



Subject: Professional Ethics

Chapter: Unit 1 & 2

Category: Practice questions
solutions

Answer 1.

Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application moral or ethical norms to business. Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others.

Characteristics of Business Ethics:

- (i) *A Discipline:* Business ethics are the guiding principles of business function. It is the knowledge through which human behavior is learnt in a business situation.
- (ii) *Ancient Concept:* Business ethics is an ancient concept. It has its origin with the development of human civilization.
- (iii) *Personal Dignity:* The principles of ethics develop the personal dignity. Many of the problems of ethics arise due to not giving dignity to individual. All the business decisions should be aimed by giving dignity to the customers, employees, distributors, shareholders and creditors, etc. otherwise they develop in immorality in the business conducts.
- (iv) *Related to Human Aspect:* Business ethics studies those activities, decisions and behaviors which are concerned with human aspect. It is the function of the business ethics to notify those decisions to customers, owners of business, government, society, competitors and others on good or bad, proper or improper conduct of business.
- (v) *Study of Goals and Means:* Business ethics is the study of goals and means for the rational selection of sacred objects and their fulfillment. It accepts the principles of —Pure goals inspire for pure means|| and —Means justifies the end||. It is essential that goals and means should be based on morals.
- (vi) *Different from Social Responsibility:* Social responsibility mainly relates to the policies and functions of an enterprise, whereas business ethics to the conduct and behavior of businessmen. But it is a fact that social responsibility of business and its policies is influenced by the business ethics.
- (vii) *Greater than Law:* Although the law approves various social decisions, but the law is not greater than ethics. Law is usually related to the minimum control of social customs whereas ethics gives importance to individual and social welfare actions.

Answer 2. I would place Affleck under the utilitarian ethical theory.

Explanation:

The utilitarian ethical theory is founded on the ability to predict the consequences of an action. To a utilitarian, the choice that yields the greatest benefit to the most people is the choice that is ethically correct. One benefit of this ethical theory is that the utilitarian can

compare similar predicted solutions and use a point system to determine which choice is more beneficial for more people. This point system provides a logical and rationale argument for each decision and allows a person to use it on a case-by-case.

Answer 3.

1. In judicial practices, when judging competitive relationship, first step is to check whether the registered business scope of two companies coincides, regardless of their registered capital; second step is to check whether the two companies actually run the same business. Company B though with less registered capital, its business scope partially coincides with that of Company A, which is a solid evidence for conflict of interest, even competitive relationship. Although in year 2007 Company B has not been established, according to declaration form, "whether running or investing a business conflicting with interest of the company in the name of employee him/herself or the relatives" falls into the scope of the circumstances need declaration. Furthermore, it is requested to keep the company informed of any information update. Therefore, Li breached his duty of conflict-of-interest declaration.

2. In general, whether a third party is an interest party of employee or such interaction need to be reported shall be subject to such interaction will affect the employee's neutral judgment in the performance of his/her duties. In this case, Li invested in Company B when serving as sales manager of Company A, while another shareholder of Company B is Zhang's spouse. Zhang herself is the operating director of Company B, and is also the legal representative of Distributor C. Company B shared office address with Distributor C. It is obvious that Li and Company B, Distributor C and Zhang has associated relationship. Such relationship has gone beyond the proper limit which a sales staff and distributor should keep, and is enough to affect employee's judgment. However Li did not make any declaration to Company A during his employment.

Answer 4.

Work ethic is a value based on hard work and diligence. It is also a belief in the moral benefit of work and its ability to enhance character.

Five Characteristics of a Good Work Ethics are as follows:

1. Reliability: Reliability goes hand in hand with a good work ethic. If individuals with a good work ethic say they are going to attend a work function or arrive at a certain time, they do, as they value punctuality. Individuals with a strong work ethic often want to appear dependable, showing their employers that they are workers to whom they can turn. Because

of this, they put effort into portraying -- and proving -- this dependability by being reliable and performing consistently.

2. Dedication: Those with a good work ethic are dedicated to their jobs and will do anything they can to ensure that they perform well. Often this dedication leads them to change jobs less frequently, as they become committed to the positions in which they work and are not eager to abandon these posts. They also often put in extra hours beyond what is expected, making it easy for their employers to see that they are workers who go beyond the rest of the workforce and truly dedicate themselves to their positions.

3. Productivity: Because they work at a consistently fast pace, individuals with a good work ethic are often highly productive. They commonly get large amounts of work done more quickly than others who lack their work ethic, as they don't quit until they've completed the tasks with which they were presented. This high level of productivity is also due, at least in part, to the fact that these individuals want to appear to be strong workers. The more productive they are, the more beneficial to the company they appear to those managing them.

4. Cooperation: Cooperative work can be highly beneficial in the business environment, something that individuals with a strong work ethic know well. Because they recognize the usefulness of cooperative practices - such as teamwork -- they often put an extensive amount of effort into working well with others. These individuals commonly respect their bosses enough to work with any individuals with whom they are paired in a productive and polite manner, even if they do not enjoy working with the individuals in question.

5. Character: Those with a good work ethic often also possess generally strong character. This means they are self-disciplined, pushing themselves to complete work tasks instead of requiring others to intervene. They are also often very honest and trustworthy, as they view these traits as befitting the high quality employees they seek to become. To demonstrate their strong character, these workers embody these positive traits daily, likely distinguishing themselves from the rest.

Answer 5.

Code of conduct or what is popularly known as Code of Business Conduct contains standards of business conduct that must guide actions of the Board and senior management of the Company.

The Code may include the following:

- (a) Company Values.
- (b) Avoidance of conflict of interest.
- (c) Accurate and timely disclosure in reports and documents that the company files before Government agencies, as well as in Company's other communications.
- (d) Compliance of applicable laws, rules and regulations including Insider Trading Regulations.
- (e) Maintaining confidentiality of Company affairs.
- (f) Non-competition with Company and maintaining fair dealings with the Company.
- (g) Standards of business conduct for Company's customers, communities, suppliers, shareholders, competitors, employees.
- (h) Prohibition of Directors and senior management from taking corporate opportunities for themselves or their families.
- (i) Review of the adequacy of the Code annually by the Board.
- (j) No authority of waiver of the Code for anyone should be given.

Answer 6.

The company follows the stakeholder theory.

Explanation:

According to this theory, the company is seen as an input-output model and all the interest groups which include creditors, employees, customers, suppliers, local-community and the government are to be considered. From their point of view, a corporation exists for them and not the shareholders alone.

The different stakeholders also have a self-interest. The interest of these different stakeholders is at times conflicting. The managers and the corporation are responsible to mediate between these different stakeholders interest. The stake holders have solidarity with each other. This theory assumes that stakeholders are capable and willing to negotiate and bargain with one another. This results in long term self-interest. The role of shareholders is reduced in the corporation. But they should also work to make their interest compatible with the other stake holders. This requires integrity and managers play an important role here.

They are faithful agents but of all stakeholders, not just stockholders.

Answer 7.

The role of the Chairman includes:

- Setting the Board agenda, ensuring that Directors receive accurate, timely and clear information to
- Enable them to take sound decisions, ensuring that sufficient time is allowed for complex or contentious issues, and
- Encouraging active engagement by all members of the Board;
- Taking the lead in providing a comprehensive, formal and tailored induction programme for new Directors, and in addressing the development needs of individual Directors to ensure that they have the skills and knowledge to fulfill their role on the Board and on Board Committees;
- Evaluating annually the performance of each Board member in his/her role as a Director, and
- Ensuring that the performance of the Board as a whole and its Committees is evaluated annually.
- Holding meetings with the non executive Directors without the executives being present;
- Ensuring effective communication with shareholders and in particular that the company maintains
- Contact with its principal shareholders on matters relating to strategy, governance and Directors' remuneration.
- Ensuring that the views of shareholders are communicated to the Board as a whole.

Answer 8

Credit Rating Information Services of India Limited (CRISIL)

Credit Analysis and Research Limited (CARE)

Functions of Credit Rating Agencies

- Business Analysis.
- Evaluation of industrial risks.
- Market position of the company within the industry.
- Operating efficiency.
- Legal position in terms of prospectus.
- Financial analysis based on accounting quality.
- Statement of profits.
- Earnings protection.

Answer 9

The benefits of separation of roles of Chairman and CEO can be:

1. Director Communication: A separate chairman provides a more effective channel for the board to express its views on management
2. Guidance: a separate chairman can provide the CEO with guidance and feedback on his/her performance
3. Shareholders' interest: The chairman can focus on shareholder interests, while the CEO manages the company
4. Governance: a separate chairman allows the board to more effectively fulfill its regulatory requirements
5. Long-Term Outlook: separating the position allows the chairman to focus on the long-term strategy while the CEO focuses on short-term profitability
6. Succession Planning: a separate chairman can more effectively concentrate on corporate succession plans.



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