



MASTERING ETHICS
QUESTIONS IN THE CIMA
CASE STUDIES

SAMPLE

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1. Why are ethics so important in case study exams?

Ethics in case study exams

Ethics is a **core subject throughout your CIMA studies** – so important, in fact, that it is a topic that appears on every exam syllabus! And yet, ethics can be hard to test in objective test-style exams as it is difficult to determine whether or not the student really understands and can deal with the ethical issues present. This means that **ethics is a favourite subject for testing in the case studies** where the examiners can test whether or not you truly understand the issues and are able to make suitable recommendations.

Ethics are particularly important as you go up through your studies. By the time you get to the Strategic Case Study (SCS) exam, you are almost guaranteed either an ethical question in your exam, or to have some ethical dimension relevant to one question. Even at the Management level, a question is still highly likely, and, though it is a little less likely at the Operational level, ethics still remains a highly examinable topic which you should be ready to deal with.

In fact, our research shows that, across all the papers, **ethics questions typically arise in half of all the variants**. That means there's a 50% chance you will get a specific ethics question in your exam. Therefore, it's **probably the most important subject for you to master**.

Ethics sections are often done badly

Ethics questions, however, are often overlooked by candidates. Their priorities lean towards the pre-seen analysis, theory and general practice questions. In over 15 years of teaching CIMA case study papers, we know that the **ethics sections of students' scripts are often the worst**.

It's hard to know exactly why this is, but perhaps it's because ethics are about moral rights and wrongs which bring in feelings and emotion, and, as accountants, that's not our natural area of expertise. Add to that the fact that discussing such issues is alien to us since so much of accounting is black and white, while ethics are often highly subjective and judgemental - and we probably have the answer to why people do so poorly in the exam.

The issue with the ethics sections in most students' scripts is **a failure to address the underlying ethical principles that the issue focuses upon**. Ethics are about moral rights and wrongs, and yet people regularly stray off-topic to write about law and reputation. Yes, ethical issues do have legal, reputational, and thus business impacts, and it's good to mention that. But, **ethics are primarily about what is morally right, and that needs to be the focus of any solution**.

Ethics pack

This practice pack has been written to provide advice on how to answer ethics questions effectively, along with practice questions so that you can practise this approach. **The goal is to ensure that you master answering ethics questions in the exam to boost your chance of passing**.

2. What are ethics and corporate social responsibility?

Ethics

Ethics is a **code of moral principles that people follow with respect to what is right or wrong**.

Examples might include:

- treatment of workers

- avoiding bribery
- good professional conduct and honesty
- respecting people's personal data
- appropriate and fair advertising
- safety at work

Being ethical is about **doing the right thing for the various stakeholders of the business, and holding the business to a high standard of behaviour** of which its staff and shareholders can be proud.

When analysing ethical issues, there are **four key considerations** which enable you to get to the heart of the issue:

1. Who is a **duty of care** held to? E.g. employees, shareholders, customers, etc.
2. What are the values inherent in the issue? e.g. integrity, honesty, fairness for all, etc.
3. What are **laws or other norms in society**?

Laws dictate the moral principles of the nation, but, beyond the law, there are generally accepted right and wrong ways to behave in society. It's not against the law to jump ahead in a queue, for example, but it's against moral principles so most people won't. In this case, the value of "fairness to all" comes into play.

4. **Personal, company or professional ethical codes**? These are specific statements of ethics that are set down by an individual, company or professional organisation. CIMA's code of ethics, which we'll see shortly, is a good example.

Corporate social responsibility (CSR)

Social responsibility is the **duty an organisation has towards the wider community or society**. Examples might include:

- supporting charities
- environmental issues, such as avoiding pollution, reducing waste, recycling and using sustainable resources
- public safety
- exploitation of workers

Good CSR means understanding the needs of a wide group of stakeholders, and ensuring that those needs are met within the operations of the business.

3. Why are ethics important to a business?

Business and ethics

Most modern organisations take the view that they, and their boards of directors, have a **duty of care to wider stakeholders to look after the interests of all stakeholders** from a moral perspective.

That could mean spending more money (e.g. on safer equipment, or using more responsible suppliers) which may reduce profits in the short term. The board, therefore, aims to **balance ethical obligations** with their fiduciary duty to provide shareholders **with a good return on their investment**. In the long term, it can be argued that "good ethics is good business" as the reputational benefits can outweigh the short-term costs.

At the heart of ethics is the idea of moral rights and wrongs. An organisation should **hold itself up to high moral standards for no other reason than because they think it is the right thing to do.**

Advantages of ethical behaviour

As well as being morally right, **managing ethical issues effectively can have a number of advantages to a business:**

- generating good feelings amongst staff members
- avoiding legal action
- avoiding bad publicity and the potential damage to reputation which might result
- being a source of competitive advantage, as positive ethical behaviour can become a selling point and help retain the strength of a brand

The public relations (PR) and other **business consequences of any unethical behaviour** must be **considered alongside the moral rights and wrongs** of that behaviour, although take care not to confuse the two. The point of ethical behaviour is to act in a way that is morally right, and that should be the driving force. PR consequences are an additional factor which must be considered on top of those moral rights and wrongs.

Sections 4 to 11 are available in our full case study ethics pack.

This can be purchased by visiting the Astanti website and also includes our full ethics video.



ETHICS QUESTIONS

SAMPLE

Question Index

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1	SMark	Ethics awareness
2	Doogles	Working hours
3	Revs Bars	Noise nuisance
4	Cottonshop	Child workers
5	NW Phones	Missing stock
6	Baffle	Reducing paper consumption
7	Tick	Duty of care to employees
8	Tisca	Bribery
9	Pix	Waste disposal
10	uCook	Intellectual Property Rights (IPR)
11	Arkstar	Environmental impact
12	Helton	Conflict of interest
13	Pukpads	Duty of care to apprentices
14	EdTotal	Health and safety
15	Atkins	Preservation of historic site
16	Logik	Board structure
17	Indigo	Competitor information
18	Agro plc	Governance
19	Downstream Primary School	Redundancy
20	South East PCT	Public sector spending

Question 1 - SMark

Introduction

SMark is a European supermarket corporation with hundreds of shops throughout nine countries. It has grown from a handful of family-run grocery shops to a leading competitor in the retail industry. The recent recession has affected SMark's profits significantly over the last 12 months, and margins are tight. The board of directors is trying to reduce expenditure where possible. The company is currently facing the following ethical issue:

Ethics awareness

The corporate affairs director, Albert Johnson, has announced a new ethics course as part of the company's commitment to ethics and CSR, with the aim of heightening the awareness of the organisation's CSR principles and ethical views, while also emphasising the importance of good ethics to modern business. This course was originally intended for board directors and senior managers, a total of 100 people.

After the ethics course was completed, many participants expressed a view that ethics and CSR were so important to the organisation that the same training should be given to employees across the whole organisation, with a total of 10,000 additional people expected to attend the course.

The training provider used to design and deliver the course is currently charging a day rate of €100 per participant. Each participant would be expected to attend the 1-day course. This project would be outside of the current year's budget, and Albert has added this issue to the next board meeting's agenda for discussion and approval, along with a request for funding.

Damien Hatz, the operations and logistics director, attended the course recently. He sent an email to all directors expressing his view that this training is a waste of time and money. He also noted that ethics and CSR were irrelevant to most operational workers, and so to take a day of their time -

thus disrupting current operations - as well as a day's salary lost (at an average of €120 per person per day) made the course, in his opinion, a complete waste of time and money.

Susan Nicks, the HR director, is completely opposed to this perspective, and this has reinforced her view that CSR has not been taken seriously enough at SMark. It is on the agenda of the board meeting for next week, and the finance director has asked if you could outline your views on the issue.

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ETHICS SOLUTIONS

SAMPLE

Solution 1 - Ethics awareness

The issue

SMark's directors are considering a wide roll-out of a successful ethics training course amongst all of the company's staff. The course was recently launched very successfully amongst senior staff but it would be expensive to roll out to the whole organisation.

Why is this an ethical issue?

At SMark, we owe a duty of care to all stakeholders. We have a major impact on customers, the food they eat, and their supplies; as well as employees and their standard of living; and also to wider communities in which we have shops. Acting ethically is the right thing to do, and also offers reputational advantages too, which can help to secure contracts. Training staff in ethics would increase their awareness of ethical policies and cement a culture in which CSR and ethics are taken seriously everywhere.

Business/legal consequences

The importance of ethics does need to be balanced against the costs, which, at €1m for the course, are extremely high (€100 x 10,000 employees). On top of this, there is also the cost of wages for one lost working day for each employee, which would cost €1.2m (€120 x 10,000). Overall, there is no justification for such large costs at a time when margins are tight.

Recommendation 1 – Short-term

My recommendation is to retain the current course for directors and senior managers and to introduce a shorter course for other staff. A more cost-effective option would be to create an online training programme for most

staff. A small one-off cost for creating the programme could be spread over many employees, reducing the cost per person of the course.

Recommendation 2 – Long-term

I would also recommend that ethics training is included in every employee's induction programme. This will ensure that every new employee is clear on what the company's ethical values and CSR objectives are and what is expected of staff in upholding them.

Solutions for questions 2 to 20 are available in our full case study ethics pack.

This can be purchased by visiting the Astanti website and also includes our full ethics video.



Full mocks now available

Mocks with fully detailed solutions for the current case study are now available from www.astranti.com

Pre-seen Analysis

It is vital that your pre-seen analysis deals with all of the key issues in the exam. If you have missed any key points from your analysis, you might not apply them effectively in the exam.

A full strategic analysis of the current case runs through all of the key business models at your level and how they apply to your pre-seen company.

Our tutors have also recorded a detailed video analysis of the current pre-seen, which is available in a package alongside the annotated pre-seen and blank pre-seen analysis proformas.

We also produce a full industry analysis, guiding you through the pre-seen industry and providing you with specific examples to relate your answers to the industry and help you to score more marks in the exam.

Case Study Courses

Our case study courses are focused on **getting you to pass the exam**. We provide you with all the tools that you will need in order to understand what is required to pass. We also support you to develop and improve your exam approach and technique, and we offer a unique pass guarantee. We're confident you will pass, but if you don't, and you've completed our full course, you won't have to pay again for the next exam sitting!

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- case study analysis
- prioritisation of issues
- keys to passing the exam

5 full mock exams

Marking and personal feedback on 3-4 full mock exams

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Detailed **course notes**

Private forum to debate the case with others

Focused **tutor support**

Progress reviews