

BUSINESS — Business Ethics

Ethical Issues · Situations · CSR · Consequences · Managing Ethics · ICAP Code

PAGE 1 · CHAPTER ROADMAP, DEFINITIONS & CORE CONCEPT**1 CHAPTER OVERVIEW — THE ROADMAP**

CENTRAL IDEA Beyond **value maximisation** for shareholders, businesses must provide goods & services in an **ethically responsible** manner. A proper governance process achieves goals through **ethical decision-making** and **socially responsible** management.

1
Ethics in business decisions

2
Ethical issues
Conflict of interest

3
13 ethical situations

4
CSR
5 principles

5
Consequences

6
Managing ethics
Code · ICAP 5 principles

2 KEY DEFINITIONS*Teal terms = high exam priority***Ethics**

The “discipline dealing with what is good and bad and with moral duty and obligation” — moral standards for judging right or wrong.

Business ethics

A set of **moral principles** guiding organisations on what is **right, wrong and appropriate in the workplace**.

Ethical issue

An identifiable **problem, situation or opportunity** requiring a choice between actions judged right/wrong, ethical/unethical.

Conflict of interest

A person must choose whether to advance **his/her own personal interests** or those of others.

Insider trading

Buying or selling shares by **insiders with material information not yet public** — a conflict of interest.

Social responsibility

A business's obligation to make decisions & act in ways **desirable to society's objectives and values**.

CSR

Behaving and conducting business **ethically** and with **sensitivity towards social, cultural, economic & environmental issues**.

Corporate code of ethics

A **formal written statement** of ethical behaviour, accessible to all employees, guiding all decisions.

Integrity

Being **straightforward and honest** in all professional and business relationships.

Objectivity

Not compromising judgement due to **bias, conflict of interest or undue influence**.

Professional competence & due care

Attain & maintain knowledge/skill to current standards; act **diligently**.

Confidentiality

Respect the confidentiality of information acquired through **professional & business relationships**.

Professional behaviour

Comply with **laws & regulations**; avoid conduct that might **discredit the profession**.

IFAC

International Federation of Accountants — issues **ethics standards**; ICAP is a member and has **adopted its Code**.

3 CORE CONCEPT — BUSINESS ETHICS ≠ SOCIAL ETHICS**WHY DIFFERENT?**

Businesses **compete**; many decisions are taken for **commercial reasons, regardless of their effects** — e.g. closing loss-making operations despite **redundancies**.

FORMS OF MISCONDUCT

Deceptive business practices · withholding **important information** from investors or consumers

WHO MUST MANAGE ETHICS?

Every organisation — including **non-profits** — must manage the ethical behaviour of employees & other stakeholders.

4 UNDERSTANDING ETHICAL ISSUES — 6 AREAS OF BEHAVIOUR*Recognising the issue = the most important step*

1 **Acting within the law** — internationally, following accepted codes (e.g. **against bribery** to win contracts)

2 **Fair & honest dealing** with suppliers and customers

3 **Acting fairly towards employees**; concern for their welfare

4 Respect & concern for **communities** where the business operates

5 Respect for **human rights** — avoid suppliers using **child slave labour**

6 Concern for the **environment** and **sustainable** business practices

In business the choice often means weighing **monetary profit** against what a person considers **appropriate conduct**.

PAGE 2 · CONFLICT OF INTEREST, 13 SITUATIONS & SCENARIOS

5 CONFLICT OF INTEREST — ONE OF THE MOST COMMON ISSUES

MEANING

A person must choose whether to advance **his/her own personal interests** or **those of others**. Also: official responsibilities influenced by the **potential for personal gain**.

STUDY TEXT EXAMPLES

- Construction contract to a firm owned by the **father of an influential person** while under investigation — could shape the outcome
- Supply contract to a firm owned by the procurement manager's **close friend**

INSIDER TRADING

An example of conflict of interest — buying or selling shares by **insiders** holding **material, non-public** information.

6 13 SITUATIONS INVOLVING BUSINESS ETHICS

Managers' actions shape the organisation's moral standards

1 Taking things that do not belong to you

Unauthorised use of property / false pretences — even office postage for personal mail or **exaggerated travel expenses**

3 Giving or allowing false impressions

Salesperson lets customer believe weak **cardboard boxes** will hold tomatoes; car dealer hides an **accident**

5 Hiding or divulging information

Hiding drug **side-effect** results; taking **trade secrets** to a new employer

7 Improper personal behaviour

Conduct outside work affects performance & reputation — a **driver** must avoid substance abuse

9 Abusive or intimidating behaviour

Threats, false accusations, insults, yelling, ignoring — **one of the most common problems**

11 Violating rules

Breaking internal-control rules, even if **inconvenient** when serving customers

13 Misuse of organisation time

Theft of time — activities not necessary for the job

2 Saying things you know are not true

Discrediting co-workers for promotion; **falsely assigning blame**; inaccurate reporting of conversations

4 Buying influence / conflict of interest

Official duties influenced by personal gain — **supply contract** to procurement manager's close friend

6 Taking unfair advantage

Misleading uneducated consumers with complex contracts → **credit disclosure** & car-leasing rules

8 Abusing power & mistreating individuals

Supervisor **humiliating** employees in front of customers

10 Permitting organisational abuse

Overseas operations — **child labour**, inadequate wages, excessive hours; firm can perpetuate or prevent

12 Condoning unethical actions

Not reporting a colleague **embezzling** by forging a cheque — **tolerance is itself unethical**

EXAM USE

Read the scenario → match the **behaviour** to one of these 13 labels.

7 APPLY IT — SELF-TEST SCENARIOS

Scenarios & answers from the Study Text Self-Test

Scenario	Answer	Why (ethical issue)
Car dealer sells a repaired, tested car without disclosing a past accident — ethical? (Q4)	FALSE	Giving a false impression / hiding information
Builder bribes the authority for extra floors but will buy 100 ambulances for a Trust (Q5)	FALSE	Not acting within the law; good cause doesn't justify bribery
Carpet factory hires underage students below minimum wage "to help the poor" (Q6)	FALSE	Child labour & unfair wages breach human rights — not CSR
Cousin suits an HR vacancy — best course of action? (Q7)	Apply online, use referral	Pressuring HR or colleagues = conflict of interest

PAGE 3 · CSR, CONSEQUENCES & MANAGING ETHICS

8 CORPORATE SOCIAL RESPONSIBILITY (CSR)

MEANING

- Business is an important part of society → earn profits in ways that **meet society's expectations**
- Balance profit-making with initiatives that **benefit society**
- Build a **positive relationship** with the society it operates in
- CSR = acting ethically with sensitivity to **social, cultural, economic & environmental** issues

✓ ADVANTAGES OF BEING SOCIALLY RESPONSIBLE

- ✓ Bolsters **image** and builds the **brand**
- ✓ **Empowers employees** to use corporate resources to do good
- ✓ Formal CSR programmes → better **morale** & greater **productivity**
- ✓ Helps **attract & retain customers** — key to long-term success
- ✓ Customers may **pay a premium** knowing profits support causes they value

9 5 PRINCIPLES OF CSR

Some may matter more than others for a given organisation

- 1 Operate ethically & with integrity** — a recognised code of ethical behaviour that everyone is expected to follow
- 2 Treat employees fairly & with respect** — judged by employment policies: **good working conditions**, education & training
- 3 Respect basic human rights** — e.g. no tolerance of child labour
- 4 Play a responsible role in the community** — invest in local schools or hospitals; important in **under-developed** regions
- 5 Sustain the environment for future generations** — reduce pollution of air, land, rivers, seas · sustainable business (resources replaced) · less oil & coal, more **renewable** (water, wind) · **recycle** waste

10 EXAMPLES OF SOCIALLY RESPONSIBLE ACTIVITIES

Environmental efforts

A **primary focus** of CSR; businesses of all sizes have large **carbon footprints** — reducing them benefits firm & society

Philanthropy

Donating **money, products or services** to causes & non-profits; best to **consult** them on needs first

Ethical labour practices

Treating employees fairly — especially where **international labour laws** differ

Volunteering

Shows **sincerity** — good deeds **without expecting anything in return**

11 CONSEQUENCES OF UNETHICAL BEHAVIOUR

OVERALL Poor ethics → **negative image**, costs for the entity/executives, possibly **bankruptcy** or **imprisonment**. Acting ethically reduces risk.

① ILLEGAL / IN BREACH OF REGULATIONS

Risk of being 'found out' → **finances**, **compensation** to victims; directors may face **imprisonment**.

② LEGAL BUT 'IMMORAL'

Risk of **government action** to make the conduct **illegal**.

③ ANY UNETHICAL ACT

Exposure to **reputational risk** — e.g. accused of buying from child/slave-labour suppliers or **polluting** (Q12).

12 MANAGING ETHICAL BEHAVIOUR & THE CORPORATE CODE OF ETHICS

WHAT SHAPES CHOICES?

People choose using their **personal code of ethics**, but at work are strongly influenced by **co-workers & superiors** (authority & example).

Organisations manage it by (Q16): educating employees · up-to-date info on issues · **leading by example** · formal & informal programmes

CORPORATE CODE OF ETHICS

A **formal written statement**, available to all; guides **all employees'** decisions. Most leading **UK** organisations have one. Effectiveness depends on **leadership** — directors & senior managers must be **seen to comply**. Culture drives behaviour; the code guides it.

FOR A CODE TO BE EFFECTIVE (4)

- ✓ **Strongly endorsed from the top** (Q14) — boards have overruled codes
- ✓ **Training** given — else staff may not know it exists
- ✓ Kept **up-to-date**
- ✓ **Available to all** (e.g. corporate intranet)

PAGE 4 · ICAP CODE OF ETHICS — 5 FUNDAMENTAL PRINCIPLES

13 CODE OF ETHICS FOR CHARTERED ACCOUNTANTS

GLOBAL BODY
IFAC

>175 member & associate bodies
· 130 countries & jurisdictions ·
~3 million accountants

ROLE

Issues high-quality ethics standards in the public interest

Members encouraged to adopt high standards

MEMBER

ICAP adopted IFAC's Code of Ethics

ICAP members must adhere to it

WHY IT MATTERS

Public trust in financial reporting & reputation of the profession

14 THE 5 FUNDAMENTAL PRINCIPLES

I

Integrity

honest & straightforward

O

Objectivity

no bias or undue influence

P

Professional competence & due care

current knowledge; diligence

C

Confidentiality

protect information

P

Professional behaviour

law; don't discredit

Competence & due care has two parts: (i) attain & maintain knowledge and skill so clients/employers get competent service based on **current** technical & professional standards and legislation; (ii) act **diligently** in line with applicable standards.

15 STUDY TEXT CASES — PRINCIPLE IN ACTION

Principle	Requirement	Study Text case	Result
Integrity	Straightforward & honest in all professional and business relationships	CA on an interview panel tells a candidate operations may take more than 2 months and he may accept his other offer — despite HR asking him to refuse it	✓ Complied
Objectivity	No compromise of judgement from bias, conflict of interest or undue influence	Manager refuses the CFO's instruction to pay the CFO's brother (supplier) before the GRN is received	✓ Complied
Professional competence & due care	Attain & maintain knowledge to current standards; act diligently	Senior finance manager (qualified 2016) still uses the 2016 edition of IFRS	✗ Violated
Confidentiality	Respect confidentiality of information from professional & business relationships	Company secretary tells a friend of his Board-approved promotion before HR's official notice	✗ Violated
Professional behaviour	Comply with laws & regulations; avoid conduct that discredits the profession	Two rival CFOs lose their temper in a verbal altercation on national TV	✗ Violated

MEMORY AID — "I O P C P"

"It's Our Profession's Core Principles" → Integrity · Objectivity · Professional competence & due care · Confidentiality · Professional behaviour (*memory aid only*)

△ SPOT THE CLUE

Honesty/misleading → integrity · relative, pressure, bias → objectivity · outdated standards → competence · sharing private info → confidentiality · public misconduct → professional behaviour

16 PERSONAL, CORPORATE & PROFESSIONAL ETHICS — HOW THEY CONNECT

Built from Study Text points

Level	PERSONAL ETHICS	CORPORATE CODE OF ETHICS	PROFESSIONAL CODE (ICAP)
Source	The individual's personal code of ethics	The organisation — formal written statement	IFAC Code, adopted by ICAP
Applies to	The person, inside & outside work	All employees of the organisation	All ICAP members
Main influence	At work: co-workers & superiors (authority & example)	Leadership — directors & senior managers must comply	Public trust & reputation of the profession
Key content	Choice between right and wrong	Guidance on decisions & actions	5 fundamental principles

PAGE 5 · EXAM PATTERNS, TRAPS & DECISION TREE

17 HOW THIS CHAPTER CAN BE TESTED

1 Definition / fill-in — ethics, business ethics, CSR — three near-identical definitions (Q1–Q3)

3 Best course of action — conflict-of-interest situations (Q7)

5 Identification — which of the 13 situations; which ICAP principle is breached

2 True / False scenarios — car dealer, bribery for a good cause, underage workers (Q4–Q6)

4 “Which is NOT...” — an advantage of CSR; a true statement; a consequence (Q9, Q11, Q13)

6 Code of ethics — what makes a code effective (Q14); what ICAP requires (Q15)

18 EXAM TRAPS

1 Ethics vs business ethics vs CSR — Ethics = **good & bad, moral duty**; business ethics = **right/wrong in the workplace**; CSR = **social, cultural, economic, environmental** sensitivity.

3 Fake CSR — Underage workers below minimum wage is **not** social responsibility (Q6).

5 Condoning — **Tolerating** others' unethical acts is itself unethical.

7 Legal but immoral — Risk = **government action** to make it illegal — not fines (those follow illegal acts).

9 Code of ethics — Must be **formal written, endorsed from the top**, trained, updated, available (Q14).

11 Objectivity vs integrity — **Pressure / relative / bias** → objectivity; **honesty** → integrity.

13 Confidentiality — Sharing Board decisions **before official notice** = breach, even with a friend.

2 Good cause ≠ ethical — Bribery is unethical **even if** funding ambulances (Q5).

4 Repaired car — Must still **disclose** the accident — else a false impression (Q4).

6 Insider trading — Is a **conflict of interest** — material, non-public information.

8 CSR advantage trap — CSR **can** help attract & retain customers — a statement saying it cannot is false (Q9).

10 Most UK leaders — **Most** leading UK organisations have a code — not ‘very few’.

12 Competence — Using **outdated** standards (2016 IFRS) breaches competence & due care.

14 ICAP requires — **All five** principles (Q15) — not just one.

19 DECISION TREE — ANALYSE AN ETHICS SCENARIO

GENERAL BUSINESS SCENARIO

- 1** Is personal gain competing with duty to others? → **CONFLICT OF INTEREST**
- 2** Otherwise match the behaviour to one of the **13 SITUATIONS** (false impression, hiding info, abuse...)
- 3** Is it framed as helping society? Check against the **5 CSR PRINCIPLES** (human rights, fair treatment...)
- 4** What's the risk? Illegal → **fines/prison**; immoral → **new law**; any → **reputation**

CHARTERED ACCOUNTANT SCENARIO

- A** Misleading / dishonest statement? → **INTEGRITY**
- B** Bias, relative, pressure from superior? → **OBJECTIVITY**
- C** Outdated knowledge, careless work? → **COMPETENCE & DUE CARE**
- D** Disclosing information? → **CONFIDENTIALITY**
- E** Discredits the profession / breaks law? → **PROFESSIONAL BEHAVIOUR**

20 DON'T MIX THE CSR LISTS

Classification check

List	5 PRINCIPLES (what CSR requires)	4 ACTIVITIES (what firms do)	ADVANTAGES (what firms gain)
Items	Ethics & integrity · fair treatment of employees · human rights · community role · environment	Environmental efforts · philanthropy · ethical labour practices · volunteering	Image & brand · employee empowerment · morale & productivity · attract & retain customers · premium pricing
Question clue	“an organisation should... ”	“an example of socially responsible activity” (Q10)	“an advantage of being socially responsible” (Q9)

PAGE 6 • MCQ CLUES, MEMORY MAP & 60-SECOND REVISION

21 MCQ QUICK-CLUE SECTION

All 16 Self-Test questions

"Discipline dealing with good and bad..."	Ethics (Q1)	"Moral principles... right, wrong in the workplace"	Business ethics (Q2)
"Ethically, with sensitivity to social... issues"	CSR (Q3)	Hide a repaired car's accident	FALSE (Q4)
Bribe for extra floors, buy ambulances	FALSE (Q5)	Underage workers as 'social responsibility'	FALSE (Q6)
Cousin and HR vacancy	Apply online, use referral (Q7)	Testing ethical decision-making	Select only if mirror test cleared (Q8)*
NOT an advantage of CSR	CSR cannot help attract customers (Q9)	Socially responsible activities	Environmental efforts & volunteering (Q10)
NOT true	Evidence for reputation risk is conclusive (Q11)*	Exposed to reputation risk	Child-labour suppliers & polluters (Q12)
NOT key consequences: labour practices, conflict of interest	None of the above (Q13)*	True of a code of ethics	Strongly endorsed from the top (Q14)
ICAP code requires	All of the above (Q15)	Reduce ethical risk by	Educating & leading by example (Q16)

* Q8 (mirror test), Q11 (reputation-risk evidence) and Q13 rely on points **not explained in the chapter body** — learn the answer key as given.

22 QUICK MEMORY MAP

Concept	Key words	Core idea
Business ethics	right · wrong · workplace	moral principles for organisations
Ethical issue	choice · profit vs conduct	recognising it is the key step
Conflict of interest	personal gain vs duty · insider trading	most common issue
13 situations	take · lie · mislead · hide · abuse · condone · time	behaviours to spot
CSR	balance profit & society · 5 principles	ethics + social sensitivity
Consequences	finer · new laws · reputation	acting ethically reduces risk
Code of ethics	written · top-endorsed · trained · updated · available	guides everyone
ICAP code	I · O · P · C · P	5 fundamental principles

23 BUSINESS — BUSINESS ETHICS IN 60 SECONDS

⚙ ETHICS & ISSUES

- Ethics: good/bad, moral duty
- Business ethics: right/wrong at work
- 6 behaviour areas; 13 situations
- Conflict of interest; insider trading

⚙ CSR & RISK

- CSR: ethics + social sensitivity
- 5 principles; 4 activities
- Illegal → fines/prison; immoral → new law
- Always → reputational risk

⚙ MANAGING ETHICS

- Educate, inform, lead by example
- Code: top-endorsed, trained, updated
- ICAP adopted IFAC Code
- I · O · P · C · P