Learning Objectives

On completion of this unit, you should be able to:

- identify various stakeholders in business and social context;
- explain why a business should be ethically responsible to various stakeholders;
- explain how a business should be ethically responsible to various stakeholders; and
- describe how business ethics and social responsibilities affect business decisions.
How businesses affect us? (1)

- Everyday, we come across a lot of businesses to support our needs. These businesses include:
  - Transport companies taking us to our workplaces like MTR, KCR, bus companies
  - Restaurants or cafés providing us with breakfasts, meals
  - Banks offering us financial services
  - ………………………………., etc.

- Have you thought of how these businesses are affecting us?
How businesses affect us? (2)

- Businesses affect many different groups of people such as customers, employees, owners, suppliers............
- As a result, businesses need to take into account how they impact upon the affected groups.

Challenging Corner 1

- Consider the following case:
- A jewellery company sold gold plated jewellery to tourists from Mainland China but labelled its products all made of real gold.
- The management in the company told its employees to fabricate the information on the actual gold contents when asked by customers.
- How does this practice affect different groups of people in which they have an interest?
Challenging Corner 1 (solution)

Your answer may include ....

- The jewellery company
  - Defrauding its customers.
  - Its only business aim is to earn profit without considering other stakeholders' interest
- Customers
  - Are deceived by the unethical practice of the jewellery company
- Employees
  - Commit an offence if they knowingly sell the jewellery using incorrect product description.
- Hong Kong community
  - The reputation is damaged.
  - Tourists may be deterred from visiting HK.

Issues of Business Ethics

In this case........

It can be seen that unethical business practices
  - can be a crime since such practices break the law
  - will affect other groups’ (i.e. stakeholders’) interests.
Who are the stakeholders in a business?

- A stakeholder is a person or a group that has a claim or expectation of how a business should be operated.
- Stakeholders can be divided into:
  - Primary stakeholders
  - Secondary stakeholders

Primary and Secondary Stakeholders

**Primary Stakeholders**
- are those stakeholders whom a business affects and interacts with most directly.

**Secondary Stakeholders**
- are those stakeholders whom a business affects indirectly or limitedly.

[Source: Fry, Stoner & Hattwick (2004)]
Stakeholders – Examples

**Primary Stakeholders**
- Owners/Shareholders
- Customers
- Employees (or their labour unions if the firm is unionised)

**Secondary Stakeholders**
- Suppliers
- Former employees
- Unions
- Environmentalists
- The industry in which the firm operates its business
- Government
- The media
- The community
- Society in general

**Shareholder Interest Advocates (1)**

- Some people, like the Nobel Economic Prize Laureate Milton Friedman, view the business as only having one stakeholder, the shareholder. Friedman said that
  - “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the role of the game, which is to say, engages in open and free competition without deception and fraud.” [cited in Beauchamp, T.L, & Bowie N.E. (2007), p.55]
Shareholder Interest Advocates (2)

- Legally, the shareholder interest approach is well supported.
- It is because under the law, businesses, operated in the form of corporations, are created artificially as a legal person.
- Directors and managers of the firm have a fiduciary obligation to look after the interest of the shareholders who are the owners of the firm.

Shareholder Interest Advocates (3)

- This view is also supported by the economist Adam Smith where his invisible hand argument opined that corporations should be guided by the market competition.
- In other words, in a free economy, if every person is acting on his own self-interest, the society will eventually be benefited by these selfish actions even though every individual does not consciously act for the good of the society.
Challenging Corner 2

• Advocates of shareholders’ interest approach believe that it is not the job for businesses to address the interest of other stakeholders or social problems.

• Do you think that the advocates’ view on the shareholders’ interest is held by large businesses in Hong Kong, like the HSBC, China Light, Sun Hung Kei Properties etc?

• Go to the HSBC website to look at the stakeholders that HSBC has identified via the following link: http://www.hsbc.com.hk/1/2/cr/home

Challenging Corner 2 (solution)

• In the HSBC website, you can identify the stakeholders: Community, People, Suppliers, Employees …..

• You can also see that HSBC is heavily involved in a lot of community projects in areas of education, environmental protection, etc.

• Hence, the shareholders interest approach is NOT viable in actual business world since businesses cannot be operated in a vacuum without taking into account the interests of other stakeholders.
Definition of Business

- Taking into account the stakeholders’ interest, a more comprehensive definition of business can be:

“A business is an organisation that strives for profits for its owners while meeting the needs of its customers and employees and balancing the impacts of its action on other stakeholders.”

[source: Fry, Stoner and Hattwick (2004), page 126]

Challenging Corner 3

Select a company with which you are familiar, and identify the stakeholders of the company.

- Who are primary stakeholders and who are secondary stakeholders?
- What are the responsibilities of these stakeholders to the company and what do they expect in return?
Challenging Corner 3  (solution)

- In your chosen company, you may have identified the following parties (or more) and their responsibilities and expectations:
  - Owners (shareholders): provide capital and expect return on their investments
  - Customers: provide revenue and expect quality products and services
  - Employees: provide labour and skills and expect fair pay and treatment
  - Suppliers: provide materials and services and expect favourable contracts and relationships
  - Communities: provide the environment and facilities and expect the business to contribute to community projects, support education and protect the environment.

Stakeholders’ Relationship

- As we see from the above case, different stakeholders have different responsibilities and expectations towards the company.
- These expectations are sometimes conflicting.
- How can the company balance their interests and maintain the relationships with them?
- The answer is that the company needs to consider the role of **business ethics** in maintaining the interests of all stakeholders.
What is Business Ethics?

- Business ethics is the search for and commitment to meet appropriate standards of moral conduct in business situations. (Fry, Stoner & Hattwick (2004))
- Simply speaking, it means to identify the appropriate way to act in various business situations.
- In general, business ethics involves
  - …… integrity, honesty, protection of life, respects for rights, fairness, and law observance.

Reasons for Focusing on Ethics

- There are many reasons for businesses to focus on ethics:
  - Customers demand ethical behaviour
  - Employees want to work for businesses that meet high ethical standards
  - The society expects acceptable ethical behaviour consistent with its moral standard
  - …………………, etc.
Challenging Corner 4

- Pause for a moment and think ……
- Is making ethical decision an easy matter for businesses?

Challenging Corner 4 (solution) (1)

- The answer is very often NO.
- Consider the practice of making money contributions to political parties by large businesses.
- Their aim is to lobby for favourite business treatments when the political party comes to power.
- In return, the businesses expect profitable commercial contracts from the government which is controlled by the political party.
• Are these large businesses acting ethically?
• The answer depends on the perspectives of the stakeholders:
  - Shareholders: they will support the contribution since this can create business opportunities
  - Employees: they will support since their jobs will be more secured if more government contracts are granted
  - The society: their public interest may be hurt since the political party after receiving the contribution may be biased and provide unjustifiable favourable treatment to the businesses

Moral Dilemmas

• Sometimes, making decision ethically is challenging because of the existence of conflict of interests among different stakeholders.
• These situations are called moral dilemmas.
• The resolution of these dilemmas require managers to have some knowledge of ethical theories to provide reasoning for their choices.
Elements of Moral Dilemma

- Private Morality (Personal Moral Standards)
- Other Demands (Situations and other People)
- Conflict
- Decision and Action
- Consequences


Ethical Theories

- There are many theories on ethics. 4 important ethical theories are described as follows:
  - The utilitarian approach (功利論)
  - The rights approach (權利論)
  - The justice approach (公義論)
  - The virtue approach (美德論)
• The utilitarianism approach (功利論) holds that whether an action is right or wrong depends on whether it will bring the most pleasure and least pain to the greatness number of people.

• In other words, whether an action is considered ethical depends on the consequence of that action as to whether directly or indirectly, it can bring about the greatest benefit to the greatest number of people.

[Source: Santa Clara University
http://www.scu.edu/ethics/practicing/decision/framework.html]

• The rights approach (權利論) believes that our behaviour must respect interests or activities in areas of lives that are of value which requires protection from others.

• This approach requires that there are certain individual rights which must always be protected. If a decision violates such right, it is not ethical.
Ethical Theory – the Justice Approach

- The justice approach (公義論) focuses on how fairly or unfairly our actions distribute benefits and burdens among the members of a group.
- Fairness requires consistency in the way people are treated.
- This approach requires that all decisions be guided by consideration of equity, fairness and justice.

[Source: Santa Clara University
http://www.scu.edu/ethics/practicing/decision/framework.html]

Ethical Theory – the Virtue Approach

- The virtue approach (美德論) focuses on attitudes, dispositions, or character traits that enable us to act in ways that develop our human potential.
- Examples: honesty, courage, faithfulness, trustworthiness, integrity, etc.
- The principle states: "What is ethical is what develops moral virtues in ourselves and our communities."

[Source: Santa Clara University
http://www.scu.edu/ethics/practicing/decision/framework.html]
How each ethical theory requires different standards

• **Utilitarian Approach:** The ethical action is the one that will produce the greatest balance of benefits over harms to the great number of people.

• **Rights Approach:** The ethical action is the one that most dutifully respects the rights of all affected.

• **Justice Approach:** The ethical action is the one that treats people equally, or if unequally, that treats people proportionately and fairly.

• **Virtue Approach:** The ethical action is the one that embodies the habits and values of humans at their best.

[Source: Santa Clara University
http://www.scu.edu/ethics/practicing/decision/framework.html]

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Challenging Corner 5 (1)

• You work in a company which treats its staff with little respect. The pay is not good and many colleagues just stay in the company in the hope of getting another better job.

• It is the company’s policy forbidding the use of company email for personal reasons.

• As a response to these unsatisfactory conditions, your colleagues take for granted to bring home office supplies like computer disks and papers for personal use.

• What would you do in the above situation?
Challenging Corner 5 (2)

• Some colleagues used the company computers to search for job openings in office hours.
• Your colleagues complete their jobs satisfactorily and their practices do not seem to hurt anybody.
• What do you think of their actions?
• Would you follow their practices? Or would you inform the manager of the practices?

Challenging Corner 5 (solution) (1)

• There is no easy answer to problem. However, if you apply different ethical approaches, you may come up with the answers as follows:
  - The utilitarianism approach: Not useful since we do not know which stakeholders constitute the greatest number, whether the shareholders or the employees....
  - The justice approach: Probably, we will maintain that despite the unsatisfactory work conditions, it is NOT justifiable for the employees taking home office supplies and doing private things during office hours.
Challenging Corner 5 (solution) (2)

- The rights approach – we may assert that the rights of the employers need to be protected

- The virtue approach: this approach is conclusively demanding that it is morally unacceptable for such practice since it will not develop good virtue among employees to follow the practice

• As a summary, the 4 approaches, except the utilitarianism approach, show that you should not follow the practice but there is no definitive answer as to whether you should inform the manager.

What Corporate Social Responsibility (CSR) does? (1)

• With the emergence of stakeholder interest approach, we will examine the issue of Corporate Social Responsibility (CSR) which is the next important concept in this unit.
What Corporate Social Responsibility (CSR) does? (2)

• CSR is closely linked to the principles of sustainable development which implies that corporations should not make decisions solely relied on profit maximisation,

• but to consider the immediate and long term impact of their activities on social and environmental consequences.

What Corporate Social Responsibility (CSR) does? (3)

• Furthermore, CSR is not the same as charity but goes far beyond.

• It requires corporation as a responsible organisation (or termed corporate citizen) to take into account all the impacts of their decisions on all stakeholders and the environment.
What Corporate Social Responsibility (CSR) does? (4)

- With the CSR approach, corporations need to balance the needs of all stakeholders together with its objective to maximise profit for their shareholders.

- Next, we will examine the definitions of CSR.

Corporate Social Responsibility - Definitions (1)

- Currently, there is no generally accepted definition of corporate social responsibility.

- Some definitions are listed as follows:
  - Business for Social Responsibility (BSR) defines CSR as
    - "operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business".
• The World Business Council on Sustainable Development's (WBCSD) defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life".

• The United Nations Conference on Trade and Development (UNCTAD) defines CSR as concerning essentially "how business enterprises relate to, and impact upon, a society's needs and goals".

• To summarise, CSR is generally related to enterprises which conduct business in such a way that:
  - these practices meet or exceed the legal, ethical and public expectations, and
  - take into considerations the effect of these business practices on different stakeholders including employees, shareholders, investors, customers, suppliers, government regulators and non-government organisations.

• With the CSR approach, businesses try to voluntarily show concerns on social and environmental issues through interactions with various stakeholders.
Although the idea of CSR originated from an American, Howard R. Bowen in his book “Social Responsibilities of the Businessman” published in 1954, the concept only enjoyed rapid development in the past decade.

Can you think of the reasons behind its rapid development? Pause a moment before you proceed…..

You may have already jotted down a number of points. The following provide you with a more comprehensive list. The reasons can be:

- globalization;
- trade liberalisation;
- social and environmental expectations of citizen in developed countries;
- increasing use of supply chains and codes by Multinational National Corporations (MNCs);
- growing customer and investor interests;

[Source: Trade Development Council (2005)]
Challenging Corner 6 (solution) (2)

- Interventions of inter-government bodies such as United National, International Labour Organisation and Organisation for Economic Co-operation and Development (OECD);
- Emergence of CSR standards. CSR standards are not only promulgated by governmental bodies, but also NGOs and industrial associations like standards set by the International Organisation for Standardisation (ISO);
- Development of CSR Reporting industry;
- Advances in communication technology; and
- Labour market competition.

[Source: Trade Development Council (2005)]

Unit Outline

Why CSR becomes strategic issues to companies (1)

• Corporations need to have CSR policies in order to minimise risks in carrying on business since mishandling of social and environmental issues
  - will tarnish their reputation and
  - adversely affect their brand values
  - leading to a decrease of their competitive advantage.
Why CSR becomes strategic issues to companies (2)

• **Triple Bottom Line Accounting** is a new method of corporate disclosure by listed companies which
  - expands the traditional financial reporting in accordance with statutory prescribed requirement
  - to include and integrate with environmental and societal activities undertaken by the companies.

• However, social accounting reporting is still in the development stage and is only voluntarily undertaken by listed corporations on an ad hoc basis.

Argument against the practice of CSR (1)

• Some people **disagreed** that there is a justification for businesses engaged in CSR activities since there exists insufficient evidence that such activities benefit shareholders as well as other stakeholders.
• The strongest argument comes from the renowned economist Milton Friedman who opined that the primary goal of a corporation is to serve for shareholders’ interest.

• In an efficient stock market, if CSR activities actually benefit shareholders, the “invisible hand” should lead corporations to focus on these activities which eventually maximise corporations’ profits.

• Milton Friedman stated that “….Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of social responsibility other than to make as much money for their shareholders as possible. This is a fundamentally subversive doctrine.”

[Source: cited in Steiner and Steiner (2006), p 121]
What justifies business to practise CSR?

- Given the emphasis of shareholders’ wealth maximisation under the shareholder interest approach, advocates of CSR argue that corporations cannot be operated in isolation from a broader society since their actions affect not only their shareholders but other stakeholders as well.

CSR Support from Michael Porter

- Michael Porter, a Harvard Professor and renowned economist, suggests that there is no conflict between contributing to CSR and improving the business environment in which corporations operate.

- Porter advocates that through the use of corporate philanthropy (donation), corporations can leverage their relationships supporting social causes with a view to improving its competitive advantage which can be sustainable in the long term.

[Source: Hong Kong Trade Development Council (2005)]
Can you think of the benefits of practising CSR activities from the perspectives of:
- Company
- Society
- Environment?

**Company Benefits:**
- Improved financial performance & higher company valuation
  - since companies adopting CSR carry less risk, a higher valuation can be placed on these companies
- Enhanced brand image and reputation
- Increased sales and customer loyalty
- Allow workforce diversity
- Greater productivity and quality
- Reduced regulatory oversight
- Easier access to capital
- Product safety and decreased liability

[Source: Hong Kong Trade Development Council (2005)]
Societal Benefits:
• Charitable contributions
• Employee volunteer programmes
• Corporate involvement in community education, employment and other programmes
• Product safety and quality

[Source: Hong Kong Trade Development Council (2005)]

Environmental Benefits:
• Greater material recyclability
• Better product durability and functionality
• Greater use of renewable resources
• Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling

[Source: Hong Kong Trade Development Council (2005)]
How should a business be ethically responsible to stakeholders? (1)

• The matter can be viewed in 2 angles.

• At a micro level, a business should act ethically in order not to breach the law and act fairly to its stakeholders.
  - For example, staff should not be allowed to accept bribe which is detrimental to the company’s interest and unfair to other stakeholders.

How should a business be ethically responsible to stakeholders? (2)

• At a macro level, the development of CSR will require
  - a business to take wider social responsibilities to balance the interests of all stakeholders
  - which far exceeds its legal responsibility required under the law.

• In CSR, the business is viewed as a corporate citizen, like a human citizen, which needs to consider the long term interests of the society.
How should a business be ethically responsible to stakeholders? (3)

- A quotation from the World Business Council for Sustainable Development (2006, p.8) report highlights the following:
  
  - The purpose of any business that seeks to be sustainable has to be more than generating short-term shareholder value, simply by adding the word long term to shareholder value, we embrace everything necessary for the survival and success of the company.
  
  - This includes building trust among communities and maintaining a healthy environment in which to do business.

How should a business be ethically responsible to stakeholders? (4)

- In CSR, social issues like
  
  - addressing poverty,
  
  - addressing education needs of growing populations,
  
  - remedying the impact of globalization on workers in the development of global supply chain,
  
  - maintaining sustainable development in protecting the environment
  
  - need to be taken into account by the business.
How should a business be ethically responsible to stakeholders? (5)

- We first examine the issue at a micro level.
- ICAC (2003) suggested the implementation of an ethics programme to practise business ethics. The programme includes the following 3 components:
  - Set up a corporate code of conduct;
  - Strengthen a system of controls; and
  - Organising regular training programmes to enhance the ethical standards of staff members.

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Set up a corporate code of conduct (1)

The company code needs to be formulated and enforced. The following steps illustrates the formulation of a company code.

1. Initiated from the top management
2. Drafting the code of conduct
3. Consulting staff at relevant levels, especially views from functional managers
4. Endorsing the code from senior management, e.g. board of directors
5. Regular review by a designated person
• After the formulation, the company code needs to be enforced and the following steps are to be included:

1. Communication to directors and staff members
   • The code of conduct can be incorporated in staff handbook, appointment letter, terms and conditions of services and in form of circulars or memos
2. Communication to outside parties
   • Suppliers, contractors and other business partners are informed of the code
3. Ensuring compliance
4. Establishing channels of complaints

General Principles of System Controls

• ICAC (2003) suggested the following 10 general principles of system controls in its internal control measures:
  1. Clear company objectives
  2. Clear work procedures
  3. Clear job responsibilities
  4. Segregation of duties and functions
  5. Adequate safeguards against tampering with sensitive information
  6. Effective staff supervision
  7. Independent and active audit function
  8. Channels for complaints and views
  9. Continuous monitoring and review
  10. Promoting a company-wide ethical culture
Finally, ICAC (2003) suggested that a well-planned ethics training programme is required to enable the company to develop an ethics culture. The training programmes should include:

- Legal requirements on the legislation governing corruption and fraud;
- Conduct requirements as expected by the company of its staff;
- Skills in handling situations of ethical dilemmas at work; and
- Preventive measures for unethical practices, e.g. developing skills in managing staff integrity.

Implementing CSR initiatives

- After dealing with how business should be ethically responsible to stakeholders at a micro level, we will move to consider the broader issues of implementing CSR activities.
- Since the field of CSR initiatives is still developing, there is NO universally agreed framework of implementation.
- We will pick the guidelines developed by a local NGO Community Business in February 2007 as an example.
The CSR Framework – Community Business, Hong Kong

- In its report “Getting Started in Corporate Social Responsibility” published by the Community Business, it identifies 4 steps in implementing CSR initiatives:
  1. Provide Leadership
  2. Integrate CSR into organisation strategy and operations
  3. Engage with stakeholders
  4. Communicate CSR

- Learners may visit the website to gain a deeper understanding

Concluding Remark on CSR

- Mr. Donald Tsang, our Chief Executive made the following concluding remark on 17 April 2004 when discussing the motion on “Corporate social and environmental responsibility”:
  - “…. As many in the corporate sector are becoming aware, taking a socially and environmentally responsible approach is not only good for the image of the company and morale of its employees, it is also a key factor in ensuring a vibrant and sustainable business development.”

- The above remark highlights the importance of CSR in the future development of Hong Kong business.
• MTR Hong Kong is ranked as a pioneer in social responsibility reporting among Hong Kong listed corporations and has produced a Sustainability Report since 2001.

• Study their work in stakeholders engagement and achievement in sustainability reporting.

• Visit its website at:

• After visiting the MTR website, you will gain an appreciation of the company activities on the following:
  - Its Corporate CSR guidelines
  - Engagement with stakeholders/Citizenship
  - Subsustainability reporting

• This shows you how CSR is practised in one of the listed corporations in Hong Kong.
Summary

Now, you have come to the end of the unit. You should be able to:

- identify the various stakeholders in business context;
- identify the 4 theories of ethics;
- understand how business ethics relates to corporate social responsibility (CSR); and
- describe how CSR affects business decisions.

References

• Hong Kong Trade Development Council (2005), *Corporate Social Responsibility and Implications for Hong Kong’s Manufacturers and Exporters*, Accessed: 1 May 2007, (http://www.tdctrade.com/econforum/tdc/tdc050202.htm)
• ICAC (2003), *Business Ethics – Your Way to Success*
Further Readings

- 葉保強, 陳志輝 (1999), 商亦有道：商業倫理學與個案分析, 中華書局
- 葉保強 (1995), 金錢以外：商業倫理透視, 商務印書局

End of the Unit

End-of-unit Assessment

This is the end of Unit 6. Please go to the Unit Assessment before attempting the next unit.