Cao by the world economic forum. he

[Food & Diet]

CAO did notface pressure to engage in speculative trading activities. However, after itstarted to incur losses shortly after, there was pressure for it to continuethe activities to recoup the losses. (Lay Hong, 2009) This is due to severalreasons: Personal PressureFirstly, MrChen Jiulin might have faced personal pressure. He had sat on the boards ofseveral prestigious institutes and earned many accolades in the year prior, such as being one of Asia’s top business leaders under 45 by the World EconomicForum. He also hoped to gain the attention of the new generation of governmentleaders in Beijing and was already making headway with CAO’s increasingsuccess.

Therefore, Mr Chen would not want the losses from these tradingactivities to negatively affect the impression the leaders have of him. (Pottinger & Prystay, 2004)Stakeholders PressureCAO alsofaced pressure from its stakeholders. As its losses mounted, it started facingdifficulties meeting its creditors’ demands. When it inevitably did not meetthe banks’ demands for more collateral, the banks began forcibly closing someof its positions, turning potential losses into real ones. (Santini &McDermott, 2004) In November 2004, when it finally released the figures showingits losses from the trading activities, many questions about the credibility ofCAO and its Management were raised. Therefore, to portray a façade of athriving company, CAO’s Management felt the need to continue investing in thetrades as much as possible, hoping to recoup the prior losses. (Lay Hong, 2009)Governmental PressureFurthermore, CAO’s Management also faced governmental pressure.

In the year prior to thescandal, China’s former Ambassador to Singapore described CAO as “ the cream ofoverseas Chinese enterprises” and China’s

Communist Party magazine, “ SeekingTruth”, had urged Chinese companies to study CAO’s management to help build “ agreat renaissance of the Chinese nation.” With such strong trust from theleaders in China, CAO’s Management would face large pressure living up to thestandards set and creating more profits. Therefore, when faced with a loss, theymight have felt highly pressured to turn the losses around. (Pottinger & Prystay, 2004)Legal PressureLastly, andmost importantly, CAO faced legal pressure since it is barred from speculativederivatives trading given its status as an overseas-based company. Itsignorance to this led to its losses. Furthermore, the trading took placewithout board approval and aimed more to increase its profits rather than hedgeits risks, (Yinzhi, 2012) meaning that CAO’s Management overrodemany of the risk management controls applying to options trades.

By breaking somany rules and even the law, CAO’s Management would not want this activity tobe widely known by others. Therefore, when the losses mounted, the Managementwould want to recoup its losses, one way of which would be to increase the betsplaced. This led to the beginning of the cycle which was the scandal. (Burton, 2005)