leave.
- A. (i) and (ii)
B. (i) and (iv)
C. (ii) and (iii)
D. (iii) and (iv)

24 Which of the following types of corporate behaviour are illegal?

- (i) Tax evasion
- (ii) Lobbying the government officials by trade associations
- (iii) Failing to report profits
- (iv) Dismissing staff without giving adequate notice

- A. (i) and (ii)
- B. (ii) and (iv)
- C. (i), (iii), and (iv)
- D. All of the above

25 After receiving products from its suppliers, a firm has an obligation to make payments promptly according to the terms of the contracts. This is a typical act of

- (i) business ethics.
- (ii) social responsibility.
- (iii) corporate governance.
- (iv) legal behaviour.

- A. (i) and (ii)
- B. (ii) and (iii)
- C. (i), (ii) and (iv)
- D. (i), (iii) and (iv)

26 ABC Bank is the only bank with a sky garden of plants on the rooftop of its office building. This is an example of

- A. business ethics.
- B. social responsibility.
- C. corporate governance.
- D. legal behaviour.

27 A research analyst at an investment bank was sacked because his unfavourable rating of ABC Ltd had angered the management of ABC Ltd. His action had adversely affected the relationship between the investment bank and ABC Ltd. As a result, the investment bank cannot get additional business from ABC Ltd. The investment bank is best described as

- A. acting illegally.
- B. displaying poor decision-making.
- C. lacking good social responsibility.
- D. lacking good corporate governance.

Short Questions

- 1 A bank manager was charged for withdrawing money from customer accounts without their authorisation. List and explain three ways that a bank can enhance the awareness of business ethics among its employees. (6 marks)

- 2 (a) Explain the relationship between economic development and environmental protection. (4 marks)

- (b) How can companies promote sustainable development as their social responsibility to the environment? Illustrate with an example. (2 marks)

- 3 The Independent Commission Against Corruption (ICAC) believes that good corporate governance is the first line of defence against corruption. Suggest three methods of promoting good corporate governance that would combat corruption. (6 marks)

- 4 HSBC has implemented the following environmental protection policies:

HSBC is the first carbon neutral bank in the world. This means the net emission of carbon dioxide from its operations is zero. HSBC has run the Global Environmental Efficiency Program to reduce carbon dioxide emissions by installing new equipment and upgrading existing facilities. It works with non-governmental organisations to run programmes such as HSBC Wetlands Days, the Climate Partner Mission, etc. It has created a sky garden in Mong Kok to reduce the need for air-conditioning. It has also installed solar photovoltaic panels on the rooftops of some of its buildings to reduce electricity consumption.

- (a) How can HSBC gain from implementing these programmes? (4 marks)

- (b) What are HSBC's social responsibility (i) to the environment and (ii) to the shareholders? (2 marks)

- (c) With reference to (b), is there any conflict when HSBC takes up both responsibilities at the same time? Explain your answer. (5 marks)

- 5 Recently, Mr Chan has decided that he wants his electronics company to place more emphasis on business ethics. He decides to carry out organisational changes to enhance business ethics.

- (a) What can be done in recruitment and training to enhance the ethics of the workforce? (4 marks)

- (b) Name two other types of corporate ethics policy that can be established for employees. Explain why they are useful for enhancing ethics. (4 marks)

- 6 Mr Chan is the CEO of an electronics company in Hong Kong. Mr Leung, one of his business associates, contacted him and mentioned that XYZ Ltd, a company from the Mainland of China, was looking for an electronics firm to supply a large quantity of electronic components. He said that he could influence the CEO of XYZ Ltd to give the contract to Mr Chan, provided that Mr Chan deposited 10% of the contract sum into a bank account designated by Mr Leung.

- (a) What are the legal and ethical risks that Mr Chan would face if he follows Mr Leung's instruction and deposits money into the designated bank account? (4 marks)

- (b) What are the conflicts facing Mr Chan as an employee of a company and as a member of society? (4 marks)

- (c) Assuming that you are the chairman of the electronics company's board of directors, what would you do if you found that Mr Chan deposited 10% of the contract sum into the bank account designated by Mr Leung? (4 marks)

- (d) What should Mr Chan do if he was not sure whether his deal with Mr Leung is illegal or not?
(4 marks)

- 7 Below is a poster of an electronic appliance retail chain:



- (a) Which key stakeholder(s) does the poster target? (1 mark)

- (b) What is the purpose of this poster? (1 mark)

- (c) Elaborate on the ethical issue(s) that the seller/marketer may violate if it puts up this poster.
(4 marks)

- (d) Suggest (i) the short-term and (ii) the long-term solutions that Excellent Electronic Appliance Co should use so as to restore customer confidence in its products. (6 marks)

- 8 Below is a description of the Lehman Brothers' minibond scandal.

Lehman Brothers' minibonds are a type of investment products. The scandal broke out following the bankruptcy of Lehman Brothers in September 2008 when the value of minibonds issued by Lehman Brothers fell dramatically. In Hong Kong, about 5,000 investors in Lehman minibonds claimed that they were misled by a number of financial intermediaries and were not told of the investment risks involved. Many of the financial intermediaries are retail banks. According to these investors, they were misled by financial intermediaries and wrongly believed that the Lehman minibonds were a type of low-risk corporate bonds.

In fact, Lehman minibonds are a high-risk derivative product and are not corporate bonds. Investors have protested and sought assistance from political parties for refunds on their investments.

- (a) If the claim made by the Lehman Brothers' minibond victims is true, why do you think the sales staff at financial intermediaries acted unethically? (4 marks)

- (b) Apart from the financial intermediaries that sold the Lehman minibonds, what impact does this scandal have on Hong Kong's role as an international financial centre? (4 marks)

- (c) If you were a management-level staff at a financial intermediary that sold Lehman Brothers' minibonds, what management issue(s) do you think are involved in this scandal? (3 marks)

- (d) Name two actions that can be taken to prevent similar occurrences. (2 marks)

9 In April 2005, 40 employees of the Ocean Palace Restaurant and Nightclub sought help from the police. The workers alleged that fraud had been committed in the closure of the restaurant and that the owners of the restaurant had refused to make salary and severance payments. The workers suspected that assets had been illegally transferred out of the restaurant to evade creditors and that the owners had abused the Protection of Wages on Insolvency Fund by telling the workers to make claims against the fund for unpaid salaries. Some workers even claimed that the owners of the restaurant were planning to open a restaurant in Hung Hom under a different name.

- (a) Discuss the business ethics issues that the Ocean Palace Restaurant and Nightclub had to face as an employer when it closed down. (4 marks)

- (b) What legal issues may be involved if the claim that assets were transferred out of the restaurant is true? (3 marks)

- (c) Assuming that the Ocean Palace Restaurant and Nightclub wants to be an ethical employer, what should it do before closing down? (3 marks)

(d) How can an ethical employer gain in the long run?

(4 marks)

Chapter 4 Business Ethics and Social Responsibilities

Multiple Choice Questions

(2 marks for each question)

- 1 C A fast food chain has its own outlets, which are its distribution channels. It may not need or want distributors.
- 2 B It is very rare for employees to be able to contact the creditors of the companies and ask them to repay loans. Even if the creditors agree to do so, they may not do in the way that the employees suggest.
- 3 B People who advocate corporate social responsibility (CSR) will not claim that taking up social responsibilities can increase economic efficiency and profit, even though it is possible. This is because the link is very indirect and the economic profits can only be realised after a long period.
- 4 A
- 5 D Increasing dividends to shareholders is a common objective of companies. However, this cannot be regarded as a kind of socially responsible behaviour.
- 6 D
- 7 B
- 8 A Normally, the non-executive directors of a company do not get paid on a monthly basis. They may receive remuneration from the company in the form of a director's fee payable on a half-yearly or annual basis.
- 9 B
- 10 C
- 11 D Distributors are key stakeholders of companies as they can help the companies sell their products to customers efficiently. An anti-monopoly law is a law which restricts large corporations from monopolising markets or engaging in unfair practices that harm customers and other stakeholders such as suppliers and distributors.
- 12 A
- 13 C Caring behaviour refers to actions taken for the benefit of employees, instead of just meeting basic responsibilities. Timely payment of salaries in accordance with employment contracts is a legal requirement and a basic responsibility of employers.
- 14 D
- 15 C
- 16 A
- 17 D
- 18 C
- 19 A There is no need to inform creditors about the details of business strategies such as ceasing the production of a certain product.
- 20 A Relationships between a company's staff members and their friends are personal relationships.
- 21 D
- 22 B
- 23 B

- 24 C
- 25 C Social responsibility in the broadest sense covers a firm's responsibility to all of its stakeholders. Thus, a firm has to pay its suppliers on time according to the contracts made between the two parties. Otherwise, this is illegal and the supplier can sue the firm. Prompt payment can also be regarded as considerate and ethical.
- 26 B
- 27 D The analyst at this investment bank just did his job, that is, rated companies based on his professional judgement. Good corporate governance practices and a fair culture would make senior management understand and take fair and justified actions. Otherwise, biased analyses may hurt investors' decision-making.

Short Questions

- 1
- Formal launching of business ethics programmes by senior management to show that ethics programmes are strongly supported. Senior management should also be committed to initiatives that promote business ethics.
 - Implement a code of ethics for employees to follow and employees can use this as a guideline and a reminder that they should not do anything that is against the law or is unethical.
 - Conduct training programmes on business ethics to increase formal awareness of the issues commonly faced on the job. Also, equip staff with skills and knowledge to prevent unethical acts.
 - Punish unethical practices and make it known to staff the harmful results of taking unethical actions.
 - Reward ethical practices and acknowledge employees publicly for ethical practices.
- (Any other reasonable answers)
(Any three of the above, 2 marks for each point)
- 2
- (a)
- Corporations and citizens are aware that economic development is unsustainable if it results in rapid exhaustion of natural resources and/or destruction of the environment. (2 marks)
 - According to the principle of sustainable development, firms should adopt production methods or policies that will promote long-term economic growth by protecting the natural environment and relieving poverty. (2 marks)
- (b)
- The firm should produce environmentally friendly products, which cause little harm to the environment.
 - Alternatively, the firm can adopt waste management and recycling methods to save natural resources.
- (Any other reasonable answers)
(Any one of the above, 2 marks for each point)
- 3
- Adopt a code of conduct/a code of best practices for management and staff to follow.
 - Educate staff on issues of corruption and possible traps such as conflicts of interest. For example, if one of your family members is bidding for one of your company's projects, you, being a staff member, should not sit on the panel that assesses bids. Or you must disclose to your company your relationship with the bidder.
 - Information regarding selection criteria of suppliers should be disclosed.
 - When employees suspect corruption, they should discuss the matter with their superiors.
- (Any three of the above, 2 marks for each point)

- 4 (a) • HSBC can enhance its image and reputation as many members of the public regard HSBC as a responsible corporate citizen, which may help HSBC win more customers. In the long run, when people treat HSBC as their preferred bank and do more business with the bank, the bank can reap large profits from customer loyalty. (2 marks)
- Also, customer praise is the best promotional tool and word-of-mouth advertising can create more business opportunities for HSBC. The benefits gained from implementing environmental protection programmes by HSBC will outweigh the extra costs incurred. (2 marks)
- (b) (i) As a corporate citizen of society, HSBC has a responsibility to society. HSBC should protect the environment and take the interest of the community into account. (1 mark)
- (ii) As shareholders invest in HSBC, HSBC has a responsibility to earn profits for them. (1 mark)
- (c) • No. There is no conflict when HSBC honours both social responsibilities. (1 mark)
- It seems that accepting the two responsibilities will lead to conflicts. HSBC will spend shareholders' money on the environmental policy. However, HSBC can enhance its reputation and goodwill when it takes up social responsibility. The market value of HSBC will increase as a result. (2 marks)
- By committing itself to socially responsible action, HSBC can enhance its productivity and profitability. In the long run, the benefits can outweigh the cost. HSBC's business can grow. Eventually, the shareholders can reap more profits and will benefit. (2 marks)
- 5 (a) • In the recruitment and selection of employees, the company should make good ethical qualities a major selection criterion so that more people with good ethics can be recruited. Less effort will be required in ethics education and training. (2 marks)
- For training, the company can design and run ethics training programmes for its employees. It may even ask employees to sign an ethics policy or a statement contained in the staff handbook or during the orientation programme so that the psychological commitment of staff can be enhanced. (2 marks)
- (b) Other corporate ethics programmes can include:
- holding internal ethics recognition programmes. Staff events are held to give formal recognition to staff chosen as corporate ethics role models.
 - joining external ethics awards programmes to show to staff that the company is committed to ethical values and efforts to establish effective ethics programmes. By so doing, staff members may feel proud of working in an ethical environment.
 - the establishment of positions such as ethics officers and ombudspersons in the company as a first line of defence against fraud and other unethical behaviour through staff reporting.
 - the establishment of ethics helplines to advise staff on ethical behaviour, such as the appropriateness of gift giving and receiving, etc.
- (Any two of the above, 2 marks for each point)
- 6 (a) • The legal risk that Mr Chan faces is the possibility of corruption, as the relationship between Mr Leung and the CEO of XYZ Ltd is not known. Perhaps the CEO of XYZ Ltd asked Mr Leung to look for corruption opportunities for him. If the payment is a bribe, Mr Chan faces the risk of prosecution if he follows Mr Leung's instruction. (2 marks)
- Mr Chan may face an ethical risk by following Mr Leung's instruction, since he might have abused the relationship between him and Mr Leung and even used their personal relationship inappropriately. This act may adversely affect fair competition among suppliers of electronic components. Fairness and impartiality in dealing with suppliers are ethical values embraced by many people in society. (2 marks)

- (b) • Mr Chan, being the CEO (an employee) of the company, should use all his efforts to earn profits for the company. He should try every means to achieve the company's financial objective, that is, profit maximisation. (2 marks)
- As a member of society, Mr Chan should act according to the law. It is important for him and the company to comply with legal requirements. If he breaks the law, the violation may affect his personal reputation as well as that of the company. If the stakeholders such as suppliers, customers, prospective customers lose faith in the company, financial losses may result. (2 marks)
- (c) • As the head of the board of directors and the most senior person in the company, I should report the matter to the board, which will decide on what actions need to be taken. (2 marks)
- Such behaviour is likely to involve corruption and should be reported to the police and/or ICAC for further investigation. (2 marks)

(Any other reasonable answers)

- (d) • Mr Chan should report the entire matter to the board of directors and seek formal approval from them to proceed. (2 marks)
 - He should also seek advice from the company's lawyers and relevant law enforcement agencies such as the ICAC or the police. The most important thing is to abide by the law and ensure that all actions taken comply with legal requirements. (2 marks)
- 7
- (a) The poster targets customers or prospective customers. (1 mark)
 - (b) • The aim of this poster is to arouse customers' interest in purchasing electronic appliances from the retail chain. It is used for sales promotion. (1 mark)
 - (c) • The poster above is an example of dishonest practice, with the word 'Up to' written in a font size much smaller than the word '80% off'. As a result, readers of this poster may think that all items are sold at 80% off. Such a practice is against business ethics and moral principles. (2 marks)
 - The seller/marketer may argue that some items are sold at 80% off and the discount percentage has already been stated. However, the basic motive of the seller/marketer in using a small font size for the word 'Up to' is to mislead consumers. The seller/marketer is setting a trap for customers and is thus unethical. (2 marks)
 - (d) The company should do the following to rectify the problem:
 - (i) Short-term solution:

Correct the poster immediately to ensure that there will be no misunderstanding by customers with respect to the discount percentage offered. This can be done by using a much larger font size for the word 'Up to' so that it is clear that the discount percentage can vary, with a maximum discount of 80%. (3 marks)
 - (ii) Long-term solution:
 - All communication materials should be checked and approved by an ethics committee or an ethics officer
 - Adopt a code of ethics for the company
 - Educate all frontline staff and managers as well as marketers on the company's code of ethics (if the company already has such a code)
 - Emphasise the importance of business ethics when recruiting employees
- (Any two of the above, 1.5 marks for each point)

- 8 (a) • The sales staff at those financial intermediaries are often required to meet very high sales targets in order to stay on the job or get a promotion. They were often under great pressure from their superiors to meet high sales targets. Therefore, they were forced to complete a sale as quickly as possible. (2 marks)
- As disclosure of the risky nature of minibonds might hinder sales, many salespersons ignored basic ethical principles or even exaggerated the investment returns on some of the financial products. (2 marks)
- (b) • If the claim of investors of Lehman minibonds is true, they are likely to lose much of their life savings not because of poor investment judgement, but as a result of poor supervision of financial intermediaries in Hong Kong. They will lose confidence in Hong Kong's financial system. (2 marks)
- As it is difficult to find buyers in Hong Kong, companies will find it hard to raise funds through the issuance of investment products. Investment products and other financial derivatives will not be able to penetrate the Hong Kong market. Hong Kong's status as an international financial centre will be adversely affected. It will become unattractive to international investors and companies. (2 marks)
- (c) The management issue involved is corporate governance. Good corporate governance is needed to ensure that staff members carry out their work duties in strict compliance with the standards set by the financial intermediary. Their acts must be ethical and legal, so that no staff members will mislead customers in achieving their sales targets. (3 marks)
- (d) In order to prevent similar occurrences, the following actions should be taken:
- carry out operational audits to make sure the operational staff have explained to prospective investors the risk level clearly and thoroughly.
 - surprise checks should be made by management or the internal audit department
 - give clear guidelines to managers and sales staff
 - conduct staff training programmes to emphasise the importance of compliance with ethical standards
 - compile a code of conduct for staff to follow
- (Any other reasonable answers)
(Any two of the above, 1 mark for each point)
- 9 (a) • The restaurant closed down and failed to pay its employees the salaries it owed. The employees worked in the restaurant and should have been paid for their effort. Workers are also entitled to severance pay when a company closes down. The non-payment of salaries and severance pay by the employer was unethical. (2 marks)
- The employer's behaviour would be even more unethical if it opened a new restaurant under a different name in order to evade its legal responsibilities to its employees. (2 marks)
- (b) If the claim is true, the case may involve fraud or an illegal transfer of assets. Under the law, a company is not allowed to transfer its assets to another party shortly before filing for bankruptcy. The transferring of assets affects the interests of creditors as there will be fewer assets available to settle the claims of creditors, which include employees. Employees are owed unpaid salaries and severance pay, etc. (3 marks)
- (c) If the owner of the restaurant plans to go into liquidation in the near future, he should set aside enough money to cover salary and severance payments. If this is done, the employees will not suffer losses when the company goes into liquidation. (3 marks)
- (d) • In the long run, ethical employers who are socially responsible to their employees can enhance the job morale of their employees and motivate them. (2 marks)
- Both the productivity of employees as well as the quality of products and/or services of the company will improve. The business of the company can grow as a result. (2 marks)

Chapter 5 Management Functions

Multiple Choice Questions

(2 marks for each question)

- 1 A
- 2 A Efficiency means 'doing the thing right' while effectiveness means 'doing the right thing'.
- 3 D
- 4 A
- 5 B 'Creating rigidity for employees' is one of the major arguments against planning, instead of supporting planning.
- 6 C Only short-term plans cover details. Long-term plans and mid-term plans are related to strategic matters, with no specific details.
- 7 A
- 8 A Any plan with a time frame longer than 10 years should be considered as a long-term plan.
- 9 B
- 10 C
- 11 D
- 12 B Participative leadership is appropriate when the workers are willing, instead of not willing, to take up job responsibilities.
- 13 B
- 14 C
- 15 C The staff turnover rate is a performance standard of the human resources department, rather than the marketing department.
- 16 D
- 17 B
- 18 A
- 19 C
- 20 D
- 21 D Leaders may ask for subordinates' suggestion and ideas, but the input rarely changes their decisions.
- 22 D
- 23 D
- 24 B
- 25 C