**2. Ethics and Management and corporate Governance**

1. People in organisations are expected to behaviour ethically doing the right thing by exercising ethical practices. It is necessary for the long term interest of the organisations.
2. Ethics and Role of Managers - managers have many roles in organisations and the three main roles are: economic leaders, company leaders and community leaders. Often these roles may be in conflict and managers must know how to resolve the conflicting situations ethically.
3. Ethics in organisations – managers must understand ethical issues and resolve them effectively. In this aspect they must be able to:
* make decisions collaboratively and collectively
* carry out organisational acts collectively.
* create environment for ethical behaviour within organisation.
1. Individual decision making - it is not legally accepted for decisions to be made individually in organisations. If it is done it must be for obvious reasons:
* it is not in the best interest of the company
* thinking that it is safe and cannot be found out
* it is not doing any harm or foul play
* if I do not do it others would do the same.
* errors in judgement
1. Organisational Decision Making
* major decisions in organisations are not made all at once but as a result of mistakes accumulated over time
* These multiple decisions develop a commitment to a course of action that is difficult to stop.
* If there is a defect in the quality of a product, the information comes in fragmented form and no one has a complete information of the problem.
* With the fragmentation of information comes fragmentation of responsibility. Each decision in a series may be made by different individuals or groups based on the information received.
1. Business ethics is concerned with identifying and understanding the *ethical issues* that arise in business and with developing the knowledge and skills needed by a practicing manager to address these issues and to make sound business decisions that are ethical and sound in a business perspective. Ethical decisions are important not only for managers but the organisations and the economic system. Individual ethical standards of the managers play an imperative role in enable an organisation to attain its right course of action.
2. Importance of Managing Businesses Ethically requires:
3. Discharging social responsibility to the society.
4. Discharging social responsibility in a global context – ICT and global business connections.
5. Discharging business in the context of accountability, transparency and responsibility – meetings in company for decision making and corporate governance.
6. (i) Meetings in company - meetings provide the legal means by which decisions are made in companies. This enables decisions in the form of resolutions to be made in a transparent, accountable and responsible manner. Meetings enable resolutions are made in a collective and collaborative way in a company and everyone in the organisation is responsible to implement them.

(ii) *Corporate Governance* exists in the form of mechanisms which ensure that the interest of the management and that of the shareholders are aligned for attaining the competitive advantage of the company.

(iii) Examples of corporate governance mechanisms within organisations are: board of directors, external auditing, concentrated ownership and restructuring of the company into subunits.

1. Review questions
2. Ethics is important in business. Discuss.

2. What would you consider to be the ethical role of managers in a company?

3. Assess the need for corporate governance in companies.

4. Why is there a need for corporate governance in organisations and in the interest

 of a nation?

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2. Case Study: **Misplaced Optimism and Failed Governance**

Huavivo is in the business of manufacturing a wide range of home appliances. In 2016, it recorded RM3.2 billion and RM200 million in sales and earnings after tax, respectively. At the end of 2016, the Chief Executive Officer (CEO) announced to the board of directors (the board) that Huavivo wanted to diversify its business into manufacturing mobile communication devices with a capital investment of RM1.5 billion. Huavivo did not have prior experience and expertise in this new business segment. The CEO, however, was optimistic that this new line of business would contribute to higher sales, due to the booming market of mobile communication devices.

The independent directors, on the other hand, were sceptical about the potential of the new business and expressed their deep concern with the fact that the management team neither have the manufacturing expertise in the new product range nor have the familiarity with such market. They were not sure of the risks and potential return associated with the investment. In addition, established global companies, such as Apple, Samsung and Huawei, had strong market share and brand presence in South East Asia. The CEO assured board members that his marketing and investment teams had conducted market research and due diligence on the proposed investment and found it to be viable. Thereby, the board members did not ask further.

As the management team was confident of the new business venture, the Chairman of the board proposed that the executive directors would get a 20% salary cut and their allowances terminated if they failed to exceed the profit target for 2017. However, if they succeeded, they would be paid a bonus equivalent to 18 months’ salary. The executive directors were already receiving housing allowance, car allowance and other allowances amounting to 40% of their salaries. The CEO and all the executive directors supported the proposal. The board subsequently endorsed the investment of RM1.5 billion for the new business segment and the proposed remuneration for 2017. An executive director proposed that the remuneration committee need not review the new remuneration policy because all of the members were present in the meeting. The board agreed unanimously.

Ten months into 2017, it all became clear that the sales of the mobile communication devices were sluggish and below target. Huavivo failed to penetrate the already saturated market. Apparently, the management did not have superior manufacturing capability and marketing expertise to face the intense competition. It was clear that Huavivo had failed in its new business. By the time the board released the audited financial results in February 2018, the company had recorded a loss of RM650 million against the profit of RM200 million in 2017, mainly contributed by the failure of the new business segment.

Questions:

1. How did the board of directors contribute to the failure of Huavivo? Limit your answer to three main areas.
2. Explain the weaknesses in the board remuneration policy of Huavivo.