

# Business and Economic Ethics

## Lesson One: Business Society and Normative Ethics

Business and Economic Ethics refers to the investigation, through ethical judgment, the validity of certain actions and systems. Its scope includes:

- ✧ The Economic system
- ✧ Organizational business activity
- ✧ Organizational rights and social responsibility
- ✧ Personal behaviour
- ✧ Personal rights and social responsibility

### I Aims

Business and Economic Ethics aims at influencing relevant organizations so that they behave more in accordance with ethical norms.

### II Ethical judgment of business

To render an ethical judgment upon certain business activities, one may categorize them according to ethical principles: the first type, called behavioural theory, involves the right-or-wrong judgment regarding certain types of behaviour, and encompasses consequentialism and deontology; the second type involves the judgment on the values and virtues (value theory) regarding individuals or organizations.



#### How to make moral judgement – examples

To make an effective moral judgment, we need to understand:



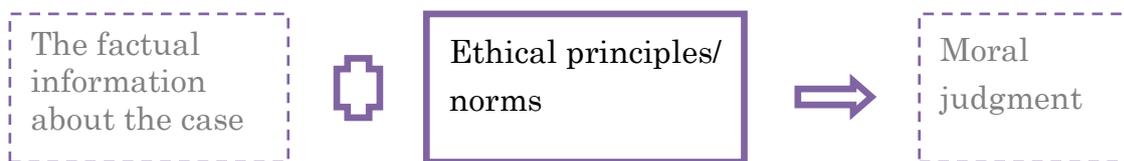
Taking example of a staff member of a fitness centre forcing customers to buy useless fitness coupons, if we are to make an effective moral judgment, we need to:

a. Learn the factual information of the case



- ✧ The course of the sales activities
- ✧ The sales guideline of the health centre
- ✧ Relevant legal articles

b. Examine the ethical principles/norms relevant to the individual and the society (theories relevant to Business ethics)



Discuss on the basis of the theories of normative ethics:

- ✧ Consequentialism / Utilitarianism (Is utility present? Does it bring good consequence?)
- ✧ Duties (Are the personal rights respected or violated? Did the individual take suitable responsibility?)
- ✧ Value theory (Is the character of the staff member of fitness centre problematic?)

We may utilize theories applicable to business ethics:

- ✧ Social contract theory (Did the company fulfil its contractual responsibility?)
- ✧ Theory of justice (Was the company's method of doing business justified?)
- ✧ Stakeholder theory (Was the company taking care of the interests of different stakeholders? )

c. How to make a moral judgment:

- ✧ Has the company or its staff broken the law?
- ✧ Has the company or its staff behaved wrongly?
- ✧ Is the character of the staff decent or improper?
- ✧ How ethical is the company?

### III Common issues of business ethics in the society

Five common issues in business ethics include: **bribery, coercion, fraud, thievery, and discrimination.**

stakeholders concerned	Examples
<b>Consumer or service user</b>	✧ Unreasonable pricing
	✧ Fake advertisement
	✧ Over-selling
	✧ Price collusion between competitors
	✧ Dishonest behavior in signing and executing a contract
<b>Employer and employee</b>	✧ Employees illegally accepting gifts and presents, bribery
	✧ Various unscrupulous competitive activities
	✧ Unfair toward employees; discrimination in employment
	✧ Gift, bribery and free entertainment
	✧ Fair treatment toward suppliers Abuse of capital
<b>Marketing support, for example: Research staff</b>	✧ Researchers accepting bribery
	✧ Confidentiality of a study
	✧ Dishonesty in interviewee
	✧ Validity of a study

Table 1.1 Possible issues of business ethics encountered by different stake holders



#### To Know More

Certain business activities are unethical because they have limited the freedom of activity, and have violated the fundamental rights and responsibilities as defined by deontology. The resulting inaccurate or fraudulent information created additional undesirable investments for the product and the services, leading to an increase in the overall production cost of the society. According to consequentialism, it qualifies as unethical behaviour.

<b>Immoral Business Behaviour</b>	<b>Cases</b>
Bribery	Bribed by grey goods traders, the staff of a food products shop violated the rule that each customer could only buy two tins of powdered baby formula, and sold them all the powdered formula. The result was that the locals were unable to buy powder formula they needed.
Coercion	In a beauty and fitness shop, a customer had her HKID card taken by the staff under excuse, then was pressured by four other staff members and not allowed to leave until she signed \$40,000 worth of fitness package that she had no real need for.
Fraud	A certain Mainlander went to an electronics goods store to buy a camera. The store staff sold him a \$20,000 lens with anti-blur function under false pretences. He did not realize that he was conned until he returned to the hotel.
Thievery	When a certain customer was undergoing treatment in a spa house, members of staff asked her to pay \$3,000 for the treatment. The staff took her ATM card, asked her to input the passcode in front of them, then withdrew \$20,000 when she was unaware.
Unfairness & Discrimination	A small grocery store was selling instant noodles at below-market pricing. The large supermarkets filed a complaint with the supplier, which then requested the grocery store to raise the pricing. The grocery store rejected the request and was cut off by the supplier.

Table 1.2 Examples of immoral business behaviour

<b>Behaviour</b>	<b>Influence on the decision-maker</b>	<b>Consequence of the action</b>
Bribery	<ul style="list-style-type: none"> <li>✧ Unjustified personal gain</li> <li>✧ Choices that influence decisions</li> </ul>	<ul style="list-style-type: none"> <li>✧ Cost increase</li> <li>✧ Lowering of service quality</li> <li>✧ Unfairness toward other competitors</li> <li>✧ Undermine the rule of law</li> </ul>
Coercion	<ul style="list-style-type: none"> <li>✧ Fear</li> <li>✧ Unwillingly choose services or products</li> </ul>	<ul style="list-style-type: none"> <li>✧ Cost increase</li> <li>✧ Lowering of service quality</li> </ul>
Fraud	<ul style="list-style-type: none"> <li>✧ Changing the choice of decision-making</li> </ul>	<ul style="list-style-type: none"> <li>✧ Lowering of satisfaction</li> </ul>
Thievery	<ul style="list-style-type: none"> <li>✧ Loss of resources</li> </ul>	<ul style="list-style-type: none"> <li>✧ Cost increase or disappearance of product/services</li> </ul>
Unfairness & Discrimination	<ul style="list-style-type: none"> <li>✧ Buying inferior services</li> <li>✧ Selling price higher than market price</li> </ul>	<ul style="list-style-type: none"> <li>✧ Cost increase</li> <li>✧ Illusion of lowered demand</li> </ul>

Table 1.3 The influence of unethical business behaviour

Source: David J. Fritzsche (2004) Business Ethics: A Global and Managerial Perspective. NY: McGraw-Hill Education

#### IV The importance of studying business ethics

- a. Business activities in the modern society are omnipresent. As their influence on us increases, the damage that unethical business behaviour can cause also increases. On the contrary, ethical behaviour now brings greater benefit than ever. This is why we need to research in depth relevant issues so that companies behave in accordance with ethical standards and benefit the humanity.
- b. As the society and technology develops, our lives grow faster and more complicated. We need to constantly discuss and research ethical issues in relation to business behaviour, for example the ethical issues involved in the sales of personal information of consumers for profit by organizations such as Octopus, social network websites, and large chain stores.
- c. The modern society is imposing increasingly stringent ethical standards for businesses. Unethical business practices are also being punished more severely than ever, while ethical behaviour is greatly rewarded. A deeper understanding of business ethics helps us make suitable decisions. By actively cultivating the good character of its staff a company can benefit itself and relevant individuals.
- d. The application of discussions of business ethics in life is interesting, practical, and of real help to an individual. For example, it helps us make ethical decisions at important moments, learn more about unscrupulous sales practices, and enables us to make wise choices in daily life.

#### V Analysing business behaviour using the principles of normative ethics

##### a. Act-utilitarianism

The validity of a business activity is determined through studying its consequences. If the behaviour brings happiness to the greatest majority of people, or pain to the least minority, the action is determined to be right; otherwise it would be wrong.

##### b. Rule-utilitarianism

Rule-utilitarianism considers not the good/bad effect brought about by individual behaviour, but rather whether obeying the rule would bring happiness to the greatest majority. Say, for example, that obeying the rule of “not manipulating the price” would bring happiness to the greatest majority. Even if a certain company manipulates the pricing under several discrete occasions to bring happiness to a great majority, it would still be wrong as such actions violate the rule of “not manipulating the price”.

By a narrower definition, the way to measure effectiveness or contribution is to calculate

the economic benefits or costs, for example profit or losses that are measured in monetary terms. However, utilitarianism also measures benefits or costs from a macro perspective; for example profits can include happiness, health, knowledge and reputation, while costs can include environmental quality, national health, international ranking, time and culture.



## To Know More

### Limitations of Utilitarianism:

- ✧ Certain interests and costs cannot be clearly laid out or quantified and compared. For example, can we compare the lives of ten persons (cost) with HK\$100 million in profits (benefit)? How do we quantify the value of the lives of the ten persons?
- ✧ Some benefits and costs are not immediately apparent, but would have grave impact in the future, e.g. a polluted environment.
- ✧ Benefits and costs are sometimes difficult to define in absolute terms. For example, benefits for certain people may constitute costs for others. An example would be opening a betting station at the shopping centre of a public housing estate.
- ✧ The society may be overly short-sighted and emphasize too much on commercial and industrial development as well as on economic benefits, while ignoring other important values.
- ✧ Certain business activities yield greater social benefits than costs. In terms of utilitarianism they are ethical, but these activities may be at odds with social justice and human rights – both of which are increasingly valued in the modern day. In particular the benefits of the minority would be not given their deserved if only one makes ethical judgements according to utilitarianism. One example would be the installation of barrier-free facilities in shopping centres, the cost of which would greatly overshadow the benefits as the cost is paid by the majority and the facilities are enjoyed by the minority. According to utilitarianism, the shopping centre should not install such facilities; yet this would violate the human rights of people with disabilities and social justice.

### c. The principle of duties and rights in Deontology

According to deontology, all people should enjoy certain rights unconditionally since birth, whether these rights would bring greater social benefits. These rights are thus intrinsic values. Each person has the right to freedom and equality, and each has a moral duty (responsibility) to treat others in ways that are free and equal. In other words, no matter how we treat others, we would personally accept others treating us in the same way. For example, the owner of a certain fruit shop sells rotten apples at a high price. When he asks

himself his reason for doing so (for example: I got these apples because I was deceived; it is thus right for me to do the same to others), he should ask himself whether he would mind being deceived for the same reason. Ordinarily, people do not wish to be deceived by others. The owner is certainly angry about being deceived, and so he should not do the same to his customers.

Deontology demands us to treat people as the ends rather than the means. Morally, we should not use others as the means to achieve our end. In doing business we should respect other's rights such as dignity, freedom and equality; these rights are intrinsic and unconditionally given. Deontology is based on two major values: the first is respect, i.e. respecting the rights of others; the second is the capacity to choose, meaning that other people has the right to access all information and make independent choices rationally.

For example, when an accident broke out in a nuclear power station, the management must not neglect the dangers the staff was under. They must respect the staff's rights to information, and should not coerce the staff to do dangerous work, as freedom and equality are the core values of humanity (what it means to be human). We should respect the rights of everyone unconditionally – this is an end in itself, something to be preserved no matter the cost. The management should convey in full the dangers of the work to the staff, so that the latter can make free choices.

Deontology influences business ethics in important ways. For example, modern business ethics believes that consumers enjoy certain rights, which may be prescribed by law (7-day cooling off period for insurance products), or defined by customs (for example when buying fruit, buyer in Hong Kong may pick them up and choose; in many places around the world this is not allowed). Modern society generally recognizes the four major rights of consumers, which include the right to freedom of choice, the right to information, the right to product safety, and the right to complain. The company also has the duty to ensure different stakeholders are entitled to these rights. One may see how deontology affects commercial ethics.



## To Know More

Limitations of Deontology:

- ✧ Deontology does not define clearly the specifics of different rights. For example, foreign media believes a certain factory to be a sweatshop, emphasising that it is inhumane to have staff working 20 hours a day (right one). To stay in business the factory shortened the work hours to 12 hours per day. This practice has many members of staff complaining as they wish to work overtime every day so that they can earn as much as they can in a short period, and bring home the salary. They believe the new practice is costing them the right to freedom of choice (right two). Is shortening the work hours right or wrong? What kind of arrangement is humane?
- ✧ Deontology can be applied in general but sometimes cannot solve dilemmas between rights. For example, bank clients have the right to move the funds in their savings accounts (right: freedom), but can terrorists move the funds in their accounts? (right: the safety of others)?

### d. Theory of Virtues

Theory of virtues reminds that when discussing business ethics, the focus should be on a person's moral integrity rather than training for moral judgements. We should focus on cultivating virtues as a virtuous person would be naturally inclined to display ethical behaviour. When training staff, companies often emphasize on training the values of the staff, to ensure that they fulfil the character requirements of the company, for example "devotion to work", "integrity", "respect", and "care".



## Case Study

### Enron Corporation

Enron Corporation was an American energy, commodities, and services company based in Houston, Texas. Before its bankruptcy in 2001, Enron employed approximately 4,000 staff and was one of the world's major electricity, natural gas and communications companies, with claimed revenues of nearly \$101 billion during 2000. In the same year, *Fortune* ranked Enron 7<sup>th</sup> on its Fortune Global 500 list *Fortune* also named Enron "America's Most Innovative Company" for six consecutive years. At its peak, the company has a stock market value of nearly US\$70 billion. In 2001, however, Enron's business performance was questioned by a number of analysts and within just 3 months, the company's stock price dropped from US\$90 to US\$0.6 at the end of 2001. In November, the company suddenly went bankrupt. Later, it was revealed that Enron's senior management had, for years, been engaging in various fraudulent activities jointly with auditing companies and investment banks, by cooking the books, falsifying its accounts, misleading the investors and obtaining personal gains through legal and illegal channels. Many of the company's senior management were accused of spreading rumour of the stock price rising, while secretly selling out the company stocks.



#### Consequences:

- ✧ Many of the company's senior management were jailed and fined
- ✧ The analyst involved in disseminating false information and encouraging investors to buy Enron stocks was sentenced to prison and discredited
- ✧ Arthur Andersen, once a world top-five accounting agency, was charged with obstruction of justice, and as a result closed its business
- ✧ Enron's market value dropped from US\$80 billion to US\$2 billion. Stock holders suffered severe losses with many losing even their pension funds
- ✧ The US stock market lost its credibility and was no longer considered the safest and most mature market.
- ✧ A new Act was passed by the US courts<sup>1</sup> to monitor the corporate governance of listed companies, accounting companies and investment banks, leading to increased operation costs for listed companies. As a result, fewer overseas companies become listed in the US stock market.

#### Source:

1. D, Joseph. (2006). *An Introduction to Business Ethics*. NY: McGraw-Hill. pp.125-129
2. 安然神話頃刻破滅 (2002年1月21日)。澳門日報

<sup>1</sup> Sarbanes-Oxley Act



### **Questions for discussion**

1. Try applying two theories in normative ethics to make an effective moral judgement for the senior management of Enron Corporation.
2. Using the behaviour of the senior management of Enron Corporation as an example, illustrate the importance of business ethics.

# Business and Economic Ethics

## Lesson Two: Introduction – Business and Economic Ethics

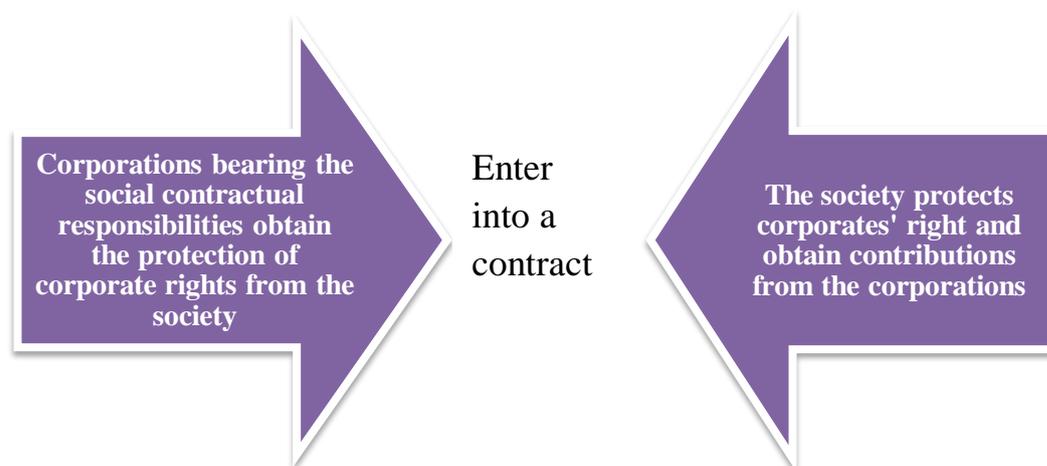
In the first lesson, we have mentioned how we may use ethical principles to judge business behaviour. Scholars have also contributed theories specially dedicated to studying business and economic behaviour that provides the basis for making moral judgements. Among these are the social contract theory, theory of justice, and stakeholders theory.

### I Theories for Business and Economic Ethics

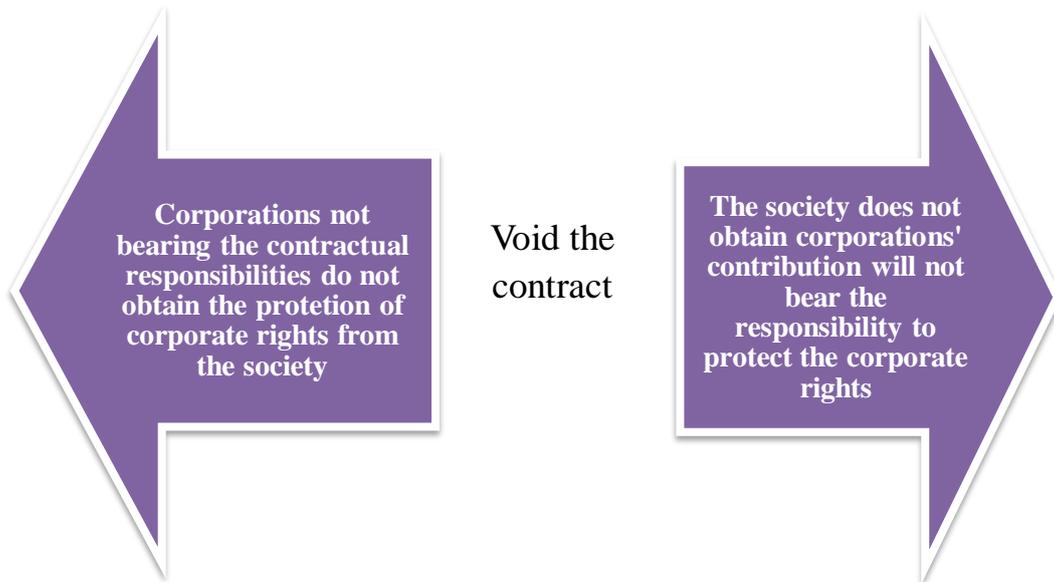
#### a. Social contract theory

Social contract theory promotes that the rights of individual citizens should be protected by the collective. In the same vein, individual citizens have the duty to protect the rights of others. In order to co-exist peacefully, individuals arrive at consensual agreement through a free and autonomous process, and then each of them willingly gives up certain natural freedom in exchange for the protection of the collective. Regardless of the personal situation (wealth, family background), each of us gives up an equal amount of freedom and the responsibility of protecting the collective falls to the government.

Commercial organizations can be considered a corporate citizen, and is one of the participants of the social contract. To gain social support, for example legal protection, transport and infrastructure, training of talents, provision of facilities, and so on. Corporate citizens also give up certain freedoms and take responsibility for the welfare of the entire society. If companies disregard social responsibility and set eyes only on profit, in such ways that damages individual citizens and other corporate citizens, they violate the social contract and should be punished – even disqualified as a corporate citizen.



※Corporations enter into a contract with the society, becoming a corporate citizen.



※Corporations voiding the contract with the society no longer become a member of corporate citizens.

#### b. Theory of Justice

Theory of Justice discusses the rights and duties of different members of the society based on the standard of justice.

Theory of Justice believes in fairness as justice. In discussing distributive justice, people should, under the premises of freedom, equality, and rationality, agree to follow a method accepted by everyone, so as to determine the distribution of social resources or social responsibilities. In the society, everyone enjoys equal rights of freedom as everyone else (meaning no one should be entitled to more freedom than others), and everyone's rights should be protected; everyone is also responsible for protecting the rights of others. In case of unfairness, for example when the income between different groups of population differs greatly, the government should support the most deprived and distribute resources so that they are benefited the most and that they enjoy equal rights. Also, everyone is entitled to equal opportunities of employment and status, and this is called the principle of equal opportunities.

The scope included in the rights of freedom is broad, including the right to vote, the right to freedom of speech, the right of property ownership, the right to avoid unwarranted arrest, and the right to safety. Protecting the weak resolves social injustice, and allows capable companies to take more responsibilities. For example, larger companies allocate more resources to deal with pollution. Equal opportunities ensure that everyone has the same access to quality work in the society, and during employment and promotion

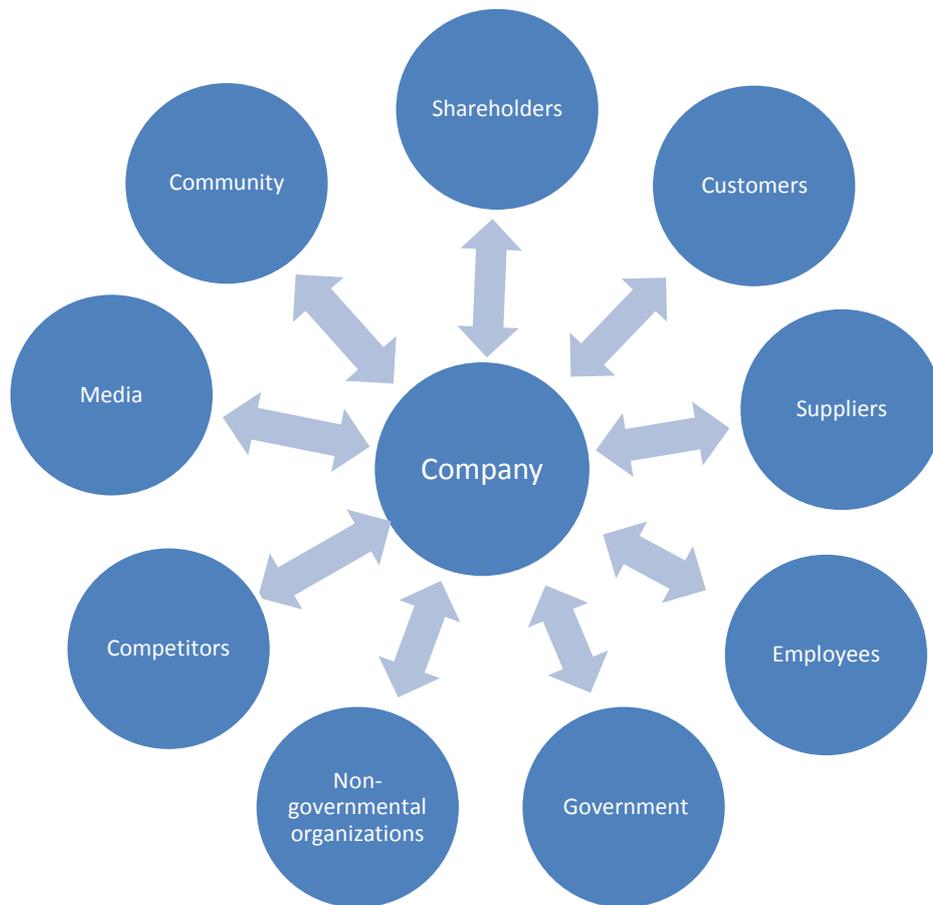
companies should not discriminate; everyone should have equal opportunities to be trained and educated.

c. Stakeholders Theory

A company's operations affect not only its owner(s) but also many other entities, for example its employees, the consumers, the suppliers, the investors, the government, the media and its competitors. In many aspects, the operations of the company affect other entities in ways far more profound than they do its owner. All those whose interests are affected by the company are called **stakeholders**, which may be an individual or a group of persons. They may be harmed by, or may benefit from corporate behaviour, meaning that their rights may be respected or infringed upon by corporate behaviour.

When making decisions, the company management should not only concern themselves with the interests of shareholders, but also protect and respect the interests of other stakeholders. When a decision affects different stakeholders differently, the management should balance the interests of various parties instead of focusing on the interests of a certain stakeholder. To take matters one step further, a company can invite various stakeholders to be a part of the company's decision-making process so that the latter may better protect their own interests. The company should not undermine the interests of stakeholders and take responsibility for the consequences their actions have on the stakeholders, and when necessary, make compensation.

## Company stakeholders



### Major stakeholders

- ✧ Company owner ( or stockholder )
- ✧ Employees
- ✧ Customers
- ✧ Suppliers

### Secondary stakeholders (other related persons and organizations)

- ✧ The Government
- ✧ Other consumers
- ✧ The media
- ✧ Competitors
- ✧ Non-government organizations



## Case Study

### Milk product contamination involving the Sanlu Group in 2008

In 2008, a great number of babies in China, having consumed the milk powder produced by Sanlu Group, were discovered to have suffered from kidney stones. Later, its milk was found to contain melamine, an industrial chemical, which can result in a heightened protein content value in tests and yield greater profit for milk farmers. Adding melamine to the milk may boost its market value, yet long-term ingestion of melamine would create problems for the urinary system, resulting in kidney stones and even cancer. According to statistics, up until 21 January 2009 nearly 50,000 infants sought medical consultation and was treated and recovered as a result of having ingested the problematic milk powder; 6 died as a result. There were also confirmed cases in Hong Kong and Macau. After the General Administration of Quality Supervision announced the examination report regarding the presence of melamine in the baby powder produced by numerous major manufacturers, the scope of incident was revealed – the presence of melamine was discovered in the milk powder of many major manufacturers in China. The event also had a disastrous impact on the reputation of China-made goods, with many countries banning the import of China-made milk products.

Later, it was revealed that in as early as 2007 there have been customer complaints about the quality of Sanlu's milk powder. The company only covered up the incidents and it was not until August 2008 when cases began to mushroom all over the country that Sanlu reported to the Shijiazhuang Municipal Government and the Xinhua District Government and announced the public about the presence of melamine in the milk powder. A recall was subsequently conducted but there was already a surge in occurrence of kidney-stones in infants. Many infants suffered kidney problems and some did not survive; later the government announced that they would treat infants freely.

The Shijiazhuang Municipal Government later arrested near 20 individuals working separately at the ranches, milk cows rearing communities, operators of milk halls, and illegal sellers of the chemical. The Provincial Government ordered Sanlu to cease production. The company was declared bankrupt and the persons responsible were punished.

Source :

1. 弱勢奶農未獲三鹿賠償 (2009年1月13日)。成報
2. 毒奶粉害30萬童腎結石 (2010年11月11日)。蘋果日報
3. 三鹿事故嫌犯身份確定 牧場或擠奶廳等經營者 (2008年9月15日)。香港商報



### Questions for Discussion

1. Using the theory of social contract to comment on the Government's severe punishment of the senior management of Sanlu and the involved milk farmers, and liquidation of the company.
2. Using the theory of justice to comment on the Government's severe punishment of the senior management of Sanlu and the involved milk farmers, and liquidation of the company.
3. Using the theory of stakeholders to comment on the Government's severe punishment of the senior management of Sanlu and the involved milk farmers, and liquidation of the company.



### Extended Questions

1. A company's employment terms specified different wages for the same job – i.e. male employees were given higher salaries than female employees. The female employees also agreed to the arrangement upon signing of the contract. Comment on the arrangement using social contract theory.
2. A certain company employed a number of clerical staff with disabilities. They were given normal wages. Those without disabilities lost the opportunity to work in the company. Comment on the arrangement using the theory of justice.
3. The employer of a certain company believes in running ethical business as earning the greatest profit within the law. As to other social responsibilities, he never made any promises when he founded the company so he had no obligation to complete them. Try comment on his views using social contract theory.

## **Business and Economic Ethics**

### **Lesson 3: Economy, market, ethics**

In economics, the market can be defined simply as a place for completing “transactions”, meaning the place where the two parties engaged in the transaction exchange goods or currency. One may categorize the market into three archetypes according to the relationship between the parties engaged in transactions:

- i. Perfect Competitive Market,
- ii. Perfect Monopoly Market; and
- iii. Oligopoly Market.

Most markets in the real work are between Perfect Competitive Market and Perfect Monopoly Market.

#### a. Perfect Competitive Market

A perfect competitive market features an abundance of buyers and sellers, and the actions of a single individual cannot affect the price, supply and demand of goods in the market. Both the buyer and the seller have total freedom to choose to buy, sell or manufacture products. The supply and demand of products soon reach an equilibrium, where the highest price the buyer may be willing to pay is the lowest price where the seller is willing to accept; and the amount of products produced and consumed are the same – no waste is generated. A perfect competitive market only exists on a theoretical level; it does not happen in the real world.

#### b. Perfect Monopoly Market

The opposite of a Perfect Competitive Market is a Perfect Monopoly Market. There is only one producer and other producers cannot enter the market for reasons such as high costs of opening a factory or legal restrictions. Without other choices the consumers passively accept the products and pricing offered by the sole producer. In ordinary circumstances the producer in a Perfect Monopoly Market raises the prices to reap the benefits of being a monopoly.

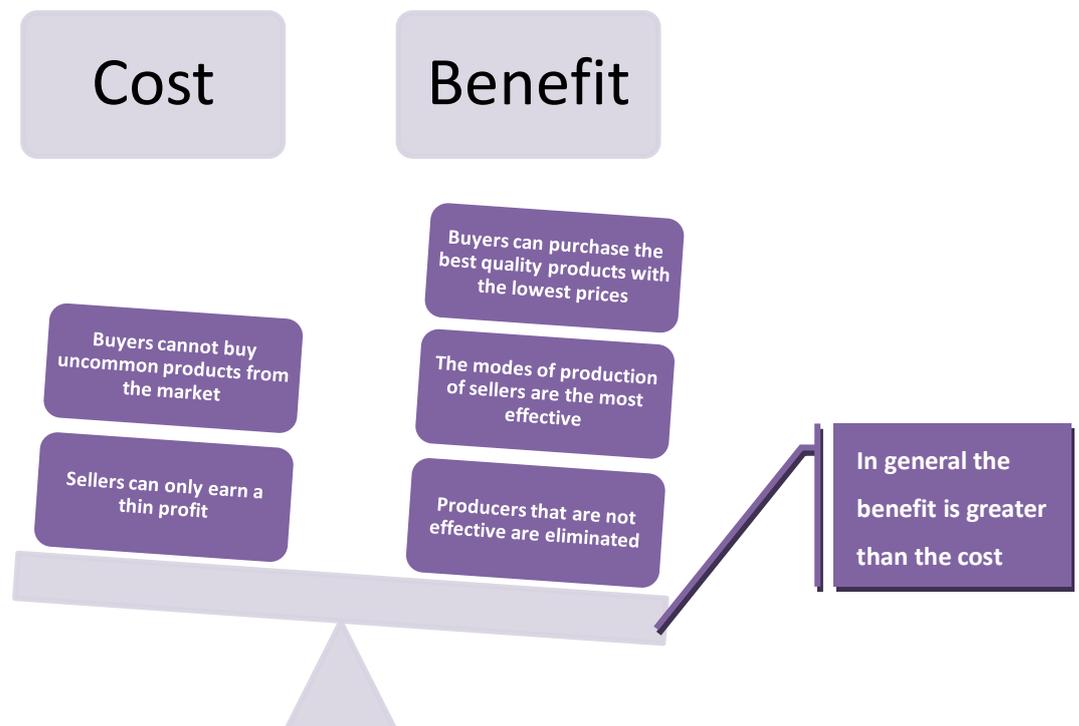
#### c. Oligopoly Market

An Oligopoly Market is similar to a Perfect Competitive Market. In such markets there are only a few producers; other producers, for various reasons – legal restrictions or high costs – cannot produce in the market. Because only a few producers are controlling the market, each has a decisive influence over the pricing and production volume of the entire trade; they control the supply of the trade. Because raising the prices brings great benefits, the few oligopolies often work together to manipulate the prices.

## I Commenting on different markets using normative ethics

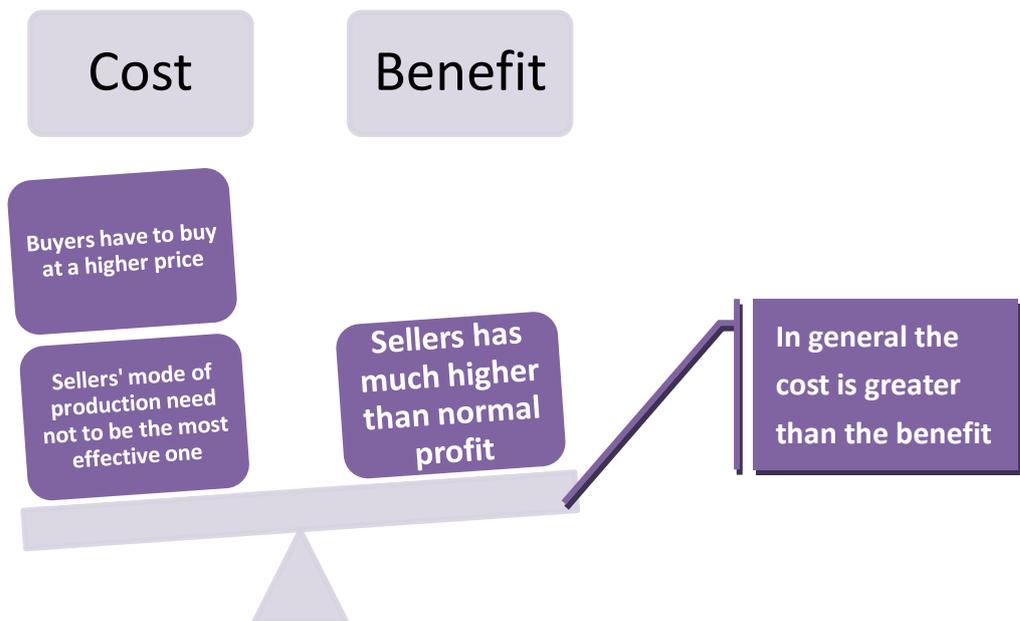
### a. Utilitarianism

From the view of Utilitarianism, a Perfect Competitive Market creates the greatest benefits as the buyer has complete right to choose and access to full market information. This is why the seller must use the most efficient way to produce, minimizing the costs while maximizing product quality in order to attract buyers. The buyers can as a result obtain the best goods at the lowest prices.



Argumentation of Utilitarianism: Perfect competitive market is good

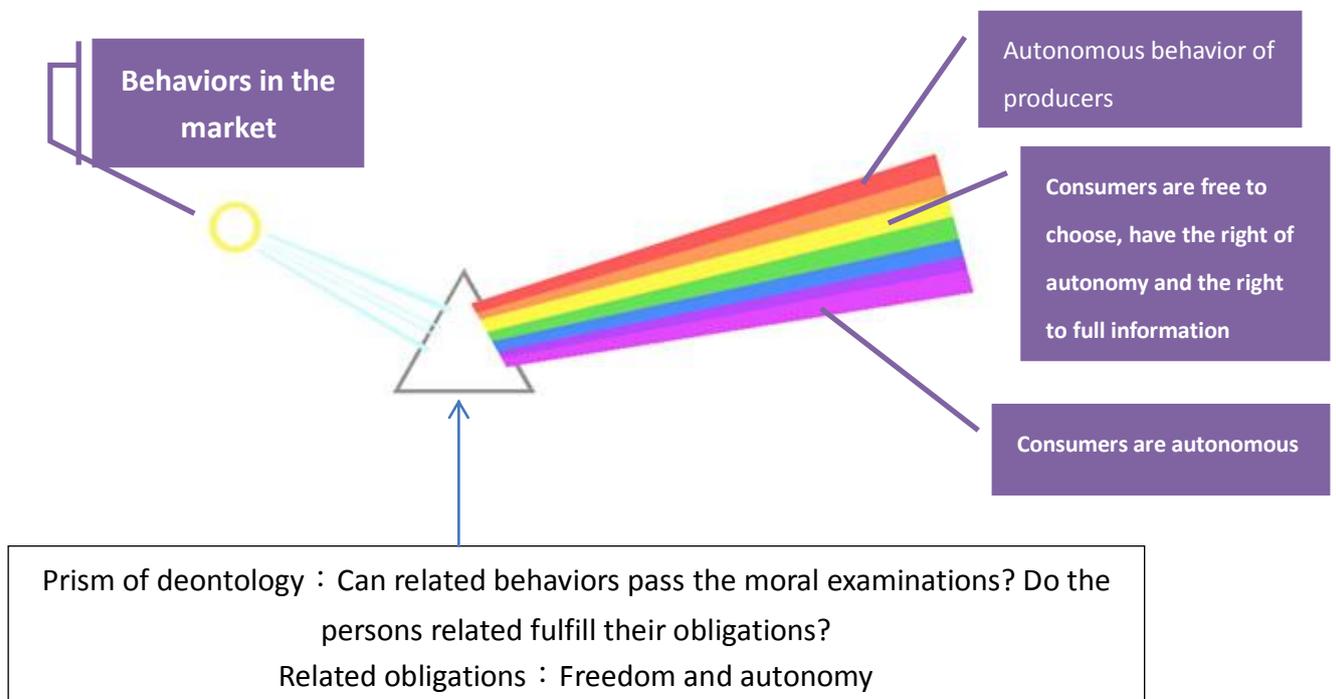
From the principle of Utilitarianism, producers in a Perfect Monopoly or Oligopoly market do not create the greatest benefit, because the seller needs not produce at the highest efficiency in order to enjoy the benefits, and the buyer, having little choice, has to purchase the goods at a high price. Because competition is lacking, the seller has no motive to improve on the quality and technological level of the product. This translates into less benefit for the society as a whole.



Argumentation of Utilitarianism: Oligopoly and Monopoly are bad

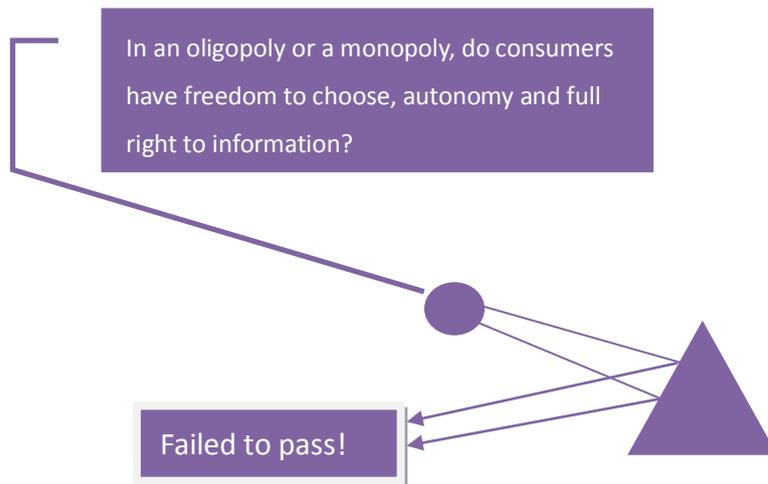
b. Deontology

According to deontology, a Perfect Competitive Market ensures greatest freedom of choice, autonomy and access to information in the consumer. All purchasing activities happen voluntarily and thus the rights of the consumer are perfectly respected.



Argumentation of Deontology: Perfect competition is good.

According to deontology, a Perfect Monopoly or Oligopoly market does not guarantee greatest freedom of choice, autonomy and access to information for the consumer. If the product is a necessity, all purchasing behaviour occurs in an involuntary situation and the rights of the consumer are not respected. Meanwhile, the seller may manipulate market pricing and the consumer loses the freedom of choice. If the product is not a necessity, the consumer may not be forced to spend money but he/she has lost the right to choose.



Prism of deontology : Can related behaviors pass the moral examinations? Do the persons related fulfill their obligations? Related obligations : Freedom and autonomy

Argumentation of Deontology: Oligopoly and Monopoly are bad.



## To Know More

Perfect Monopoly or Oligopoly brings about little economic benefit and a lot of ethical issues. This is why modern societies would pass anti-monopoly laws (or fair-competition laws or anti-trust laws) to force monopolizing companies to down-size or impose penalties on them, so as to protect the interests of consumers and the society.

## II Commenting on different markets using business ethics

### a. Theory of Justice

According to the Theory of Justice, everyone is entitled to the equal amount of freedom as everyone else, meaning that no one is entitled to more freedom than another person. In a Perfect Competitive Market, everyone has the right to decide the pricing and amount of the goods without being subject to the interference of other non-market force. This is an advantage. However, in a Perfect Competitive Market, the weak is naturally edged out and has no room for survival, and this is a disadvantage. Overall, the Theory of Justice places higher importance on equal rights of freedom, thus a Perfect Competitive Market is acceptable.

According to the Theory of Justice, a Perfect Monopoly or Oligopoly market is wrought with inequality. Only large companies remain in business in the market, and often through anti-competitive behaviour (for example price-fixing) they obtain unreasonable profit. The consumer, in turn, pays more to buy the products and is deprived of the right to choose. This creates an injustice for them (unfairness), and is thus unjust and unethical. The government should interfere to maximize the rights of freedom of the general population.

### b. Capitalist Justice: Economic Liberalism

Capitalist Justice believes that people should be awarded benefits according to their contributions. For example, the amount of remuneration for an employee should be set according to the volume of business he/she brings in – the more one earns, the more one is rewarded. Adam Smith believed in a free market as the most efficient model of operation for an economy. The less the interferences on the market, the more individual freedom one can enjoy. The selfish nature in all of us ensures that a person should find the mode of production most beneficial to oneself; this results in the greatest benefit in the society and the most efficient mode of operation for the market.<sup>2</sup> This is why the government should refrain from interfering with free market economy and allow the market to operate by itself laissez-faire. The role of the government is to provide basic public goods<sup>3</sup> that private organizations are unwilling to provide, or to maintain social order and the rule of law.

Since Perfect Competitive Market is the most beneficial, according to economic liberalism

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<sup>2</sup> Adam Smith describes this situation using the famous phrase: “an invisible hand”.

<sup>3</sup> For example providing facilities such as roads, canals, schools and bridges.

a Perfect Competitive Market is in the right. As Perfect Monopoly or Oligopoly market discourages competition and lowers efficiency, and is a less-than-ideal market state, it is considered to be in the wrong. If there is monopoly in the market, the government should interfere to ensure competition thrives in the market.



## Case Study

### Monopolizing Behaviour of Large Supermarket Chains

In late 2011 two small-scale snack and food stores spoke to the media, complaining that because they sell a certain brand of soft drink and instant noodles at a price lower than the supermarkets, one of the supermarket chains pressurized the supplier which led to the supplier asking the stores to raise the pricing to supermarket levels. The stores were threatened with discontinuation of supply if they do not comply with the request; one of the suppliers eventually ceased their supply. Another grocery store in Shum Shui Po used to purchase directly from an instant noodle manufacturer, and sold the noodles at a price 9% lower than the “suggested retail price”



set by the manufacturer. The store was thus notified by the manufacturer that they have to follow the suggested retail price or otherwise the supply would discontinue. Later, some grocery stores refused to raise the pricing and the supplier promptly discontinued the supply. Rumour has it that the manufacturers and the suppliers issued such warnings under the pressure of large supermarket chains, though the supermarket, supplier and manufacturer involved all denied the rumour. Certain media quoted from Lee Kwong-Lam, former President of the Hong Kong Food Council, that it was long-standing practice for large retailers to join hands with suppliers to threaten small retailers, though the media rarely reported such practices.

According to some academics, the two supermarket chains take up over 70% of combined market share. Even if the reports are true, according to existing laws they have not broken the law.

Source:

1. 香港教育城：焦點專題之市場霸權 (2011)。檢自：  
[http://www.hkedcity.net/article/living\\_focus/hegemony/](http://www.hkedcity.net/article/living_focus/hegemony/)
2. 李樹甘、楊偉文 (2005)。跨業集團經營模式對市場經濟的影響香港超級市場個案研究。香港樹仁學院經濟學院論文集。



### Questions for Discussion

1. Argue for the ethical validity of the behaviour of large supermarkets and suppliers using the principle of economic liberalism.
2. Use the theory of justice and the theory of social contract to criticize the behaviour of large supermarkets and the suppliers.
3. What is your personal take on the issue? State your reasons.

## Business and Economic Ethics

### Lesson 4: Helping the Poor and Fair Trade

The ancient Chinese character of “poverty”  (modern character: 窮) carries the pictographic implication of “powerlessness”. Its looks like a caved person who is forced to bend his body with no freedom and space to move.

#### I The story of the commoner

#### A day in Ming’s life

Ming has been loitering in the streets for over 2 hours. He is reluctant to go home, which is a cubicle apartment crawling with lice and which has no air-conditioning. When his classmates went to the Ocean Park, he could not go because he had no money. He feared being looked down upon by his classmates so he made up an excuse. Ming never uses his pocket money. To save up money for snacks, he walks 45 minutes to school instead of taking the bus. He is now in secondary two but he has yet to go to a steak house.

When he is tired of walking, Ming would sit down at the seats in the spectator stand of a soccer pitch. He finds the seats very comfortable as there is no room in his 80-square-foot home for chairs when it has to accommodate his mother, his sister and himself. When he does his homework, he has to do it on the bed where he lowers his head and bends his body. Today he is down in luck – he has caught nothing after an hour of fishing at the nearby pier; he has not had any meat to eat for days. The usual vegetables and tofu are soon digested leaving him with an empty belly and a dizzy sensation.

Ming, who used to be an active child, has been a quiet youngster since primary 5. His computer, connected to the internet 2 years ago, is often occupied by his sister. He has no mobile phone and cannot communicate with his fellow classmates. He grew into a loner and gradually became detached from his classmates. He has been loitering for over 3 hours in the street, and Ming has to go home and do his homework. He has an English assignment to hand in tomorrow otherwise the teachers would ask to see his parents again – and his mother cannot afford to take time off. However, the assignment he has to submit tomorrow is about the experience of listening to a concert. Ming has no experience of going to such concerts. He also has a poor command of English because his mother could not help him with his homework since Primary 4; and he has no one to ask. Ming has a solution to these problems though: he would copy from the internet.

The summer holidays are nearing. Ming looks forward to the coming of a new year. At Secondary 3 he would be able to work. He will use his first salary to bring his mother and sister to have crispy pork at a restaurant. Recently he only had roasted pork. Last week his mother said roasted pork was a lot more expensive than before. The rent has increased

again and one-third of his mother's income has gone to the rent. So his mother cannot afford crispy pork, and they can only have it on Ming's next birthday. Therefore Ming's latest wish is this: after he got his first salary, he will treat his mother and sister to crispy pork.

As he heads home in the setting sun, Ming only looks forward to working after he graduated from Secondary 3. He has no concern for everything else. He no longer asks, "Is this how it is supposed to be like to be poor?"

\* The story was written based on multiple real-life cases.



### Questions for Discussion

1. How has poverty affected Ming?
2. List three reasons why Ming is now in poverty.
3. Assuming that Ming can improve his life, suggest three ways by which he could be lifted from poverty.

## II Defining poverty

The Organization for Economic Co-operation and Development (OECD) is formed by 35 developed countries. Most define poverty as 50% below the median income of its population. England even defines the population 10% above the median income as the borderline poverty group.

Over the past ten years in Hong Kong, the number of households in poverty remains over 400,000. The poverty population is above 1.1 million, taking up 20% of the overall population. Accordingly the poverty rate has stayed level at **17.6%**, meaning for every **6** persons in Hong Kong **1** is living below the poverty line. Within this 17.6% of the population 10% of the households have members who carry jobs; these households are called working poor households. This number is 11.6% up from 2003; borderline poverty households take up 8% of all population.

## III Analysis of the issue

### a. Uneven distribution of wealth

Hong Kong suffers a severe unbalance of wealth between the wealthy and the poor. The situation is deteriorating. In the 2<sup>nd</sup> quarter of **2012**, the wealthiest **10%** of residents has a median income **26.1** times that of the poorest **10%**. The difference, in 2003, was 23.3 times. Over the past decade, the median income of the poorest 10% of residents in Hong

Kong rose from \$3,000 in 2003 to \$3,400 in the 2<sup>nd</sup> quarter of 2012, an increase of 10%. Meanwhile, the median household income of the wealthiest 10% was up from \$70,000 in 2003 to \$88,800 in the 2<sup>nd</sup> quarter of 2012, a rise of 30%. According to reports from the Statistics Department, when compared to 5 developed countries (Canada, England, the US, Singapore and Australia), Hong Kong has the most severe poverty gap; this is also the case when compared to other developed regions.

#### b. Current Government policies

The Government has implemented numerous policies and measures attempting to alleviate the life pressures of the working poor households, and to support the employment needs of the working poor individuals. Existing poverty alleviation measures include the Comprehensive Social Security Assistance, Work Incentive Transport Subsidy Scheme, Neighbourhood Support Child Care Project, After School Care Programme, Short-term Food Assistance Service Projects (i.e. food banks), and so on. There are also single-instance alleviation measures for example Scheme 6000 and raising elderly subsidies. The guiding principle is to build up a culture of self-reliance and discourage the poverty population from relying on welfare – thus the setting up of a safety net<sup>4</sup> for the households in poverty. This aims to help maintain a basic quality of life for households in poverty, but would not offer them quality living for non-working households.

#### c. The importance of helping households in poverty

- ✧ Caring for the population in poverty is a shared value for all major religions and races in the world.
- ✧ According to the theory of social contract, as a corporate citizen, companies have the duty to help a region's underprivileged.
- ✧ Human life has unsurpassable value. According to justice theory, we have the duty to help the impoverished households in the society so that they enjoy the same rights as others. Those who are particularly unable to improve their quality of living are most deserving of our assistance.
- ✧ According to Utilitarianism, helping to lift impoverished households out of poverty would help promote overall social wellness and minimize social cost. Helping impoverished households would raise their income and hence promote expenditure. Meanwhile, offering them better education would help promote overall production value. Also, companies can help the impoverished population through profitable

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<sup>4</sup> Margaret Hilda Thatcher, former Prime Minister of the United Kingdom, believed, "Society needed a ladder and a safety net - a ladder by which people could improve their lot by effort, and a safety net below which nobody could fall.

means.

- ✧ According to Utilitarianism, a society with too many impoverished households is prone to instabilities. Helping these households would promote overall social wellness.<sup>5</sup>

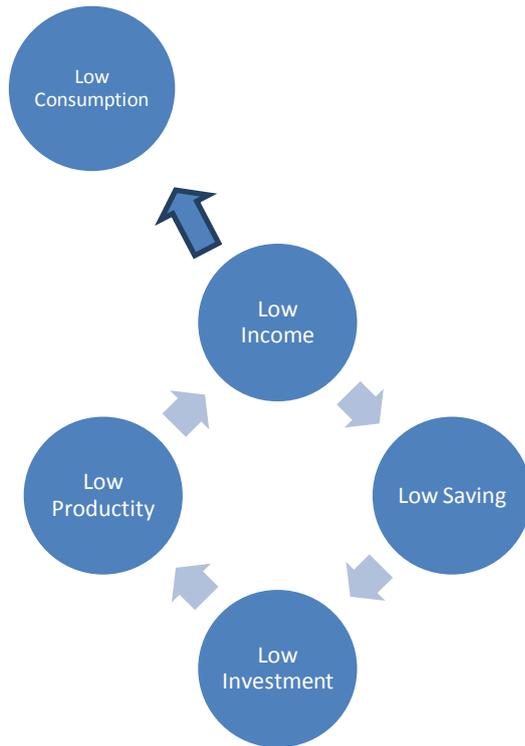
d. The reality of poverty

- ✧ Impoverished households, lacking resources for quality living, have no means for either adults or children to receive good education. This would undermine their chances of contact with other people, making them feel isolated, ashamed, thus affecting their upward mobility. The result would be cross-generation poverty in households.
- ✧ Impoverished population does not have access to equal rights as others in the modern society. They have no knowledge of the latest information technology, nor do they have the time to allocate work hours as they would like to so that they can spend time with their children. Because of economic pressures, they cannot participate in policies and use political means to protect their own benefits. Also, their economic activities are limited as they lack collaterals and savings. They find it difficult to use the bank's loan services and other services.
- ✧ Since the 1990s, with economic transformation and the tide of globalisation, the working population has become increasingly polarized. High-skill, highly educated jobs rose rapidly in income and low-skill, low income jobs rose slowly in income. This aggravated the poverty gap. Meanwhile, low-skill jobs are rapidly disappearing, leading to a rise in the unemployed population.
- ✧ With the high land prices, without public housing welfare the rents often take up over one-third of the income of low-income individuals. Impoverished households are thus often left with little money to improve on themselves. Meanwhile, impoverished households find it difficult to improve their lives through running their own business.

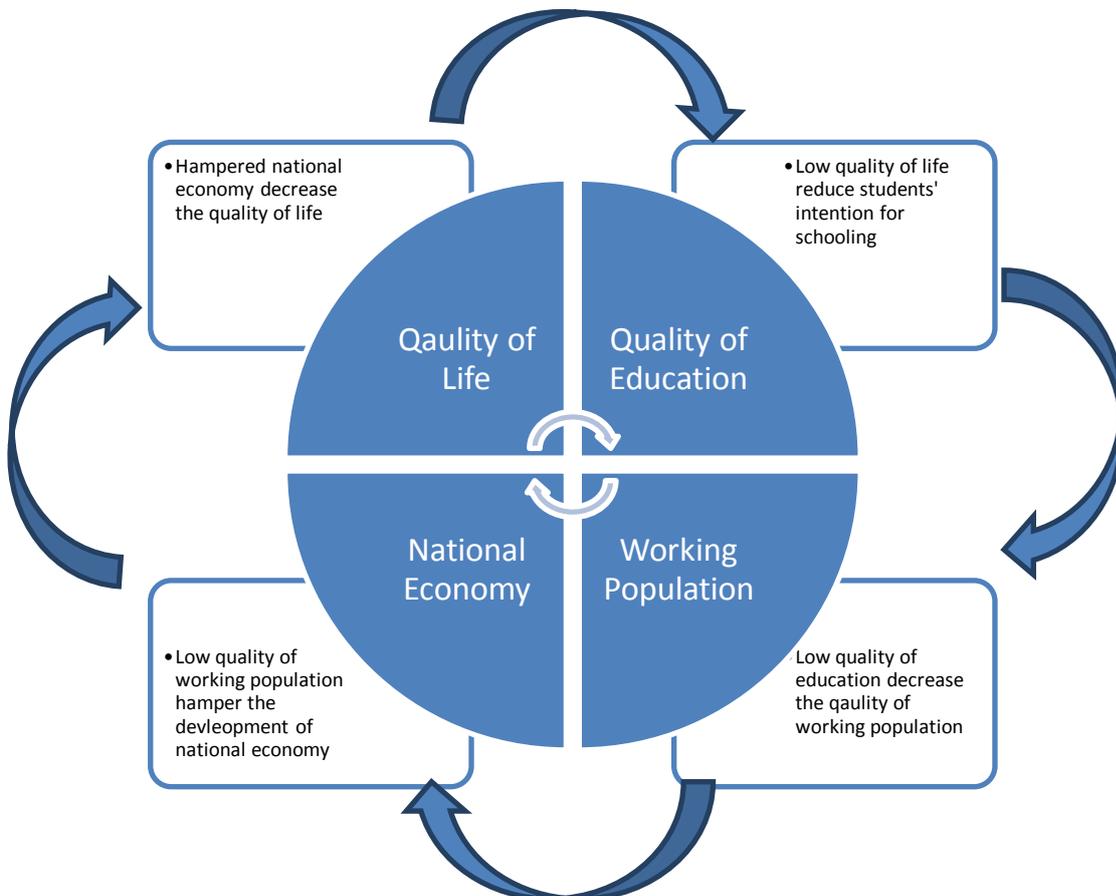
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<sup>5</sup> J.F. Kennedy, President of United States, once said, "If a free society cannot help the many who are poor, it cannot save the few who are rich"

In conclusion, the above factors for poverty lead to a vicious cycle of poverty for the poor.



The vicious circle of poverty: Individual level



The vicious circle of poverty: societal level

e. How companies can help eliminate poverty<sup>6</sup>

In helping the impoverished, companies can often land a profit while satisfying their duties.

- ✧ The Grameen Bank, headquartered in Bangladesh, has been running a rural bank scheme since the 1970s and has granted loans to countless impoverished villagers, particularly to women, helping to lift them from poverty. One example is a loan of US\$245 the Grameen Bank granted to a villager for buying a mobile phone; the loan was returned in two years. Originally, the villager planned on a one-time lump-sum repayment, but the villager earned double the amount of the loan by leasing the phone to others over the 2 year period. The earned income not only helped repay the loan but also gave him an income of US\$2 dollars per day. The income may seem insignificant, yet four-thirds of working individuals in Bangladesh was earning less than this!
- ✧ Citigroup has launched a creative project to give bank accounts to all entities of a factory – whether company or employee. From the security guard to ordinary workers, everyone could open an account with the bank with only US\$20. The administrative costs were reduced by limiting the bank services exclusively to ATM and phone banking. This strategy proved to be successful. The concept was test run in Bangalore in 1998 and now the bank has 250,000 clients in the city but only one branch to handle all the clients.

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<sup>6</sup> Ye Baoqiang, 2004, 'How companies help eliminate global poverty', *Journal of Applied Ethics*, Issue 30.  
<http://www.ncu.edu.tw/~phi/NRAE/newsletter/no30/05.html>



## Case Study

Ethiopia is famous for producing high-quality coffee. Exporting coffee takes up a crucial part of the economy in Ethiopia. The community has centuries of experience in organic, forest-based coffee cultivation.

In the mid-1970s, a cooperative was set up, in Ethiopia to support market access and industrial development. Due to a number of factors such as low market opportunities and irregular prices, inadequate working capital, outdated machines and poor networking, the cooperative closed down. This forced its members to sell their coffee produced to private companies at a cheap price.

Daniel Haro, cultivated coffee as his job. However, the annual income was too little to be able to feed, medicate and provide for his large family (seven children) . To provide for his family as well as keep the children in school, Daniel had to borrow some money from money lenders with an interest rate as high as 100%

In 2006 World Vision Ethiopia launched Kochore Coffee Farmers' Co-operatives Revitalization Support Project to improve community livelihoods, access to good food and to health, education, markets and other social services, and to strengthen coffee farmers co-operatives. So far the cooperatives have received organic and fair trade certificate, have increased the amount of coffee produced and helped to provide its members with various kinds of training including agriculture best practices and nursery management.

The improvements in coffee production have created stronger market demand. Members of the cooperatives are selling their coffee produce at a high price. The opportunity of selling their coffee at a higher price has given them the chance of buying more plots of land and produces more coffee.

In addition to his coffee crop, he now has avocado and banana fruit trees in his compound and is rearing sheep. "My days of despair are gone. I no longer visit local money lenders. I am able to adequately feed and medicate my family and provide my children's scholastic needs," Daniel happily explains.

## IV Defining fair trade

Because of issues of knowledge and market structure, impoverished nations carry large numbers of labour and producers. Their interests are deprived layer-upon-layer by the many intermediaries, such that they have been unable to lift themselves out of poverty. The establishment of fair trade aims mainly to help them seek greater fairness in international trade through mutually-respecting trade partnerships.

### a. Mode of operation

- ✧ Buying the products of the producer at a “fair” price through certified distributors
- ✧ Through fair trade channels of distribution, the product is delivered to consumers who treasure this value

### b. The characteristics of fair trade

- ✧ A strategy of sustainable development and poverty alleviation
- ✧ Fair trade means treating trade partners as equals and on the basis of mutual respect, based on transparent modes of management and business relations
- ✧ Fair trade helps develop the independence of producers, through such ways as training the producers and improving the market organization, management skills, and uncovering market potential.
- ✧ Fair trade features prices higher than normal market prices, but the consumers are willing to pay the extra. It is because this price includes not only the cost for production but also fulfils the principles of social justice and environment protection. Fair trade offers producers fair rewards and upholds the principle of gender equality.
- ✧ Fair trade offers producers a healthy and safe work environment. If children are a part of the production, their growth, safety and education must be ensured; the children’s rights must also be in line with United Nations Convention on the Rights of the Child.
- ✧ Fair trade encourages environment-friendly practices and responsible means of production.
- ✧ The fair trade system covers many types of goods the variety of which is increasing by the day, for example bananas, honey, coffee, oranges, cotton, fresh fruits and vegetable, quinine, rice, species, and red wine.



International Fairtrade  
Certification Mark



Fairtrade Certification  
Mark



IFAT The International Fair  
Trade Association  
Certification Mark



### Questions for Discussion

1. By reviewing the content of this lesson, list the reasons why it is important for us to eliminate poverty.
2. Comment on the measures of fair trade from the perspectives of the Social Contract Theory, Theory of Justice and the Stakeholders Theory.

## Business and Economic Ethics

### Lesson 5: Marketing and advertising practices (Consumer-related issues)

When making marketing decisions, a company needs to make considerations in four major areas – called the 4Ps. The 4Ps include product, price, promotion and place, and each of these aspects may involve ethical considerations, e.g., whether a product is safe.

Deontology examines whether the parties involved in the transaction do so out of willingness, whether respect is paid, or if complete knowledge is made available.

Teleology considers whether the overall wellness of both parties and of the society has increased after the transaction. Justice theory examines whether the transaction is fair and whether the underprivileged party is taken advantage of. The advertisement is an act of promotion, and is also the part that usually generates more ethical arguments in the marketing process.

Are the following cases ethical? Please explain.

The Society of Hospital Pharmacists of Hong Kong conducted a study of the safety and effectiveness of 10 major injection and external use medical beauty treatments. They discovered that 5 of these treatments were not supported by sufficient clinical evidence and poses possible safety hazards. There is a chance that the consumer may suffer possible bacterial infection and even die.

A certain advertisement was promoting a “fitness shoe” that claimed reduction of weight upon wearing but did not provide any evidence.

The model featured in a fashion brand in England was too thin; her built was like someone with anorexia.

A certain TV advertisement: while a middle-aged man in a suit and his friends were drinking a certain brand of liquor in the pub, his eyes stared at a beautiful lady in a suit. The lady returned the gaze with a shy yet flirty expression. The man used the age and allure of the liquor as a metaphor for the beautiful lady, and raised the glass to her in a toast.

A supplier sold goods to large corporations at very low or sub-product cost prices; meanwhile it sold the goods to small merchants at prices that exceed the production cost. The aim was to help large corporations expand their market share.

A bank sold complex financial products to poorly-educated elderly citizens, attempting to convince them to make high risk investments.

A certain mobile phone manufacturer launched a new phone. At sales launch a great number of grey goods traders queued outside the store making it impossible for real consumers to buy the phone.

## I Ethical considerations when making marketing decisions

A customer is an important stakeholder of the company. According to stakeholder theory, the company has three courses of action toward the customer:

a. Immoral

- ✧ Treats the customer as a target for exploitation, maximizing individual and organizational benefits through such exploitation;
- ✧ Does not advocate a style of following ethical standards in operations, and instead often deliberately tricks or misleads customers;
- ✧ All marketing decisions, including advertising, pricing, packaging and distribution are made in order to take greatest advantage of the customers.

b. Unethical (but legal)

- ✧ The management does not make decisions or take actions from an ethical perspective, but only make decisions based on the principle of “making a profit while staying within the law”;
- ✧ The management has no concern for the principle of fairness that values the customers, but only focuses on the interests of the management;
- ✧ Has no consideration of the ethical issues involved in the exchange with customers.

c. Ethical

- ✧ Treats the customers as equal partners in the transaction;
- ✧ The customer specifies the needs and expectations of the transaction, and is treated fairly;
- ✧ The company’s decision concerns the provision of fair prices, full access to information, reasonable protection and satisfaction to customers;
- ✧ Fairly interprets and respects the rights of the consumer;
- ✧ Actively compensates the losses of customers.

Also, from the perspective of social contract theory or deontology, companies have an ethical responsibility to protect the rights of the consumers. Once a consumer has purchased a certain product, the company is under contractual obligation to treat the consumer fairly. The company should not only treat consumers as a source of profit, but should actively protect the multiple rights of the consumer.

Rights of consumers	Related areas	Ethical consideration
Obtaining safe and effective products	product policy	Is the product safe? Are the qualities and functions in accordance with the descriptions on the label?
Obtaining honest and truthful information	promotion policy	Do the advertisement and way of promotion deceive, mislead and threaten consumers?
		Do the advertisement and way of promotion involve any discrimination and any undue stereotyping?
Respecting the personal privacy	promotion policy	Does the promotion invade privacy ?
Paying fair and reasonable prices	pricing policy	Is there any price manipulation when enterprises set the price? Do the enterprises gain excessive profit? Concern the ability of the less advantaged ? Are there any unfair treaties when setting the price?
Obtaining the rights to buy products	place policy	Do enterprises hinder consumers of purchasing products with unjust means?

Table 5.1 Ethical issues related with rights of consumers

Rights of consumers	Examples
Obtaining safe and effective products	The Society of Hospital Pharmacists of Hong Kong conducted a study of the safety and effectiveness of 10 major injection and external use medical beauty treatments. They discovered that 5 of these treatments were not supported by sufficient clinical evidence and poses possible safety hazards. There is a chance that the consumer may suffer possible bacterial infection and even death.
Obtaining honest and truthful information	<ul style="list-style-type: none"> <li>✧ A certain advertisement was promoting a “fitness shoe” that claimed reduction of weight upon wearing but did not provide any evidence.</li> <li>✧ A middle-aged man in a suit and his friends were drinking a certain brand of liquor in the pub, his eyes stared at a beautiful lady in a suit. The lady returned the gaze with a shy yet flirtly expression. The man used the age and allure of the liquor as a metaphor for the beautiful lady, and raised the glass to her in a toast; the lady gave her a provocative look in response.</li> </ul> <p>A recent TV advertisement in England was condemned and banned from airing by the Advertising Standard Authority for the reason that the model featured in a fashion brand in England was “too thin” and would spread a misconceived sense of aesthetics. The Advertising Standard Authority also said that the clothes of the said advertisement targeted young customers, and many young girls watching the advertisement would be under the misconception that a “wiry” physique was perfect, which would lead to a wave of weight reductions.</p>
Respecting personal privacy	The Monetary Authority announced that 6 banks have been selling or passing the personal information of clients to unrelated third parties. In the case one bank has sold the name and telephone number of the clients to a call centre to promote insurance products; the bank’s customers complained about getting disturbing calls from the card-lost insurance service all the time.
Paying fair and reasonable prices	<ul style="list-style-type: none"> <li>✧ A few years ago a number of phone companies raised their charges by \$20 all at the same time, an action that was considered unfair to different walks of consumers</li> <li>✧ A supplier sold goods to large corporations at very low or sub-product cost prices; meanwhile it sold the goods to small merchants at prices that exceed the production cost. The aim was to help large corporations expand their market share.</li> <li>✧ A bank sold complex financial products to poorly-educated elderly citizens, attempting to convince them to buy low-yield, yet high risk financial products.</li> </ul>
Obtaining the right to buy products	A certain mobile phone manufacturer launched a new phone model. At sales launch a great number of grey goods traders queued outside the store making it impossible for real consumers to buy the phone.

Table 5.2 Examples of infringement of the consumer’s rights

## II Ethical considerations when deciding advertising strategies

### a. The definition of Advertisement

Advertising is the broadcast of messages through a suitable media to a target through paid means by an organization or an individual, aiming at reaching intended effects. These effects may include conveying of messages, elicitation of action (for example: consumption), and image-building.

### b. Type of advertisements

- ✧ Commercial advertisements: Commercial advertisements aim at selling products and mainly provide consumers with information on commercial products.
- ✧ Cultural advertisements: Advertisements that aim at conveying information about science, culture, education, and news and publishing.
- ✧ Social advertisements: advertisements that provide social services, for example social welfare, medicine and health, social security, or the seeking of marriage partners, lost persons, lost items and new employees.
- ✧ Government announcements: Announcements made by Government departments, which also carry an advertising function. For example: public information released by public departments involving security, traffic, legal, financial, taxation, commercial and industrial, and public health.

### c. Aims of advertisements

Advertisements aim at achieving three levels of purposes, including communication of information, convincing the consumer to make purchases, and constructing certain values.

### d. The value of advertisements

- ✧ Economic value: Advertisements may encourage spending and bring in income for companies. Effective advertisements also help lower costs. The advertising industry is an important industry and has generated many job opportunities.
- ✧ Cultural value: advertisements influence the society and shape consumption trends. Advertisements guides the mind-set, psychology and behaviour of consumption, for example the proliferation of whitening skincare products in Asia shapes the appreciation of Asians for whiter skin; such skincare products would take up over 50% of the cosmetics products market. Also, the abundance of advertisements featuring skinny fashion models would create a slimming trend in the society.

### e. Positive influences

- ✧ An avenue of communication for information, thoughts, awareness, faith and ethical

values, for example certain voluntary groups would convey positive messages/values in their advertisements. From the advertisement “Life is full of hope” we have learnt that one should face life situations positively.

- ✧ Creating economic value, promoting product sales and economic development, promoting the efficiency of social activities of production, creating more wealth for the society.
- ✧ Advertisements can educate the public about new knowledge and new technologies, open up one’s horizons, and keep one’s mind active.
- ✧ Advertisements bear aesthetic functions and values. They satisfy the aesthetic needs of the consumers.

f. Negative influences

- ✧ The advertising slogans were concise, catchy and impresses upon people easily. However, if the language used is vulgar or if the messages conveyed are unwholesome, it would violate the sensibilities of the public and easily mislead people, particularly youths. For example, many years ago the slogan of one advertisement was, “Do whatever you want!” Upon airing the advertisement sparked off intense social debate. Later, it was modified as “Do what you should!”
- ✧ Advertisements have the function of conveying values. Positively speaking, important values like “you can live life only once” which teaches people to value life are inspiring; on another hand advertisements may convey negative values for example hedonism and patriarchy. Take hedonism as one example, many advertisements encourage youths to focus on possession of material wealth, which is the solution to all problems and the way to gain respect. Such advertisements distort the human values and advocate the undesirable trend of youths chasing after fashion brands, and lead to the commercialization of life. To seek excitement of the senses, many advertisements contain violent content and sexual connotations and are detrimental to the physical and psychological development of youths.
- ✧ Different companies, to sell the same products, would launch a diversity of similar advertisements which, after a period, would group people into archetypes. For example, large amounts of slimming advertisements would give the false impression that bony equals healthy. Wrong archetypes would bring undesirable social consequences, for example young woman, to keep a slim physique, neglects to eat and suffers malnutrition.

If our society is filled by these advertisements with their negative influences, it would impact negatively on our social trends. We would gradually lose positive values, like respect and fairness, and this is detrimental to social development.

Advertisements have a deep impact on the formation of our values. This is why in many countries and regions around the world advertisements are monitored so that they do not bear negative influences for our children.

<b>Countries/ Regions</b>	<b>Content</b>
Norway, Sweden	Prohibit advertisements to all children under the age of 12
Austria, Luxembourg, Norway	Prohibit advertisements before and after children's programmes
Greece	<ul style="list-style-type: none"> <li>✧ Prohibit toy advertisements during 7am to 11pm</li> <li>✧ Prohibit all war games toy advertisements</li> </ul>
Germany, Finland	Prohibit advertisement of products that children can buy directly
Finland	Prohibit advertisements with cartoon characters
Denmark	Prohibit advertisements with characters starring in children's programmes
England	Prohibit advertisements with characters starring in child programmes before 9pm

Table 5.3 Examples of restrictions on advertisement to protect the children in different countries or regions

### III Analysing advertisements using applied ethics

#### a. Social Contract Theory

As a member of the society, companies and advertisers should stay within social norms and keep important social values when producing advertisements, for example human rights, respect and equality. Companies should take responsibility for the welfare of the society as a whole and create advertisements with positive impact rather than ones with negative impact.

#### b. Theory of Justice

Companies should protect the rights of every person, and seek profit through just and fair means. They should give greater care to the unfortunate. Also, as children have delicate minds, in producing or airing advertisements they should consider whether these advertisements would affect children adversely.

#### c. Stakeholders Theory

In producing advertisements companies should take into consideration the interests of shareholders and clients; they should also protect and respect the interests of other shareholders, including community entities. Companies should not create advertisements that discriminate against genders, religions or races.



#### To Know More

Dove once aired an advertisement for a showing cream. In the picture were three female models – African American, Latin American and white from left to right. On the back of the three models were labels of “before use” and “after use”. Dove was accused of racial discrimination because it hinted at the “whitening” of skin in dark-skinned races after use of their products.



#### To Know More

Another renowned brand of toothpaste “Darlie” used to be called “Darkie”, which was a derogative term for African Americans. Later the company spent huge funds to change the brand name to the racially neutral “Darlie”.



## Case Study

Comment on the cases below using the social contract theory, theory of justice or the stakeholders theory:

1. The advertisement “Take one more step to gain happiness”: An advertisement of a pharmaceutical company that describes how the Paralympic gold medalist So Wa-wai was single-handedly raised by his mother in a moving monologue.

2. The advertisement about Sam: Sam was diagnosed with lymphoma, and all of his hair fell off after receiving chemotherapy. Upon his return to school, he was timid and ashamed of himself. But as he stepped into the classroom, all of his classmate stood up and took off their hats, show their bald heads. This display of compassion gave Sam the courage to learn and keep on living.

3. A certain supermarket chain in the UK received complaints upon airing of an advertisement that cost them millions in HK dollar. The advertisement was finally banned. The slogan was “Behind every perfect Christmas was a mother”, and the content was about mothers busying themselves with preparations before Christmas while fathers and kids sit aside, chat and do nothing. All the housework seemingly fell to the mother.

4. To promote for an upcoming drama, a Taipei TV station rented over 20 advertisement spaces at bus stops to place large-size posters. The posters named the stops “Bus stop for unwanted women”, which sparked discomfort in certain female passengers. Some of them found it “offensive”, thinking that the advertisement was mocking their “unwanted” status. It was like they were stigmatized just by standing at the stop.

## Business and Economic Ethics

### Lesson 6: Company social responsibility - Staff

What are the most important stakeholders of a company? The American Management Association once conducted a study involving 6,000 managers, and the result indicated that the most important stakeholder was the **customer**, with **employees** coming second:

Stakeholder	Score ranking ( 7 as the highest score )
Customer	6.40
Employee	6.01
Major shareholder	5.30
Ordinary public	4.52
Ordinary shareholder	4.51
Government	3.79

Table 6.1 The importance of different stakeholders to companies

From the perspective of the management, the employee is the second most important stakeholder. The success (or failure) of a company hinges on the quality of its employees and employer-employee relations.

## I Revealing unscrupulous employers

The behaviour of the companies below is considered to be social irresponsible in their treatment of their employees:

a. A certain music school asks its new employees to sign a 3-year contract, which stated that if the employee resigns before the contract ended, he or she must pay the company 3-years' worth of salaries. There are also unreasonable clauses including the deduction of one dollar from the salary upon every minute of being late, and \$300 from the salary for every day's absence from work – every if one takes a sick leave.

c. A company's employee becomes pregnant, she would be given a difficult time by the company under various pretences, until she resigns voluntarily.

e. The staff at a famous Japanese home electronics brand complains about the company violating their personal privacy. The company would closely monitor their activities in the office.

f. A certain Korean enterprise has established a factory in Shenzhen. During a theft incident, its management forcibly searched the bodies of 56 female workers making them feel humiliated. Also there was once when a production line failed to meet its production quota, the staff of the entire production line was punished by having to kneel at the entrance of the company. The incident has drawn media's attention.

b. A certain book store asks its staff to clock in 7 hours of overtime per day during the book fair – making a total of 15 hours of work per day. They were also only allowed 30 minutes of meal time.

d. A certain restaurant in Hong Kong is used to paying its staff later than usual – salary is paid usually 10 days after the month end.

## Employers disrespecting the rights of employees

<b>Rights involved</b>	<b>Cases</b>
Rights to reasonable rewards	a, d
Rights to reasonable work conditions	b
Rights to equal opportunity employment	c
Rights to personal privacy	e, f
Rights to avoid discrimination	c, f
Rights to be respected	f
Right to personal freedom	f



### Questions for Discussion

1. If you are working at any of the above companies, will you work hard? Will you be willing to build a career at the company? Assuming that you are a woman with plans for marriage and children.
2. Evaluate on the behaviour and various measures of the employers using teleology.
3. Evaluate on the behaviour and various measures of the employers using deontology and theory of justice
4. Evaluate on the behaviour and various measures of the employers using stakeholders theory.

★ Usually speaking, a company can treat its staff in three ways.

### **Immoral**

- ✧ Treats the employee a tool for production;
- ✧ Uses, exploits and manipulates the employee to increase the profit for individual management staff or for the company;
- ✧ Ignores the employee's needs, rights and expectations;
- ✧ High-pressure, domineering and indifferent management.

### **Unethical, but in accordance with laws**

- ✧ Treats the employees according to law;
- ✧ Sees increase of production as a target rather than satisfying the different needs of

the employee;

- ✧ Treats the employee as a tool for production while adopting a system of gratuity;
- ✧ The company would offer a minimal level of respect to the employees to protect its own interests
- ✧ The structure, salary and system of rewards all aim to promote production in short-to-mid term.

### **Ethical**

- ✧ Treats the employees as an important part of the company, respects and protects their dignity;
- ✧ Adopts a leadership that encourages discussion or participation, hoping to build up a mutually-trusting relationship;
- ✧ Reiterates the main concept of “commitment”;
- ✧ In all decisions the company tries to ensure that the employees enjoy the rights of seeking legal redress, personal privacy, freedom of speech and personal safety;
- ✧ The management seeks fair ways to deal with labour issues.

In the above cases (a-f), the companies are apparently unethical in their management of employees.



✧Employees who are equal partners work in a supportive environment

## II Where to find the best employer?

Employers who take responsibility for their employees:

- a. Example (1) **Hengan Group**, listed company in the Hong Kong Stock Exchange
  - ✧ Since the company was founded, the major shareholder has been transferring the stock options to his employees, sharing with them the company's interests. The company focuses on improving on the work environment and safety measures, and over the years there not been a single production-related death in the company. The annual accident rate has also been kept under 1/1000.
  - ✧ The company has been improving on the work environment of the staff, installing living facilities like air-conditioning and water heaters for foreign workers; each year staff members receive free body checks at the municipal hospital; staff were given free tours to Hong Kong; a medical room, a library, a gym room, a cyber café and staff leisure rooms are installed.
  - ✧ The company emphasizes on staff training and has been organizing classes jointly with a number of universities, helping staff members ascend from low-level workers to technical staff and even staff management.
  
- b. Example (2) SAS Corporation of the US (A software company; selected best employer for a consecutive 15 years by *Fortune*)

### Background information

- ✧ Since its founding in 1976, the company has never suffered losses and its business value has grown 20,000 fold.
- ✧ Aims at providing long term plans for staff so that they gain a work-life balance.
- ✧ Focuses on promoting staff's ability to use information and create knowledge.
- ✧ In the competitive software industry, companies have a general staff rotation rate of 20%; in SAS it was less than 3%.

### Reasons for being selected

- ✧ The company owns a 68,000 square feet entertainment and health centre that comprises a swimming pool, a soccer pitch, a basketball court, a massage room, and a hair salon; the facilities are open for free use for over nearly 5,000 staff and family members.
- ✧ Introduced childcare system so that staff do not have to worry about their young

children during work hours, and can commit themselves to work.

- ✧ Established a medical centre providing free consultation and examination for all staff and immediate family. The centre began with a nurse and a doctor and now houses 53 medical staff including physiotherapists and psychologists.
- ✧ 35-hour work weeks with no need to clock in work hours. One may even play basketball during lunch break. No surveillance system is installed.
- ✧ The establishment of three staff canteens encourages exchange among staff. Staff are also encouraged to set up blogs and join social networking websites to imbue a sense of trust. Basketball teams and picnic lunches are also organized among staff. SAS conducts questionnaires every year inviting staff to offer new welfare suggestions and to understand staff requests.
- ✧ All staff will be invited to join the monthly breakfast meeting presided over by the CEO of SAS Jim Goodnight – the coffee seminar. On the meeting, staff may join the discussions about various issues.
- ✧ Providing “course pathway” project opened to all education workers in the US, providing standard education resources for over 50,000 US teachers in English, science, mathematics, sociology and Spanish.



### **Questions for Discussion**

1. If you were working at SAS, will you be working hard? Will you be willing to build a career at the company? Assuming that you are a woman with plans for marriage and children.
2. Evaluate on the behaviour and various measures of the employers using teleology.
3. Evaluate on the behaviour and various measures of the employers using deontology and theory of justice.
4. Evaluate on the behaviour and various measures of the employers using stakeholders theory.

### III Conclusion

If companies were to succeed; the most important measure is to reduce production costs. But as we enter an information age, it is important that one increases the profit. For a company to succeed one must treat its employees in just and fair ways, so that they are willing to stay. It is a proven fact that while treating employees well increases costs, the productivity of the employees also raises substantial with greater combined profit. Whether from the perspective of teleology or deontology, it is appropriate to treat employees well. The company should provide comprehensive measures<sup>7</sup> that include providing safe, healthy work environment and conditions, reasonable rewards, respect and trust for employees, while providing health social environment for employees, reasonable work hours to balance the family and work, chances for career development, and opportunities for community service. On one hand this is ethically proper, on another hand this may attract talents that are creative and motivated to work. Companies may then work continuously while fulfilling their social responsibility to their staff.

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<sup>7</sup> Refer to Maslow's hierarchy of needs theory



## To Know More: Some employee-friendly practices by best employers

<p>a. Branch company of Coca Cola at Peru, Argentina and Chile: to address the issues of jet lag and post-holiday syndrome, the company has a rule that the employees should take vacations of a length exceeding 10 days. Staff are allowed to take an additional 2-hour rest upon the first day return to work, and an additional 1-hour rest upon the second day.</p>	<p>b. Google: offers for employees, including free drinks and food at cafes, rock-climbing and free laundry service. Last year, Google's income saw a 20% growth and each employee enjoyed a 10% pay rise.</p>
<p>c. Ritz-Carlton Shanghai: Senior management often appears at the hotel foyer taking care of customers, for example carrying luggage for them. Each staff is given the discretion to waive charges up to a total \$2,000 for customers, for example if a customer complains about the food in the restaurant, the staff has the right to waive the cost of the meal if he/she finds the complaint justified.</p>	<p>d. Recreational Equipment: Staff having worked 15 years or above may enjoy a 4 week paid leave, available every 5 years. Staff members enjoy 50% to 75% discounts to the company's outdoor equipment, and may borrow equipment freely.</p>
<p>g. SC Johnson: The directors and managers are not allowed to call meets with their subordinates before 9:30am and after 5pm. This way, staff may take their children to school and pick up their children every day.</p>	<p>e. Animation Company Dreamworks (the company that created <i>Kungfu Panda</i>): Staff may enjoy free breakfast and lunch, films, after-lunch yoga, art courses and monthly parties. Each member of staff has the chance to directly propose to the CEO ideas for new animation productions.</p>
<p>h. Microsoft: company gives staff 40 hours paid leave to engage in voluntary work.</p>	<p>f. Wal-Mart: Each Saturday a congregation is held at the headquarters, involving events like aerobics, cheering, singing, sometimes comedian acts, sometimes boxing matches. The general manager and directors would shout and laugh like all other staff, and sometimes dance in a funny way. The company has abolished the systems of door guards, attendance, dress codes and senior management parking. Staff may work happily in a free environment.</p>

Source:

財富中文網 (2011)。《財富》評出全球最佳雇主 25 強 無一家中國公司。檢自：  
[http://www.fortunechina.com/career/c/2011-11/01/content\\_77145.htm](http://www.fortunechina.com/career/c/2011-11/01/content_77145.htm)

## Business and Economic Ethics

### Lesson 7: A company's social responsibility

#### I Tragic occurrence

##### a. India: Karma, 42 year old mother with 2 sons

“I work in a textile factory and produce labelled fashion apparel. But my monthly wages cannot even sustain my family – my employers often deduct my wages for various reasons. This is why I must also take up odd jobs to maintain a living, though it was barely enough. Often I have to take out loans. My work is heavy, and I would be scolded if I did not make the quota. Work is also like torture – no rest, water or bathroom breaks are allowed, and I have to stand over ten hours a day while getting insulted by my manager all the time, who calls me “donkey”, “owl” (an animal of evil in India) and “dog”. Last year, I was pregnant again, and I couldn’t even sit down at work. I pled with my manager that I be allowed to eat and replenish my energy during breaks, and the manager said all those who eat during breaks would be fired. I eventually lost the baby to my grief.”

Source:

中廣新聞網 (2012)。印度 孟加拉血汗成衣工廠時薪台幣 13 元。檢自：

<http://dailynews.sina.com/bg/news/int/bcc/20121126/05243993843.html>

新疆健康網 (2008)。深圳 GUCCI 店被指血汗工廠 孕婦流產不止一例。檢自：

<http://www.xj120.com/enews/shehui/200806/195610.html>

##### b. China: villagers in Guangxi

“In our village many suffered zinc poisoning<sup>8</sup>. The reason is that a metal factory upriver has been leaking waste water containing zinc. Later, officials including the head for environmental protection were also removed from office. Last year, more villagers suffered zinc poisoning and luckily no one died. A few years ago, some of our children in the village were discovered to have high blood lead levels. I’m worried that the air I breathe, the water I drink in this village are all poisoned. I want to leave the village but don’t have the money to do so. This is sad!”

Source:

BBC 中文網 (2008)。廣西砷中毒事件 五地方官被免職。檢自：

[http://news.bbc.co.uk/chinese/trad/hi/newsid\\_7660000/newsid\\_7668600/7668679.stm](http://news.bbc.co.uk/chinese/trad/hi/newsid_7660000/newsid_7668600/7668679.stm)

<sup>8</sup> Metal poisoning. Symptoms include pneumonia, difficulty in breathing, or even death through hepatorenal syndrome

c. Taiwan: President of an electronics production company

“I admit that my factory imposes stringent restrictions on my workers. Some call my factory a sweatshop. What’s wrong about that? I’m not doing anything illegal. I believe in success through hard work. If the staff can’t stand the hard work, they can always leave. Many want their jobs! The staff should be on our side, sweating blood and sweat in exchange for the greatest profit. This is a justified deed. I earn every penny in the right way, and I never lost any sleep over it. I work hard to create thousands of jobs for the society, and I was bashed by some media reports. This is sad!”

Postscript: To protect my reputation, I have decided to sue the reporters for libel and for compensation for my damaged reputation. Let’s see if anyone dares to speak ill against me.

Source:

明報 (2012)。郭台銘：血汗工廠有何不好。檢自：  
<http://inews.mingpao.com/htm/Inews/20120428/ca61642a.htm>



### To Know More

Sweatshop refers to work environments that are poor and which bears little reward. Many academics have pointed out that to avoid sweatshops one must protect labour rights. The best way to do so is to offer workers the right of collective bargaining. This is why labour unions are the best tool to eliminate sweatshops. The facts have proven that companies that house workers’ unions can be successful. Whether in the east or in the west, there are countless examples of successful companies that make a profit while being conscientious. This proves that one needs not exploit workers in order to be successful.



## Questions for Discussion

What is common about Karma's factory, the electronics factory owned by that Taiwan owner, and the riverside factory in Guangxi? (the answer is in the final session of this chapter)

### II Definition for company sustainability

The World Commission on Environment and Development of the UN proposed the concept for sustainable development in 1987: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." From the perspective of business ethics, when planning and implementing various projects, sustainable companies should not only consider the interests of existing shareholders but also that of future shareholders. Take environmental protection as an example, companies must not over-harvest natural resources and sacrifice the interests of future shareholders. Also, the company's values, culture, decisions and operations should encompass a concern for the society, the environment and the economy. Besides abiding to the social, environmental and economic laws and rules, it should satisfy various local ethical requirements.

### III Definition for company sustainability report

For the past 20 years, we have been monitoring whether companies have fulfilled their social responsibility through reading their sustainability reports. In Hong Kong, different organizations would regularly announce the sustainable studies reports related to certain companies. Through writing company sustainability reports, companies may examine whether they have considered the interests of existing and future stakeholders. This spells great benefit for society as a whole.

According to the world corporate social responsibility report published by the accounting firm KPMG, among the largest 250 companies (G250) and the top 100 companies in the involved nations, 95% of G250 companies and 64% of N100 companies have published corporate social responsibility reports, 14% and 11% up respectively from a similar study conducted in 2008. Today, social responsibility and company operations are intertwined and sustainability reports are an item of great importance.

## IV The content of company sustainability reports

Right now, there are about 10 common standards for reports. The one standard that is contributed by the most people and countries is the ISO26000m which applies to all forms of organizations. The standard used by most listed companies is the GRI, which applies to both industrial and commercial firms. Both aim at promoting 7 major kinds of corporate social responsibilities, while allowing different community individuals to learn more about company performance in this regard. Various non-government organizations and consumers may monitor a company's social responsibility performance through the reports the company publishes every year.



資料來源: ISO (2008) 29

### a. The governing scope of ISO26000

#### ✧ Organizational Governance

In various levels of organization decision, a company should consider social responsibility. The first step is to establish the overall social responsibility and sense of value of the company, and set up mechanisms that promote and monitor awareness in corporate social responsibility, for example a mechanism to prevent bribery.

Through corporate sustainability reports, we may learn about the treasured values of a company. For example, in its corporate sustainability report, Hang Seng Bank has laid down its fundamental principles and core values. The fundamental principle is service excellence, and the first core value is “courageous integrity” – employees should have the courage and capability to do the right thing without compromising ethical standards or personal integrity, and to be reliable and accepting toward different opinions and cultures, while liaising closely with both clients and community. The second value is financial capability – the bank should focus on environmental protection while keeping the business profitable. The third value is keeping a leadership position – the bank should provide quality services to middle-class and private banking clients. The fourth value is transparency and effective communication – the bank should maintain good communication with various stakeholders and convey from time to time the values of the bank’s commitment and trust. If a staff member, facing a certain situation, is called upon to make an ethical choice between “profit” and “loyalty”, he/she should realize the choice must be “loyalty”, and that such a choice would be praised by the company. Also, when granting loans, the staff would consider the value of environmental protection. For example, if a mining company is applying for loan, the staff member would require the company to allow the bank to take part in ensuring the various operations of the company (exploration, extraction, mine closure and reclamation) fulfil the requirements of environmental protection,

#### ✧ Human rights

There are two kinds of human rights. The first kind involves civic rights and political rights, which comprise the rights to life, freedom and equality. The second kind involves the economic, social and cultural rights, which comprise the rights to work, food, education, and social security.

A company should stress the value of human rights in its exchange with stakeholders. It can establish a department that specifically monitors whether different departments respect human rights, and set up an appeal mechanism that involves staff members to ensure that the various human rights in the organization is protected. These include prevention of discrimination of various kinds, support for underprivileged communities, and protection of civic and political rights. Examples include non-interference regarding staff joining workers unions, encouraging staff to participate in voluntary work that benefits underprivileged communities, setting up platforms of complain for staff, ensuring no discrimination occurs in various company operations, banning inhumane operations in the company such as hiring of child workers, balancing the gender and race proportion in the company, and so on. After the principles are laid down, individual departments may

implement practical details of operation, for example the personnel department may establish guidelines that ensure gender and racial equity in employment; customer services department may laid down practices that cater to the different needs of particular races and religions; the procurement department may blacklist certain suppliers that have violated human rights.

Also, the Islamic religion requires its believers to pray at designated hours every day. The Hong Kong International Airport has put in place pray rooms for Muslims so that they do not have to pray in plain sight. When preparing in-flight meals, airlines would consider the special needs of various religions – for example avoid providing food that is offensive in certain religions. In procurement, the company may blacklist certain suppliers that have violated human rights, for example stop procuring from sweatshops mentioned in this lesson; or require the supplier to improve labour welfare.

#### ✧ Labour Practices

The company should expand its concern for employers to contractors working for the company. In labour practices (including employment conditions and work environment), the company must first fulfil labour laws, and secondly, satisfy the needs of the staff on various levels – these have been mentioned in lesson 6.

#### ✧ The Environment

Companies should take responsibility for protecting the environment and take a precautionary approach. They need to commission experts to make regular checks and take precautionary measures. Also, waste should be minimized in production processes, indicated by the release of greenhouse gases. One of the ways is to use recyclable energy or low-energy consumption appliances. Other indicators include consumption of energy, water, paper and other production materials. In procurement, environment friendly materials should also be used. Waste reduction is also an important measure, an example of which is collection of old products, the parts of which can be reused after disassembling.

IKEA is one of the world's largest producers of timber furniture. Timber is an important material for their production. To ensure sustainability, IKEA imposes stringent requirements for its suppliers. Suppliers must provide proof that all wood provided are sustainable timber, meaning that for every tree cut down there is a new one to replace it. Suppliers must also provide proof of afforestation. In production, suppliers are also required to minimize waste of materials like paint. Another major production of IKEA is cotton. IKEA would help cotton farmers around the world to improve on their production models by asking them to follow the "better cotton" certification. Cotton farmers should not only follow the environment requirements set out by IKEA and the World Wildlife Fund, but also the decent work standards as set out in the "Better Cotton Initiative" to protect labour conditions. In adopting such a model of production, the cotton farmers reduced use of water and pesticide by half, and chemical fertilizers by one-third. Right now, in just the Indo-Pakistani regions, over 100,000 cotton farmers have passed the certification. Sustainable "better cotton" now takes up one-fourth of all cotton purchased by IKEA and is expected to take up all cotton purchased in a few years.

In Hong Kong, companies can reduce waste through simple means. For example, lowering the air-conditioning by one degree, shut off electronic appliances on stand-by, using LED lighting, and using double-face photocopying. For example, Power Assets has been promoting the 4R culture (Reduce, Reuse, Recycle and Recover) that encourages minimizing consumption and resource wastage. At the Lammar Island Power Station, waste water and rain water is collected for reuse. In year 2011, 138,400 cubic metres of rain and waste water has been collected, making up 6.1% of total annual water use. They also advocate waste recycling by collecting various industrial wastes from within the company, including waste paper, metal, plastic, waste batteries, energy-saving light bulbs, and printer cartridges. Waste collected at the Lammar Island Power Station, including waste oil, coal soot, and plaster will be collected and processed by a contractor for industrial uses.

#### ✧ Fair Operating Practices

Companies should conduct business with other stakeholders in an ethical manner. This includes drafting anti-corruption guidelines, avoiding anti-competition behaviour, realizing corporate value in the procurement process, and protecting intellectual copyright. IKEA has implemented "the Ikea Code of Conduct – IWAY", which stipulates the various requirements on distributors.

In 2012 IKEA has implemented maximum work hours (60 hours per week, no more than 3 hours of overtime per day) for the staff of its suppliers. It also offers training for suppliers and has also established a dedicated department to conduct regular and on-the-spot audits (checks). In 2011, IKEA made nearly 1,000 regular audits and nearly 800 on-the-spot audits on its global suppliers, while commissioning third-parties to make a total 47 audits on suppliers. The satisfaction rate was 98%. IKEA also established a business-ethics assistance line – the trust line, through which suppliers can use English or the local language to request explanation for or report unethical business behaviour.

#### ✧ Consumer Issues

Companies should actively protect the various major rights of consumers, including the rights to safety, information, communication with the company, choice and privacy. They should treat consumers fairly and responsibly, and has the duty to educate consumers and provide after-sales service.

#### ✧ Community Involvement and Development

Traditionally, when companies become involve community and charity activities, it was on a one-time, random basis. Most were simply donations. The community is an indirect stakeholder of the company, and companies should, according to their aims, join community activities in a strategic and systematic manner. For example, companies may help promote environmental protection in the community, organize activities that promote psychological and physical, protect cultural heritage, organize cultural activities, support the underprivileged, support developing countries, and avoid making investments that violate corporate values.

The China Light and Power Group, besides asking its staff to join voluntary work, also implements social investment programme that involves four areas: environment, education, social health and art & culture, working with various government departments and support these organizations.

IKEA Group is a multinational corporation with businesses in over 40 countries servicing over 660 million customers. Two of their main activities are selling fluff toys and Sunnan LED lamps with the aim to help children in developing countries. During the holiday season at the end of each year, IKEA would donate 1 Euro to education charities for every fluff toy sold at IKEA stores. Also, for every Sunnan LED lamp sold, IKEA would donate another one to the UNICEF to be distributed to children in developing countries.



### **To Know More**

According to Oxfam Hong Kong's 2009 CSR Survey of Hang Seng Index Constituent Companies<sup>9</sup>, Hang Seng Index Constituent Companies were relatively weak maintaining fair operational practices in supply chain management. These companies usually impose little expectations on suppliers' social responsibilities, ignoring whether suppliers can provide products in an ethically responsible manner. On the environment front, only a few companies implement practical guidelines and most companies require improvement in staff practices. Some reasonable demands of staff were not met, and only a few companies include human rights articles in their ethical guidelines. Most companies participated in community development through monetary donations. They behaved rather satisfactory in other aspects.

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<sup>9</sup> [http://www.oxfam.org.hk/content/98/content\\_4371tc.pdf](http://www.oxfam.org.hk/content/98/content_4371tc.pdf)



## Case Study

Please select one company from the Sustainability Report Electronic Resource Library (website: [http://files.caringcompany.org.hk/e-library\\_v2\\_p2.html](http://files.caringcompany.org.hk/e-library_v2_p2.html)) and search for the information below

Scope	Information
Organizational management	What values do companies emphasize on? What are the practical measures?
Human rights	What human rights do companies emphasize on? What are the practical measures?
Staff practices	How do companies satisfy the different needs of their staff?
Environment	How do companies protect the environment?
Fair operations	How do companies realize the value of fairness during operations?
Consumer issues	How do companies protect the interests of consumers?
Community participation and development	How do companies promote community development?

Scope	Information
Organizational management	
Human rights	
Staff practices	
Environment	
Fair operations	
Consumer issues	
Community participation and development	

## V Conclusion

The factories mentioned in the beginning of the chapter are obviously not operating according to the principle of sustainability. First, we see that the factories have violated the requirements for ethical business. The factory that Karma works in neglected the rights of employees, with the factory owner focusing only on earning the most in the shortest time. These factories rely mostly on low-skill labour, and labour mobility is high, the profit minimal. Once orders were lost the factory easily closed down; sustainable developments may not be possible.

The riverside village in case 2 suffered heavy metal contamination with multiple victims. Even after several officials were removed from post and a number of company management jailed and penalized, the metal poisonings were still occurring. The reason is that the officials, the company management and the villagers had little awareness in environment protection. They focused only on economic development and job creation, and had a passive, rather than preventive understanding of environmental protection. This is why the tragedies keep happening, and this is also at odds with the concept of sustainability.

The president of the electronics company has apparently confused the concepts of law and ethics. He believed being legal equals being reasonable and moral. This principle of operation is short-sighted. In fact, his factory in China did mostly assembling work, relying on low-skill labour, which is why he is short-sighted in operations and has little concern for sustainable developments. Were the labour costs to increase, he would immediately move the factory to other places.

Overall speaking, our demands on business ethics now include consideration for sustainable developments. We hope that companies do not operate only legally but also actively promote value-based activities in their communities, and improve the quality of human life. From the sustainability reports of various major companies we can see that it is now a major trend for companies to protect the rights of stakeholders and actively commit themselves to social responsibilities.

### References

1. Mok Kwok-wo, 2011, *Corporate Social Responsibility in Hong Kong*. Ching Shum Cultural Publishing
2. The Hong Kong Council of Social Service, *Corporate Social Responsibility*.
3. *IKEA Sustainability Report*, 2011

## **Business and Economic Ethics**

### **Lesson 8: Conclusion – Businesses to promote ethics**

#### **I It's just business: Profit first**

“It's just business” remains the belief of certain individuals, who believe in corporate responsibility as only in sound management and maximization of profits. Businesses should not spend resources on areas unrelated to profit, for example charitable causes; these should be the responsibility of the government and charitable groups. Maximizing profits is the major and only social responsibility for business, so businesses are not required to promote ethical values of justice, fairness, and care to the society. But the fact is, many companies that ignored social responsibility created various harmful consequences that damaged the trade and the society.

Since the mid-20<sup>th</sup> century, there have been increasingly diverse views about the way to conduct business. They believe that beyond financial responsibilities (maximizing profits), companies have responsibilities to the society:

- ✧ Social responsibility does not necessarily contradict maximization of profits. A socially responsible company may attract more customers, better employees, and be free from stringent government regulations (teleology).
- ✧ During production, companies may incur lots of social costs (for example pollution) and injustice. Therefore companies have the ethical obligation to resolve these problems and prevent the occurrence of further problems. (deontology, justice theory)
- ✧ Companies grow in size and influence only because of social support. This is why they should take responsibility accordingly (theory of social contract)
- ✧ Besides the owner, a company's stakeholders include the staff, suppliers, customers, the government, and distributors. Maximizing profits only benefit the owner. The company should not only take care of the interests of its owner but ignore those of other stakeholders. (theory of stakeholder)

After years of development, most people in the society believe that companies should be socially responsible. In fact, if companies were to develop in a sustainable manner, they must take up social responsibilities.

The above emphasizes that corporate behaviour should follow prevalent social norms. The major role of companies is the passive adaptor. Should companies actively lead social trends and establish new norms? Blaze new norms?

## II Corporate Social Responsibility

Carl Rawls believes that the society expects businesses to take up social responsibilities in four major areas. They include economic responsibility, legal responsibility, ethical responsibility and charitable responsibility. The society **demands** companies to take up economic and legal responsibilities, which are the basic requirement. After satisfying these two, the society further **expects** the company to take up ethical responsibilities. This is a fair expectation as the company has the duty to treat stakeholders in proper, fair and just manner, and to avoid or minimize damages to stakeholders. Lastly, society **hopes** the companies will take up charitable responsibilities which constitutes an additional requirement: companies should be excellent corporate citizens, contribute to the society and promote the quality of life in humans.

As the society develops and companies grow in scale, people demand more of companies. Carl Rawls believes a company should fulfil the first three obligations, which constitute people's impression of whether the company is ethical; even if the company fails to fulfil the fourth requirement it would not be considered unethical. However, Rawls emphasized that these four responsibilities complement each other and missing any one leave a hole. Also, companies can lead the society in setting new norms and improve people's lives through innovative behaviour in fulfilling its charitable responsibility.

### a. Economic responsibility

- ✧ Provides reasonably priced products and services to the society that fulfil social needs
- ✧ Operates in ways that promote profit-making
- ✧ Maximizes profit
- ✧ Maintains strong market competitiveness
- ✧ Maintains highly effective operations
- ✧ Strives to be a successful company that consistently yields profits

### b. Legal responsibility

- ✧ The model of operation follows the laws that control government business activities
- ✧ Abide by regulations laid down by various levels of government
- ✧ Emphasizes itself as a law-abiding company entity
- ✧ Focuses on becoming a successful and legally responsible company
- ✧ Provides products that fulfil minimum requirements as set out in the law

c. Ethical responsibility

- ✧ Works in ways that fulfil the society's ethical expectations and norms
- ✧ Ascertains and respects the increasingly accepted new moral/ethical norms in society
- ✧ Does not need to change moral rules to meet company targets
- ✧ Intends to become an excellent corporate entity that takes care of the interests of various stakeholders, and conduct activities that are moral or ethical.

d. Charitable responsibility

- ✧ Works in ways that meet social expectations in charity and charitable behaviour
- ✧ Supports developments in art and culture
- ✧ Encourages management personnel and staff to join voluntary or charitable work in the community
- ✧ Seeks opportunities to support private or public education
- ✧ Voluntarily supports various projects that promote social "quality of life", and becomes an excellent corporate citizen that contributes positive to society

The pyramid of corporate social responsibilities

**Philanthropic  
Resonspibility**

*Be a good  
corporate  
Citizen*

The society hopes a  
company make  
contributions,  
improving the quality  
of life.

**Ethical  
Responsibility**

*Be ehtical*

The society expects  
company to be just,  
fair and not harmful  
to its citizens.

**Legal Responsibility**

*Obey the law*

The Law is the  
foundation of  
proper behaviors.  
A company  
should be abide  
by law.

The foundation  
of business

**Economic Responsibility**

*Be profitable*

### III Case study

The Body Shop is considered a pioneer of modern corporate social responsibility. Its founder, Anita Roddick, has been advocating many values since the 1980s: “Using natural ingredients in skincare, not using animals to test product safety, minimal packaging, recycling, fair trade, protecting the human rights of people in developing countries, protecting the human rights of political prisoners, opposing to sweatshops, environmental protection, protection of animal rights, setting up a trust fund to promote social development.” Since 1996, The Body Shop has been publishing a yearly Values Report which was the precursor to the Sustainability Report of nowadays. Roddick believes that companies have the responsibility and ability to do good, and companies should be a tool for doing good.

The Body Shop has changed society’s perceptions about businesses. Companies are not necessarily passively bounded by social values, and completing their ethical responsibility passively; on the contrary, companies may promote new values and actively fulfil ethical responsibilities, become powerful drivers for social revolution, while maintaining a profit and developing sustainably. The Body Shop opposes to testing product safety using animals. In the 1980s, such cruel practices were commonplace. Roddick has been opposing to animal testing and advocated other, more costly methods. Today, the European Union bans 90% of cosmetics products from using animal testing. Many customers of The Body Shop love not only their products but also identifies with their values and beliefs. Another value that the company advocates is fair trade. Besides buying raw materials at fair prices, Roddick uses her own foundation to support the exposing of sweatshops around the world, gradually changing the values of people.

In promoting charitable responsibilities, The Body Shop has changed people’s perception of using cosmetics. Modern cosmetics equate beauty with superficial appearance. The Body Shop advocates the opposite and believes in “beauty as a feeling, a natural way of being, where character, self-esteem and humour are freely expressed and celebrated.” They promote cosmetics products as health products, changing people’s values so that consumers do not spend out of fear. Their self-perception is improved and overall social wellness is promoted.

The model of operation of The Body Shop satisfies the four levels of corporate social responsibility as stated by Carl Rawls. On the third and fourth responsibility, in particular, they have constantly promoted social revolution and promoted a sense of ethics in consumers. This has caused indirect change in other companies, turning the changes advocated by Body Shop into norms that now everyone follows.

Source:

The Body Shop, Retrieved from:

[http://www.thebodyshop.com/hk/tc/about\\_us.aspx](http://www.thebodyshop.com/hk/tc/about_us.aspx)



## To Know More

Famous speech by Roddick: Trading With Principles (Excerpt)

Let's measure the success of places and corporations against how much they enhance human well-being. Body Shop was one of the first companies to submit itself to a social audit, and many others are now doing so.

Measuring what really matters can give us the revolution in kindness we so desperately need. That's the real bottom line.

We already have power as consumers and as organisations forming strategic and increasingly influential alliances for change, driving companies reluctant to promote human wellbeing to change.

## IV Conclusion

Corporate activities affect our daily lives. The mainstream view in the world is that companies should take up various social responsibilities. Meanwhile, the civic society has become grown increasingly sensitive to ethics. We all believe that it is crucial that social justice be maintained in order to achieve overall social wellbeing. Citizens are more willing to put ethical values to action, for example using the power of consumption to boycott socially irresponsible companies. To develop sustainably, companies must actively take up various social responsibilities and even lead social change. We believe that when more companies take social welfares as their own welfare, the social would become a better place.



## Case Study

### Café de Coral

In 2011, minimum wage is implemented in Hong Kong. The fast food chain Café de Coral responded by deducting the staff's lunch time from their paid work hours, meaning that the lunch hour is not counted as part of the work hour. It was commonly construed by the public as "indirectly cutting wages". Café de Coral was heavily criticized in the media as "unscrupulous employer", and even became the target of a boycott activity organized by a political party. The company's management quickly withdrew the measure while keeping the pay raise. Michael Chan, President of Café de Coral Group, later explained on a press conference that the aim of the proposed measure is to compile a reasonable system for computing wages rather than cutting costs. He believes that the spirit of minimum wage is to calculate the wage according to actual work hours, so legally speaking one should not count in the lunch hour. Commentators believe that while the new measure is legal, it was profit oriented and had only the shareholders' interests in mind. It saw the company as the property of the shareholder and has ignored the interests of other stakeholders, which drew public criticism and damaged the company's image. It was likely that the company's business would suffer and in turn damage the shareholders' interests. Also, Café de Coral was a sizable corporation whose actions and words had significant social impact. Even though the proposed measure had little influence within the company, it bore significant power that may affect the employees of other companies.

Source:

大家樂驚覺政治 勝駝鳥地產商 (2010年11月12日)。香港經濟日報



### Questions for Discussion

1. According to Carl Rawl's concept of corporate social responsibility, can the measure proposed by Café de Coral's management to exclude lunch hours from paid work hours fulfil the four responsibilities? Illustrate with examples.
2. Would satisfying ethical and charitable responsibilities damage a company's profits so that it cannot fulfil its economic responsibilities? Try explaining using this case.