

Topic Overview	
Topic	BAFS Compulsory Part - Business Environment C02: Business Ethics and Social Responsibilities
Level	S4
Duration	2 lessons (40 minutes per lesson)

Learning Objectives:

1. To understand the concept of business ethics, corporate social responsibilities and corporate governance and their importance;
2. To understand the expectation of business ethics and corporate social responsibilities from stakeholders;
3. To analyse the advantages and disadvantages of running a business with business ethics and bearing corporate social responsibilities; and
4. To foster students a positive attitude on business ethics and corporate social responsibilities with roles as consumers, investors, employees and/or entrepreneurs in adult life.

Overview of Contents:

Lesson 1	Business Ethics and Social Responsibilities
Lesson 2	Corporate Governance

Resources:

- Topic Overview and Teaching Plan
- Powerpoint Presentation
- Student Worksheet

Suggested Activities:

- Debate
- Case Studies

Lesson 1	
Theme	Business Ethics and Social Responsibilities
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:

1. Understand the relationship between a business and its stakeholders;
2. Define business ethics and corporate social responsibilities; and to point out they are one of the rules for business decision making and operation; and
3. Understand the main areas, priorities and approaches of social responsibilities which stakeholders expect business to perform with.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
✧ Teacher starts the lesson by having a debate on the topic: “Business people are moral people”.	PPT#2-3	2 minutes
Part II: Content		
✧ Activity 1: Debate <ul style="list-style-type: none"> ■ Students are divided into two groups, the affirmative versus the negative sides. ■ Students are required to discuss within their groups and to develop arguments. ■ Each group nominates two representatives to take part in the debate. ■ Each representative has 2 minutes to present his/her views and arguments. ■ Two groups take turns to present their arguments ■ Then, one representative from each group is given 2 minutes to conclude their group’s views. ■ Teacher wrap-ups the debate. 	PPT#2-3 Student Worksheet pp. 1-2	22 minutes
✧ Following the points brought up in the debate, teacher introduces the concepts of business ethics and social responsibilities.	PPT#4-10	6 minutes
✧ Activity 2: Prioritise the Factors of CSR	PPT#11	5 minutes

<ul style="list-style-type: none"> ■ Students are provided with a list of corporate social responsibility (CSR) factors and are required to rank them in order of importance according to the role assigned. ■ Teacher compares students' results to that of the study and explains the implications of the rankings for CSR factors. It can reflect expectations of stakeholders to business ethics and CRS. The priorities of business and stakeholders are in fact in line and have little contradiction. 	Student Worksheet p. 3 PPT#12-15	3 minutes
Part III: Conclusion		
✧ Activity 3 – Match the four different approaches to social responsibilities <ul style="list-style-type: none"> ■ Teacher sums up the key concepts learned and asks students to do matching exercise for the 4 approaches to social responsibilities. ■ Teacher briefs students to prepare for the next lesson. 	PPT#16-17	2 minutes

Preparation for the next lesson:

Students are required to look for BOTH ethical and socially responsible companies and unethical and socially irresponsible companies. Compare and contrast their behaviours and actions.

Lesson 2	
Theme	Corporate Governance
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:

1. Identify ethical and socially responsible corporate behaviours;
2. Evaluate the importance of corporate social responsibilities;
3. Explain corporate governance; and
4. Discuss the factors that raise ethical standards and improve corporate governance.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
✧ Teacher starts the lesson by inviting students to share with what they found on ethical and socially responsible companies and unethical and socially irresponsible companies.		5 minutes
Part II: Content		
✧ Activity 4: Case Study – Big-Eagle (Part I) <ul style="list-style-type: none"> ■ Students are required to form groups of four to five, read the case of Big-Eagle Part I and answer the discussion questions that follow. ■ Teacher invites volunteers to present their answers. ■ Teacher draws the conclusion for Part I. 	PPT#18-20 Student Worksheet pp. 4-7	12 minutes
✧ Activity 4: Case Study – Big-Eagle (Part II) <ul style="list-style-type: none"> ■ Students remain in their groups. They are required to read the case of Big-Eagle Part II and answer the discussion questions that follow. ■ Teacher invites volunteers to present their answers. ■ Teacher concludes the activity. 	PPT#21-23 Student Worksheet pp. 8-12	12 minutes
✧ Teacher introduces corporate governance.	PPT#24	8 minutes

BAFS Compulsory Part Business Environment

Topic C02: Business Ethics and Social Responsibilities

Technology Education Section
Curriculum Development Institute
Education Bureau, HKSARG
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Introduction

This session aims to introduce to students the concepts of business ethics, social responsibilities and corporate governance and their importance. Students will be able to build a solid understanding through active participation in debate and case study.

Duration

Two 40-minute lessons

Contents

Lesson 1 – Business Ethics and Social Responsibilities

Lesson 2 – Corporate Governance

Activity 1: Debate

“Business people are moral people”



No...No...
No...No...

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Learning and Teaching Example

Lesson 1

Activity 1:

Teacher starts the lesson by having a debate on the topic: “Business people are moral people”.

1. Divide students into two groups and assign one group as the affirmative side and the other as the negative (opposition) side.
2. Give students 10 minutes to discuss among themselves to formulate their arguments. Each group will name two representatives to participate in the debate. Each representative will have 2 minutes to present their views and arguments. After all 4 representatives have made their presentations, each group will be given 2 minutes to present their conclusions.

Some suggested arguments against the proposition:

1. Some companies, especially in developing countries (such as Sri Lanka, Bangladesh, India, Pakistan, etc.), employ child labour or illegal labour for the sake of reducing cost.
2. Some manufactured goods (such as toys), and some expired food (such as cakes, chocolates), which do not pass the safety and healthy standards, are harmful to consumers.
3. Some companies, such as those in electro-plating, dying, and chemical industries, deliberately ignore the pollutants they generated.

Activity 1: Debate

“Business people are moral people”



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Some suggested arguments for the proposition:

1. There is no doubt that many business people, such as Mr. Bill Gate and Mr. Lee Ka Shing, are responsible to society by supporting charities and making fair share of donations.
2. There is evidence that many corporations, such as Johnson & Johnson and Toshiba, take environmental protection seriously by considering how their products are disposed and recycled.
3. Many companies adopt ISO14000 Standard (the highest environmental standard in Europe) and assure that their policies address a variety of public concerns including pollution prevention.
4. Most companies operate within the law, paying fair salaries to employees, obey the whole system of rules, bear fair share of taxes, and support charities. It is not fair to say that business people are immoral.

Teacher may conclude the debate by setting the scene:

- In the early 1980s and perhaps 1990s, the purpose of doing business was focused on making profit. Today, partly owing to the conflicting forces of many interested groups [stakeholders], the social involvement of business has increased.
- The concept that business must be socially responsible sounds appealing until one asks, “Responsible to whom?” Should a corporation be responsible only to some of the groups with interests in a business organisation’s activities?

This leads to the theme of this session. That is, business ethics and social responsibilities.

Stakeholders

- *Stakeholders* are individuals or groups with interests in a firm’s activities.

As a manager of a business, do you know who are the stakeholders of the company?

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Learning and Teaching Example

Tell students that all businesses not only responsible to shareholders, they also need to be responsible to stakeholders.

Explain to students the meaning of stakeholders

Ask students to discuss who are stakeholders of a business.

The most directly affected stakeholders of a business firm are: shareholders, employees, and customers. But there are also indirect stakeholders like suppliers, competitors, regulatory institutes, and the general public.

Stakeholders

- *Stakeholders* are individuals or groups with interests in a firm's activities. They include:
 - Shareholders;
 - Employees;
 - Customers, Suppliers, Competitors;
 - Regulators; and
 - The General Public

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BAFS Compulsory Part
Learning and Teaching Example

Stakeholder of a business:

The most directly affected stakeholders of a business firm are: shareholders, employees, and customers. But there are also indirect stakeholders like suppliers, competitors, regulatory institutes, and the general public.

There are conflicts of interest among, and expectations from, different stakeholders

- For example, to increase the salaries of employees will decrease the profits of shareholders of a business firm. In this situation, it demands that decision makers should be guided by fairness and equity, as well as impartiality.
- For instance, a company should provide a safe and pleasant working environment for its employees. On the other hand, it has the responsibility to repay a fair rate of return on investment to shareholders. Both parties' interests have to be balanced.

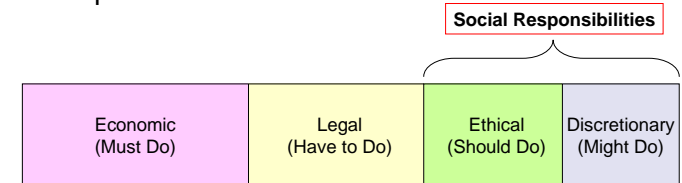
Expectations from stakeholders

- Customers provide a company with its revenue and, in exchange, they want high-quality, reliable goods/services.
- Governments provide a company with rules and regulations (e.g. anti-trust law, anti-dumping rules, and regulations on price collusion, etc.) that govern business practices and maintain fair competition. Governments expect companies to adhere to these rules.

(Source: Abridged from Hill, Charles W.L. and Jones, Gareth R. (2002) "Stakeholder Theory," *Strategic Management: An Integrated Approach*, 5th ed., Houghton Mifflin, NY, pp. 43-45.)

Responsibilities of business

- Responsibilities of business



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Learning and Teaching Example

Explain to students that although a business firm **MUST** make profit in order to survive, there is a need to extend its responsibilities to higher levels or wider dimensions.

1. Economic responsibilities are to produce goods and provide services to society so that the firm may repay its creditors and shareholders.
2. Legal responsibilities are defined by governments in laws that management is expected to obey.
3. Ethical responsibilities are to follow the generally held beliefs about how one should act in a society. For example, society generally expects firms to provide compensatory payments and trainings to those employees who are being downsized, although it may not be required by law.
4. Discretionary responsibilities are the purely voluntary obligations a corporation assumes, e.g. charitable contributions, donations, training the unemployed.

(Source: Adapted from Carroll, Archie B. (1991) "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Corporation Stakeholders," *Business Horizons*, vol. 34, July-August.)

What are social responsibilities?



- The obligations an organisation have to protect and enhance the welfare and interests of the society in which it operates.
- This concept involves:
 - Distinguishing right from wrong
 - Being a good corporate citizen

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Learning and Teaching Example

Explain to students what social responsibilities are.

- In addition to the responsibility of making profits, a business firm should have ethical responsibilities although it may not be required/governed by law.

(Remarks : The concept of social responsibilities suggests that businesses should consider the social implications, e.g. damaging the environment, creating inequality or exploitation of less developed countries, of their decisions.)

Source: Bowen, Howard R. (1953) *Social Responsibilities of the Businesses*, Harper & Brothers, New York; Koontz, Harold and Weihrich, Heinz (2004) "Management and Society: The External Environment, Social Responsibility, and Ethics," *Essentials of Management: An International Perspective*, 6th ed., ch. 2, Tata McGraw-Hill, New Delhi, p. 36 & p. 60.

Business Ethics



- Ethics are the disciplines dealing with what is good and bad; with moral duties and obligations. Then ...

What is Business Ethics?



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BAFS Compulsory Part
Learning and Teaching Example

Explain to students the concept of business ethics.

- Ethics are difficult to define in a precise way. In a general sense, ethics are "the disciplines dealing with what is good and bad and with moral duty and obligation" (Webster's Ninth New Collegiate Dictionary).

Aspects of business ethics

Business ethics are concerned with truth and justice and have a variety of aspects such as the expectations of society, fair competition, advertising, public relations, social responsibilities, consumer autonomy, and corporate behavior in the home country as well as abroad.

(Source: Abridged from Koontz, Harold and Weihrich, Heinz (2004) "Management and Society: The External Environment, Social Responsibility, and Ethics," *Essentials of Management: An International Perspective*, 6th ed., Tata McGraw-Hill, New Delhi, pp. 34-46.)

The Relationship between business ethics and social responsibility

- One aspects of business ethics is social responsibility:

Business Ethics have a variety of aspects including

1. Expectations of society;
2. Fair competition;
3. Consumer autonomy;
4. Protection of environment; and
5. Social responsibilities encompass two higher levels (or broader dimensions) of responsibilities:
 - Ethical responsibilities
 - Discretionary responsibilities
6. Advertising, public relations, and corporate behavior, etc.

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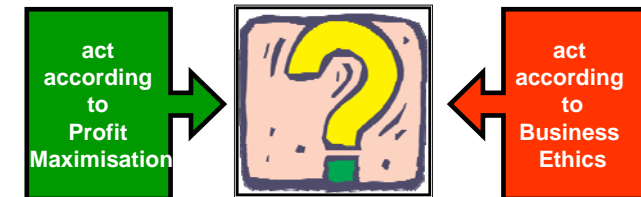
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Learning and Teaching Example

Teacher explains to students that:

1. Business ethics, with its broad concept, do have a variety of aspects (refer to slide # 4) including expectations of society, fair competition, consumer autonomy, social responsibilities, etc, but not limited to, social responsibilities.
2. Ethical and discretionary responsibilities are generally considered as the two dimensions of "social responsibilities".

The implication of business ethics

- **Business ethics** are the *moral principles, values, and beliefs* which govern business behavior, decision or action that conforms to generally accepted norms.



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Learning and Teaching Example

Explain to students the implication of business ethics.

- Business ethics, in a particular sense, can be understood as the moral principles, values, and beliefs which govern business behavior, decision or action that conforms to generally accepted norms.

(Source: Abridged from Koontz, Harold and Weihrich, Heinz (2004) "Management and Society: The External Environment, Social Responsibility, and Ethics," *Essentials of Management: An International Perspective*, 6th ed., Tata McGraw-Hill, New Delhi, pp. 34-46.)

Activity 2: Prioritise the factors of corporate social responsibility (CSR)



- Suppose you are one of the following:
 - A business manager
 - An ordinary citizen
- Consider the 15 CSR factors given on Student Worksheet p.3, rank them according to their importance.

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Learning and Teaching Example

Activity 2 :

The objective of the activity is to let students understand the expectation of CSR from stakeholders. Students are divided into two half classes. One group represents business. The other represents general public.

Students are provided with a list of 15 CSR factors on Student Worksheet p.3. Ask students acting with their assigned role to rank the factors of CSR by using 1 (the most important) to 15 (the least important).

Those 15 CSR factors are provided with abbreviations for easy reference:

1. Policy = Published social and environmental policies
2. Health and safety = Good health and safety practices
3. Environment = Good environmental performance
4. Governance = Good corporate governance
5. HRM = Good human resource management & employment practices
6. Community = Community investment and employee volunteering
7. Supply chains = Codes of conduct on supply chains and factory inspections
8. Product responsibility = Product and service responsibility and responsible marketing
9. Philanthropy = Philanthropy and charitable donations
10. Human rights = Support for human rights initiatives
11. Partnerships = Partnerships with other business and NGOs (non-governmental organisations which are non-profit, voluntary citizen groups)
12. Standards = Adherence to international standards and guidelines
13. Reporting = Social and environmental reporting
14. Corruption = Codes of conduct on bribery and corruption
15. Stakeholder dialogue = Ongoing stakeholder dialogue

Teacher gathers students' results and concludes

- (1) The 5 most important CSR factors; and
- (2) The 5 least important CSR factors.

Priority of Social Responsibilities



- Based on a study conducted by the University of Hong Kong (May 2007), the top five CSR factors from all samples of stakeholders are....
- Comparing your answers with those from the study of HKU, can you see any differences?

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The study was carried out in May 2007. Comparing the overall results across all samples groups to those of business stakeholders and non-business stakeholders may give some implications. (See the next slide)

Ranking of CSR Factors

Factor	Overall	Business	Non-business
Policies	8	9	8
Health and safety	2	1	2
Environment	1	2	1
Governance	3	3	4
HRM	4	4	5
Community	12	11	14
Supply chains	6	6	6
Product responsibilities	10	8	11
Philanthropy	15	15	15
Human rights	13	13	12
Partnerships	11	12	10
Standards	14	14	13
Reporting	9	10	9
Corruption	5	5	3
Stakeholder dialogue	7	7	7

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[Source: Welford, Richard, Chan, Clifford and Man, Michelle (2007) *Priorities for Corporate Social Responsibility: A Survey of Businesses and their Stakeholders*, a joint research project by CSR Asia, Centre of Urban Planning and Environmental Management, University of Hong Kong, May 2007; <http://www.csr-asia.com> (accessed on 10 November 2007).]

Rankings for CSR factors

- Businesses are generally in line with the expectations of their stakeholders.
- The top five CSR factors that business and its stakeholders concerned:
 - **Environment performance**
 - **Health and safety**
 - **Good governance**
 - **Human resource management practice**
 - **Corruption**

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Points be to Highlighted:

1. The 5 most important factors for businesses (health & safety, environment, governance, HRM, and corruption respectively) and non-business stakeholders (environment, health & safety, corruption, governance, and HRM respectively) are similar.
2. Stakeholder groups give slightly higher priority to some CSR factors when compared with businesses. Those areas include social and environmental policies, partnership with NGOs, international standards, social and environmental reporting and stakeholder dialogue. These areas may be examined further in future CSR programmes and practices.

From the results, teacher should highlight that the following CSR factors are ranked high by businesses in Hong Kong.

- environmental performance,
- health and safety,
- good governance and
- human resource management practice,
- corruption

[Source: Welford, Richard, Chan, Clifford and Man, Michelle (2007) *Priorities for Corporate Social Responsibility: A Survey of Businesses and their Stakeholders*, a joint research project by CSR Asia, Centre of Urban Planning and Environmental Management, University of Hong Kong, May 2007; <http://www.csr-asia.com> (accessed on 10 November 2007).]

Approaches to social responsibilities



- Different organisations react differently to social responsibilities
- There are four different approaches to social responsibilities

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Learning and Teaching Example

Explain to students that different firms adopt different approaches to social responsibilities.

There are four different approaches to social responsibilities (see the next slide)

Activity 3: Match the four different approaches to social responsibilities



Obstructionist

Moderate commitment to social responsibility; going beyond minimum levels when asked

Defensive

Minimal commitment to social responsibility; compiling with minimum legal requirements

Accommodative

Strong commitment to social responsibility; actively seeking opportunities to contribute

Proactive

Disregard for social responsibility; do as little as possible

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Learning and Teaching Example

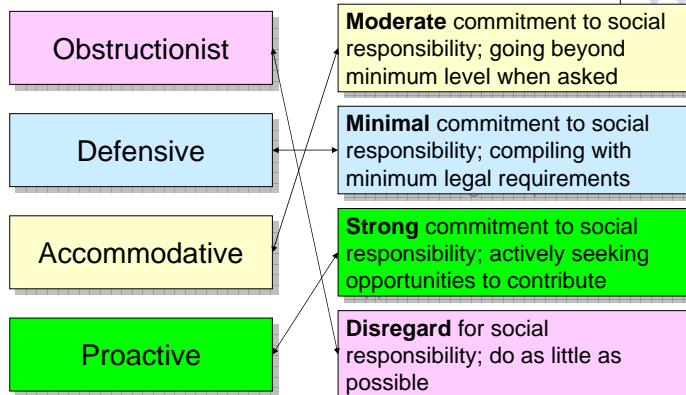
Activity 3 :

Ask students to match approaches on the left with their definitions on the right.

See the next slide for the answers.

(Source: Adopted from Gatewood, E. and Carroll, Archie B. (1981) "The Anatomy of Corporate Social Response," *Business Horizons*, September-October, pp. 9-16.)

Activity 3: Match the four different approaches to social responsibilities



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Learning and Teaching Example

Remarks:

1. Obstructionist managers choose not to behave in a socially responsible way. Instead, they behave unethically and illegally.
2. Defensive managers stay within the law and abide strictly with legal requirements. They make no attempt to exercise social responsibility beyond what law dictates.
3. Accommodative managers adopting this approach want to make choices that are reasonable in the eyes of society. They want to do the right thing when called on to do so.
4. Managers taking a proactive approach actively embrace the need to behave in socially responsible ways. They take an active way to learn about the needs of different stakeholders. They are willing to use organisational resources to promote the interests for both stockholders and other stakeholders.

End of Lesson 1

(Source: Adopted from Gatewood, E. and Carroll, Archie B. (1981) "The Anatomy of Corporate Social Response," *Business Horizons*, September-October, pp. 9-16.)

Activity 4: Case study

- Form groups of four to five
- Read Part I of the *Big-Eagle* case carefully and answer the discussion questions that follow.



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Learning and Teaching Example



Lesson 2

Activity 4 :

Ask students to form groups of four to five and read Part 1 of the *Big-Eagle* case on Student Worksheet p. 4 carefully. Then answer the questions that follow.

Big-Eagle (Part I): Questions and discussion



- Report the answers of your group



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BAFS Compulsory Part
Learning and Teaching Example

Teacher invites volunteers to present their answers.

Some suggested answers to the questions:

1. It appears that the criticism of *Big-Eagle* about treating its employees unfairly is justified. The reason for this is that society expects *Big-Eagle* goes beyond legal dimensions that are defined by governments in laws as the "lowest possible hourly wage". To be ethical, although wages are determined by market forces, we see the need for *Big-Eagle* to raise the hourly wage to an extent that can improve workers' standard of living.
2. It is probably fair to say that *Big-Eagle* should be partly responsible for the problems caused by oily, high-calorie, and unhealthy junk foods. The reason is that *Big-Eagle* should at least make its customers aware of the problems leading to obesity if customers consume such obese food regularly. Perhaps, *Big-Eagle* needs to add some more healthy foods to its menu.
3. Although it is more cost effective and convenient for using disposable tableware and containers, the environment will be damaged. *Big-Eagle* and their customers gain those economic benefits (high profits for *Big-Eagle* and cheaper price for customers) at the expense of society at large (health and environment).
4. *Big-Eagle* should not be blamed for the illegal or unethical practices of its suppliers because those acts are not totally controlled by the corporation. However, *Big-Eagle* has the responsibility to pressure its suppliers to make improvements.
5. (a) If those criticisms are true, *Big-Eagle* is NOT an ethical and socially responsible corporation.
5. (b) I would suggest *Big-Eagle* do the following so as to improve the circumstances:
 - *Big-Eagle* could stop procuring from those unethical suppliers. If not, it would mean that *Big-Eagle* tends to support those unethical partners. And this might damage the corporation's image.
 - *Big-Eagle* could publicise their unethical acts and blacklist them in the suppliers' list.



Big-Eagle (Part I): Conclusion



- It is probably fair to say that *Big-Eagle* is not socially responsible because:
 - It treats employees unfairly with long work hours at unjust wages.
 - It produces and sells obese and unhealthy food.
 - It damages the environment by over-using disposable tableware and containers.
 - It procures from unethical suppliers.

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Learning and Teaching Example

Teacher draws the conclusion in Part I.

Conclusion

Conclusion can be drawn from Part I of the *Big-Eagle* case as follows:

In terms of ethical issues, *Big-Eagle* is not socially responsible because:

1. It makes their employees long work hours at unjust wages;
2. It produces and sells obese and unhealthy food;
3. It damages the environment by over-using disposable tableware and containers.
4. It procures from unethical suppliers who are often the target of attacks on their policies, such as hiring child labour in less developed countries.

To be objective

- These criticisms may only be a part of the story. Let's go to Part II of the *Big-Eagle* case and we may see the bigger picture.



Activity 4: Case Study *Big-Eagle* (Part II)



- Read Part II of *Big-Eagle* case on Student Worksheet p.8 carefully and answer the discussion questions that follow.

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Part II of the *Big-Eagle* case

Ask students to remain in their groups and continue to read Part II of the *Big-Eagle* case on Student Worksheet p.8. Then ask students to answer the questions that follow.



Big-Eagle (Part II): Questions & discussion



- Present your group answer



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BAFS Compulsory Part
Learning and Teaching Example

Invite volunteers to present their answers.

Suggested answers to the questions:

1. It is difficult for the government to have complete and fair regulations on some of these issues. In some cases, such as protection of environment, minimum wages etc., Regulating it by legislations may be more effective. In most cases however, (e.g. procuring from "unethical" suppliers), the initiatives of corporations are more important. The government's role is to promote a climate of corporate social responsibilities through public education to raise the awareness of such issues (i.e. newspapers, television etc.)
2. The actions taken may affect the company's short-term profitability and financial performance. But they will help to build the company's reputation and corporate image, and improve the company's value in the long run.
3. *Big-Eagle* may have done all these things due to social pressure. Perhaps *Big-Eagle's* management team is more concern with the immediate profits as it priority. Nonetheless, these actions taken to improve the welfare and interests of society at large will build the long term benefits for the company.
4. In the short run, these actions may not improve the profitability of the corporation. But the corporation may expect more returns in the long run because customers would switch to a company that is ethical and socially responsible.
5. Sometimes it is costly for a company to act ethically and be socially responsible. But these actions could bring about a lot of intangible and long term benefits to the company such as customer loyalty, customer satisfaction, brand awareness, brand value, better employee performance and word-of-mouth promotions.



Big-Eagle (Part II): Conclusion



- Integrity and trust are essential elements in keeping successful and profitable relationships with stakeholders.
- It requires using mechanisms to govern managers and ensure that their actions are consistent with the interests of the stakeholders.

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Learning and Teaching Example

Teacher points out that:

- Many of today's best companies (e.g. Johnson & Johnson, Merck, Boeing, Xerox) realise that success can be measured in many ways, and not everything can be shown on its financial statements.
- For example, the Domini Social Index, created in 1989 to track the stock performance of socially responsible companies, indicates that those who are socially responsible perform better financially.
- A recent study by Walker Research found that when price and quality are equal, two-thirds of the customers say they would switch to a company that is ethical and socially responsible.

Teacher concludes that:

1. Ethical and socially responsible companies understand the needs and problems of their stakeholders.
2. Although doing the right thing might not always be profitable in the short run, it develops a level of trust that money cannot buy and that will benefit the company in the long run.
3. As integrity and trust are essential elements for establishing long-term relationships with stakeholders, corporations are required to use certain mechanisms to govern their managers. This leads to the discussion of "Corporate Governance".

(Source: Collated from Chapiro, Mark (2001) "All Over the Board," *grok*, Feb-Mar, pp. 110-112; Reported in "The Socially Correct Corporate Business," n.d., n.p.; Daft, Richard (2003) "Managerial Ethics and Corporate Social Responsibility," *Management*, 6th ed., ch. 5, Thomson South-Western, Ohio, pp. 159-160, p. 167.)

Corporate governance



- To ensure that a company will act ethically and be socially responsible, corporate governance is required.
- Corporate governance is 'the mechanisms that are used to govern managers and ensure that the actions are consistent with the interests of key stakeholder groups' (Hill & Jones, 2001).

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Learning and Teaching Example

Teacher recaps the conclusion in Part II of the *Big-Eagle* case and introduces the concept of corporate governance to students.

(Source: Hill, Charles and Jones, Gareth, R. (2001) "Corporate Governance," *Strategic Management*, 5th ed., ch. 2, Houghton Mifflin, NY, p. 43 & pp. 57-65.)

Activity 5: Discussion



- If you were the shareholder of a company, but not running the company yourself, what would you do to make sure that the managers who ran your business were taking care of the interests of you and your stakeholder groups?

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Activity 5 :

Invite students to respond to the question.

Some suggested answers:

1. Hire the right persons that can be trusted (or are trustworthy);
2. Setup rules, systems, and regulations for the managers to follow;
3. Setup a board of directors to supervise and monitor the managers;
4. Reward the managers on the basis of business performance; and
5. Setup a control mechanism by requesting the managers to report, in writing, the current business conditions including profit and loss, long-term and short-term debts, ethical issues, etc.

Conclude the discussion and relate the answers to corporate governance.

Commonly accepted principles of corporate governance



- Respect shareholders' rights
- Recognise other stakeholders' interests
- Appoint competent and effective directors
- Promote ethical and responsible acts by means of code of conduct
- Require proper disclosure and transparency

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Business Ethics and Social
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BAFS Compulsory Part
Learning and Teaching Example

Teacher discusses the commonly accepted principles of corporate governance with students.

1. Shareholders, who invest in the organisation, have the rights to expect and receive a 'fair' rate of return on investment.
2. The interests of other stakeholders, such as the fair working condition and pay of employees; the quality of products/services to consumers; the punctuality of payments to creditors, have to be taken care of.
3. To ensure that the decisions are made in the best interests of shareholders/stockholders and other key stakeholder groups, without 'doing things wrong', there is a need to appoint competent and effective directors.
4. Corporate social responsibility (CSR) concerns an organisation's values toward society. How can an organisation ensure that the actions managers take are consistent with the interests of key stakeholder groups? The answer is that there is a need for the management to set a role model and to promote a climate of ethics and social responsibilities by using 'code of conduct' (a formal statement of the organisation's values regarding conducts, ethics, and social issues)
5. Where and when necessary, there is a need for managers to disclose the corporation's affairs and to make the corporation more democratic by:
 - (a) increasing the role of government;
 - (b) allowing citizen or public participation; and
 - (c) encouraging the active participation of all or many of its shareholders.

(Source: Abridged from Freeman, Edward and Reed, David (1993) "Stockholders and Stakeholders: A New Perspective on Corporate Governance," *California Management Review*, vol. 25, No. 3, Spring, pp. 88-106.)

External corporate governance mechanisms



- Government regulations
- Pressure from the media and pressure groups
- Competition
- Corporate takeover

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BAFS Compulsory Part
Learning and Teaching Example

Teacher explains the external corporate governance mechanisms so as to govern managers and ensure that the actions they take are consistent with the interests of key stakeholder groups:

External mechanisms of corporate governance

1. Government regulations – companies have to obey laws, rules and regulations related to corporate governance. For example, listed companies are required to have two tiers of management: the CEO, who takes charge of business related decisions, is separated from the Chairman who chairs the board of directors for the appointment of directors and CEO.
2. Pressure from the media and pressure groups – companies are subject to criticism from the media and pressure groups if they have problems on corporate governance. For example, before making a decision on price collusion (secret agreement among oligopolies), anti-dumping, workers' pay, or polluting the environment, managers must review that these decisions may be subject to criticism from the media and pressure groups.
3. Competition – companies' competitiveness may be affected if they are behind their competitors in corporate governance. For example, a recent study by Walker Research has found that when price and quality are equal, two-thirds of customers say they would switch to a company that is ethical and socially responsible.
4. Corporate takeover – If stockholders' interests are ignored by the board of directors and management, stockholders may sell their shares. If many stockholders are selling their shares, share price will decline. When the stock price falls low enough, the company may become an attractive acquisition target. If the company is acquired, directors and senior managers are typically replaced by new owners of the company. So, the threat of takeover can pressure the board of directors and management to take care of stockholders' interests.

(Source: Hill, Charles and Jones, Gareth, R. (2001) "Corporate Governance," *Strategic Management*, 5th ed., ch. 2, Houghton Mifflin, NY, pp. 62-63.

Corporate governance



- Good corporate governance is important because
 - (1) At the corporation level
 - Achieve better financial performance
 - Improve competitiveness

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BAFS Compulsory Part
Learning and Teaching Example

Teacher concludes the session by discussing the benefits of good corporate governance.

1. Studies support that a company's social behaviour affects the price of its stock because many investors see companies that are not socially responsible as riskier investments. The rationale is that investors are willing to pay higher prices for the stocks of well-governed companies.

(to be continued on the next slide)

Corporate governance



(2) At the national level

- Contribute to the sustainability of economic growth
- Improve the welfare of the society when engaged in CSR

(3) At the stakeholders' level

- Receive fair rate of return
- Treated with respect

2. Corporations engage in ethical behaviour and CSR will enhance the welfare of society at large (e.g. improve environment, or empower employees to give them a sense of self growth, or support donations).
3. Because of the close-knited relationship between private and public sectors, good corporate governance practices in the private sector would encourage good governance at the national level.
4. Ethical and socially responsible corporations balance the interests of all stakeholder groups, respect others with honesty, and treat different stakeholders fairly.
5. Good corporate governance maximises stockholder wealth and balances the interests of other stakeholders. Good corporate governance allows companies to realise their maximum productivity and efficiency which contributes to the overall economic growth of their countries and the world.

(Source: Collated from Waddock, S. A. and Graves, S. B. (1997) *The Corporate Social Performance – Financial Performance Link*, *Strategic Management Journal*, vol. 8, pp. 303-319; Hill, Charles and Jones, Gareth, R. (2001) "Corporate Governance," *Strategic Management*, 5th ed., ch. 2, Houghton Mifflin, NY, pp. 59-70.; Daft, Richard (2003) "Managerial Ethics and Corporate Social Responsibility," *Management*, 6th ed., ch. 5, Thomson South-Western, Ohio, pp. 159-167.)

The End



End of Lesson 2

BAFS Compulsory Part - Business Environment

Topic C02: Business Ethics and Social Responsibilities



Activity 1: Debate

"Business people are moral people"

Write down the arguments of the proposition.

Arguments for the proposition:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

Arguments against the proposition:

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

Activity 2: Prioritise the Factors of Corporate Social Responsibilities

Rank the factors of corporate social responsibilities (CSR) by using 1 (the most important factor) to 15 (the least important factor)

Abbreviation	CSR Factor	Ranking
Policies	Published social and environmental policies	
Health and safety	Good health and safety practices	
Environment	Good environment performance	
Governance	Good corporate governance	
HRM	Good human resource management & employment practices	
Community	Community investment and employee volunteering	
Supply chains	Codes of conduct on supply chains and factory inspection	
Product responsibility	Product and service responsibility and responsible marketing	
Philanthropy	Philanthropy and charitable donations	
Human rights	Support for human rights initiatives	
Partnerships	Partnership with other business and NGOs (non governmental organisation)	
Standards	Adherence to international standards and guidelines	
Reporting	Social and environmental reporting	
Corruption	Codes of conduct on bribery and corruption	
Stakeholder dialogue	Ongoing stakeholder dialogue	



Activity 4: Case Study

Big-Eagle (Part I)

Form groups of four to five. Read the following case carefully and complete the discussion questions that follow.



Big-Eagle is a leading global foodservice retailer with more than 30,000 local restaurants serving 52 million people in more than 100 countries each day. In Hong Kong, there are over 200 *Big-Eagle* restaurants hiring more than 10,000 employees. However, *Big-Eagle* is also one of the most criticised companies in the world.

Big-Eagle has been criticised of:

A. Treating its employees unfairly with long work hours at unjust wages.

According to surveys done by a trade union in Hong Kong, the average hourly wage for *Big-Eagle's* employees early this year was just slightly over HK\$15. Although in September, *Big-Eagle's* hourly wage was raised from HK\$17 to about HK\$20~23, it was still among the lowest paid job categories. In other less developed countries, the conditions are worse.

B. Selling unhealthy food

At *Big-Eagle*, most meals served to customers are oily, high-calorie, unhealthy junk foods that could cause obesity and other health problems if consumed regularly.



C. Un-environmental friendly

Big-Eagle is well known for over-packaging. Large quantities of wrapping paper, plastic straws, tableware, and poly-foam containers, which are neither degradable nor recyclable, are used by *Big-Eagle*. This is detrimental to the environment, which in turn is hazardous to human health.

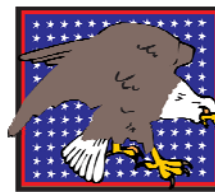
**D. Purchase from Unethical Suppliers**

It has been reported that *Big-Eagle* procures some of the toys, which go with its meals, from "unethical suppliers". Those suppliers have been the targets of attacks on policies, including child labour and workers' pay in developing countries (such as China and Pakistan). Moreover, in some places, the working conditions of these suppliers are bad or unsafe.





Questions and discussion



Big-Eagle (Part I)

1. Do you think those criticisms of *Big-Eagle* about treating its employees unfairly are justified? Why or why not?

(Please also consider the market forces, including supply and demand, in the labour market)

2. Should *Big-Eagle* be responsible for the problems caused by oily, high-calorie and unhealthy junk foods? Why or why not?

(Please note that, in the free market, customers have the right not to choose *Big-Eagle*.)

3. Is it reasonable for *Big-Eagle* to use disposable tableware and containers because it is 'cost effective' and 'convenient'? Why or why not?

4. *Big-Eagle* should not be held responsible for the illegal or unethical practices of its suppliers. Do you agree? Why (not)?

- 5 (a) On the whole, do you think that *Big-Eagle* is an ethical and socially responsible corporation?

(b) If 'yes', why do you think so? If 'no', what do you suggest *Big-Eagle* do in order to improve the situation?



Activity 4: Case Study



Big-Eagle (Part II)

Read the following case and complete the discussion questions.

To be socially responsible, *Big-Eagle* has taken actions to protect the interests of their key stakeholders. The following are some examples of such responsible acts.

- A. As mentioned earlier, the hourly wage of employees in *Big-Eagle's* Hong Kong restaurants was increased from HK\$17 to HK\$20-23 in September this year.
- B. After receiving the criticisms about selling obese food, *Big-Eagle* has removed those Huge Size meals from its menu and added some healthy items, such as green salad, to its menu.



- C. *Big-Eagle* decided to voluntarily reduce the trans-fat content of its cooking oil. Also, *Big-Eagle* donated money to charitable organisations to show their interest in taking care of the community.



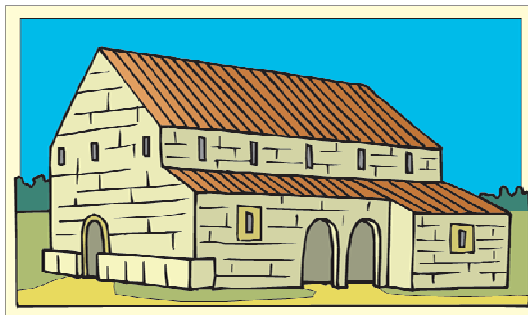
- D. *Big-Eagle* has taken initiatives to show their concerns of the environment. To name a few, *Big-Eagle* started:

- Using thinner wrapping paper, recyclable tableware and containers in September this year.
- Launching campaigns, such as "No Straw Day" and "Waste Recycle Program", to promote environmental protection.



"No Straw Day"

- E. *Big-Eagle* has set up a set of Code of Conduct for Suppliers. Suppliers of *Big-Eagle* have to comply to the Code of Conduct denoting *Big-Eagle's* expectations of procedure & staff management.
- F. *Big-Eagle* has been participating in community services and supporting charity. For instance, 5 years ago, the first *Big-Eagle* House in Asia was opened. The *Big-Eagle* House serves and helps parents whose children are seriously ill in hospital.





Questions and Discussion

Big-Eagle (Part II)

1. Do you think the government should regulate business ethics and social responsibilities? Why or why not?

2. If you were a member of the *Big-Eagle's* management team, would you think the above actions taken were appropriate? Why or why not?

3. In your view, what are the rationales behind *Big-Eagle's* actions?



4. Do you think that *Big-Eagle* takes these actions in a way to improve its profitability?

5. Do you think ethical and socially responsible business practices are always in conflict with profitability? Justify your answer.

6. Assuming that you are a *Big-Eagle* stockholder (of a substantial shares amount) but some of your close relatives are working there.



- (a) Would you respond differently to the above questions?

- (b) If "yes", which question(s)? Why or why not?
