Business Ethics and Corporate Governance

ICFAI Center for Management Research

Road # 3, Banjara Hills, Hyderabad 500 034

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Part A: Multiple Choice Questions

This section consists of multiple-choice questions that test the student's understanding of the basic concepts discussed in the textbook. Answering these questions will help students quickly recollect the theories they've learnt and apply these to real-life business situations.

Part A: Multiple Choice Questions

1. Which of the following does not come under the purview of business ethics?
a. Ethical relativism in the context of business policies, institutions and human behaviors
b. Application of ethical practices to business dealings
c. Distinguishing between right and wrong decisions taken by businesses
d. Coexistence of profits and social responsibility

2. According to the ________, business and morality are interrelated and are guided by external factors like the government, the market system, law, and society.
a. Unitarian view of ethics
b. Separation view of ethics
c. Integration view of ethics
d. Normative theory

3. Which of the following statements is not true according to the integration view of ethics proposed by Talcott Parsons?
a. Business have the right to make profits, but they also have to discharge their social obligations
b. Business and morality are inter-related and are guided by external factors
c. Laws will guide business and decide what is right or wrong in business practices
d. Business is a distinct entity and does not include ethics and morality

4. Who stated that business, in order to flourish, should concentrate on its goal of profit maximization?
a. Adam Smith
b. Milton Friedman
c. Immanuel Kant
d. Both a and b

5. Which of the following are right according to the integration view of ethics proposed by Talcott Parsons?
a. Business have the right to make profits, but they also have to discharge their social obligations
b. Business and morality are interrelated and are guided by external factors
c. Laws will guide business and decide what is right or wrong in business practices
d. All the above

6. Who was of the opinion that businesses should concentrate on the production and distribution of goods and services, not social problems which must be tackled by the government and concerned individuals?
a. Milton Friedman
b. Theodore Levilt
c. George A. Steiner
d. Adam Smith

7. According to which concept of ethics is an act ethical if it maximizes happiness?
a. Ethical Subjectivism
b. Ethical Relativism
c. Consequentialism
d. Ethics of Virtue

8. Which of the following is not the objective of ethics?
a. To establish moral standards and norms that guide human behavior
b. To frame laws that spell out appropriate punishment for unethical behavior
c. To assess human behavior and express an opinion or attitude about the behavior
d. To judge human behavior on the basis of set standards and norms

9. Why should businesses follow ethical practices?
a. To convey a good image of the company to the public
b. To gain loyal customers

c. To provide the best products to the consumer
d. All the above

10. Ethics and law have sometimes been distinguished in the following way: law attempts to resolve conflicts in society by regulating behavior, whereas ethics is concerned with determining the rules for resolving conflict, both in belief and in the action based on those beliefs. Ethics thus emphasizes:
a. The reasons for adopting certain beliefs and doing certain actions
b. The ways in which individuals can be excused from being held responsible for their actions
c. How a rational resolution of conflicting beliefs is unattainable due to the different backgrounds of people
d. The difference between an individual's religious training and the requirements of the laws of his state and nation

11. Which is the highest stage of ethical consciousness in business?
a. Profit maximization in the short-run
b. Profit maximization in the long-run
c. Stakeholder concept
d. Corporate citizenship

12. According to the normative theory, which of the following must be fulfilled for a moral principle to be accepted?
i. The moral principle should not emphasize the proposed action as obligatory
ii. The moral principle should not be restricted to a particular group but is applicable to any individual in a given situation
iii. The moral principle should be a primary consideration in action assessment
iv. The moral principle should be achievable by an average individual under ordinary circumstances
a. i and iii
b. ii and iv
c. ii, iii and iv
d. i, iii and iv

13. Which of the following focus on certain fundamental duties that one has as human being?
a. Deontological theory
b. Virtue ethics
c. Applied ethics
d. Normative ethics

14. Which of the following factors builds trust in an organization?
i. Open communication
ii. Sharing of critical information
iii. Sharing of perceptions and feelings
iv. Employee participation in decision-making
a. i and iii
b. i , iii and iv
c. iii and iv
d. All the above

15. Which of the following says that when there is a conflict of norms when the members of one community decide to do business in another community, a set of priority rules must be used to determine which norm must be honored?
a. Macro social contract
b. Micro social contract
c. Hyper norms
d. Integrative social contract

16. According to the utilitarian theory, the consequences of a right action should be considered for
a. short run utility
b. long run utility
c. short run and long run utility
d. minimum time period

17. According to which of the following consequentialist theory/theories is an action morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual performing the action?
a. Egoism
b. Utilitarianism
c. Altruism
d. Both a and b

18. Which of the following is not a normative theory?
a. Teleological ethical theory
b. Virtue ethics theory
c. Meta ethics theory
d. Deotological ethical theory

19. Which of the following is not regarded as a form of unethical behavior in the market system?
a. Trading in stocks
b. Bribery
c. Coercion
d. Theft

20. Universalism means
a. Some basic moral norms apply to all similarly situated people in all cultures at all times
b. Correct moral norms are extremely simple and rarely allows any exceptions
c. Moral norms are different for different cultures
d. Both ‘a’ and ‘b’

21. Which of the following theories provide a framework for judging the ethical nature of an organization?
a. Theory of corporate moral excellence
b. Ethics and stakeholder theory
c. Ethics and corporate governance
d. All the above

22. Suppose an action has a positive balance of utility (it brings about more positive utility than negative utility). According to utilitarians
a. This action must be morally right
b. This action may be morally wrong
c. This action must be ethically right
d. This action may be ethically wrong

23. The focus of an ethical inquiry is
a. To determine how we ought to act, what kind of people we ought to be, what kind of situations and outcomes are good or bad
b. The evaluation of the law
c. The evaluation of political and social movements
d. To describe what people think and do in various societies

24. An organization is considered to be ethical if its
a. “Espoused values” are the same as its ‘values in practice’
b. “Espoused values” are far better than its ‘values in practice’
c. “Espoused values” are not entirely the same as its ‘values in practice’
d. Espoused values’ are totally different from that of its ‘values in practice’

25. Which of the following statements is true with reference to the concept of ethical relativism?
a. A morally correct decision often depends on the circumstances of the person making it
b. There is no universal set of principles by which one can judge the morality of an action
c. An act is ethical when it maximizes happiness
d. An act that does not maximize happiness is not ethically permissible

26. According to consequentialism, the moral status of a given action (i.e. whether an act is right or wrong, obligatory or forbidden) depends on
a. What the individual thinks about the action
b. The nature of the consequences of the action (favorable or unfavourable)
c. Its impact on the community
d. Both ‘a’ and ‘b’

27. Who among the following felt that ethical behavior and business should be integrated or combined under a new area called “Business Ethics”?
a. Talcott Parsons
b. Adam Smith
c. Milton Friedman
d. Theodore Levilt

28. Identify the level of ethical consciousness of entrepreneurs/ corporates who seek to achieve certain social objectives such as promoting community health, participating in job creation, employing handicapped people, and financial success of the company.

a. Profit maximization in the long-term
b. Anything for profit
c. Corporate citizenship
d. Stakeholder concept

29. ______________ is defined as "the science of character of a person expressed as right or wrong conduct of action."
a. Philanthropy
b. Ethics
c. Values
d. Morality

30. Which of the following theories is a teleological approach that supports the equitable distribution of goods and services?
a. Altruism
b. Universalism
c. Distributive justice
d. Utilitarianism

31. Which of the following theories provides a framework for judging the ethical nature of an organization?
i. Theory of corporate moral excellence
ii. Ethics and stakeholders theory
iii. Deontological theory
iv. Normative theory
a. i and ii
b. ii and iii
c. i and iv
d. ii and iv

32. Global Soft Ltd., a well known IT organization, gives utmost importance to right, fair, proper and just decisions and actions. What ethical theory/theories does it follow?
a. Ethics and corporate governance
b. Theory of corporate moral excellence
c. Ethics and stakeholder theory
d. Deontological theory

33. According to the ethics and stakeholder theory, businesses should give importance to
a. The moral values of the organization
b. The rights of stakeholders
c. Right, fair, and just decisions
d. Establishing good corporate governance mechanism

34. Which one of the following theories argues that culture and values play a major role in creating an ethical environment in an organization?
a. Theory of corporate moral excellence
b. Ethics and stakeholder theory
c. Ethics and corporate governance
d. Environmental ethics

35. Which of the following actions will enable an organization to achieve corporate moral excellence?
a. The appointment of an ethical auditor
b. The formation of an ethics committee
c. The implementation of a reward system
d. All the above

36. A company justified its act of dumping waste into the sea as ethical by arguing that it thus saved millions of dollars in affluent treatment. According to which ethical theory is this act an ethical one?
a. Ethical egoism
b. Utilitarianism
c. Altruism
d. Consumerism

37. Compliance codes, corporate credos, management philosophy statements, special documents and compliance certificates are all components of
a. Corporate Governance
b. Stakeholders Theory
c. Corporate Code
d. Corporate Ethics

38. Organizations should develop a corporate code to
a. Avoid regulation by government
b. Develop a brand name

c. To develop relations with other companies in the industry

d. All the above

39. Which of the following processes are involved in the formulation of laws?

i. Individual process

ii. Group process

iii. Social process

iv. Political process

a. i and ii

b. ii and ii

c. i, ii and iii

d. All the above

40. When applying the concept of distributive justice, a decision maker concentrates on

a. A fair method for distributing goods and services in a scientific manner

b. A fair method for distributing goods and services in an equitable manner

c. The equal distribution of profits

d. A fair method for distributing profits in a scientific manner

41. According to Michael Hoffman, what do morally excellent corporations do?

a. Align their "values in practice" to their espoused values

b. Try to strike a healthy balance between the corporate culture and the autonomy of its employees

c. Believe that their espoused values and values in practice should be ethically acceptable

d. All the above

42. Which of the following statements relating to moral standards and laws is true?

a. Moral standards define right and wrong behavior, while laws are aimed at producing a desired human behavior

b. Moral standards ensure the right behavior of an individual, while laws ensure the right behavior by imposition

c. Moral standards define and ensure the right behavior of individuals while laws define the desired human behavior

d. None of the above

43. The moral standards of a person are not based on

a. Norms

b. Beliefs

c. Laws

d. Values

44. Which of the following statements is not true about laws?

a. Laws accommodate all the moral standards (norms, beliefs) of society

b. Laws do not accommodate all the moral standards (norms, beliefs) of society

c. Laws are negative means for ensuring right behavior

d. Laws are aimed at producing desired human behavior

45. Which of the following reflects a society's expectations of the way people should ideally act?

a. Beliefs

b. Values

c. Norms

d. Laws

46. Which of the following influences a person's norms, beliefs and values?

i. Cultural conditions

ii. Economic conditions

iii. Technological advancements

a. i and iii

b. i, ii, and iii

c. i and ii

d. ii and iii

47. Which of the following processes plays a major role in institutionalizing moral standards into law?

a. Social process

b. Individual process

c. Political process

d. Group process

48. Which of the following is not a characteristic of corporate governance?
a. External focus
b. Concern for corporate vision
c. Task orientation
d. Strategy orientation

49. Which of the following is not a characteristic of corporate management?
a. Internal focus
b. Strategy orientation
c. Task orientation
d. Concern for implementing a strategy

50. Which one of the following concepts emphasizes the role of individual traits that would help individuals lead a better life from an ethical point of view?
a. Ethics of virtue
b. Ethical subjectivism
c. Ethical relativism
d. Consequentialism

51. Which of the following statements refers to ethical subjectivism?
a. There is no universal set of principles for judging morality
b. An act is ethical only if it maximizes value
c. What is ethically right or wrong depends on the ethical principles chosen by the individual
d. Individual traits play a major role in helping a person lead a better life from an ethical point of view

52. In which of the following do covert ethical problems arise?
i. Marketing strategy
ii. Acquisition
iii. Personal policies
iv. Capital investment
a. i and ii
b. ii and iii
c. i, ii and iii
d. i, ii, iii and iv

53. The individual process, the group process, the social process and the political process are all processes involved in the formation of
a. Laws
b. Moral Values
c. Ethical Standards
d. Vision Statement

54. Which of the following are we implementing by following traffic rules?
a. Laws
b. Norms
c. Values
d. Beliefs

55. When a person of Japanese origin meets someone, he bows to the person. Bowing reflect Japanese_________.
a. Culture
b. Beliefs
c. Values
d. Laws

56. Which of the following characteristics must a law have?
a. Universal
b. Consistent
c. Enforceable
d. All the above

57. Which of the following process(s) helps in the formulation of laws?
a. Individual and group processes
b. Social processes
c. Political processes
d. All the above

58. Which of the following compels individuals to act in the "right" or desired manner?
a. Moral standards
b. Laws
c. Beliefs
d. Norms

59. Which of the following is advocated by the Anxiological approach?
a. Responsibility of human beings to preserve the environment
b. Responsibility of human beings to preserve animals and protect animal rights

c. Responsibility of human beings to preserve nature
d. Responsibility to preserve the earth's natural resources

60. Which of the following approaches is not concerned with moral responsibility towards the environment?
a. Anthropocentrism approach
b. Darwinian approach
c. Anxiological approach
d. Eco-centric approach

61. Which of the following approaches aimed at environmental responsibility states that the environment has to be influenced from direct moral consideration but not that one which is derived from human interest?
a. Anthropocentric approach
b. Anxiological approach
c. Eco-centric approach
d. None of the above

62. Identify the task(s) that must be fulfilled to lay a successful foundation for environmental ethics?
a. It has to explain how human beings have degraded the environment
b. It must explain how human beings can protect the environment
c. Understanding the laws that are aimed at protecting the environment
d. Only a and b

63. Which one of the following countries prepares an ecological balance sheet that shows the extent of the damage caused to the environment?
a. Netherlands
b. Former West Germany
c. Spain
d. Britain

64. Which of the following statements is true about the Anthropocentric approach?
a. Since the survival and well being of human beings depends on the environment, it is the moral responsibility of human beings to support and preserve the environment
b. It is the moral responsibility of human beings to protect animals
c. The environment has to be influenced by direct moral consideration but not that one which is derived from human interest
d. All the above

65. Which of the following does not influences a company's decision to go green?
a. Increasing profits
b. Enhancing public image
c. Gaining competitive advantage through process innovation
d. Gaining economic benefits through increased efficiency

66. Which of the following is a parameter on the green yardstick for measuring the eco-friendliness of organizations?
i. Existence of environmental policy
ii. Training for environment and safety
iii. Environmental performance
iv. System of environmental audits

a. Only i
b. Only ii
c. Both ii and iii
d. i, ii, iii and iv

67. Which of the following is not a green initiative?
a. Greenhouse effect
b. Environmental campaigning
c. Green tourism
d. Green community

68. Which of the following refers to the eco-centric approach?
a. The moral responsibility of human beings to support and preserve the environment
b. The moral responsibility of human beings to preserve animals
c. The environment has to be influenced from direct moral consideration but not that one which is derived from human interest
d. All the above

69. Which of the following factors encourages an organization to take green initiatives?
i. To deserve economic benefits through increased efficiency
ii. To gain competitive advantage through innovation
iii. To improve its public image
iv. To maximize profits

a. i and ii
b. i and iii
c. i, ii and iii
d. ii, iii and iv

70. Which of the following laws provides the legal infrastructure for electronic commerce in India?
a. Information Technology Act 2000
b. Computer Misuse Act 1990
c. Anticyber Act 2000
d. Business Commerce Act 2000

71. Which of the following are given the highest priority when resolving ethical dilemmas?
a. Values of the company
b. Policies of the company
c. Beliefs of the company
d. Laws of country

72. Which of the following is not a principle underlying an ethical approach to strategic management?
a. Stakeholder theory
b. Loyalty and Psychological Contract
c. Cultural Relativism
d. Agency theory

73. In an organization, the leader receives a huge remuneration because_______________.
i. He takes strategic decisions
ii. He is responsible for the risks involved for the strategy adopted
iii. He maintains healthy relationships with stakeholders
iv. He ensures the smooth functioning of the business
a. Only ii
b. i and ii
c. i, ii and iii
d. All the above

74. To ensure the smooth functioning of the business, a leader must maintain a healthy relationship with stakeholders. This relationship should be based on
a. Knowledge Contract
b. Efficiency Contract
c. Psychological Contract
d. All the above

75. A multinational company operating in a developed country is said to be ethical if it adopts
a. The standards of the home country to frame its policies
b. The standards of the host country to frame its policies
c. Uniform standards in all the countries it operates in
d. The best of both the home and host country standards

76. The employees of an organization continue to remain loyal to the organization only if their “psychological contract” with the firm has not been undermined. Here, psychological contract refers to
a. Employees’ loyalty to the organization
b. Employer’s understanding of employees
c. Relationship between employer and employees
d. All the above

77. Which of the following steps of ethical decision making states that organizations must prioritize those activities which resolve moral concerns?
a. Evaluating the decision
b. Judging the decision
c. Establishing a moral intent
d. Engaging in ethical behavior

78. The knowledge contract enables managers
a. To use their competence and skill for the benefit of the enterprise
b. To make decisions that minimize wastage and, at the same time, maintain consistency in reward standards

c. To motivate employees and give recognition to stakeholders
d. To control the workforce

79. Bribes are a part of normal business practice in Chervalur. Kenstar which operates globally adopted this practice, even though it went against its values, because it is considered ethical by the people of Chervalur. This practice refers to
a. Psychological contract
b. Adoption of change
c. Cultural relativism
d. Ethical relativism

80. Which of the following gives the correct order of the ethical decision-making process?
a. Evaluating the decision - Judging the decision - Establishing a moral intent - Engaging in ethical behavior
b. Establishing a moral intent - Evaluating the decision - Judging the decision - Engaging in ethical behavior
c. Evaluating the decision - Establishing a moral intent - Engaging in ethical behavior - Judging the decision
d. Judging the decision - Establishing a moral intent - Evaluating the decision - Engaging in ethical behavior

81. Which of the following factors does not determine the code of ethics framed by a marketer?
a. Individual factor
b. Significant factor
c. Opportunity factor
d. Tolerance factor

82. What precautions should an organization take when developing a product that is ethical in all aspects?
a. The product should be eco-friendly
b. The product should not lose its basic identity even when it is upgraded
c. The product should be regulated if it is harmful
d. All the above

83. Which of the following practices is considered unethical with regard to pricing?
i. Charging a higher price for a product which is in great demand
ii. Charging a higher price for a quality product
iii. Charging a higher price because of the consumer's ignorance
iv. Pricing low to eliminate smaller players
a. Only i
b. Only iii
c. Only iv
d. i, iii and iv

84. Which of the following is not considered an unethical practice in marketing management?
a. Disclosure of all substantial risks associated with product or service usage
b. Surrogate advertising
c. Unduly influencing the reseller's decision to handle a product
d. Predatory pricing

85. A manager/leader maintains a healthy relationship with stakeholders through 'contracts.' Which of the following refers to the psychological contract?
a. It enables managers to use their competence and skill for the benefit of the enterprise
b. It enables managers to make decisions that minimize wastage and, at the same time, maintain consistency in reward standards
c. It enables managers to motivate employees and give recognition to stakeholders
d. All of the above

86. Which of the following advertisements can be considered unethical?
i. Advertisements for cigarettes
ii. Advertisements that target children
iii. Advertisements which use children in their campaigns
iv. Advertisements whose claims are misleading

a. i and iv
b. ii and iv
c. i, ii and iv
d. i, ii, iii and iv

87. Which of the following is not a prerequisite for the effective functioning of a market system?
a. The right to own and control private property
b. Freedom of choice in buying and selling goods or services
c. Government protection of local industry against threat posed by multinational companies
d. Access to quick, reliable and precise market information

88. The Advertising Standards Authority of UK can take legal actions against organizations that
a. Use unethical practices e.g. attacking the competitor's products
b. Spread rumors about a competitor's product
c. Encourage consumerism
d. All of the above

89. A marketer's professional conduct should be guided by
a. The basic rules of professional ethics
b. All applicable laws and regulations
c. Education, training and experience
d. All the above

90. Mahesh Kumar, a marketing manager, assesses the ethical nature of a decision on the basis of its impact on all affected parties. This illustrates
a. Organizational culture
b. Social responsibility
c. Ethical formalism
d. Utilitarianism

91. Which of the following is not the responsibility of an ethics officer?
a. Creating a marketing strategy
b. Reviewing, modifying and disseminating a code of conduct
c. Meeting managers and employees to discuss ethical issues
d. Creating a confidential service to answer questions on ethical issues

92. Which of the following practices adopted by a purchase department is considered unethical?
i. Favoring suppliers who are also good customers
ii. Accepting gifts from suppliers
iii. Leaking the bid amount to encourage other bidders to quote the lowest possible price
iv. To make speculative profit against inventory
a. i and iii
b. i, iii and iv
c. i, ii and iii
d. i, ii, iii and iv

93. When a consumer goods manufacturing firm modifies its packaging to reduce waste, it is practicing _______________.
a. The marketing concept
b. Green marketing
c. Consumerism
d. Diversity

94. An automobile company decided to go green and adopt an anti pollution environment policy. What could be its reason for going green?
a. Achieving economic benefits through increased efficiency
b. Gaining competitive advantage through innovation
c. Improving public image
d. All the above

95. Which of the following practices is unethical when pricing a product?
a. Charging a higher price for products that are in great demand
b. Charging a higher price for nutritious food
c. Charging a higher price for an antique item
d. Decreasing the price of a product to a level that competitors cannot match

96. Which of the following techniques refers to the communication of product information in a way that suits the needs of customers?
a. Hard selling
b. Soft selling
c. Stereotyping
d. Niche marketing

97. The objective of a hard selling technique is to
a. Communicate product information in a way that suits the needs of customers
b. Reinforce the consumer's positive attitude towards the company's products (through price reductions and gift coupons)
c. Earn the trust and loyalty of customers
d. None of the above

98. The performance of operations managers working in the production sector can be measured by their
i. Productivity
ii. Efficiency
iii. Effectiveness
iv. Ability to recruit employees
a. ii and iii
b. i and iv
c. i, ii and iii
d. i, ii, iii and iv

99. Which of the following are a part of the marketing mix of services?
a. Product, People and Pricing
b. People, Physical Evidence and Place
c. Product, People and Place
d. People, Physical Evidence and Process

100. Which of the following practices is unethical when conducting market research?
a. Distinguishing products on the basis of features
b. Comparing products
c. Misrepresenting research findings
d. Advertising positive feedback from customers

101. The production sector of operations management should concentrate on
a. Tangible outcomes from the production process which can be checked and verified by objective methods
b. Subjective decision-making and the associated communication problems
c. Motivating employees to achieve their goals
d. Planning and directing resources

102. Which of the following issues concerns operations managers?
a. Bribery
b. Insider trading
c. Safety of operations
d. Conflict of interest

103. Which of the following are the responsibilities of operations managers in the service sector?
i. Receiving incoming calls and mails
ii. Designing the layout of the work areas
iii. Directing and motivating good performers
iv. Taking decisions regarding the implementation of policies
a. i and iii
b. i and ii
c. i, ii and iv
d. i, iii and iv

104. The objective of the International Council of Toy Industries (ICTI) is ____________.
i. Operating toy factories in a lawful, safe and healthy conditions
ii. Recruiting employees without regard to gender, ethnic origin, religion and affiliation
iii. Eliminate unfair trade practices and encouraging the free movement of toy products throughout the world
iv. Ensuring that there is no discrimination in the process of employment against forced or prison labor

a. i and iii
b. ii and iv
c. i, ii and iii
d. ii, iii and iv

105. Which of the following factors increases ethical intensity in decision making?
i. Social consensus
ii. Concentration of effect
iii. Magnitude of consequence
iv. Social agreement
a. ii and iv
b. i and iii
c. ii, iii and iv
d. i, ii and iii

106. According to which of the following factors involved in ethical decision making does a manager adopt a decision that is beneficial to him and to those affected by the decision in terms of the social, cultural and psychological beliefs of a region?
a. Concentration of effect
b. Social agreement
c. Proximity
d. Probability of effect

107. Bribing a well-paid customs officer has greater ___________ than bribing a poorly paid guard.
a. Temporal immediacy (Time interval)
b. Social consensus
c. Magnitude of consequence
d. Concentration of effect

108. Which of the following are the objectives of a purchase department?
i. Ensuring the availability of material for smooth functioning of the production department
ii. Procuring materials at low prices for the company
iii. Identifying new vendors
iv. Ensuring the supply of quality materials
a. i and iv
b. i and iii
c. i, iii and iv
d. All the above

109. The practice of buying raw materials beforehand in order to meet future requirements, with the objective of producing and marketing goods at a higher price when there is a shortage of raw materials is called _______________
a. Procurement
b. Discrimination and favoritism
c. Forward buying
d. Deceiving suppliers

110. Which of the following is/are consequentialist theories?
a. Ethical egoism
b. Utilitarianism
c. Ethical altruism
d. All the above

111. Which of the following is not one of the duties prescribed by the deontological theory?
a. Duties to God – honoring and praying to him
b. Duties to oneself – preserving ones life and sharing happiness
c. Duties to others – family duties, social duties and political duties
d. Duties to Heroes – catering to their egos

112. Which of the following claims is not part of cultural / ethical relativism?
a. "Right" means "socially approved"
b. Follow the moral principles that your society approves of
c. Defining terms as "obligatory," "required", forbidden", "good", "bad, "virtuous," in an analogous way.
d. Various cultures have various beliefs about moral standards, but not all of those beliefs are correct

113. According to consequentialism, the moral status of a given action depends
a. Solely on what agents think about this action
b. On the value brought about by the results of performing this action
c. On something other than the consequences of the action.
d. None of the above

114. Which of the following can be regarded as a sandbag technique?
a. Making a takeover attempt prohibitively expensive for the bidders
b. Stopping a takeover attempt hoping that a more favorable company will take over the company
c. Threatening the company making the takeover attempt
d. Giving lucrative benefits to top executives to prevent a takeover

115. Which of the following is not a factor in the ethical decision-making process?
a. Technology considerations
b. Moral philosophies
c. Organizational relationships
d. Social responsibility

116. Shareholders, employees, customers, suppliers, vendors and society constitute ________________
a. Community
b. Society
c. Stakeholders
d. Organization

117. Who among the following handles international management accounts?
a. The Auditor
b. The Management accountant
c. The Financial accountant
d. Both 'b' and 'c'

118. Which of the following is not the duty of an auditor?
a. To give an accurate statement to the board members about the state of affairs of a company and to follow the Companies Act 1985
b. To meet the objectives of the Companies Act 1985 and also the Articles of Association of the company
c. To be reasonably skillful and careful in identifying the true nature of the accounts
d. To advise the directors on the items that have to be selected for inclusion in the financial statements, the methods for measuring them and presenting them

119. Which of the following practices concerned with inventory management are considered to be unethical?
a. To do 'Forward buying' to assure supplies to the production department
b. To make speculative profit on inventory
c. To produce and store goods so as to market them at a high price in times of shortage
d. Both b and c

120. According to the survey conducted by UK's National River Authority in 1991, which one of the following industries was a major polluter?
a. Chemical industry
b. Mineral industry
c. Oil industry
d. Pharmaceuticals industry

121. Which committee was set up by the Reserve Bank of India in 1974 to lay down certain norms for the inventory requirements of various industries?
a. Kumaramangalam Birla Committee
b. Tandon Committee
c. OECD Committee
d. CII Committee

122. Which of the following negates the concept of just-in-time purchasing?
a. Frequent shipments of small lots
b. High quality components that arrive when needed
c. Commitment to zero defects
d. Adjustable schedule for production

123. Which of the following is considered unethical by most purchasing managers?
i. Accepting free gifts
ii. Deceiving suppliers
iii. Favoring some suppliers
iv. Revealing confidential information
a. ii and iv
b. ii, iii and iv
c. i, ii and iv
d. i, ii, iii and iv

124. The Tandon Committee laid down the norms for the inventory requirements of a purchase department. Under which of the following conditions do organizations receive exemption from these norms?
a. Irregularities in the import of raw material
b. Transport delays
c. Interruption in production
d. All the above

125. Which type of organizations are considered to be ethical in their treatment of employees?
a. Organizations whose principle is to maximize employee satisfaction
b. Organizations whose principle is to provide long-term employment to their employees
c. Organizations whose principle is to reward employees for any contribution towards the achievement of business objectives or goals
d. All the above

126. It is unethical to reject an applicant on the basis of over qualification because ______________.
a. Recruiting over qualified people would not cost the business anything extra
b. Rejecting such people would deny employment opportunities to worthy candidates
c. Such people can easily adapt to changes in the organization
d. All the above

127. Under which of the following circumstances should ethical remuneration not consider effort, talent and abilities when rewarding an employee?
i. When it doesn't result in enhanced performance
ii. When considering a skilled laborer or a professional
iii. When the nature of the job is unskilled
a. only i
b. only iii
c. ii and iii
d. i, ii and iii

128. To reward employees for their ability, talent and effort, companies can
a. Give them additional benefits
b. Increase their pay
c. Improve the facilities in the workplace
d. Give them major projects

129. Which of the following is not an ethical HR practice?
a. Hiring an employee who fits the job description
b. Rewarding employees who help the organization achieve its goals
c. Retrenching employees whose performance is not satisfactory
d. Rewarding people who work hard

130. According to the principle of ethical remuneration, which of the following is true?
i. A person with pressing needs does not automatically qualify for higher remuneration
ii. Mere possession of superior skills and abilities does not determine the remuneration
iii. Employees who work hard to perform a task need not be rewarded more than those who do the same task effortlessly
a. i only
b. ii only
c. i, ii and iii
d. iii only

131. Why are arbitrary firing practices like firing "at-will" or for unjust reasons considered unethical?
a. It will lower the morale of the remaining employees, and result in decreased long-term owner value.
b. It goes against the principle of lifetime employment
c. It is against the law
d. Both b and c

132. Which of the following are prerequisites for ensuring equality of opportunity to all applicants?

i. Same rules apply to all prospects under consideration for hiring or promotion
ii. Ensure that no prospective applicant is prevented from following rules through the use of coercive means
iii. Ensure that no applicant is rejected for reasons other than those laid down by the rules for hiring. Provide social justice
a. i and ii
b. Only iv
c. i, ii, and iii
d. i, ii, and iii

133. Which of the following is not a way of commiting fraud in financial statements?
a. Showing fictitious revenues in the books
b. Showing miscellaneous expenses
c. Concealing liabilities and expenses
d. Showing wrong timing difference

134. At times, liabilities and expenses are not shown in the financial statements of a company. This method can be referred to as
a. Fictitious revenues
b. Concealed liabilities
c. Creative accounting
d. Fraudulent asset valuations

135. Which of the following tasks is performed by a management accountant?
a. Providing information to managers for formulating policies, planning, and controlling
b. Giving accurate financial statements about the company
c. Conducting Audits
d. Providing information about the organization to shareholders and employees

136. Who among the following is appointed by shareholders to audit the operation of a company in which they have invested?
a. Auditor
b. Management accountant
c. Financial accountant
d. Certified public accountant

137. Which of the following tasks are performed by a financial accountant?
i. Providing economic information to investors, employers and suppliers
ii. Advising directors on items that should be included in the company's financial statements
iii. Giving accurate statements to the shareholders about the financial position of the company
iv. Providing trustworthy and credible information on which the management can base its decision
a. i and ii
b. ii and iii
c. i and iv
d. iii and iv

138. The content of the financial statements of companies in India is prescribed by the Companies Act of the year
a. 1985
b. 1956
c. 1948
d. 1952

139. Which of the following factor(s) compel companies to adopt fictitious accounting procedures?
a. Bad debts
b. Mismatched funding
c. Under-capitalization
d. Both 'b' and 'c'

140. Which one of the following methods can an organization adopt to make a takeover expensive for the bidders?
a. Poison pills
b. Green mail
c. Golden parachute
d. People pill

141. Trading on price-sensitive information by company employees is referred to as
a. Money laundering
b. Speculation

c. Insider trading
d. Management buying

142. Which of the following refers to a takeover bid where the outside investor biding for a firm leave management unchanged?
a. Leveraged buyouts
b. Going private
c. Management buy-in
d. Management buyout

143. Which of the following ethical issues arises during mergers and acquisitions?
a. Retrenchment of employees
b. Breach of trust of stakeholders
c. Power of directors
d. Both 'a' and 'b'

144. The act of buying back outstanding shares by organizations is called
a. Exchange offer
b. Share repurchase
c. Going private
d. Leveraged buy outs

145. Mukesh cables undertook "going-private" activity to diversify into the production of wires. Going- private activity refers to
a. Exchanging debt for common stock
b. Buying back of the corporation fraction of its outstanding shares of common stock
c. Obtaining finance from third parties through substantial borrowing by a private company
d. The purchase of the entire equity interest in a former public corporation by a small group of investors

146. Who are the primary victims of insider trading?
a. Shareholders
b. Employees
c. Customers
d. Top management

147. What methods can the management of a corporation use to protect itself against takeovers?
i. Poison pill
ii. People pill
iii. Sandbag
iv. Greenmail
a. i and ii
b. i and iii
c. ii and iv
d. i, ii, iii and iv

148. When is insider trading considered ethical?
a. When performed with the support and knowledge of the shareholders and employees
b. When performed with the support and knowledge of the shareholders
c. When performed with the support and knowledge of the top management
d. When performed with the support and knowledge of brokers

149. Which one of the following organizations established global standards for combating money laundering?
a. The Financial Action Task Force (FATF)
b. The Accounting Action Task Force (AATF)
c. The Cadbury Committee
d. The OECD

150. Which of the following factor(s) of absolute morality should you consider before blowing the whistle on harassment at work?
a. Moral motive
b. For avoiding moral violations the act is taken up in accordance with responsibilities
c. All the existing internal procedures have been tied-up to correct the action.
d. All of the above

151. Organizations have the right to maintain secrecy about information related to
a. Clients
b. Intellectual property
c. Technology
d. All of the above

152. Managers rationalize their unethical behavior by arguing that

i. Their actions are within reasonable ethical and legal limits and hence, are not illegal or unethical.
ii. Their actions are aimed at the best interest of individuals or the corporation.
iii. Their actions will not be disclosed or published and hence there is no danger to them or to their company.
iv. They will be protected by their company
a. Only i
b. Only ii
c. Both i and ii
d. i, ii, iii and iv

153. Which of the following help(s) employees to resolve ethical dilemmas at workplace?
a. Support from the top management
b. The rules of the organization
c. Beliefs and values
d. A corporate code

154. Which of the following ethical issues must the multinational companies address?
i. Bribery
ii. Child labor
iii. Product utility
iv. Political issue
a. i and iii
b. i and ii
c. i, ii and iii
d. ii, iii and iv

155. Which of the following unethical practices are multinational companies often accused of?
i. Violation of human rights
ii. Use of technology that is unsuitable in the host country
iii. Destabilization of national governments
iv. Bribery
a. i and ii
b. i and iii
c. i, iii and iv
d. ii, iii and iv

156. The use of price-sensitive information by employees to gain undue advantage is referred to as
a. Money laundering
b. Management buyout
c. Insider trading
d. Management buyin

157. Insider trading violates
a. The principle of ethical remuneration
b. The principle of equality of opportunity
c. The principle of ethical selection
d. Both a and c

158. Which of the following countries does not consider bribery an unethical practice insofar as maintaining successful business relationships with their partners is concerned?
a. India
b. Saudi Arabia
c. South Africa
d. Germany

159. In the early 1900's, which of the following unethical practices was widespread in China?
i. Child labor
ii. Prison labor
iii. Bribery
iv. Pay discrimination

a. i and ii
b. i and iii
c. ii and iv
d. iii and iv

160. Which of the following statements about a corporation is false?
a. A corporation is a perpetual entity
b. A corporation cannot act independently on its own
c. A corporation is recognized by the law as individual
d. A corporations can own assets

161. Levi Strauss stopped sourcing raw materials from China because of the
a. High costs of the raw material
b. High labor costs

c. Strict rules and regulations for operating
d. Violation of human rights

162. Which of the following cannot be considered as stakeholders?
a. Any group of people who have a stake in the business
b. Those who are vital to the survival and success of the organisation
c. Any group that is affected by the activities of the organization
d. Any group that stays near to the company

163. Which of the following acts stipulate that an organization should take care of the needs of its workers?
i. Poor's Law Board
ii. Public Health Act
iii. Factory Act
iv. Humanitarian
a. ii and iii
b. i and iv
c. ii, iii and iv
d. i, ii, iii and iv

164. Which of the following is not one of the responsibilities of business corporations towards their customers?
a. Producing goods according to the specific needs of consumers, their purchasing power, etc.
b. Offering quality goods at reasonable prices
c. Improving the customers' standard of living by providing goods and services of high quality
d. Passing on a part of the profits of the business to its customers

165. Who, among the following, are the stakeholders of a financial institution which gives loans?
i. Shareholders
ii. Employees
iii. Competitors
iv. Global companies
a. Only i
b. i and ii
c. i, ii and iii
d. i, ii and iv

166. Who, among the following, are not the internal stakeholders of Moti Tea Limited?
a. Moti shareholders
b. Its employees
c. Its top management
d. Its customers

167. Who, among the following groups, have stakes in a company?
a. Consumers
b. Suppliers
c. Creditors
d. All of the above

168. Who, among the following, are the external stakeholders of a company?
a. Shareholders
b. Employees
c. Suppliers
d. Management

169. Who, among the following, are the internal stakeholders of a company?
a. Customers
b. Employees
c. Competitors
d. Suppliers

170. Which of the following factors negates the concept of shareholders?
a. They are entitlement to a share in the profits of the company
b. They are entitled to up-to-date information about the company's performance
c. Their interests can be disregarded in order to fulfill the interest of other stakeholders
d. They posses more rights and responsibilities than any other stakeholders

171. Which of the following is not a responsibility of an organization towards its employees?
a. Paying the employee according to his needs
b. Providing good working conditions
c. Providing timely information and an open communication system
d. Providing adequate compensation

172. Which of the following best supports the reason for considering customers as stakeholders?
a. Customer loyalty towards the company
b. Their contribution in the development of new products
c. Their influence on the quality and price of the final product
d. They pay for the company's products and services

173. Which of the following is a maintenance task performed by a business?
a. Bringing transparency and accountability in financial matters
b. Ensuring the normal flow of communication in the society
c. Creation and maintenance of wealth
d. Adapting to changes in the society

174. Identify the task a company performs by creating and maintaining wealth?
a. Financial tasks
b. Maintenance task
c. Safety task
d. Economic and production task

175. Which of the following major changes occurred when people started migrating to big cities in search of work?
a. The emergence of a technology-based economy
b. Change in social values
c. Improvement in working conditions
d. Changes in the relationships between employers and employees

176. Which of the following is an advantage that a corporation has over a private firm?
a. It can raise a large amount of capital
b. It can create wealth for the society
c. It facilitates easy transfer of stock ownership
d. All of the above

177. Which of the following statements about a corporation is false?
a. A corporation is a perpetual entity
b. Corporations cannot act independently on their own
c. Corporations are recognized as individuals under law
d. Corporations can own, buy and sell assets

178. Which of the following statements about the shareholders of a corporation is false?
a. Shareholders' liability is limited to the amount of their initial equity capital in case the business fails
b. Shareholders can hold the directors accountable for their actions
c. Shareholders can nominate or elect directors
d. Shareholders liability is unlimited in case of the failure of the business

179. Which of the following characteristics of a corporation usually attract(s) investors?
i. Limited liability
ii. Free transferability of investor interests
iii. Legal personality
iv. Unlimited liability
a. Only i
b. ii and iv
c. i, ii and iii
d. ii, iii and iv

180. Which of the following is not true about a partnership firm?
i. A partnership firm ceases to exist when one of its partners dies
ii. A partnership firm ceases to exist when one or more of its partners opt out of the partnership
iii. A partnership firm can continue to exist as long as it has capital to run the business
iv. A partnership firm cannot give legal protection to its employees
a. i and ii
b. ii and iv
c. iii
d. i and iv

181. Which of the following reforms did Robert Owen introduce during the Industrial Revolution?
a. Rise in pay
b. Abolition of child labor
c. Improved working conditions
d. All of the above

182. Which of the following refer to Clutterbuck's approach of setting clear value systems in organizations?
i. Publishing a code of ethics
ii. Introducing openness and transparency in the decision-making processes
iii. Setting up systems of justice and reinforcing them through contract and ethics statements
iv. Drawing up a personal and corporate ethics checklist
a. i and ii
b. i and iii
c. i and iv
d. ii and iii

183. Which of the following task must an organization accomplish to enable investors to invest their savings in the organization?
a. Financial tasks
b. Adaptive tasks
c. Social tasks
d. Maintenance tasks

184. Which of the following strategy is said to be used by Microsoft to monopolize the market for operating systems?
a. Buyouts
b. Mergers
c. Acquisitions
d. Market manipulation

185. Which of the following factors necessitate the implementation of corporate governance in organizations?
i. To restrict the government's control over the organization
ii. To attract funds from foreign financial institutions
iii. To build up control mechanism for optimum use of the organization's resources
iv. To restrict the domination of multinational companies in host countries
a. i and ii
b. i and iii
c. i, ii and iii
d. i, iii and iv

186. Which of the following are ensured by the adoption of corporate governance by an organization?
i. Accountability of the funds
ii. Transparency of the organization's activities
iii. Fulfillment of the organization's commitment towards the society
iv. Maximizing profits
a. i and ii
b. i , ii and iii
c. i, ii and iv
d. ii, iii and iv

187. Which of the following issues have not been addressed by corporate governance?
a. Ethical issues
b. Efficiency issues
c. Accountability issues
d. Social issues

188. To which of the following is the efficiency issue addressed by corporate governance is related?
a. Transparency in conducting the business
b. Identification of fraudulent methods for achieving organizational goals
c. To ensure reasonable returns to shareholders
d. Identification of unethical practices which reduce long-term owner value

189. Which of the following are addressed by corporate governance?
i. Importance of institutional investors
ii. Insider trading
iii. Change in audit practices
iv. Remuneration of top executives and members of the board of directors
a. ii and iii
b. iii and iv

c. i, ii and iii
d. i, ii, iii and iv

190. The stewardship theory is criticized for the _________.
a. Separation of ownership from management
b. Divergent interests of the owners and the management
c. Transfer of control from owner to management
d. All of the above

191. Which of the following features of corporate governance mechanism are in congruence with the features of the supervisory board of the German model of corporate governance?
i. The shareholders do not have direct control over the governance mechanism
ii. The supervisory board represents and directs the governance mechanism on behalf of the shareholders
iii. Half of the board members are elected by the labor unions
iv. Financial institutions form a part of the governance mechanism
a. i and ii
b. ii and iv
c. i and iii
d. iii and iv

192. Which of the following statements is not true about the Japanese model of corporate governance?
a. Financial institutions play a crucial role in the corporate governance mechanism
b. Members of the board are elected by shareholders and banks
c. The president of the board is a representative of the employees
d. The executive management comprising the board of directors performs the management function

193. Which of the following committees established to promote and raise the standards of corporate governance has the following objectives:
i. Draft a code of corporate best practices
ii. Suggest safeguards to be instituted within the companies to deal with insider information and insider trading
a. Kumaramangalam Birla Committee
b. CII Committee
c. SEBI
d. RBI

194. Which of the following are not the characteristics of corporate management?
i. It focuses on the external aspects of the organization
ii. It assumes a closed system for the operation of the organization
iii. It is strategy-oriented
iv. It is mostly concerned with the strategic direction of the company
a. i and iii
b. ii and iv
c. i, ii and iii
d. i, iii and iv

195. Corporate governance is a system
a. Of structuring, operating and controlling a company
b. Of good management
c. That ensures that the company makes wise investments
d. For ensuring maximum profits for the shareholders

196. The concept of corporate governance is applicable
a. Only to the private sector
b. Only to the public sector
c. Only to the government
d. Both to the private and the public sectors

197 Which of the following is not a duty of the directors?
a. Managing the operations of the company
b. Not to exceed their powers
c. Attending board meetings and devoting sufficient time and attention to affairs of the company.
d. Skillfully discharging their duties

198. Which of the following is not a characteristic of a corporation, which attracts investment?
a. Limited liability
b. Transferability of stock holding
c. Legal personality
d. Decentralized management

199. Who evaluates the performance of the board?
a. Chairman
b. CEO
c. Board of Directors
d. Promoters and Chairman

200. Which one of the following is not an essential feature of the evaluation of a board's performance?
a. The evaluation of the performance of individual directors
b. The role of the board
c. The working style of the board
d. The composition of the board

201. Vinod, a marketing executive at Tata Tea Limited is considered for the post of executive director in the Board of directors. Which of the following criteria should one satisfy in order to become an executive director?
i. The individual should be bound by the employment contract
ii. The individual need not be bound by the employment contract
iii. The individual should be holding an executive position in the organization
iv. The individual may be a non-executive employee
a. i and iii
b. ii and iv
c. i and iv
d. iii and iv

202. Which of the following statement(s) is/are true about nominee directors?
a. They are appointed by major shareholders
b. Their main concern is to safeguard the interest of their principals
c. They also work towards safeguarding the overall interests of the company
d. All of the above

203. Which of the following is true about a shadow director?
a. He is appointed by major shareholders
b. The title is conferred on him as a token of appreciation
c. He influences the board without his formal presence on the board
d. He is appointed as per the articles of association

204. Which of the following is not true in case of alternative directors?
a. They are appointed as per the articles of association
b. They act as a substitute of an original director in his absence
c. They who possess all the powers of the regular directors
d. They are appointed by major shareholders

205. Which of the following is a major characteristic of an all executive board?
a. Executive directors constitute the majority on the board
b. All members of the board are executives
c. A majority of the board members are employees of the organization
d. The decisions of the board have to be passed by the executives

206. Which of the following boards in German companies have an equal representation from employees and shareholders groups?
a. Advisory boards
b. Two- tier supervisory board
c. All-executive board
d. None of the above

207. Which board structure addresses the concerns for separating the executive management from non-executive directors?
a. All-executive board
b. Majority outside board

c. Advisory board
d. Two-tier supervisory board

208. Which of the following factors are to be given due importance while designing the structure of the board of directors?
i. Size of the board
ii. Differentiation of roles of the chairman and the chief executive
iii. Duality of subsidiary company boards
iv. Academic qualifications of the board members
a. i and iv
b. ii and iii
c. i, ii and iii
d. i, ii and iv

209. Which of the following problem(s) may be associated with the size of the board?
a. Hindrance in the maintenance of good interpersonal relations
b. Dominance of the majority board members
c. Difficulty in measuring the board's performance
d. All of the above

210. Which of the following best illustrates the importance of distinguishing between the roles of the chairman and the chief executive?
a. Experience, knowledge and expertise
b. Balance of power on the board
c. For better performance of the organizational
d. Effective maintenance of the board

211. Which of the following can be associated with representative boards?
i. Prioritize effective decision- making
ii. The CEO's decision is final
iii. Do not encourage good interpersonal relations
iv. Give importance to interpersonal relationships
a. i and ii
b. i and iii
c. i and iv
d. ii and iii

212. Which board structure (based on functioning style) is suited for organizations that want rapid growth?
a. Rubber stamp boards
b. Representative boards
c. Country club boards
d. Professional boards

213. The functioning style of professional boards is characterized by
i. More emphasis on effective decision- making
ii. Less emphasis on effective decision-making
iii. More emphasis on interpersonal relations
iv. Less emphasis on interpersonal relations
a. i and iii
b. i and iv
c. ii and iii
d. ii and iv

214. Which one of the following terms refers to the set of written rules that state how people in a particular organization should behave?
a. Corporate mission
b. Corporate values
c. Corporate code
d. Corporate credo

215. Which one of the following are described as self-regulatory rules for guiding employee conduct or behavior?
a. Official statements
b. Laws
c. Rules
d. Codes

216. The CII committee report, the Cadbury Committee report, and the OECD report address issues related to
a. Environmental ethics
b. Corporate governance
c. Corporate responsibility
d. Ethics at workplace

217. Which one of the following statements regarding the recommendations made by the Cadbury Committee about the composition of the board is not true?
a. The majority of the members of the board of directors should be non-executive directors
b. The directors' term on the board should not exceed three years
c. The non-executive directors should have clearly defined responsibilities
d. The directors can have financial interests in the company

218. The National Task Force on Corporate Governance (set up by the CII) was headed by
a. Rahul Goswami
b. Rahul Bajaj
c. Omkar Goswami
d. C. K. Birla

219. Which of the following is not related to the recommendations made by the Cadbury Committee?
a. Importance of audit
b. Professional objectivity
c. Rotation of auditors
d. Fixed auditors

220. Which of the following suggestions were made both by the Cadbury Committee and the Kumaramangalam Birla Committee?
a. Non-executive directors should be given more responsibilities
b. A remuneration committee should be set up to decide the pay of the executive directors
c. An audit committee should be set up
d. All of the above

221. According to the Kumaramangalam Birla Committee, how many times (at least) in a year should a company hold board meetings?
a. 4
b. 3
c. 2
d. 1

222. Which of the following is not one of the recommendations of the Kumaramangalam Birla Committee?
a. A director can be a member of 10 committees simultaneously
b. Financial institutions can recommend their nominees to the board by virtue of their financial exposure in the company
c. The company can hold its board meetings three times in a year
d. The board can set up a committee under the non-executive chairman

223. Which of the following reports has to be sent to the shareholders?
a. Director's report
b. Management discussions report
c. Annual report
d. Quarterly report

224. Which of the following should be sent to stock exchanges, as stipulated by the Kumaramangalam Birla Report?
i. Certificate of compliance from an auditor along with the annual report
ii. Quarterly report
iii. A brief resume of each member of the board of directors
iv. Half-yearly report on financial performance
a. i and ii
b. i and iii
c. i and iv
d. ii and iv

225. Which of the following is not a recommendation made by the CII Committee?
a. Thirty percent of the members of the board of directors should be non-executive directors, in case of listed companies with a turnover of Rs100 crore
b. Any member of the board can be the director of more than ten companies if the company has 50% equity stake in those companies
c. Non-executive directors may be paid 5% of the net profits for their service.
d. A director should attend at least half of the meetings of the board of directors

226. According to the Companies Act, 1956, how many directors can a public limited company have?
a. ≥1
b. ≥2
c. ≥3
d. ≥4

227. When the Board of directors _____________, it is exercising its power on behalf of the company.
i. Invest funds, give loans, issue debentures and borrow money
ii. Fill vacancies in the board, appoint the managing director
iii. Contribute to charities that are not directly related to the business
iv. Sell a subsidiary which is making losses
a. i and ii
b. ii and iii
c. i, ii and iii
d. i, iii and iv

228. Which of the following is a statutory duty of the director?
a. To act honestly and with utmost good faith
b. To act with the best skills and expertise
c. To reveal his financial interests in a contract, if any to the board
d. To convene the annual general meeting

229. Which of the following liabilities cannot be assumed by directors?
a. Liability for the losses incurred by the company as a result of the directors' negligence in discharging of their duties
b. Liability for breach of fiduciary duty towards the company
c. Criminal liability for fraudulently inducing people to invest money in the company
d. Liability on behalf of third parties for companies

230. Which of the following is not true about the selection of a managing director?
a. He can be appointed by a committee, which consists of the CEO and the chairman
b. He can be appointed by virtue of an agreement with the company
c. He can be appointed by virtue of a resolution passed by the board of directors
d. He can be appointed by virtue of a company's memorandum of association

231. Which of the following facts concerning the remuneration of the managing director is correct?
a. He can be paid 4% of the net profit
b. He can be paid 10% of the net profit
c. He can be paid 5% of the net profit
d. He can be paid 15% of the net profit

232. Which of the following statements regarding the resignation of the managing director is not true?
i. The resignation is accepted only when the company approves it
ii. After resignation, he can act as an ordinary director
iii. After resignation he loses his primary membership of the Board of Directors
iv. The resignation is accepted only when he finds someone to take his place
a. i and ii
b. i and iii
c. ii and iii
d. iii and iv

233. Which of the following committee on corporate governance laid down a voluntary code for promoting and raising the standards of corporate governance?
a. The Cadbury Committee report
b. The Kumara Mangalam Birla Committee report
c. The CII report
d. The OECD report

234. In which one of the following formats can a corporate code be developed?
a. Compliance codes
b. Corporate credos

c. Management philosophy statements
d. All of the above

235. Which of the following are the duties of the directors?
i. Attending board meetings
ii. Describing the company to major investors
iii. Acting in the best interest of the company
iv. Inspiring and directing the employees, customers and suppliers
a. i and ii
b. i and iii
c. ii and iii
d. i and iv

236. Which of the following are the functions of the CEO?
i. To act as a representative of the executive directors when interacting with the non-executive directors
ii. To assume leadership and provide direction to all the executive directors
iii. To ensure that the directors take good decisions
iv. To act as a representative of the company before the stakeholders
a. i and ii
b. i and iii
c. ii and iii
d. i and iv

237. Who ensures that policies and practices are in place and acts as a representative of the company before the stakeholders?
a. Chairman
b. CEO
c. Board of directors
d. Top management

238. Which of the following committees is not set up by the board?
a. Audit committee
b. Remuneration committee
c. Nomination committee
d. Works committee

239. Which of the following committees makes recommendations regarding the audit fee, and the selection and replacement of auditors?
a. Audit committee
b. Nomination committee
c. Remuneration committee
d. Executive directors' committee

240. Which of the following does not refer to the role of the chairman?
a. He should be able to attract and maintain good, non-executive directors on to his board
b. He should ensure that the executive directors report the activities of the organization to him in an honest way
c. He should ensure that the CEO is working towards achieving the goals of the organization
d. He should ensure that the Board of Directors works towards improving the performance of the various departments of the organization

241. Which of the following is not one of the functions of a corporate audit committee?
a. To discuss with independent auditors any problems that they face in doing the audit.
b. To review the interim and final accounts *in toto*
c. To make recommendations regarding the selection and replacement of members of the board of directors
d. To inform the Board about the effectiveness of internal controls and the quality of financial reporting, as pointed out by the independent auditors

242. Which of the following statements is true regarding the audit, remuneration and nomination committees?
a. They all consist of experienced executives selected from within the organization
b. They help the board to monitor the management's performance
c. They are set up by the government agencies
d. A majority of their members are executive directors

243. Which of the following is not the main objective of an ethical audit?
a. To determine the extent to which the decision taken at all the levels of an organization are in congruence with the maximization of long-term ownership value, and how well they are framed for achieving distributive justice
b. To help in making a critical assessment of how well a business is actually being run, by systematically evaluating its business practice
c. To help scrutinize the basis on which accounts are drawn and evaluate whether the management has reliable information for running the business
d. To measure business conduct against the varied moral or religious standards of a community

244. Which of the following is not an objective of an ethical audit?
a. To help in providing a critical assessment of how well a business is actually run by systematically evaluating its business practice
b. To enhance the company's profitability
c. To help in establishing ethical conduct of business and this helps in attracting valuable investments
d. To improve the quality of governance by evaluating the performance and ensuring that financial information is both available and reliable

245. Which of the following activities best explain the 'performance role' of a director?
i. Represents the organization to the media
ii. Solves the problems faced by the board using his knowledge and expertise
iii. Provides the organization access to outside information
iv. Enhances the status and reputation of the Board
a. i and ii
b. iii and iv
c. i, ii and iii
d. i, ii, iii and iv

246. Which of the following refers to the efficiency contract, which is necessary for a leader to develop healthy relationships with stakeholders?
a. Using the managers' competence and skill for the benefit of the enterprise
b. Making decisions to minimize wastage
c. Motivating employees and giving recognition to stakeholders
d. Maintaining good relationships with stakeholders

247. Who of the following decide(s) the CEO's compensation?
a. Shareholders
b. Remuneration committee
c. Board of directors
d. Chairman

248. The managing directors of an organization can be appointed _______________.
a. By virtue of an agreement with the company
b. When the Board of Directors passes a resolution to that effect
c. By virtue of a consensus between the chairman and the CEO (if they are distinct)
d. Both 'a' and 'b'

249. What is the tenure of a managing director?
a. Not more than 3
b. Not more than 5
c. Not more than 7
d. Not more than 10

250. A director can be removed __________________.
a. By passing an ordinary resolution
b. If a majority of the board members vote against him
c. By using the chairman's right to remove the director
d. Only when non-executive members accept the proposal

Key

1. a	2. c	3. d	4. d	5. d	6. a	7. c	8. b	9. d	10. a
11. d	12. c	13. a	14. d	15. b	16. c	17. c	18. c	19. a	20. a
21. d	22. a	23. a	24. a	25. b	26. b	27. a	28. c	29. b	30. c
31. a	32. a	33. b	34. a	35. d	36. a	37. c	38. d	39. d	40. b
41. d	42. a	43. c	44. a	45. c	46. b	47. c	48. c	49. b	50. a
51. c	52. d	53. a	54. a	55. a	56. d	57. d	58. b	59. b	60. b
61. c	62. d	63. b	64. a	65. a	66. d	67. a	68. c	69. c	70. a
71. a	72. d	73. d	74. d	75. d	76. c	77. c	78. a	79. c	80. a
81. d	82. d	83. d	84. a	85. c	86. d	87. c	88. d	89. d	90. d
91. a	92. d	93. b	94. d	95. a	96. b	97. b	98. c	99. d	100. c
101. a	102. c	103. c	104. c	105. c	106. c	107. c	108. d	109. c	110. d
111. d	112. d	113. b	114. b	115. a	116. c	117. d	118. d	119. d	120. b
121. b	122. d	123. d	124. d	125. c	126. a	127. a	128. d	129. d	130. c
131. a	132. c	133. b	134. b	135. a	136. a	137. a	138. a	139. d	140. a
141. c	142. c	143. d	144. b	145. d	146. a	147. d	148. b	149. a	150. d
151. d	152. d	153. c	154. c	155. c	156. c	157. b	158. d	159. a	160. b
161. d	162. d	163. d	164. d	165. c	166. d	167.d	168. c	169. b	170. c
171. a	172. d	173. b	174. d	175. b	176. d	177.b	178. d	179. c	180. c
181. d	182. a	183. a	184. d	185. c	186. b	187.d	188. c	189. c	190. d
191. c	192. c	193. a	194. d	195. a	196. d	197. a	198. d	199. d	200. a
201. a	202. d	203. c	204. d	205. b	206. b	207. d	208. c	209. d	210. b
211. b	212. d	213. a	214. c	215. d	216. b	217. d	218. b	219. d	220. d
221. a	222. b	223.c	224. a	225. b	226. c	227. a	228. c	229. d	230. a
231. c	232. d	233. b	234. d	235. a	236. a	237. a	238. d	239. a	240. d
241. c	242. b	243. d	244. b	245. d	246. b	247. b	248. d	249. b	250. a

Part B: Caselets

The caselets in this section are designed to encourage students to apply theoretical concepts to various business situations. Analyzing these cases requires not only theoretical knowledge, but also a comprehensive understanding of the business environment. These cases test the student's reasoning and comprehension skills.

Part B: Caselets

Caselet 1

Rickston Company is a UK- based manufacturer of tyres for cars, trucks and two-wheelers. It has its subsidiaries in India, China, Sri Lanka, Germany and Britain. All the subsidiaries have their own boards with external directors. The chairman, Drew Guellar realized that local, independent directors could serve better. In Britain, companies are more like divisions and these divisions have decentralized authority. According to Guellar, "It is impossible to run a group of this size and type from the center." In a board meeting, Guellar said that he believed in non-executives, as against inside directors. Guellar feel that a chairman should be neutral, and not aligned to any group. Though Guellar holds the joint position of a CEO and chairman, he advocates that separating the functions is better. The chief executive is responsible for carrying out the policies of the board, while the chairman take care of board matters and is responsible for leading the board to a sound strategy and for carrying out external liaison.

Coming to the selection of outside directors, Guellar felt that their ability and personality should be the prerequisites for selection, and should be given more importance than their experience. He was against appointing professional advisors – merchant bankers, legal advisors – as it could lead to confusion regarding their roles. He wanted unbiased people who could see things from a broad perspective.

The five outside directors already appointed are particularly experienced in marketing, running international companies, foreign affairs, finance and manufacturing. In one case, the outside director is a retired director. In Guellar's opinion, "This is an exception, not to be advocated. It violates my principle of a totally dispassionate director, entirely free of bias. An internal turned external director is liable to be a prisoner of his own experience and can become dangerously out of date. I am also against the chairman who retires and then remains on the board. Such people are either a nuisance or bend over backwards to agree and are no good."

The board of directors of Rickston has eight internal directors and five external directors apart from the chairman, Guellar. The board meets once in a month for a day, and every year a three-day strategic conference is held. It takes two or three days to prepare background papers for board meetings. The external directors spend time on company matters; some are full-time executives of other companies and others, if they have time, undertake special assignments. The internal directors play a dual role – as a senior manager and as one who is responsible for board policies. And it is important to keep the two roles separate.

The auditor liaisons with the chief executive and the finance director, and attends the board meeting where the accounts are considered. Guellar feels, "This is the occasion for the auditor to mention the difficulties in front of the board." He also recommended that auditors attend the board meeting even if they have nothing to say. This will give the chairman the opportunity to meet the finance people. The finance director agreed and saw this procedure as a potential safeguard. The auditors, on the other hand, felt that the board meeting of 15 or more people was rather formal, and they would prefer a committee of five.

Guellar felt that the trend of having audit committees was inevitable and proposed one for Rickston. In practice, we have good relations with our auditors and an open type of management; so the need may not be as great here as in other companies." The proposal was for a committee of five – the chairman, Guellar, a finance director, an internal director (not the chief executive) and two external directors. It was to be a board sub-committee, which would look further in to matters that came up at the board meeting. "It would be like a Cabinet committee – it would have no authority of itself, and would only report."

Guellar suggested that another benefit of the audit committee was the opportunity for the external directors to understand the financial operations of the firm better. "There is also a danger," he said, "Once you've got it, the other directors may shelter behind it. They cannot abdicate their responsibilities." The finance director also voiced a worry. "We must ensure that nobody should perceive the creation of the audit committee as an indication that something is wrong."

Questions for Discussion:

1. The inside director has a double role – as a senior manager and as a person responsible for board policies. Is it important to keep the two roles separate? In this context, discuss the difference between corporate management and corporate governance, and give some situations where an inside director may face role conflict?
2. Briefly describe the role of an audit committee in ensuring better corporate governance.

Caselet 2

Every year, Annadata Ltd. exports millions of bushels of grain and soybean from a port. Recently, an explosion took place in the store room of the port where bushels of grain and soyabean had been placed, leading to the death of a laborer. It was found that accumulation of dust on the dried grains poses a serious problem, as increasing concentration of dust make the grains explosive in nature. The explosions can cause harm to property and can even result in loss of life.

According to a report released by the Center for Grain Production, the dust accumulated on the dried grains and soybean can be cut down by 80 percent by increasing the moisture level of the corn to 0.3 percent. This method of reducing the dust content was approved by the government. Some warehouses installed watering systems to suppress the dust. These storage facilities were supposed to take enough care to add sufficient amount of water (neither less nor more), failing which the grain could become adulterated. The government did not set any standards to specify the maximum amount of water to be added to the grain.

Adding a little extra water would increase the weight of the grains which in turn would increase the weight of the bushels without changing in the actual volume of the grain. A specific number of pounds of grain makes a bushel. The actual weight of grains per bushel depends on the grain being measured. By increasing the weight of a bushel, the owners of the grain handling unit could increase their earnings. To obtain this incentive, most of the storage facility owners adopt this strategy.

In 1985, Annadata's storage facility installed a watering system at its grain storage terminal to control the dust level. A digital computer system controlled the amount of water flowing through the nozzles of the sprayer over a conveyor belt carrying soyabean to sea bound vessels.

The control mechanism regulated the addition of water in a manner in which the weight of the soyabeans did not increase beyond 0.29 percent. The shape of the beans did not change even after absorbing water. The final weight of the shipment sent increased by 177.5 metric tonnes and the purchaser of the grains paid $ 37,000 for water and the shipment.

Water was added to control the accumulation of dust, but this resulted in increased moisture, which spoiled the grains. To protect the rights of the buyer, the government had set a limit for the moisture content of the grains. For soyabeans, the limit set by the government was 13.5 per cent. If a dealer owned soyabeans with 13% moisture content, he was not allowed to increase it to 13.5%. If the dealer's intention was to increase profits by increasing the weight of the shipment (though 13.5% was a permissible limit), it was considered illegal as it could lead to adulteration.

The dealer was allowed to add water for suppressing dust and earn additional profits due to the increased weight of the grains. When Annadata was asked for an explanation for the increased water content, it justified its action by saying that it was done to prevent explosion, which would otherwise result in accidents. Importers in South America and Russia rejected the bushels of grain exported from this port where water was sprinkled on the grains. The largest importer of grains from India was Japan. The Japanese firms expressed their concern regarding the moisture content of the grains. Even the industrial buyers specified that the shipments of grains with excess water content will not be shipped. It was also specified that the shipments should document the exact moisture content in the grains. But this rule was not applicable to the shipments where water was added at the storage facility. This rule was applicable only to the handling facilities.

Questions for Discussion:

1. Differentiate the acts of grainhandlers, exporters and importers according to egoism, utilitarianism, and altruism. Justify your answer.
2. Is it ethical to water the soyabeans upto 13.5%, only because it was the limit set by the government in the interest of the buyer?

Caselet 3

Anubhav Plantations Ltd. was started by Natesan who began his career in 1983 by setting up a consulting firm called 'Yours Faithfully Consultancy.' In 1984, he forayed into the construction business along with three other persons as partners. The firm was closed just after three years, and he then started Anubhav Foundation. In 1992, Anubhav Plantations Ltd. (Anubhav) was floated as a public limited company. With the passage of time, the Anubhav Group diversified into different areas such as Anubhav Homes Ltd., Anubhav Resorts Ltd., Anubhav Finance & Investments, Anubhav Communications & Advertising (Pvt.) Ltd., Anubhav Royal Orchards & Exports, Anubhav Hire Purchase Ltd., Anubhav Green Farms & Resorts (Pvt.) Ltd., Anubhav Agro, Anubhav Security Bureau, Anubhav Interiors and Anubhav Health Club. By 1998, Anubhav was a Rs 250 crore Group which, apart from its teak-plantation schemes, was involved in finance and real estate businesses. These companies functioned across the country using its network of 91 offices and over 1,800 employees.

During the mid-1998, the first signs of trouble were felt by the investors of Anubhav when some of the cheques issued to them bounced. When the depositors went to the Anubhav offices to collect their deposit amount after maturity, they found locked doors. They then filed a police case against the company. Later, thousands of investors staged a protest in front of the company's headquarters in Chennai. And it was eventually found that the Anubhav Group of Companies had duped investors of over Rs 400 crore. Media coverage of the details of Anubhav group's plantation scam brought out *Natesan* modus operandi that shocked those who held Anubhav in high regard.

One can easily understand Anubhav's shaky financial condition from its books. In 1996-97, its income from plantation schemes amounted to Rs 35.32 crore and its net profit was Rs 38.69 lakh. The profits were low because of the Group's high non-productive expenses. In March 1997, Anubhav's current liabilities surpassed its current assets by Rs 6.40 crore. The company's paid-up equity capital was only Rs 36 lakh while its borrowings, both secured and unsecured, amounted to Rs 2.64 crore. Loans and advances amounted to Rs 25.95 crore, of which Rs 10.75 crore had been lent to Anubhav Foundations, Anubhav Green Farms & Resorts, Anubhav Resorts and Anubhav Communications. The funds had been invested to purchase residential apartments (Anubhav Foundations) and farmland (Anubhav Green Farms), and to meet the expenses incurred on advertising and marketing (Anubhav Communications).

Analysts said that the money raised from investors for investing in plantations should not have been diverted to other group holdings and activities. Defending the company's activities, Natesan said that they had to invest the surplus somewhere, and their companies have done well by investing the money in real estate, which had more than doubled its value in the past 3 years.

In October 1998, Natesan admitted that the group had a serious, but temporary, liquidity problem, because there was a mismatch of funds to the tune of Rs 10 crore. With this information going public, irate investors and depositors seiged Anubhav's office, demanding their money. The crime branch office at Chennai was inundated with complaints against Natesan, charging him with cheating. In an interview with *Business India*, Natesan commented that he was ready to face any eventuality. He also said that if he was given some time, he could solve the problem. Soon after this, Natesan was absconding and the Tamil Nadu crime branch police began extensive search operations to track him down.

In October 1998, Natesan surrendered himself to the police and was produced before a magistrate for remand. Natesan said that the Group had assets worth Rs 750 crore as against its total liabilities of Rs 206 crore. The assets included agricultural lands spread across Tamil Nadu, Kerala and Himachal Pradesh. He also claimed that the group holds prime properties in posh localities of Chennai. Natesan appealed to depositors not to panic and assured them of the settlement of their claims in due course, as Anubhav had no intention of cheating them. After his arrest, Natesan was taken to Pune, Patna, Bhubaneshwar, Bangalore and Ahmedabad, among other cities, for interrogation, following complaints by local investors.

Throughout his interrogation, Natesan blamed SEBI and the rating agencies for Anubhav's problems. He said that troubles started only after SEBI issued a directive preventing plantation companies that were not rated, from raising funds from the public. As the rating companies did not give them investment grade rating, the image of the plantation schemes were tarnished. Surprisingly, some of the investors supported Natesan even at this stage, claiming that the fault was SEBI's and not Anubhav's. The supporters of the Anubhav Group also said that the government did not act in time when the company was advertising aggressively.

By mid-1999, investor groups across the country filed petitions in the Mumbai, Delhi and Chennai High Courts, demanding attachment of properties owned by the Anubhav group to secure their deposits. In July 1999, SEBI moved to the Supreme Court, requesting for consolidation of all the petitions filed in various courts against Anubhav Plantations and its firms. Extensive media coverage led to widespread public outrage against plantation schemes and gradually, people became aware of the various problems inherent in such schemes.

The laxity of the concerned regulatory authorities was a major factor behind the scam. In the early 1990s, setting up a finance company was very simple as there was no supervisory authority for sole trading or partnership firms, nor did such a company come under any regulatory framework. This gave finance companies a competitive advantage over the other non-banking financial companies (NBFCs). Though there was a limit on the number of depositors these sole trading or partnership companies could have, there was no limit on the amount of deposits they could collect. As per the Partnership Act, a partner of one company could be a partner of numerous other firms. Moreover, the RBI did not have the power to set a limit on the interest offered by these firms on deposits. Thus, the finance companies offered unbelievably high interest rates apart from the enormous cash incentives, gifts and prizes to entice depositors. Nobody could monitor the deployment of funds by these firms as they neither released any balance sheets, nor submitted regular reports to the RBI. As agricultural companies did not come under the RBI's purview, it was easy for these schemes to flourish.

Following the public uproar over the failure of companies such as the DSJ Group and the Parasrampuria Group, SEBI appointed a committee under the chairmanship of S.A. Dave (former chairman of UTI and SEBI's first chairman) to frame a comprehensive set of regulations. SEBI then issued a set of directives regarding mandatory registration and credit rating. Only 540 companies complied with the registration requirement. SEBI then appointed chartered accountants to audit the books of the top 50 of these companies and thereafter issued show-cause notices to 11 of them for non-cooperation. Companies that did not file for registration were barred from raising fresh funds from the public till they complied with the directives.

Meanwhile, lack of precedents made the rating agencies take into account the sustainability of the business through its annual yield and the ability of the company to raise revenue independent of fresh collections. The ratings also considered the solvency and operational capabilities of the management and the ability of the company to realize high yield over the years. When most of the companies failed the test and were assigned a grade point of 5 (indicating very high risk) by various rating agencies, Anubhav was the only company to receive a grade point of 4 (unsatisfactory grade) from Duff & Phelps. According to Duff & Phelps, absence of a tested business model and lack of any standardized policy in the balance sheet, made them consider projected cash flows, because of the nature of the risk involved. But by the time these measures were implemented, the damage was done and the money of the investors had vanished forever.

With the stock markets dipping and banks cutting on interest rates on deposits, plantation schemes seemed quite attractive for investors wanting more returns and willing to take risks. Analysing the reason for these schemes being so attractive to the public and the finance companies, Natesan commented that they offered 24% interest on all deposits made for three years and above. This is not high when compared to the interest charged on loans by banks. Anubhav borrowed from banks at 18% by providing security for a similar amount which makes its effective cost 36%. Therefore, it still works out cheaper when high interest is offered to the depositors. Following the failure of major players such as Anubhav, most of the plantation companies vanished overnight.

Questions for Discussion:

1. Analyze the rise and fall of C. Natesan and the Anubhav Group of Companies. What unethical business practices led to the fall of Anubhav?
2. Natesan complained that the problems of plantation firms attained enormous proportions only after SEBI issued directives regarding their registration and rating. Critically comment on the role regulatory agencies (RBI & SEBI) played in the plantation scams.

Caselet 4

"By not announcing retrenchment, it (the company) is destroying the (job) prospect of the employee."

They've handled it terribly. I feel humiliated. I wouldn't like to come back to any SS Group company."

These are the reactions of the employees of Progen Systems who have been fired. Progen Systems is an IT venture of SS Group. A day before they were asked to put in their papers, the 30 employees received an e-mail from Prakash Mathur, the HR

Manager, with an ambiguous message: “Would like to have a meeting with all of you at 10.30 a.m (tomorrow). All are requested to be present.”

August 30, 2001: That is the day on which they were asked to assemble. Mathur entered the room. “Good morning! I know this is not a very good morning for you all. I guess you know why you are here. All of you have to put in your papers immediately.” After a deadly silence an employee asked “How can you do that? What is the basis of this? It’s a question of so many families. You are creating a social mess.” The manager replied, “Some projects have fallen through. Business is not happening.”

Such events had also taken place earlier in the company.

The killer mails are sent. A meeting is held. Resignations are demanded. The employees are out on the street.

Soon after the meeting, some of them resigned. But others hung around waiting for explanations. However, after two days, Mr Mathur sent a stern note to them “I request all of you to meet me and submit your papers immediately.”

With their appointment letters stipulating a month’s notice (and salary) from either side before severing ties, those sacked are fighting a lost battle. Says lawyer Rajeev, “Neither the Industry Disputes Act nor the Labour Courts offer any protection to these employees. They’re entitled to only what they’ve signed on. They can file for mental and emotional trauma, but that will have to be a civil suit.”

What annoyed the employees who have been sacked was that the company did not admit that this act was retrenching. What may have a significant impact on the job prospects of those retrenched. But Mathur maintains, “It’s our annual performance review, not retrenchment.”Some of the employees were not even assigned to any project before being laid off. Krishna, who joined only one month ago says “I was yet to be put on a project. They had hardly seen my skills.” Chandana, another employee who was asked to leave the organization, says, “I had joined only three months back. How could they ask me to go without evaluating my performance.”

When questioned on how those axed included people who scored between 4 and 5 (on a scale of 5) in the overall performance evaluation matrix in July, Mathur said “Progen is a place for those who enjoy challenge, those who change the paradigm. These could have been misfits, but not because they lack competence. To perform in our environment, many more attributes are needed. We have to sometimes take these decisions. We have various ways of dealing with the bottom layer. We’re not doing it for the first time. It’s been happening since inception. It went unnoticed earlier since there were opportunities.”

Those sacked insisted that the company retrenched clandestinely since it failed to generate business in US. They blamed the top management for crisis. A employee fumed “At the top, they know they have messed up somewhere. They should have been transparent about it. It’s use and throw approach.” In an earlier case, 110 business analysts were recruited and promised on-site projects in US for top clients. The projects fell through, and company axed 50 people.

The employees who remained at Progen were considerably disturbed. Their morale was at lowest as they too could be at the receiving end, and would receive similar treatment as their colleagues (who were laid off).

Questions for Discussion:

1. Do you consider that the management’s acts of firing the employees is unethical? If so,. suggest how the company should have handled the sensitive issue of firing employees?
2. “With their appointment letters stipulating a month’s notice (and salary) from either side before severing ties, those sacked are fighting a lost battle.”Is it ethical on the part of employer to include such clauses that enable the company to fire the employees at will or for a particular reason.

Caselet 5

When hunting for a flat after marriage, Vishal Sharma could not identify a reliable builder who offered a flat at an affordable price. It seemed very strange to him that there were no large corporations in a field as basic as shelter. He soon discovered that fly-by-night companies, which followed unprofessional and unethical practices, dominated the housing sector. These included illegal, unauthorized and unsafe constructions; black money transactions; time and cost overruns; exploitative profit margins etc. Bribery was common in the industry since many corrupt government officials demanded huge amounts for issuing permits and clearances for drainage, water and electricity connections, and no-objection certificates.

Black money transactions were common in the industry. No contractor or builder objected to this practice. The underworld was also involved in the construction industry. Builders sought the help of the underworld to remove encroachments on the plots they were going to develop. In return, the underworld demanded huge sums of money.

In this market situation, Vishal strongly felt that there was a niche for a construction firm which promised reliability and accountability. At this point in time, Vishal's uncle wanted to develop his property in Bombay, and Vishal was quick to grab the opportunity. In 1978, Vishal founded Bharath Housing Corporation Foundations Private Limited (Bharath Housing Corporation). After some research, he formulated Bharath Housing Corporation's corporate mission: "To try and prove that organized business when deeply committed to human values is the best equipped to lead society to a better quality of life." Vishal strongly believed that business could play a crucial role in developing an ethical social order.

Initially, the company built housing complexes for its employees and their friends. The houses were priced economically, without any reference to the market rate. The price struck a balance between a reasonable return to the business and a fair price that the people could afford. As a result, the price was about two-thirds the prevailing market price.

Bharath Housing Corporation introduced many new, value-added features. The company offered its customers a one-year warranty and after-sales service. During the warranty period, Bharath Housing Corporation offered free maintenance to the house owners. After the warranty period, any services required by the owners were charged reasonably.

To maintain a good relationship with customers, Bharath Housing Corporation bore any price escalation caused by project cost overruns or increase in the prices of raw materials. The company also tried to get its suppliers to commit to a particular rate. The customers had to pay only the price that was agreed on when they signed the contract. Bharath Housing Corporation also promised to pay customers the rent they would have to pay for living elsewhere, if there was a time overrun.

By building a reputation for honesty, Bharath Housing Corporation attracted people who wanted to invest their money with a builder they could trust. Bharath Housing Corporation offered a fixed price and also underwrote all cost overruns thereafter. The company also compensated by way of liquidated damages for any delay in the delivery of a project, even if the delay was beyond the control of the company. People seemed to appreciate these considerate policies. In a survey conducted by an independent agency that required respondents to identify the builders preferred by them, more than 60% named only Bharath Housing Corporation.

However, because of its ethical policies, the company faced many problems. In one particular case, the company's project was held up because it could not secure electricity supply for its housing complex. Though Bharath Housing Corporation's Government Relations Team actively pursued the matter with the concerned department it was not successful. Because of this delay, the liquidated damages to be paid to customers added up to several million rupees. Customers became impatient and started questioning Bharath Housing Corporation's policies. But, Bharath Housing Corporation stood by its principles.

To pressurize the electricity department, one of the customers wrote to the Governor, asking him to intervene to help an honest builder. However, the Governor was unable to influence the department. Fortunately, after several days, electricity supply was provided and the apartments were handed over to their owners. This episode ended with the customers of the project releasing an advertisement in a newspaper publicly thanking Bharath Housing Corporation. The customers thanked Bharath Housing Corporation not only for the good housing complex but also for the manner in which it was delivered. Vishal commented, "The publicity and the goodwill that we gained out of this story being told and retold more than justified the expenditure incurred in liquidated damages as an effective advertisement cost."

Bharath Housing Corporation evolved its own strategy to overcome bureaucratic hurdles. The top management believed that if one wants to beat the bureaucracy at its own game, there's a very simple rule to follow; read up and understand their procedures, since each government department is governed by detailed do's and don'ts. It also believed that, "People don't really want to take bribes. It robs them of their dignity and their self-respect. When we deal with someone honestly, although we face difficulties at first, eventually we are the winners, and so are they because they feel good about themselves."

Bharath Housing Corporation also evolved a novel way of thanking government departments that functioned in an ethical manner. In 1992, Bharath Housing Corporation released a series of large advertisements headlined "It still pays to be honest." The ads named seven government departments that had not taken bribes and issued permissions to Bharath Housing Corporation. These departments had issued about 200 planning and building permits, 1100 sewerage, drainage, water and electricity connections, more than 100 no-objection certificates and 1500 sale deed registrations. This factor pressured other government department to follow ethical practice. By 1999, Bharath Housing Corporation had emerged as the single largest builder of residential apartments in Mumbai. In the process, it had proved that ethics and economics were not mutually exclusive.

Questions for Discussion:

1. Bharath Housing Corporation proved that ethics and economics are not mutually exclusive. What different views of ethics did the success of BHC exemplify
2. Do you consider the Bharath Housing Corporation an ethical organization? Why?

Caselet 6

Cereal Foods Incorporation (CFI) was a manufacturer of various cereal food products. It had three product categories i.e. children, family, and natural. Apart from cereals, CFI also marketed breakfast items like cornflakes and pancakes. In 1985, CFI hired Mary as an assistant marketing manager. CFI was known to be a decentralized and progressive company, where management delegated authority and responsibility to newcomers as early as possible. Keeping with this tradition, Mary was assigned the responsibility of improving the market share in the adult cereal market by adopting innovative advertising and packaging strategies.

Mary was excited about the project as she would be working with two of the company's best professionals, Peter Cork and Tom Lee. Peter Cork was the senior product manager for the natural cereal division. He had been working with CFI for the last twenty-years and was known for promoting just business practices. Tom Lee, had been recently promoted as product manager. He had been with the family cereals division for five years. Mary was to suggest a new marketing strategy/campaign for the natural cereal division. This division had fiber rich natural cereal brands like Bran Breakfast flakes, Natural Bran and Bran Bits. She was to report directly to Cork and take the help of Lee.

Mary started working on the project by going through the files prepared by her predecessors about the marketing strategies employed by their competitors in the cereal industry. She found that many of the competitors used the cancer reduction property of fiber rich cereal, to promote their brands. She learnt that in 1984, Nutritional Foods Ltd. (NFL), one of its competitors was the first to launch the health claims advertising for any food product. NFL included information from the National Cancer Institute (NCI) on its label. The statement read "The National Cancer Institute believes eating the right foods may reduce your risk of some kinds of cancer. Research evidence indicates high fiber foods are important to maintain good health. High fiber foods, like bran cereal are considered to be part of a healthy diet. Bran cereals are one of the best sources of fiber." Soon, every player in the market started advertising their cereal brands with a health claim. In the year 1984, the sales of the adult ready-to-eat bran/fiber cereals grew twice as fast as the industry average.

Since 1984, the competitor had doubled its ad spend and introduced eight more brands aimed at adults. These advertisements using the cancer preventive message became quite controversial. Some people objected that as the advertising did not mention what kinds of cancer they were referring to and what quantity of cereal one had to eat to actually prevent cancer. In addition, a talk show on a popular television network expressed doubts about the claims of marketers saying that "cancer experts all over the world had divided opinion and their studies were inconsistent." The health expert on the talk show also said that some studies suggest that fiber rich cereals may prevent cancer but no one ever confirmed it.

After going through all the facts and figures available, Mary came to a conclusion that CFI was losing market share to its competitors who were promoting their high fiber cereals as a remedy to decrease the risk of developing certain cancers.

In a weeks time, Mary prepared her preliminary advertisement campaign. After discussing the advertisement with Tom, Mary presented the copy of her ad-campaign to Peter and said "I have read a lot about bran cereals, and it looks like our competitors has been quite successful. We can build on the health claims they have initiated. I think the best approach is to follow our competitors' general strategy. After listening to Mary, Peter said, "Your approach seems to be interesting, but its not the only way. I am skeptical about these health claims. I am also not sure whether our competitors are presenting a complete story or not. Peter added that the Food and Drug Administration (FDA) was not happy with these advertisements and it was looking into this matter Peter then gave Mary a file and said, "Come back to me next week with some more *campaigns* after reading the contents of this file."

After going through the file Mary came to know that in November 1987, FDI permitted manufacturers to print messages on food labels promoting the health benefits of their products. FDI had also provided four criteria for evaluating health related claims on the labels.

Mary also received a report from the research department which indicated that natural brands contained 13 essential vitamins and minerals. She also came across an advertisement for another product that claimed that it was "high in Vitamin B".

Once again Mary went through all the information and prepared three marketing plans." According to the first marketing plan, the products campaign which would be promoted on the basis of their "vitamin enriched". However, she was not confident about the success of the campaign as every bran cereal had all these vitamins and moreover there were very few cases of "vitamin B" deficiency among Americans.

The second marketing plan was developed around the cancer reduction capability of Bran cereals. In this plan, the company would claim that its products had “40 percent extra Bran” or “the highest level of fiber, but such claims could attract the attention of FDI.

The third marketing plan was to promote the products as high-fiber, low-fat natural foods and use other traditional cereal marketing strategies (such as coupons, discounts, cookbooks) to build brand loyalty and identity via a broad-based marketing approach that avoided specific mention of health claims. The plan concentrated more on traditional forms of marketing using new “resealable packs”, giving away T-shirts and recipe books etc. When Mary suggested these options to Tom, he felt that even though option three was in compliance with the FDA criteria, it was better for CFI to proceed with a combination of the first two options. But Mary felt that although the first two option were more persuasive the implications of going ahead with those campaigns need to be considered.

Questions for Discussion:

1. What are the ethical dilemmas faced by Mary while preparing the marketing strategy?
2. Evaluate and list out various ethical objections that can be made to each of the marketing options prepared by Mary? Which option should Mary recommend and why?

Caselet 7

On June 13, 1999, Coca-Cola (Coke) recalled over 15 million cans and bottles after the Belgian Health Ministry announced a ban on Coke’s drinks, which were suspected of making more than 100 school children ill in the preceding six days. This was in addition to the 2.5 million bottles that had already been recalled in the previous week. The products (Coke, Diet Coke and Fanta) had been bottled in Antwerp, Ghent and Wilrijk in Belgium. Some batches of Coke, Diet Coke, Fanta and Sprite had been produced in Dunkirk, France.

Children at six schools in Belgium had complained of headache, nausea, vomiting and shivering after drinking Coke’s beverages. Most of them reported an ‘unusual odor’ and an ‘off-taste’ in the drink. In a statement to Reuters, Marc Pattin, a spokesman for the Belgian Health Ministry explained the seriousness of the issue: “Another 44 children had become ill with stomach pains, 42 of them at a school in Lochristi, near Ghent, northwest Belgium. We have had five or six cases of poisoning of young people who had stomach pain after drinking (the suspect beverages).”

In the same week, the governments of France, Spain and Luxembourg also banned Coke’s products while Coke’s Dutch arm recalled all products that had come from its Belgium plant. More than 200 Belgians and French, mostly school children, had taken ill after drinking the Coke produced at Antwerp and Dunkirk. By June 15, 1999, Coke had recalled about 30 million cans and bottles; the largest ever product recalls in its 113-year history and for the first time, the entire inventory of Coke’s products from one country were banned.

As part of a damage control exercise, Coke sent a team of scientists to Europe. During its visit to Europe after a week of these incidents, Coke’s Chairman and CEO Michael Douglas Ivester said, “We deeply regret any problems encountered by our European consumers in the past few days.” Coke Belgium announced that it would reimburse the medical costs for people who had become ill after consuming its products. The recall had a significant impact on Coke’s financial performance and its second-quarter net income fell down by 21% to $942 million. Moreover, the entire operation cost Coke $103m (£66m) while its European bottling venture showed a 5% fall in revenues.

Analysts felt that the Belgium incident was one of the worst public relations problems in the history of Coke. An analyst alleged that the company had information about people who had become ill after consuming coke products weeks before the above incidents. Coke had an opportunity to disclose this information and prevent these incidents. But it did not do so. Blamed Coke for being unethical, he said, “The instinct is to pull information in, and that is almost always wrong. The right move was to focus on the health of the customer. Even though you don’t think this information is relevant, you should get it out – because that allows people who might think it is relevant to go through whatever process they want to go through. Coke might have done a lot more than it did in the opening days of the crisis.”

Another issue, which worried analysts, was the illness caused to the innocent school children. They blamed Coke’s promotion strategy for the same. Coke’s promotion strategy had raised a lot of controversies earlier. Coke had entered into contracts with schools, which allowed it to gain exclusive rights to sell its products (soda, juices, and bottled water) in all the public schools of a district. Under the plan, the schools got $350,000 as “up front” money and a specific percentage of the total sale which ranged from 50 percent to 65 percent of the total sales. According to the Center for Commercial-Free Public Education (CCFPE) in April 1998, there were 46 exclusive contracts between school districts and soft drink bottlers in 16 states in the US. By July 1999, the number had increased to 150 contracts across 29 states.

Critics said that these contracts represented the growing trend of commercialization on school campuses. When students saw products advertised in their schools, they thought that it was something that the schools endorsed. By displaying its logos prominently in public schools, Coke hoped to re-establish brand loyalty and brand recognition. A study found that an average American teenager could identify some 1,000 corporate logos, but could not name even ten plants and animals in the area where he or she lived.

Parents were concerned about the proliferation of logos on school scoreboards, walls, buses and textbooks. Some groups opposed the commercialization in schools saying that it was unethical, immoral and exploitative. They criticized the education community for encouraging commercialization in schools. Health experts expressed concerns about the increase in consumption of soft drinks by young people and the consequent harm to their health. In less than 30 years, the annual consumption of soda per person had more than doubled from 22.4 gallons in 1970 to 56.1 gallons in 1998. The *Post* reported that Coke’s exclusive contract with the District of Columbia’s public schools allowed for nearly twice as many beverage vending machines in high schools, middle schools and elementary schools as were there before the contract. Another report revealed that ‘compared to 20 years ago, the teenagers today drank twice as much soda as milk’. Richard Troiano[1] suggested a link between childhood obesity and soda consumption. According to Troiano, overweight children tend to consume more calories from soda than those who do not. Childhood obesity rates in the US had increased by 100 percent in the past 20 years. Studies had also shown the negative effect of caffeine on children, an additive present in most of the cola drinks. Analysts concluded that soft drink makers were encouraging teenagers to consume more drinks, which would cause serious health problems for a whole generation.

Another analyst suggested, “If the schools must have vending machines, they should concentrate on healthy choices, like bottled water.” However, by entering into exclusive contracts with beverage companies, schools were compelled to increase the number of vending machines and increase the sales of soft drinks. *Post* reported that before signing the exclusive contract with Coke, few schools had vending machines. However, a study revealed that after signing the contract, most high schools had four vending machines, middle schools three, and elementary schools one.

[1] A senior scientist at the National Cancer Institute in the US.

Another study conducted in the US revealed that while school enrollment had increased by 6.8 percent in the last 20 years, participation in school meal programs had declined by 1.2 percent. One major factor responsible for this, was the increase in the number of vending machines supplying junk food and drinks. The school meal program provided nutritious meals for nearly 27 million children in US schools. The US government had allocated $5.46 billion in 1999 for the school meal programs. A traditional school meal included two ounces of protein, three-fourths cup of fruit and vegetables, approximately two servings of grain products and half-a-pint of milk.

In 2000, the American Federation of Teachers denounced the sale of competitive foods, considering them detrimental to students' health and development of sound eating habits. The Seattle Education Association adopted similar resolutions against commercialization in Seattle's public schools.

However, by mid-2001, 240 district schools in 31 states had entered into exclusive contracts with Coke. According to the National Soft Drinks Association (NSDA), sixty percent of all public and private middle and high schools sold soda in the US. The NSDA challenged the information presented by health advocates, calling it "an insult to consumer intelligence." They said that any attempt to link soft drinks to health problems was not supported by facts. According to the association, no direct connection had been established between increased soda consumption and obesity.

While Coke had faced a lot of criticism from health experts and public agencies for targeting school children during the period 1998-1999, the company received a major setback during the European crisis in 1999 in which school children were the major victims. After the crisis, Coke investigated the problem by testing the suspect batches for toxic chemicals. The company claimed that the tests did not show the presence of toxic elements in the beverages. However, Philippe Lenfant, General Manager, Coke Belgium, admitted that there had been problems at two plants. He explained the coke products bottled in the Antwerp plant had a strange odor due to the presence of some fungicide which had accidentally fallen on the exterior of the cans. The strange taste was due to a sub-standard gas used to carbonate the products. The plant at Dunkirk had some cans which had been contaminated with a preservative during shipping.

In the last week of June 1999, the Belgium government lifted the ban on all Coke products, with the exception of Coke and Sprite. France allowed one of the two Coke plants to reopen, but the ban remained on all Coke products imported from Belgium. In late June 1999, after inconclusive tests and review of procedures by Coke and European health inspectors, Belgium and France lifted the ban on Coke completely. By the end of June 1999, the second French plant was back in business. In a letter to shareholders dated July 12, 1999, almost a month after the incidents, Ivester said that there was never a problem with the actual Coke products. The letter said, "In the space of a few days, our system experienced two very limited quality problems at bottling/canning plants in Belgium and France. At no point was any health hazard present in our products. However, these problems resulted in an off taste and off smell of products and packages, and some consumers reported feeling ill after drinking our beverages. Any quality issue, of course, is unacceptable. Nothing is more important to us than the integrity of our products, and I have apologized to our consumers for any discomfort or inconvenience. Many outstanding Coke people responded quickly to the situation, working diligently to recall the products, determine the causes and share our findings." Analysts said that Coke had not handled the situation well and its media message was confusing, inconsistent and muddled. Coke claimed that pesticide residue on the can or bottle or a bad batch of carbon dioxide was to be blamed for the "off" taste. On the other hand, it also insisted that there was never any health threat. A company spokesman assured consumers, "It may make you feel sick, but it is not harmful."

In August 1999, the European Commission reprimanded Coke, asserting that the company had not cooperated adequately and its explanations were "not entirely satisfactory." It also suggested that while Coke blamed suppliers outside its sphere of influence, "One cannot exclude that errors were committed in the selection of plants or the dosage of extracts in Coke's own concentrate." While no deaths were linked to the Coke problems, it had a significant impact on the public confidence in Europe.

Questions for Discussion:

1. Comment on Coke's strategy of promoting its products in schools.
2. What do you think about the manner in which Coke handled the situation in Belgium and the whole of the Europe?
3. How do you think Coke should have handled the crisis effectively?

Caselet 8

Electrotech Ltd., an electronic company manufactures computer chips used in automobiles. It was started in 1969 by Fred James in a small town in North Carolina, USA. By 1990, Electrotech had established 9 production plants (all located in USA), which manufactured a variety of electronic components for different industries. The production plants used complex hydrocarbon solvents to clean the chips and other parts used in various computer components.

In 1990, it was observed that the production cost at Electrotech has increased considerably. The workers at all the 9 plants had gone on a lightning strike forcing the management to increase the wages from $12 per hour to $15 per hour. In addition to the wage bill Electrotech had to spend huge amounts to comply with the stringent environmental and safety regulations laid down by the government. Moreover, to reduce the toxicity of the waste it had to go through an expensive affluent treatment process. All these factors had led to an increase in the operational costs of Electrotech. Its troubles compounded when its shareholders questioned the management as to why it was not moving its operations to less-developed countries when all its competitors had done that long ago.

When this issue came up for discussion at the board meeting, James tried to provide justification for the same. He said that as Electrotech was a major employer in each of the cities where it was located, closure of the production plants would result in economic dislocation of these communities. In addition, it would be very difficult for the thousands of retrenched employees to find an equivalent job as a majority of the players had already moved off-shore. However, the board of directors could not be convinced and they felt that the company would prosper by moving to a country where the cost of production was less and the environmental and safety regulations more liberal.

After considerable research, three countries were shortlisted (Mexico, Philippines and South Africa) for relocating its operations. Each of these countries had its own advantages and disadvantages.

Mexico

Many cities in Mexico would be cost-efficient relocation sites considering labor, health and safety/environmental factors. Workers in similar production plants were earning $3 per day. However, the employee turnover was high. Dissatisfied with the wages being offered, most of them migrated to the United States. But the plants weren't much affected as a ready supply of workers took their place.

Mexican health and environmental laws were also favorable for Electrotech as the use of a higher level of toxic chemicals was permitted in Mexico. This allowed the corporations to continue operations without using costly procedures and equipment to reduce the level of toxic chemical emissions. Mexico's environmental laws were also less strict than those of the United States. Setting up a solvent recovery system was not mandatory.

However, as the rate of birth defects increased in many of these towns (where similar plants are in operation) many environmental and citizen health groups had begun protests, accusing the production plants for polluting the environment.

Philippines

Philippines was a suitable location as labor was cheap (at $1 per day). The company could employ child laborers at even lesser rates. The environmental and safety regulations were similar to that of Mexico. However, Philippines is a place where bribery and corruption is the norm. Moreover, they are so deep-rooted and rampant that their eradication is almost impossible.

South Africa

Relocating to South Africa will not be as lucrative as in Mexico or Philippines because the prevailing wage in South Africa is about $10 per day. In addition, there may be future demands for increase in wages and benefits as the unions in South Africa are very strong.

Exposure to toxic chemicals in the workplace is not permitted at the level as in Mexico and the Philippines. The production plants are required to follow safety and environmental regulations as in USA.

Questions for Discussion:

1. What are the ethical dilemmas faced by James in making a plant relocation decision? What are the various issues James has to consider while taking the plant relocation decision?
2. Which country do you think that Electrotech should choose to relocate its operations? Justify your answer on ethical grounds.

Caselet 9

In May 2000, the National Highway Traffic Safety Administration (NHTSA) of the United States (US) issued a letter to the Ford Motor Co. (Ford) and Firestone Inc. (Firestone) asking for information about the high incidence of tyre failure of the Ford Explorer Sport Utility Vehicles (SUVs). In July, Ford analyzed the data on tyre failures. The analysis revealed that Firestone Radial 15 inch ATX and ATX II tyres produced in North America, and Wilderness AT tyres produced at Decatur, Illinois Plant had very high failure rates with the treads peeling off. When the tyres failed, the vehicle often rolled over and killed the occupants.

In August 2000, Firestone, amid concerns over tread separation, accidents, injury and death announced a voluntary recall of all Radial ATX and ATX II and Wilderness AT tyres. Around 6.5 mn tyres were recalled, which included 3.8 mn Radial ATX and ATX II tyres, and 2.7 mn Wilderness AT tyres. These tyres were original equipment used in certain Ford Explorer SUVs, Mercury Mountaineer, Ford Ranger pick-up trucks and Mazda Navajo and B-series pick-up trucks. The case of Firestone tyre recall was perhaps the biggest auto safety crisis in the US history. NHTSA put the death figure in February 2001 at 174, which had risen from 101 (as reported in September 2000). But, according to analysts, there were as many as 250 deaths and more than 3000 injuries due to the defective tyres. Most of the deaths occurred due to accidents that the Ford Explorer met and with, hundreds of victims and their families filed lawsuits. In May 2001, Firestone announced that it was severing its ties with Ford, and alleged that the problems in the Ford Explorer had caused 174 deaths. Firestone also alleged that Ford was trying to divert people's attention from the problems with Explorer.

Ford and Firestone seemed to have known about the flaws in the tyres for almost a year prior to the recall, but it was not until NHTSA launched a preliminary investigation that Firestone announced a voluntary recall. Questions were raised about how Ford and Firestone responded to the first evidence of the flows in the tyres. According to the officials at Ford, the problems first surfaced in Saudi Arabia, where drivers deflated their tyres for better traction while driving through the desert sand. When they returned to the hard pavement, they failed to reinflate the tyres, and the combination of low pressure and extreme climate led to tyre disintegration. Ford replaced the tyres of about 45,000 vehicles in the Middle East and in several other countries with extreme temperatures. Ford and Firestone then studied 63 vehicles in southwestern US to see whether similar failures occurred, and concluded in March 2000 that the tyres were fine. However, when NHTSA launched its investigations in May 2000, Firestone officials were at a loss to explain the tyre failures. The officials, however, said that the company's data showed that many of the tyres were produced at a factory in Decatur, and that 80% of the incidents occurred in Arizona, California, Florida and Texas. Firestone said there was a correlation between heat and tyre problems and also blamed the motorists for not keeping the tyres properly inflated.

But General Motors Corp, which used the same type of tyres in many of its 1999-2001 trucks, said that the performance of these vehicles had been 'excellent'. Ford said that it was affected more because of the sheer volume of Explorers on the road. But NHTSA officials felt that Explorers were too heavy for the 15-inch tyres. However, there was no definitive evidence to indicate that Ford's design specification for Explorer's tyres was to be blamed. But Ford was switching over to 16-inch tyres in its redesigned Explorer, which was expected to be launched in 2002.

Ever since Firestone announced its voluntary recall of Firestone tyres in August 2000, its chief executive, Yoichiro Kaizaki (Kaizaki) did not make a public appearance. In September 2000, *Business Week* wrote that Firestone's behavior spoke volumes about the huge gap that existed between the US and the Japanese management. All the Firestone executives in Japan were unwilling to respond to the pleas of investors and the media for explanations and reassurance. In September 2000, Firestone announced that it would offer free inspection of the 1.4 mn tyres, which were not covered in the August 2000 recall. Firestone officials said that the tyre models identified by NHTSA, which were subject to higher than average rates of tread separation would be inspected without charge at the company-owned stores and authorized retailers. However, NHTSA recommended that the tyres to be inspected be recalled because preliminary investigation by NHTSA had revealed that those tyres had an incidence of tread separation that was sometimes higher than that of the recalled tyres. But Firestone refused to include these tyres in the recall. John Lampe, Executive vice president, Firestone, said that the company would replace any tyres found to be unsafe. Said Susan Sizemore, the public relations manager at Bridgestone's US headquarters in Nashville, "This is not a recall. It's a customer satisfaction initiative. If necessary, we are replacing those tyres with either our tyres or a competitor's."

Analysts felt that Ford's response to the crisis was not very positive. They chided Ford's CEO, Jacques Nasser (Nasser) for appearing too stiff on the television as Ford's spokesman for Ford. Analysts also felt that Nasser should have gone to the scene of the crisis and demonstrated his concern for the individuals involved. However, in an interview with *Fortune Magazine*, Nasser commented, "We feel morally and emotionally connected to the people who buy our vehicles. If I could find a magic wand that would give me 6 ½ mn 15 inch tyres that I could personally carry to every customer, I'd do it."

Analysts also felt that during the crisis, Ford's spokesman should have been its chairman, Bill Ford Jr. (the man with his name on Ford cars and trucks). The chairman addressed the issue only once at a press conference in the middle of September 2000. However, Ford officials said that Nasser was better qualified to speak during this crisis because of his operational responsibilities and his knowledge of Ford products.

The controversy deepened in middle of 2001, when a committee consisting of the members of the US House Energy and Commerce was formed to look into the problem of tread separation of Firestone tyres. During the same time, Ford announced plans to replace about 13 mn Firestone tyres used in its vehicles. However, Firestone insisted that those tyres were safe and that Ford was replacing them to divert attention from safety problems with its Explorer. Nasser said that Ford had no choice but to replace the tyres based on its data. He said about 1 mn of the 13 mn tyres involved in the latest recall had already been replaced. He also defended the Explorer by saying that its statistics had shown that it was safer than other vehicles. But Firestone continued to highlight the safety problems of the Explorer. Said a Firestone spokesman, “No one cares more about the safety of the people who travel on our tyres than we do. We are doing our part. We are taking responsibility for our products. We did a massive recall. And now we are doing what’s right by asking the tough questions about Ford Explorer.”

Firestone said that Ford Explorers were still rolling over when they met with accidents, even without Firestone tyres. Nasser said that some of the Firestone tyres involved in the recall were apparently world class tyres and did not appear to have safety problems, but he also said the tyres needed to be included in the recall because of loss of customer confidence in Firestone tyres.

The committee, after listening to both the sides, said that the further analysis on the Explore and the tyres should be conducted by an independent source such as NHTSA. In August 2001, out of the hundreds of lawsuits filed by victims and their families, only one made it to the court. This case involved a South Texas family injured in a Ford Explorer crash. The trial came more than a year after NHTSA said that it was looking into the problem. The trial involvearDr. Rodriguez (Rodriguez) whose Firestone-equipped 1998 Ford Explorer suffered a blowout and flipped over on a highway in Mexico. This injured Roriguez, his brother Jorge an three-year-ol son Joelito and left his wife Marisa, bound to the wheelchair for life. Ford was already out of the lawsuit having settled the case with Rodriguez for an undisclosed amount. However, the jury said it would further investigate whether Ford was responsible for the crash. If the jury found that both Ford and Firestone were responsible for the crash, the companies would have to share the financial liabilities on a percentage basis. If they found Firestone responsible for more than half of the crash, then Firestone would be responsible for the entire payment instead of a percentage. In mid-2001, Firestone announced that it would shut down one of its US plants, which could be its Decatur, Illinois plant, by no later than December 31, 2001. This would eliminate some 1, 500 jobs. The Decatur, Illinois plant produced many of the 6.5 mn Firestone tyres recalled inarAugust 2000.

Nasser felt that the future of Ford Explorer would depend on how customers responded to Ford’s reaction to the crisis. Said Nasser, “My message to consumers is, if you don’t-5(t)11(h)-1(i)5(n)-1(k-5(we)9(ha)9(ve)6(be)9(have)9(d i)11(n)-1(t)5(h)5(e w)6(a)3(y-5(t)5(

Caselet 10

Ford Motor Company, a major automobile manufacturer in US, believed strongly in producing big cars. According to a statement by Henry Ford, big cars would bring in huge profits and small cars would bring in small profits. This view was further supported by the low cost of gasoline in the US. However, the oil crisis of the 1970's and the subsequent legislation on fuel economy invalidated Henry Ford's view. Moreover, with the increasing competition in the global car market, the dominance of domestic manufacturers was threatened as Volkswagen was making its entry into the US. In addition, the entry of Japanese players further increased the competition in the US automobile industry.

The US auto majors, Ford and GM responded quickly to the changing market scenario, and decided to develop small cars – Pinto and Vega respectively. Surprisingly, both of these cars had faulty designs as they were developed too quickly. Lee Iococa, the then president of Ford, was determined to manufacture a small car that weighed less than 2000 lbs and cost less than $ 2000. But the desire of producing a small car within these specifications finally resulted in the downfall of Pinto. The car had a basic fault in the location of its fuel pump under the rear bumper. Such position of the fuel pump made the car highly vulnerable to explosions if it had a rear end collision. This vulnerability to explosion was confirmed in the crash tests, and Ford was supposed to redesign the car. But as the cost of redesigning was prohibitive, no remarkable corrective action was taken. And surprisingly, even after knowing that the cars vulnerability to explosion, Ford marketed the small car, Pinto.

As consumerism and communication were not very high in those days, it took some time to get clear image of the problems Pinto had. Ford thought that it would be cheaper to pay for the compensation than to redesign the car.

For eight years, Ford utilized its economic power – it concealed the need to redesign the car, and paid millions of dollars in out-of-the-court settlements. In 1977, a magazine called *Mother Jones* accused Ford of knowingly introducing an unsafe car due to which hundreds of people were burnt to death. On August 10, 1978, three teenagers were burnt to death when they met with a rear end collision in their 1973 model Ford Pinto.

Ford was then charged with criminal homicide- the first American corporation to be charged so - by the Elkhart County Jury. And when the proceedings of this case were on, an internal document showing the cost-benefit analysis of how Ford was correct in continuing the production of Pinto cars without fixing the problem, was unearthed. The cost-benefit analysis compared the cost of rectifying the problem to the cost of not rectifying it and paying compensation to the people injured by the car – or to the relatives of those who died in the mishap. The contents of the document were as follows:

Cost-benefit analysis:

Savings: Producing the car as per the current design can result in 180 burn deaths, 180 serious burn injuries and 2100 burnt vehicles. The cost of this would be based on the following levels:

Unit Cost: $2, 00,000 per death, $67,000 per injury and $700 per vehicle

Total Benefit: 180 × ($200000) + 180 × ($67000) + 2100 × ($700) = $49.5 million

Cost of fixing the error:

Level of current sales: 11 million cars and 1.5 million light trucks

Unit cost to fix each car or truck: $11 per car and $11 per truck

Total cost: 11000000 × $11 + 1500000 × $11 = $137 million

Therefore, Ford thought that it was considerably cheaper to kill or injure the people than to redesigning the fuel pump. Moreover, Ford was not found guilty of homicide for the reasons given below:

Ford could have moved out of the small car market and made bigger profits. However, increasing competition from foreign players made Ford produce Pinto cars. Though the car was responsible for the death of some people, more number of people were employed for the production of Pinto cars. It was further important to keep the Germans and Japanese out of the competition.

Pinto cars matched with every fuel standard in US, and can be compared to other sub-compact cars.

As these arguments were challenged, the case reached the Supreme Court that asked Ford to recall the car and in 1980, it recalled more number of cars than it sold in that year.

Questions for Discussion:

1. Discuss the different ethical dimensions of the Ford Pinto case. Why do you think that Ford launched Pinto without rectifying its design?
2. Discuss the ethics of the cost-benefit analysis system used by Ford. Suggest some ways in which Ford could have rectified the design problem?

Caselet 11

Greenmail refers to the payments made to selected stockholders of a company to repurchase some of the largest blocks of stock that are accumulated during a corporate takeover attempt. The stock is purchased at a premium above the market value, and the payment of this premium represents a loss to the other stockholders.

Samco, a forest product company, was facing a takeover threat from one of the leading players (owned by the Moshe's family) in the industry. The board decided to prevent this takeover at any cost. It decided to buy back the shares from them and paid $46.7 million ($43 each) for 1.1 million common shares held by the Moshe's. This way, Samco bought back a 7.1% stake from the Moshe's family of Canada. This resolved the takeover threat, but further depressed the stock price, which was already irking the existing shareholders. Its stock dropped on receipt of the news of the agreement. With the buyback from the Moshe's, its share at Dutch Stock Exchange closed at $38.25 down $1.50. For Samco, about 13 million shares were outstanding. This indicate paper losses to continuing holders of nearly $70 million. It was also found that Samco had paid a huge sum as 'takeover fees' to law firms and investment bankers in its attempt to present the takeover.

Questions for Discussion:

1. Greenmail and takeover fees are not ethical dilemmas in the general sense of a conflict between the economic performance and the social performance of an organization. But they do represent very large payments made to very selected groups of people. Are they, in your opinion, 'right' 'just' and 'proper'?
2. As the company was not doing well and was in line for a takeover by a successful company in the same business, is Samco doing a disservice to its stakeholders? What would have been an ethical decision in this case?

Caselet 12

Information on the effects of DNA variations among human beings can result in inventing some revolutionary new ways of diagnosing, treating, and someday preventing thousands of disorders that affect humans. Apart from providing clues for understanding human biology, learning the DNA sequences of several other organisms will help understand their natural capabilities that can be applied to areas like health care, agriculture, and environmental cleanup.

The U.S. Human Genome Project (HGP) is coordinated by the U.S. Department of Energy (DoE) and the National Institute of Health (NIH). In 1990, with the objective of

- identifying all the 30,000 genes (approximate) in human DNA,
- determining the sequences of 3 billion chemical base pairs that make up human DNA,
- storing information in databases,
- improving tools for data analysis,
- transferring related technologies to the private sector, and
- addressing the ethical, legal, and social issues (ELSI) that may arise from the project.

To help accomplish these goals, researchers also analyzed the genetic makeup of some other organisms like the common human gut bacterium *Escherichia coli*, the fruit fly, and the laboratory mouse.

A unique feature of HGP was that it was the first largest scientific undertaking to address the ELSI (ethical, legal, and social issues) implications that may arise from the project. DoE and NIH assigned 3%-5% of their respective annual budgets for studying the various ELSI related to the project. Nearly $1 million has been spent on ELSI research to date.

HGP will provide major benefits to the disciplines of molecular medicine, microbial genomics, risk assessment, bioarchaeology, anthropology, evolution, and human migration, DNA forensics (identification), agriculture, livestock breeding, and bioprocessing.

Another significant feature of HGP is the federal government's long-standing dedication for transferring technology to the private sector. By licensing technologies to private organizations and providing grants for innovative research, HGP catalyzed the multibillion-dollar biotechnology industry in the U.S and fostered the development of new applications in the field of medicine.

And by February 2001, NHP published the Sequence and Analysis of the human genome working draft, in Nature and Science.

Research in molecular medicine was expected to improve the diagnosis of a disease, early detection of genetic predispositions to a disease, preparing rational drug design, gene therapy and developing control systems (for drugs) and pharmacogenomics "custom drugs". Research on microbial genomics will help develop new energy sources (biofuels), conduct environmental monitoring to detect pollutants, provide protection against biological and chemical warfare, enables safe, efficient toxic waste cleanup, understand disease vulnerabilities and reveal drug targets. In risk assessment, health damage and risks caused by radiation exposure, including low-dose exposures are assessed. It also helps assess the health damage and risks caused by exposure to mutagenic chemicals and cancer-causing toxins and reduce the likelihood of heritable mutations.

Research on Bioarchaeology, Anthropology, Evolution, and Human Migration would help study evolution through germline mutations in lineages, study migration of different population groups based on female genetic inheritance, study mutations on the Y chromosome to trace lineage and migration of males and compare breakpoints in the evolution of mutations with ages of populations and historical events.

Research on DNA forensics (identification) would help identify potential suspects, whose DNA may match evidence left at crime scenes, exonerate persons wrongly accused of crimes, identify crime and catastrophe victims, establish paternity and other family relationships, identify endangered and protected species as an aid to wildlife officials (could be used for prosecuting poachers), detect bacteria and other organisms that may pollute air, water, soil, and food, match organ donors with recipients in transplant programs, determine pedigree for seed or livestock breeds and authenticate consumables such as caviar and wine.

Research on agriculture, livestock breeding and bioprocessing would help develop disease insect, and drought-resistant crops, healthier, more productive, disease-resistant farm animals, more nutritious produce, biopesticides, edible vaccines incorporated into food products and new environmental cleanup uses for plants like tobacco.

Inspite of the innumerable benefits it plans to offer, HGP will also need to address many societal and ethical issues. Some of those ethical, legal and social issues can be:

Fairness in using genetic information by different stakeholders like insurers, employers, courts, schools, adoption agencies, and the military ie, Who should access the personal genetic information, and how the information should be utilised?

Privacy and confidentiality of the genetic information ie, Who should be responsible for owning and controlling the genetic information?

Psychological impact and stigmatization due to an individual's genetic differences. Impact of personal genetic information on individual and society's perception of the individual and the impact of genetic information on the members of minority communities.

Reproductive issues such as adequate informed consent for complex and potentially controversial procedures, use of genetic information in reproductive decision-making, and reproductive rights. Will the healthcare personnel properly counsel the parents about the risks involved and the limitations of genetic technology? Will it be reliable and useful to test the foetus genitically? What could be the larger societal issues raised by the latest reproductive technologies?

Clinical issues such as educating the doctors and other health service providers, patients, and the general public on genetic capabilities, scientific limitations, and societal risks; and implementation of standards and quality-control measures in testing procedures. What will be the evaluation criteria for conducting genetic tests in order to regulate them for accuracy, reliability, and utility? How to keep the healthcare professionals updated with the new genetic information? How to educate the public on taking wise and informed decisions? How to make people balance the current scientific limitations with the social risk involved and gain long-term advantage?

Uncertainties involved in gene testing for susceptibilities and complex conditions such as heart diseases can be linked to multiple genes and gene-environment interactions. Is gene testing advisable when no treatment is available? Are parents authorized to have their minor children tested for adult-onset diseases? Can the medical community rely and interpret genetic tests?

Conceptual and philosophical implications in relation to human responsibility, free will vs genetic determinism, and concepts of health and disease. Does the behavior of people depend on their genetic composition? Is it possible for the people to control their behavior? What should be considered as an acceptable diversity? Can we identify the line between medical treatment and enhancement?

Health and environmental issues pertaining to genetically modified foods (GM) and microbes. Are genitically modified foods and other products safe for human beings and the environment? How will genetic testing and genetically modified technologies affect the developing nations' dependence on the West?

Commercialization of products with property rights (patents, copyrights, and trade secrets) and accessibility of data and information. Who should own the genes and other pieces of DNA? Will patenting DNA sequences confine their accessibility and development into useful products?

The question of who will be the legal owner of the genetic data and information is also quite debatable. Some of the research activities are funded by some business organizations.

The question of patenting genetic information remains a contentious issue. Basically, there are two approaches for the application of patent laws to biotechnological inventions. In the US, Australia, and many other countries, the general patent criteria would apply, that is, since the invention has the attributes of novelty, non-obviousness, and utility, it should be deposited in an authorized depository. Though a country might accept the first criteria, some countries may specifically exclude certain types of inventions.

To be patentable, an invention must be novel, non-obvious and useful. If a protein sequence is known, then the sequence of DNA that code for it will not be usually patentable. It would be patentable only if there is a sequence that is specifically advantageous, and if there is no obvious reason behind selecting this sequence from the other sequences that code for the protein. Once the genetic sequence of many organisms, including humans is developed, most of the genetic information would no longer be novel as it will be available in a database. The completion of genome maps and sequences of many organisms will have many implications on the future of biotechnology patents.

Ethical issues are different from legal issues, attempts can be made to minimize the gap between the two. Concerns over ethics have an impact on the patent laws. For instance, European countries who joined the European Patent Convention, barred the patenting of plants or animals varieties until the 1998 biotechnology directive on patenting that allowed some patent applications. Denmark has an exclusion for its national law. The public in some countries have opposed the idea of patenting animals, and so patenting of human genetic material is potentially more contentious.

The attitude of public towards patenting of human genetic material is not positive. The negative reaction gives out a general feeling (of the public) that genetic material is special, and should be treated differently from other types of information. Patenting is said to reward innovation, which can be the basis of a successful contemporary democratic economic system, as agreed under TRIPs (Trade Related Intellectual Property Rights). In any country or society, Property rights are not absolutely protected for the sake of "public interest", "social need", and "public utility". Therefore, there is an existing precedent for exemption from property ownership, when the property is of great benefit to the public.

Moreover, according to an existing legal concept, things that are of international interest should be the cultural property of the entire human race. It can also be argued that genome, being common to all human beings, has a shared ownership, and hence should be treated as a shared asset. Every individual may claim that the sequence is 99% similar to their own. According to the United Nations Declaration of Human Rights, Article 27, there are two basic commitments that many countries in the world have agreed to. They are (a) Every individual has the right to participate freely in the cultural life of the community, to enjoy the arts and *to share the scientific advancement and its benefits.* (b) Every individual has the right to *protect the moral and material interests resulting from any scientific,* literary or artistic *production of which he is the author*. An important question that arises from point (b) is whether all the individuals are the authors of the genetic information that is shared by the people all over the world. The writers of this legal rules might not have taken DNA into consideration, hence the patents should be awarded according to the spirit of the law and it should be considered as shared ownership. According to point (a), every individual has the right to share the scientific advancements freely.

The common claims for authorship of the genome should be considered in all aspects of the genome project, particularly the questions of who should make the decisions in the project and the use of information. Some of the factors that derive from the shared ownership are, the usage of information should be peaceful, access should be open to everyone's rights should be respected and should promote the common welfare of society.

If these arguments are not sufficient to prevent the private ownership of genetic information, apart from the precedents for excluding patents, public opinion may force the change in policy of patenting such genetic material. In the US, the commercialization of human cells and tissues is usually allowed *unless it represents a strong offense to public sensitivity.* The sale of human genetic information and sequence data may be a strong offense to many and may generate adverse public reaction, that may force the legislators to exclude it from patenting. This debate would continue, as the private organizations will obviously like to obtain some information protection as a return on their investments. But, those companies should be sensitive to the strong public feelings that can be easily aroused.

Questions for Discussion:

1. The Human Genome Project is the largest biotechnology project ever known. What are the advantages and disadvantages of this project?
2. HGP is being criticised for being unethical and going against the principles of nature by tampering with the DNA of human beings. Do you think that it is ethical for NIH and DoE to sponsor such a project?
3. Commercialization of genetic information with property rights (patents, copyrights, and trade secrets) and accessibility of data and information has been a serious ethical and societal issue in HGP. It has raised some serious questions like: Who should own the genes and other pieces of DNA? Will patenting DNA sequences confine their accessibility and development into useful products? Comment.

Caselet 13

In September 1982, a 12-year-old girl, Mary Kellerman of Chicago, US died after taking extra strength Tylenol for headache. Three more people, Adam Janus, his brother and sister-in-law died on the same day after consuming Tylenol. Three more deaths were reported on the next day due to Tylenol. The news of these incidents spread quickly causing a nationwide panic. A hospital in Chicago received 700 telephone calls about Tylenol in just one day. People in cities across the US were admitted to hospitals on suspicion of cyanide poisoning. Within the first 10 days of the crisis, J&J received 1,411 telephone calls.

However, J&J acted immediately and alerted consumers across the US, (through the media), not to consume any Tylenol product. The police drove through Chicago, where the incidents were first reported, announcing the warning over loudspeakers. The three national television networks also reported the deaths on their evening news broadcasts. The company told consumers not to use the product until the extent of tampering could be determined. It recalled all Tylenol bottles and publicized the recall with full-page newspaper ads. Consumers were asked to return the bottles to the stores and exchange them for Tylenol capsules that were not subjected to cyanide tampering. The company shut down the production, distribution and advertising of the medicine temporarily. The Food and Drug Administration also advised consumers to avoid taking Tylenol capsules.

Johnson and Johnson (J&J) recalled 31 million bottles of extra strength Tylenol worth over $100 million from all retail stores in the US. In addition, the company offered to exchange tablets for capsules at no extra cost for all customers.

According to an analyst, J&J suffered a loss of $1.24 billion due to the depreciation of the company's brand value. Tylenol's share fell from 37% of the US analgesics market in early 1982 to just 7% by late 1982. According to media reports, the sudden deaths occurred because the Tylenol capsules had been laced with cyanide. The capsules had been opened and filled with 65 mg of cyanide[2]. In spite of the deaths, J&J was praised for its quick action and sincere efforts in recalling Tylenol and giving consumer safety top priority.

From the beginning, J&J worked with federal investigators to find out the causes of these deaths. After eight million recalled capsules were tested, it was confirmed that the bottles had been tampered with on store shelves. The poisoned capsules were placed on the shelves of six different stores in Chicago, USA. Only 75 capsules from eight bottles had actually been laced with cyanide.

Analysts opined that recalling all Tylenol products was not an easy decision for J&J. There was a great deal of discussion before recalling Tylenol at the national level. Some executives were worried about the panic that could result in the industry over such a wide scale recall.

A month after the crisis, J&J launched an aggressive campaign to re-build Tylenol's image. The then Chairman and CEO of J&J, James E. Burke said, "It will take time, it will take money, and it will be very difficult; but we consider it a moral imperative, as well as good business, to restore Tylenol to its pre-eminent position." Company decided to re-launch the product in a new triple-tamper-resistant package by the end of 1982. It's efforts paid off and the company was able to recapture 32 of its originaloriginalo 32 o8e to c8

In 1986, when the public fear about Tylenol has started subsiding, J&J was again in the news due to Tylenol tampering. A woman in New York had died after taking Tylenol. J&J had to once again recall all capsule products. The company decided to permanently discontinue capsules. It replaced the product with new solid caplets that were relatively less susceptible to tampering.

The 1986 incident, however, attracted negative criticism from analysts. They said that after the 1982 incidents, J&J should have been more proactive and vigilant about product safety. A section of industry observers remarked that the media had played an important role in J&J's public relations campaign in 1982. They said that if J&J had not been cooperative with the media, it would have received less positive media coverage, which in turn, would have affected Tylenol's reputation permanently.

In 1989, J&J faced yet another problem when deaths occurred due to the over doses of Tylenol. In 1989, five-year-old Lacy Keele died after being given four extra strength Tylenol tablets in one day. This was two times the dose she was expected to take. In early 1990s, fourteen-month-old Sophie Regosin-Hodges was given an overdose of Tylenol, which severely damaged her liver. As per the pediatrician's advice, Sophie was given infant Tylenol drops. The infant drops were three and half times more stronger than other children medicines. Though Sophie survived with a transplant of liver tissue from her father she had to be put on immuno-suppressant drugs for the rest of her life. In another incident reported in 1993, Antonio Benedi, an alcoholic, took ten extra strength Tylenol in four days. He too survived but only after a liver transplant.

In the following years, there were hundreds of deaths and severe liver damages that were all attributed to Tylenol's main ingredient – acetaminophen. Acetaminophen was used to treat mild to moderate pain and fever including simple headaches, muscle aches and mild form of arthritis. The drug was more useful for patients who could not use Aspirin or Ibuprofen, because of gastrointestinal ulcers or bleeding disorders.

Slowly, people became aware that though safe in proper doses, Tylenol could be dangerous even in a little overdose. Incidences of overdoses could take place due to several reasons. For children, Tylenol came in kid-pleasing flavors and was marked as a "SAFE" alternative to Aspirin. As children liked the flavor, they could just take another dose. It was also found that in many cases, one parent was not aware that the other had given the dose, and accidentally gave a second dose. Moreover, parents were not aware about the right doses of Tylenol line of products. Acetaminophen could also be harmful for people with liver problems, if taken along with alcohol and certain other medicines or on an empty stomach. However, Tylenol was marketed with the tag line "Nothing's Safer." The required warning labels as per the US Food and Drug Administration rules only stated alcohol-related risks. Some health practitioners felt that stronger warnings against overdoses were very important.

According to analysts, in spite of the bad publicity and legal settlements, which cost the company millions of dollars, J&J refused to put explicit warnings on its Tylenol labels. The company had only made cosmetic changes on the warning label. After the Keele case, J&J added to the extra strength package: "Not for use for children." In 1994, after Benedi's case, it added a statement warning customers against using a pain reliever after a drink. Analysts said that J&J resisted writing the kind of label that would really alert people about the dangers of taking overdoses. However, according to a company's spokesman, it resisted warning customers about possible liver failure because the company felt that "organ specific" warnings would confuse people. Similarly, the company resisted warning about the risk of death to avoid suicides: If people knew that acetaminophen was potentially deadly, they might use it for suicide. In response to the studies revealing Tylenol-related liver damages, J&J advised its sales representatives not to discuss the issue with doctors. Rather than taking some concrete measures to prevent patients from taking overdoses, J&J recommended that the patients should keep a log for doses taken. The recommendation was made in a patient education brochure given to the doctors.

According to media reports, atleast 100 law suits had been filed against J&J over acetaminophen poisonings between 1990 and 1997. In four cases, the company reportedly made out-of-court settlements under agreements that required the plaintiffs to maintain silence about the terms. Analysts felt that the loss of revenue was the main reason behind J&J's reluctance to make people aware of Tylenol's side effects. In 1996, Wall Street analysts estimated J&J's revenue for Tylenol at $1.3 billion a year. The fact that acetaminophen was available at about half the price suggested that J&J's profit margin was very high. J&J spent a major part of this profit to strengthen Tylenol's image. According to Advertising Age, the company's domestic ad budget for Tylenol was $250 million in 1997, more than Coca-Cola spent on Coke.

Analysts remarked that J&J's response to the overdose issue was in steep contrast to its quick and sincere efforts in 1982, Burke when took personal responsibility for the public's safety. The American Association of Poison Control Centers reported about 100 deaths a year from acetaminophen. This figure seemed to be understated since hospitals were not required to report such cases.

In September 1997, the FDA's OTC drug advisory committee recommended additional changes in the labeling for acetaminophen used in painkillers. The FDA wanted manufacturers to explain the correct dosages for children under two years, instead of simply directing parents to consult a doctor before using the medication.

In October 1997, J&J announced that it would inform parents about Tylenol's side effects on children through labels and advertisements. The new labels cautioned consumers against overdose. From November 1997, J&J also released magazine and TV ads informing parents about correct dosages for children.

Questions for Discussion:

1. "J&J was lauded for its quick decisions and sincere concern for its customers, during the product tampering crisis in 1982." Discuss briefly J&J's strategy which helped regain its market share and customer trust.
2. Despite bad publicity and costly legal settlements, J&J was reluctant to place adequate warnings on its Tylenol tablets. Why was J&J hesitant in warning the public?
3. Do you think there is a conflict between the economic performance and the social performance of J&J in the Tylenol overdose controversy? Recommend the methodology that would help J&J take a right, decision.

Caselet 14

In 1985, the Vardha Valley Development Plan (VVDP) was taken up by the Government of India. The plan included construction of dams on Vardha river, which included 30 big dams, 135 medium dams and 3,000 small dams. The implementation of the whole project involved displacement of 35,000 families in central India and 4,000 families in western India. Estimates showed that this project, when completed, would displace more than one million people.

For the resettlement and rehabilitation of the displaced people, the government announced individual benefits that included giving them.

- Agricultural land (2 hectares per family).
- Residential land (500 sq. m).
- Cash compensation for land begin submerged.
- Grants for construction of houses, agricultural implements and livestock.
- Community benefits including construction of roads, primary schools, healthcare centers and children's parks.

But these proposals could not be implemented as the government failed to acquire any agricultural land for resettlement of villages, rural communities and families. Most of the displaced people received only house plots and low cash compensation, and families were broken during the rehabiliation.

The major issue was the Manasarovar project, which was comprised of a 455 ft-high dam, a 214 km-long reservoir, a riverbed powerhouse, power transmission lines, a main canal and an extensive irrigation network. The irrigation was to be carried out through an 80,000 km long network of canals, which required approximately 85,000 hectares of land, complex engineering and huge resource allocation. As per the government's estimations, the Manasarovar Project would cost US $4,600 million, and would irrigate 1.8 million hectares of land, provide drinking water to over 40 million people, and generate 1,450 megawatts (MW) of power.

The Andolan members differed from this view, as according to them the project cost over US $9,000 million, and they said that Manasarovar Dam was never planned with the intention of providing drinking water. Renowned energy analysts predicted that not more than 50 MW of power can be produced annually, which would make the dam a "net consumer of energy."

Several Indian environment protection organizations claimed that the construction work of Manasarovar Dam (MSD) was progressing without a comprehensive environment impact assessment. It was said that Manasarovar dam would submerge 14,000 hectares of forests and disrupt aquatic ecosystems and it threatened the extinction of the Marsh crocodile. The environmental impact of the MSD was classified under four areas- effect on upstream of the dam, downstream of the dam, the command area and other areas. In the upstream section of the dam, valuable forests and terrestrial biological diversity would be lost. The forest of the MSD submergence zone contained a huge diversity of flora and fauna, which could support over 70,000 people. Compensatory afforestation and wildlife conservation measures were planned but it was not a feasible way of recovering the loss of these forests or saving the biological diversity. In case of MSD, compensatory afforestation was done in Kutch, an ecological zone completely different from the Vardha valley. The forests in the Vardha valley were rich in teak, bamboo, mahua and salai trees. According to the local tribals, the flora in the submergence zone contained over 150 species, which are of economic, nutritional and cultural importance. The Vardha valley also had a huge diversity of aquatic life. If the upstream aquatic ecosystem would be disrupted the 'marsh crocodiles' would be largely affected. The officials tried to focus on saving commercially useful fish, which was the main diet and source of livelihood of the tribal people, but very less was done to protect the aquatic fauna and flora.

The MSD reservoir could result in waterlogging in the plain areas of western India, which were sandwiched between the reservoir and the Vardha valley. The waterlogged lands in the surrounding areas would increase the incidence of diseases like malaria.

In the downstream of the dam, there were high chances of negative impact on aquatic life, as it resulted in the destruction of giant freshwater prawn fisheries. It could result in flash floods. The construction of the dam would change the volume and flow of water in the downstream river, and the dam would block the flow and deposition of nutrient-rich silt to the downstream area. These changes would lead to an adverse impact on the downstream river, reducing fish migration and breeding, increasing the concentration of pollution in freshwater and changing the composition of flora and fauna. This would also affects the fertility of the land.

Vardha estuary was likely to be adversely affected by the MSD. Salinisation and increased pollution of underground water used for drinking and irrigation had taken place around the estuary bank. Moreover, erosions could occur and coastal geomorphology would change.

The irrigation of the Vardha valley would have a serious negative effect on some species. The unique species of plants and animals in the arid area of Rann in Kutch would also be adversely affected. The ecosystem of Rann is a complex and delicate mix of arid lands where freshwater flooded from an inland area. The delicate balance of this ecosystem is bound to be disturbed by the introduction of 'copious' amounts of freshwater and most importantly mammals like the wild ass and birds would be threatened.

The largest threat arising from MSD would be in the command area. The major problems would be waterlogging and salination. As in arid and semi-arid areas, drainage is geared to low rainfall conditions, and the drainage system is usually incapable of handling the much larger amounts of water brought in by surface irrigation with the seepage from canals, overuse of water by farmers, and other factors depending on the geomorphology of soil and sub-soil layers. This lead to an increase in the accumulation of water below the surface. Moreover, sub-soil water in these regions tends to be saline due to inadequate flushing by rainwater. Irrigation water, being saltier than rainwater, adds more salt to the system leading to increased likelihood of salination.

Questions for Discussion:

1. Discuss briefly the reasons for the Vardha Andolan.
2. What are the different ethical issues involved in the Manasarovar Project?

Caselet 15

John Smith was appointed as the director of marketing for a small firm (Indtec) that manufactured undifferentiated, inexpensive but critical parts for industrial equipment. The company was displeased with the performance of the current vice president of marketing. During Smith's job interview, the president had told Smith that he could replace the vice president, who was Smith's immediate boss.

As his first assignment his boss (the vice president) asked him to acquire information about a competitor by pretending to be an executive recruiter. At first Smith protested, but later he performed the task reluctantly.

Next the president and the marketing vice president asked Smith to sign and distribute what he believed was an illegal and unethical price list. Smith's employer had been illegally setting prices in collusion with its major competitor for years. One of the competing firms had invested this profit back into R&D and had developed a process for manufacturing the same product line at 40 percent of the current cost. The competitor was passing on the savings to customers and dominating the markets. Smith's firm, to maintain its market share with less competitive goods, developed a product line that would sell at the competitor's prices. The lower-priced items were exactly the same as the higher-priced products, but they were labeled differently and were made available only to the new customers. The old customers of Indtec were so loyal to the company that they never thought of switching to a new product line or supplier. Lab technicians, phone-order clerks, and the company's sales force were all involved in Indtec's unethical activities.

Smith believed this practice was a violation of the Antitrust laws and conveyed the same to his superiors. He suggested that the only way to compete effectively in an industry with an undifferentiated product was by being a cost leader. Smith's bosses, however, defended their proposed action as a common industry practice and asked Smith not to be so "negative."

Smith consulted a local lawyer, who confirmed the illegality of the proposed pricing scheme but also emphasized that "small companies were known for this kind of stuff." The probability of apprehension and any kind of legal action was negligible, the lawyer said.

Smith then hired a marketing consultant to advise the company on broad strategic issues. In a meeting attended by the consultant, Smith and his superiors, Smith asked about the Robinson-Pat man violation. His bosses looked on in horror as he described the pricing decision, but they were relieved as the consultant said, "That jails are not big enough to hold all the people who do this sort of thing."

Smith now had to obtain forged lab test results from the company's R&D engineers to implement the pricing scheme. Although they complied promptly, one of the engineers commented, "John, I know you're just caught in the middle, but I've been around here 39 years and have never been able to like these things any better."

The dilemma was exacerbated when Smith's bosses asked him to sign the cover sheet of the new price list. He confided to a friend, "I still think, I know what's right but with all these other voices telling me to sign the price list, maybe I'm just making a mountain out of a molehill. Then again, maybe I compromised myself through the executive and if I leave, how do I explain my short job tenure to any potential employer?"

Questions for Discussion:

1. Describe the ethical dilemma that John Smith has to deal with?
2. Smith would like to leave his organization and find a job elsewhere in a more ethical organization. What kind of problems do you think he will face looking for a new job? If he can't get a new job and has to stay with the current organization should he try to change the mentality of his co-workers?

Caselet 16

Manico Industries manufactures components for boilers, turners and other machinery used by heavy industries. Tarun was a sales representative at Manico. Manico recruited sales personnel on commission basis and their income was dependent on their success in selling the components. During the training period, Tarun could not earn much, but after two years, his income rose to Rs 2 lakh per annum. Initially, Tarun was given six months training and he was assigned the task of looking after sales in three territories. Tarun's territories had a mix of chemical plants, refineries, oil field production offices, oil field supply stores and oil field exploration companies as their clients. Most of the sales in these territories were through supply stores, but Tarun was confident of convincing industrial users to use the brand Manico. Tarun succeeded in increasing the sales by encouraging the supply stores to stock high inventories of Manico's products. The commissioned salesperson had a guaranteed draw against their commission, which covered their expenses and base salary. Tarun earned 7 percent on all the Manico products that were sold in his territory. He was very friendly with the supply store owners and they looked upon him as more than a salesman and he had built an image of himself as a friend with whom one could work productively, and who could be depended on.

The stores usually gave 15% discount on any item and for customers with higher purchase volumes; they increased the discount percentage on Manico's products. The storekeepers earned a margin of 5 to 8 percent. Tarun was appreciated by the storekeepers for his straightforward and honest approach, and he proved beneficial for the stores. By third year, Tarun's earning rose to Rs.3 lakh per annum, and he saw that if he could bring certain prospective customers, he could earn more than Rs.5 lakh in a year.

The major prospective customer for Tarun was the company stockist of Manish Refitting, Jyothindra, who stocked refitting items. Tarun was wondering how to convince Jyothindra to make a buying decision, for he was postponing the buying of the items from Tarun. Through the sale of refitting items, Tarun could earn Rs.200 as commission. Convincing Jyothindra to use his company products would give Tarun an annual commission of Rs.2 lakh to Rs.5 lakh. Though Tarun could not convince Jyothindra to buy Manico products, he realized during their conversation that Jyothindra enjoyed hunting, and he wanted to have a shotgun. Though the shotgun cost about Rs.50,000, the commission that the order would bring him would be more than the actual cost of the gun, and he would have more business in the future with Manish Drilling Company.

Tarun asked Jyothindra that whether, if he gets the gun, he would be interested in doing business with Manico, and Jyothindra readily accepted the proposal. Jyothindra said that if Tarun was willing to get him the gun he could come to Tarun's office and discuss about the list of equipment that could be purchased by Jyothindra's company. Tarun felt that Jyothindra was trying to get his job done through bribery, and he was sure that this was the right thing. On meeting his manager, Tarun learnt that Jyothindra had called for him. Tarun's manager warned him, saying, that Jyothindra was well-known for pay offs and asked him to be careful.

Questions for Discussion:

1. At what point do 'good customer relations' become unethical? Is it acceptable to give a prospective customer a candy a bottle of liquor an expensive dinner or to spend Rs 50,000 on a gift?
2. How do commission and straight salary compensation of salespersons affect the way in which they approach their customers?

Caselet 17

Marvel Homemade, based in Triayachor, was co-founded by Amar Singh and Srihari Mishra in 1970. Marvel produces milk-based products, is famous for its buttery, rich ice-cream. The company is also well-known for its socially conscious, innovative management. Marvel procures milk- its basic product from a tribal community called Nevadh. It helped the Nevadh community form a milk cooperative. Mishra, the chairman, believed that the company should pursue only those business opportunities which would benefit the society. Marvel's president and CEO, James Wareen agreed with this philosophy, but was concerned that it may hamper the growth of the company in the long run.

The big question that faced the company was, should the company forgo its profits and follow its principles? Amar Singh and Srihari Mishra owned 42 percent of the voting stock and favored slower growth that would not harm the company's relations with employees or the Nevadh community. Faster growth might have forced Nevadh's cooperative society to close shop.

By 1995, the sales and profits of Marvel decreased. Indian consumers were becoming increasingly health conscious and cutting down on their consumption of ice-cream. In US, the premium ice-ream market had grown tremendously. In 1994, Kwality, another ice-cream maker, sold products worth $350 million in America. Yet, when a top American supplier offered to distribute Marvel's products in America, Singh refused the offer because the American supplier did not have a reputation of supporting social causes.

Warren and other top executives, who were from other mainstream Indian companies like Satyam Infoway, Tata Consultancy and Wipro Limited, believed that Marvel must project its brand more aggressively. This approach was in conflict with Warren's beliefs and values and many of Marvel's older employees. Singh believed in 'value-led' capitalism. He felt that responsibility towards customers, employees and the community was as important as profits. Marvel used to donate 7.5 percent of its pre-tax profits towards social causes. It also used its purchasing strategy to back its values. It bought milk and cream from Nevadh family farms, even if it meant paying them significantly above market prices. Every year it carried out a 'social audit' to measure how responsible it has been.

Questions for Discussion:

1. What were Marvel's criteria for taking ethical decision?
2. Discuss the need of business ethics for a company like Marvel. Who are the stakeholders in Marvel?

Caselet 18

Mattel, Inc., a $4.5 billion company headquartered in El Segundo, California, has offices in 36 countries and markets its products in more than 155 nations across the world. It is the world leader in the designing, manufacturing and marketing of children's toys. Its major brands include Barbie (with more than 120 different Barbie dolls), Fisher-Price, Disney entertainment lines, Hot Wheels & Matchbox cars, Tyco Toys, Cabbage Patch Kids, and games such as Scrabble. In addition, Mattel promotes international sales by tailoring toys to match the needs of specific international markets, instead of simply modifying favorites in the United States.

The company is currently under the managerial control of Jill Barad, the CEO. The management style of the CEO has been represented as strict, business-oriented and people-oriented. When Ms. Barad was made CEO in January 1997, Mattel's stock was trading for less than $30 per share. However, by March 1997, it rose to more than $46. Jill also helped increase the sales of Barbie from $200 million in 1982 to $1.9 billion in 1997. Mattel's problems multiplied in 1998. Mattel announced in October 1998 that earnings growth for the year would be between 9 and 12 percent, and not 18 percent, as Wall Street had anticipated. The reason for this was the company's declining sales due to Toys "R" Us, the retail chain that accounted for 18 percent of Mattel's revenue in 1997. Ms. Barad stated in an interview that if the company's performance continued to decline sharply, the generous rewards the company gave to employees (holidays and overtime pay) might be cut. According to analysts, Mattel's overall strategy was sound and the company should reorganize to outperform most stock-market indexes. A part of Mattel's popularity could be attributed to its popular brands, including Barbie, Hot Wheel and Cabbage Patch Kids.

Mattel prefers business partners who are committed to ethical standards that are compatible with its own. Mattel's contention is that all its business partners must comply with the local and national laws of the countries in which they operate. In addition, all the partners of Mattel should respect the significance of its patents, trademarks and copyrights, and support Mattel in protecting those valuable assets.

The five elements of legal and ethical practices are product safety and quality, environment, customs, evaluation and monitoring, and compliance. Primarily, all the business partners of Mattel should share a commitment to product safety and quality, and must follow workplace practices that are necessary to meet the company's stringent safety and quality standards. Secondly, Mattel will only work with those manufacturers or suppliers who comply with all applicable laws and regulations, and who share and support its environmental commitment. Thirdly, because of the global nature of Mattel's business, all the business partners of Mattel should follow all the local and international customs laws strictly. These business partners must also comply with all the import and export regulations. Mattel even audits the manufacturing facilities periodically to ensure that they are in compliance with the Global Manufacturing Principles. Mattel also ensures that all manufacturing facilities provide them with.

- Full access for on-site inspections by Mattel or parties designated by Mattel.
- Full access to the records that enable the company to determine compliance with principles.
- An annual statement of compliance to Mattel's Global Manufacturing Principles signed by an officer of the manufacturer or manufacturing facility.

Acceptance of and compliance to Mattel's Global Manufacturing Principles is part of every contract agreement signed by all of Mattel's manufacturing business partners.

The key objective of Mattel's principles is to encourage and develop responsible manufacturing business practices around the world. All the business partners of Mattel should follow these principles on a continuous basis. If the company finds out that any of its manufacturing facilities (or any vendor) has violated these principles, it may either terminate their business relationship or direct the facility to implement a corrective action plan. And in case business partners do not take the corrective action advised by Mattel, the company would immediately terminate the current order and would not place orders in the future. Thus, a key challenge for Mattel is the selection of potential business partners who match their principles.

Another key area of Mattel's products and marketing activities is its online marketing initiatives. Since the company depends heavily on communicating with children to market its products, any legislation in this area must be carefully monitored. For instance, the United States Federal Trade Commission has passed the Children's Online Privacy Protection Act in 1998. As per this Act, web-based marketers should first get permission from parents before collecting any personal information (e.g., name, address, e-mail address) from children. Further, since children around the world can access Mattel's web sites, the company should be aware of the regulations in other parts of the world.

Since Mattel's businesses are present around the world, the company should be sensitive to the economic downturn in other parts of the world. The shift in the economic viability of catering to certain markets can create pressure on sales targets, business relationship, and new business ventures. Mattel expects its overseas manufacturers to stick to key ethical principles, irrespective of the economic stability. As the economic pressure increases, normal business procedures may change, resulting in unethical, and sometimes illegal, practices. In an attempt to cut corners and meet financial goals, managers and employees may purposely or inadvertently overlook the guidelines established by the company regarding the maintenance of ethical standards.

On the whole, Mattel is highly committed to both business success and ethical standards, but recognizes that this commitment is a part of a continuous improvement process. The company's position is very clear from its statement: "(At Mattel, Inc.,) The management is concerned not only with the safety and quality of the products manufactured, but with the safety and fair treatment of the men and women who manufacture these products as well."

Questions for Discussion:

1. Comment on the long-term benefits that Mattel can derive out of its strict adherence to ethical practices.
2. What are the problems that Mattel might face in the implementation of its corporate ethics code in all its businesses in different countries?

Caselet 19

Stella Liebeck of New Mexico was traveling in her grandson's car along with him. She ordered coffee at the drive-through window of a local McDonald's. The coffee was served in a Styrofoam cup, and they stopped the car to add cream and sugar to the coffee. As Liebeck removed the lid of the coffee cup by placing it between her knees, the whole coffee spilled on her lap.

Liebeck's sweatpants absorbed the spilled coffee and she suffered burns. A vascular surgeon reported that Liebeck suffered third degree burns over 6 percent of her body. She had to be hospitalized for eight days and had to undergo skin grafting. Liebeck claimed $20,000 from McDonald's for medical bills, but McDonald's dismissed her claim.

McDonald's has had a long experience of such claims. Between 1982 and 1992, McDonald's received 700 claims of coffee burns from many people. Some of these claims involved third-degree burns similar to Liebeck's. McDonald's maintained that it held its coffee between 180 and 190 degrees Fahrenheit on a consultant's advice (coffee is mostly served at 135 degrees). It further said that the temperature gives its coffee the best taste.

Liebeck filed a lawsuit against McDonald's. The quality assurance manager of McDonald's said that McDonald's holds coffee in a pot between 180 and 190 degrees. He also admitted the burn hazard of any kind of food served at or above 140 degrees. This meant that McDonald's coffee was too hot to be drunk immediately.

An expert in thermodynamics, who came as a witness for Liebeck, testified that liquids at 180 degrees cause third degree burns to human skin within 2-7 seconds. According to another testimony, the extent of burns decrease exponentially as the temperature decreases towards 155 degrees. It means that if the temperature of the coffee that spilled on Liebeck were 155 degrees, she would not have suffered serious burns.

McDonald's argument was that most of its coffee-buying customers buy coffee while going home or to work, and usually consume it after reaching their respective destination. It also said that its customers were aware of the high temperature of the coffee and prepared in that way. However, McDonald also accepted that the customers were unaware of the third-degree burn hazard. It also agreed that a statement on the side of cup would act as a 'reminder' rather than as a 'warning' because of the location of writing.

The jury ruled McDonald's to be reckless and irresponsible for serving coffee too hot only to improve the flavor. The court awarded Liebeck an amount of $2, 00,000 as a compensation for the damage caused and $2.7 million as punitive damages. Because the jury found Liebeck at 20 percent fault in the incident, it reduced the compensation for the damage to $160,000. This amount was equal to the sales of McDonald's coffee in two days. The amount for punitive damages given to Liebeck was also reduced to $4, 80,000 later.

Questions for Discussion:

1. Do you think that the responsibilities of a business towards a customers ends on selling a product or service? Justify your stand.
2. Do you think that it is ethical for customers to claim huge compensation from the company for such damage?

Caselet 20

Harbour Inc., is an industrial conglomerate that has grown rapidly through acquisitions. The company has the reputation of taking over other firms in depressed industries and improving their financial performance through strict cost controls large-scale staff reductions. Richard Helly worked for Heights Inc. for 32 years. He was a plant manager in the compressor division. At the age of 58, Helly had to look for another job. He was a hardworking man, who devoted his life to a company. After a week of the acquisition of Heights Inc. by Harbor Inc, Helly was retrenched and he was given 11 weeks' severance pay.

Employees in Heights Inc., who retired at the age of 60 years, were given a pension of about $200 per month; an amount which was equivalent to the salary for 30 days, multiplied by their years of service; and medical insurance. But as Richard Helly was retrenched at the age of 58, got 11 weeks' severance pay for his service, which deprived him of pension and medical insurance.

Harbour Inc laid off 40% of its staff to earn profits. The employees who were retained had to work twice as hard to retain their jobs. The company thought that if the older employees were retrenched, it would save money on the pension and medical insurance. According to Fortune, a magazine that published a study of the impact of mergers and acquisitions upon employees of the acquired firm, said that personal tragedies like Helly's were very common. The report estimated that the largest of 1990's 1500 mergers changed the lives of up to 22,000 employees.

Usually, about one quarter to half of the employees in the merged organization are directly affected. Some employees are relocated, and some other lose their jobs, status, benefits or opportunities. Some even face health problems and problems within the family.

Mergers and acquisitions have a human side which is never considered by top executives, investment bankers and take-over lawyers.

Silverline, an industrial machinery manufacturer, had the reputation of handling the employees of acquired companies roughly. After taking over a mining company, it shut down the corporate headquarters, decentralized the company, reduced employment in sick units, shrank benefits and cut down the working capital. Many of the employees were retrenched. The New Society Journal argued the high human cost was necessary for sustaining the companies operations. It justified Silverline's action by saying that Hedze Coal Inc., was facing severe problems with operations and lack of proper management to adopt itself to the changing needs of the market and competition from new entrants. Silverline's president said that after taking over Hedze Coal, its earnings increased.

Questions for Discussion:

1. Although mergers and acquisitions are aimed at the economic well being of organizations, they result in large- scale retrenchments, which raise many ethical questions. Comment on the ethical aspects of mergers and acquisitions.
2. Would you have fired the plant manager, who served the company for 32 years in the manner it was done in this case? What should be the ethical criteria for selecting people for retrenchment?

Caselet 21

In January 2001, a discrimination suit was filed against Microsoft, one of the largest software company. This suit was filed by seven of its African-American employees (including some ex-employees). It was one of the largest discrimination suits ever filed in the US, in which, the seven employees sought $ 5 billion in damages. Microsoft was accused of discrimination against its employees on the basis of race and gender and this was evident in its performance evaluations, pay packages, promotions and termination's.

The suit was eventually given the status of a class action, suit extending its reach to the former as well as the current African-American employees of Microsoft. Thus, all the former and current African-American salaried employees, employed by Microsoft (in the US) on or after October 4, 1997 and all the former and present female salaried employees employed by Microsoft on or after February 23, 1999 were included in the suit list. The suit was primarily based on the existing case of Rahn Jackson, one of the first Microsoft employees to take legal action against Microsoft for racial discrimination. The plaintiff claimed that Microsoft's employment policies and practices permit its managers to exercise discretion when deciding on evaluations, pay packages, promotions and job selections, resulting in decisions that reveal a race/gender bias.

During the early 1990s, many discrimination related suits had been filed against Microsoft. In the Donaldson case, the plaintiff alleged that Microsoft discriminated against the black and female workers by paying them lesser salaries, bonuses and stock options than it paid to white males doing the same work. The suit also alleged that Microsoft had even retaliated against black and female employees, who protested against this discrimination.

Reacting to these allegations, the company claimed that it did not tolerate employee discrimination and was focused on offering unbiased treatment to employees and promoting women and members of minority groups in its organization. Willie Gray, one of the leading attorneys dealing in discrimination suits, argued that Microsoft showed 'plantation attitude' while dealing with African-American workers. Gray remarked that in 1999, only 2.6% of the Microsoft's employees and only 1.6% of its managers were black.

Throughout the 1980s and early 1990s, Microsoft was in the news for showing discrimination against women and Africans-Americans. Many cases of sexual harassment and discrimination against female employees were reported. Though the issue of racial discrimination arose in the late 1990s, it was only in 2000 that the employees initiated legal proceedings against Microsoft, demanding equality and justice. During the 1980's the company was even said to be the 'most disdainful place for women to work.

In its initial years, Microsoft had only a few hundred employees, most of them male. The only women employed in Microsoft were those who edited technical manuals. The work culture in the company was by and large undisciplined. According to analysts, all the mannerism, attributes and traits that were not acceptable in a conventional society could be seen in Microsoft.

Though the number of female employees in the company increased over the years, there was reportedly no improvement in the treatment extended to them by their male colleagues.

In 1990, in an attempt to safeguard the rights of female employees, some of the female employees at Microsoft started 'Hoppers', to give women employees an opportunity to discuss the challenges faced by them at the workplace and to the enhance their status at Microsoft. 'Hoppers' started as an e-mail community, and operated through three e-mail addresses, 'Hoppers', 'Hopanon' and 'Hoppals.' 'Hoppers' conducted ongoing conversations on issues that interested other members. 'Hopanon' allowed women to submit anonymous postings and also offered advice on problems created by other members while 'Hoppals' allowed sympathetic men to provide support to the cause of 'Hoppers.' Hoppers gained instant popularity among Microsoft's female employees.

Microsoft's management formally recognized 'Hoppers' as a 'Diversity Advisory Council' in 1991. Hoppers, which was dedicated to the cause of protecting, retaining and advancing women throughout the organization, contributed significantly to the transformation of the company's culture in the early 1990's. It provided equal status to women in Microsoft. Its efforts in this direction were supported by the company's need to shift gender differences to the back seat and put more emphasis on merit.

In the early 1990s, when Microsoft realized the need to attract and retain female engineering talent in the organization, it worked hard to change the culture of the organization. The darkened offices of the software engineers, littered with empty cans and scattered computer parts were replaced by clean, well-lit offices with fine interiors to ensure a healthy office culture. Women were recognized for their talent and given promotions on the basis of their performance, just like their male counterparts. As a part of its strategy for encouraging women, Microsoft supported Hoppers financially, by allocating an annual budget and contributing to its scholarship fund for talented young women in the field of computer science.

Microsoft prohibited the use of server space for storing pornographic material to prevent case of sexual harassment. It also offered some server space and other company resources to Hoppers so that it could conduct its operations officially.

In early 1993, Microsoft launched a 'diversity training' program, for educating employees about various issues such as sexual harassment, developing interpersonal skills, professionalism, etc. Microsoft made it mandatory for every male employee to attend such a program once a year. Such programs discussed specific scenarios related to social and sexual issues at the workplace. Each session lasted few hours and focused on enhancing interpersonal relationships and mutual respect between the male and female employees. Non-attendance at such programs was treated severely and employees were even threatened with termination of their jobs. Termination not only meant a loss of job, salary and other benefits, but it also meant a loss of valuable stock options in the company.

As a result of these initiatives, by the late 1990's Microsoft succeeded in becoming one of the best places for women to work. The number of women employees also increased during the period, and in 2000, women employees accounted for an estimated 26% of Microsoft's total employee strength. Hoppers also extended its reach to 1,600 members across all Microsoft offices (in the US and abroad). Hoppers moved beyond safeguarding female rights to offering counseling to women, who were being sexually harassed, holding study groups and discussions on various technical aspects, and examining new Microsoft technologies.

However, inspite of these efforts to portray itself as a progressive organization, reports of discrimination against women and racism at Microsoft began surfacing in 2000. In mid-2000, the first discriminatory suit against Microsoft was filed in the US federal court, followed by a number of different suits. In early 2001, all the plaintiffs combined to file a consolidated discrimination suit against the company, giving it the status of a class action suit. The plaintiffs charged Microsoft with discrimination in performance appraisal, compensation and promotion. The plaintiffs claimed that Microsoft failed to effectively deal with discrimination at the workplace. With more and more employees joining the discrimination lawsuits against Microsoft, analysts remarked that the time had come for Microsoft to take firm steps to eliminate discrimination in the organization. However, Microsoft claimed that it was committed to diversity and did not tolerate discrimination of any type in its employment practices. The company claimed that it made considerable progress in increasing the number of minorities working at Microsoft and had demonstrated its commitment to diversity and equality by promoting women and minorities. According to company sources, as of October 2000, minorities accounted for 16.5% of total managerial positions in Microsoft and constituted 22% of the domestic workforce of the organization as against only 17% in 1997.

A Microsoft spokesperson observed that since many minority groups lacked required qualifications, Microsoft had invested over $ 100 million in educational grants (which included $ 86 million granted to the United Negro College Fund during the late 1990s) to stimulate interest in technical training among women and minorities. The spokesperson further pointed out that though there was a relatively lower percentage of black employees at Microsoft compared to other companies, the number of blacks at Microsoft increased by 83% during 1997-2000.

To further highlight its commitment to the proper treatment of minorities, Microsoft appointed Claudette Whiting, an expert in job-equality issues and a former director of job-equality initiatives at DuPont, as senior director of diversity in May 2001. Claudette's strong track record for creating a diverse, multicultural work environment, that ensured equal opportunities for individuals of all backgrounds to grow and advance in the organization was expected to inspire confidence and trust in the employees.

In 2001, lawsuits against companies alleging discrimination at the workplace on the basis of race, class, gender, age and nationality had become rather common. And companies like Microsoft, which seemed to be performing rather well despite the global slowdown had an even tougher battle on their hands. Only the outcome of the various pending lawsuits against Microsoft would reveal whether the company would be able to salvage its damaged reputation or not.

Questions for Discussion:

1. "The issue of gender and racial discrimination has existed since the inception of society – of which companies like Microsoft are an integral part." Critically comment on the above statement, focusing on the organization's responsibility towards its employees. Recommend appropriate strategies for putting an end to such problems.
2. What steps do you think Microsoft should take to prevent discrimination at the workplace?

Caselet 22

Napster.com was a system that enabled musicians and music fans to locate and download music available in the MP3, and WMA[3] music formats. The website enabled users to share their music files freely through the Internet with other users all over the world. Napster maintained a database of music files held on the computer hard-disks of other registered Napster users. A registered user, looking for a particular song, would send his request to Napster. The software would then check for the availability of the requested song on its database, and, if available, send it to the user who requested the song. The service became extremely popular within a short span of time. The website attracted 1.6 million simultaneous users during the height of its popularity in February 2000.

Napster.com was developed by two students of Northeastern University (Boston), Shawn Fanning (Fanning) and Sean Parker (Parker). One of Fanning's friends had been searching in vain for digital music on the Internet. Fanning, who had an interest in computer programming, decided to help him by writing an Internet-based file-sharing program. Once the program was developed, Fanning and Parker began collecting funds from friends and family members to set up Napster[4] . Napster was launched in May 1999. The popularity of the service took even the promoters by surprise. Students from school and college campuses across the US soon emerged as the biggest subscribers of Napster. Officials at these campuses reported that Internet usage increased by as much as 75% because of Napster. They reported an explosion in network traffic, which eased dramatically when access to Napster was removed. Soon, over 200 universities banned all Napster-related traffic on their networks.

Napster's offering of this 'peer-to-peer' technology was strongly opposed by the Recording Industry Association of America (RIAA), a trade group representing the world's biggest record labels, Universal Music, Sony Music, Warner Music, EMI Group and Bertelsmann AG. RIAA alleged that Napster was engaging in or assisting others in copying copyrighted music without payment or the express permission of the rights owners. RIAA also claimed that Napster would significantly harm the sales of the recording industry. In December 1999, RIAA filed a suit against Napster. This was just the beginning of Napster's troubles. Soon, a host of lawsuits were filed

[3] MP3 is a computer software compression scheme that allows the digital music in compact discs to be shrunk to a tenth of its size. WMA indicates music files encoded in the Windows Media Player format, which takes half the storage space of MP3 files.

[4] The name Napster used to be Fanning's nickname in high school.

against Napster by record companies, artistes and music distributort. In February 2000, Napster offered to pay RIAA a $1 billion compensation package to put an end to their legal problems. However, RIAA

Napster banked heavily on the decision of the US Supreme Court in 1984 that not only legitimized Sony Corp.'s Betamax VCR, but also provided a legal groundwork for future clashes between copyright law and a new technology. In this case, the high court had ruled that a technology that might be used for piracy and other copyright violations cannot be banned - as long as it was also capable of 'substantial noninfringing uses' that were legal. The context of the ruling was the complaint by the US movie industry in the late 1970s that the then - new videocassette recorder should be taken off the market, in part because it could be used to make pirated copies of movies.

The RIAA reportedly enforced strict regulations on the distribution and production of music. An analyst commented, "They now see a loss of control, they don't understand the Net or technology, and so when someone is fearful or scared the thing to do is say, 'We are going to sue you.'" Earlier, RIAA had successfully defeated the website MP3.com, which was involved in the online distribution of music. MP3.com had to pay fines totaling hundreds of millions of dollars.

According to RIAA, a person should pay for downloading an MP3 file. So, even if a customer bought a CD containing a particular song, he would have to pay for downloading its MP3 version. This move was criticized severely by many music lovers, stating that it was similar to "asking a person buying a trouser to pay extra if he wanted to let his friends wear it." Though MP3.com, which stored music on its own servers, could be stopped, it was difficult to regulate 'peer-to-peer' websites as they did not store music on their servers. Soon after Napster stopped offering its services, several new websites – Gnutella, iMesh, AudioGalaxy, OpenNap, BearShare, MusicCity, LimeWire, Grokster – started offering similar services.

Napster also claimed that it supported and promoted new artistes, who did not have recording contracts with RIAA companies. Only about 2% of artistes had recording contracts with big companies; the rest had to compete with these big companies to promote themselves.

In September 2001, Napster agreed to pay $ 26 million to music publishers to end the litigation. Napster also agreed to pay $10 million to the Harry Fox Agency, the licensing arm of the National Music Publishers Association for the future use of copyrighted material. In addition, Napster agreed to pay music publishers one-third of the revenues given to content owners. It was reported that Bertelsmann was providing Napster the money for these deals.

Napster's much delayed relaunch was clouded by uncertainty regarding its services. Users did not know if Napster would become a paid service. Also, users felt that the filters Napster now had to use would make most songs hard to find. It was even reported that Napster was planning to drop the MP3 file format and launch its own format. All these factors led to doubts about the success of the service in future. While the Napster brand name remained strong, there were doubts whether users would be willing to sign up for a paid service, when many other free websites were still operating.

Questions for Discussion:

1. Analyzing the arguments of RIAA and Napster, critically comment on the ethical issues involved in the case.
2. Is it justifiable to compare RIAA's protest against Napster with the entertainment industry's protest against VCRs in the 1980s?

Caselet 23

Natura Foods Ltd., a Rs10 crore, Himachal based company processes and manufactures various fruit and vegetable products. Started in 1990, Natura Foods, was fast becoming the best known brand for natural or nonpasteurized foods in north

India. The company had processing and manufacturing facilities at Himachal Pradesh and Jammu. Fresh fruits and vegetables were shipped from farms and orchards to each of the facilities for processing and canning/bottling. Natura took utmost care to prevent contamination while shipping its products

Distribution was given top priority as delays could be detrimental to the freshness and safety of its products. Natura dispatched products from its processing plants to various outlets using its strong fleet of 400 refrigerated trucks.

Some of the products were quite popular in the health-food market in north India. This encouraged the company to expand its operations in south India. In June 1994, Nitin Sharma, CEO of Natura Foods started a new food processing facility at Guntur, a town in the south Indian state of Andhra Pradesh.

Everything was going fine for Natura until 13 June 1995, when reports related to food poisoning started trickling in from various parts of the country. Two such reports sent by state health departments hinted about the possible link between acute food poisoning of a child to one of the food products of the company.

Disturbed by these reports, Sharma called an emergency meeting and asked his managers to give him suggestion on how the company should respond to these reports. Sharma also posed a number of questions to his managers:

"Should we warn the retailers, asking them to stop selling the product?"

"Should we warn the customers?"

"Will the above steps erode the company's reputation and lower its stock price?

"How serious should a problem be for us to respond to it and how much information do we need to respond to such problems?"

After listening to this, Ashok Singhal, one of the senior managers at Natura said, "Our company has been coming across such reports once in a couple of months for the past two years, but, none of our products could be linked to these cases". He then told Sharma that there was no need for the company to respond to these food poisoning reports.

Singhal's judgment was wrong. Within a week's time the company received two more food-poisoning cases related to one of its unpasteurized fruit products. Soon, reports started coming from different parts of the country, Sharma immediately sent his managers to check the claims and collect the batch numbers of the products in question. Sharma was all the more disturbed when he learnt that the health officials of two states had established that Natura products were the root cause of these food-poisoning cases.

On 21 June, after a long board meeting, Natura Foods announced publicly and through its retailers that it was pulling all batches of the unpasteurized fruit products associated with the poisoning incidents. Natura received many calls all through that night alleging food-poisoning after consuming Natura products.

Questions for Discussion:

1. What is the ethical dilemma faced by Nitin Sharma while deciding on a strategy for handling the situation?
2. If you were a manager at Natura Foods how would you respond to the questions posed by Nitin Sharma?
3. If you were Nitin Sharma, what action would you take? Give a brief action plan for handling such crisis situations in a company.

Caselet 24

Naturex Ltd. was founded by Monika Steff in 1976. Naturex started with a single store in Brighton, England, that offered cosmetics and personal care products, which were manufactured with natural ingredients. The company went for a public issue in 1991, and by 1998, it had over 1500 stores in 47 countries. The company's basic purpose was two-fold: active social service and to manufacture quality products. The company came into the limelight because of its well publicized policies on the use of non-renewable petrochemicals, animal testing, and its attitude towards trade, environmental accidents and quality control. The trading charter of Naturex described the company's goal of ensuring human and civil rights, maintaining long term, relationships with communities in need, and promoting animal protection.

Naturex was also trying to popularize itself as a socially sensitive company by conducting social and environmental campaigns. The projects taken up were 'Save the Whales' and 'Trade not Aid.' The Trade not Aid program aimed at helping the third world, by sourcing raw materials for them. The Naturex Trust hired poor and homeless children to manufacture Foot Rollers, which are mechanical foot massagers. In 1989, when the European Community (EC) passed a directive (Bill) which made the testing of all cosmetics on animals mandatory, Steff collected five million signatures against the bill, and finally the bill was withdrawn. The organization also organized a campaign to protest the construction of a dam in the Brazilian rainforest.

Controversy began when an article in a magazine called Business Ethics reported that the social image of Naturex was not its real image. The magazine revealed, though the company claimed that it used only natural ingredients in its cosmetic products, in practice its product contained very few natural ingredients. The magazine highlighted the company's unethical practices with regard to the following:

- Use of non-renewable petrochemicals
- Animal testing policy
- Trade not aid program
- Environmental accidents
- Quality control procedures

Naturex said that the ingredients of its products are strictly natural. But it was found that their products contained very few natural ingredients. Naturex marketed a hair gel as a product manufactured from raw materials found in Ethiopia. However, in reality the ingredients were sourced from a British chemical company. It was found that the company used a number of outdated formulas which involved the use of non-renewable petrochemicals. It also used artificial colors and fragrances, and synthetic preservatives in its products.

Naturex's original animal testing policy stated the company did not conduct tests on animals. But regulations in US, Europe and Japan required products to be tested on animals before they were released in the market. This made it impossible for Naturex to avoid testing products on animals. The company therefore modified its policy and stated that its products did not use any ingredients that had been tested on animals during the past five years.

Moreover, the trade not aid program was said to be a marketing gimmick. Naturex claimed that it paid 'first-world' rates for third-world products, but in reality, it paid less than the other buyers.

The New Jersey government authorities reported that Naturex's New Jersey production unit discharged non-biodegradable byproducts, due to which many accidents occurred. It was also accused of disposing untreated wastes of its production processes into the sewage system.

Naturex did not follow the quality control procedures. Also, its testing procedures were found to be quite distant from the manufacturing practice standards. One of its shampoos was found to be contaminated with the ecoli bacteria, which was shipped to distributors before the test results were evaluated. It was found to have 1,000 times the accepted limit of ecoli bacteria, and by the time it was identified, the shampoo bottles were on the store shelves. These show that there was a wide disparity between Naturex's ideas and its practices.

Questions for Discussion:

1. What are the unethical issues in the case?
2. What steps should Naturex Ltd. take to come out of this controversy?

Caselet 25

Nick Leeson, who worked with Barings Futures, Singapore (BFS) was hired in 1989 as a bank office clerk. He made rapid progress and by 1992, he was appointed as the head of trading and settlement, the International Monetary Exchange, Singapore. In 1994, Leesons contributed more than half of the total revenue (52.9 million pounds) generated by his division and was awarded the title, 'Miracle Worker'. But unfortunately, his miracles did not work too long. His overconfidence pushed him to gamble on the 225 stock index of Nikkei. He put both his reputation and credibility at stake, anticipating Nikkei to gain. But he was proved wrong. Nikkei fell drastically and his losses started mounting. Though Leeson tried hard to cover his losses, a further drop in the stock market made it impossible and he was forced to leave the country. Soon Barings Bank was delared bankrupt due to huge debts. Leeson was arrested in Frankfurt en route London and was kept in a jail in Germany for eight months, after which he was extradited to Singapore, where he was officially arrested at the airport. Later, Leeson pleaded guilty on two charges, i) Cheating in relation to Baring's $1.4 billion losses, for which, he was sentenced to seven years imprisonment ii) Leeson's losses went beyond $1.2 billion, that led to the bankruptcy of the Baring's Bank and its take over by ING, a Dutch bank. ING also seems to have started a rescue mission.

Questions for Discussion:

1. What factors according to you, led to such an incident?
2. Who do you think should be blamed for the incident that led to the bankruptcy of a well-reputed bank?

Caselet 26

On 17 October 1996, CBS News[5] ran a 48 hour program covering the inhumane treatment and exploitation of workers at Nike's shoe manufacturing plants in Vietnam. Many workers had been physically assaulted on the job. Temporary workers were paid, on an average, 20 cents per hour, while team leaders were paid $42 per month; regular workers were paid even less. The CBS news program aired interviews with team leaders and even showed a copy of a labor contract to support its claims. On March 14, 1997, Reuters reported that 56 women were forced to run around one Nike factory because they weren't wearing regulation shoes and that twelve of them had fainted and were taken to hospital.

After hearing these reports, a group of Vietnamese Americans contacted labor groups and journalists in Vietnam. A group called Vietnam Labor Watch (VLW) was set up assigned to study the working conditions of workers at factories in Vietnam and monitor Nike's labor practices. VLW visited Nike's factories in Vietnam and met

[5] One of the leading news channels in the US.

workers, shoe manufacturing executives, labor union representatives and legal experts. In late 1997, VLW brought out a report that accused Nike of violating numerous labor laws. According to the report, Nike did not pay minimum wages, did not provide proper working conditions, and did not take adequate health and safety measures. In addition, Nike turned a blind eye to sexual harassment and the use of child labor in its factories. The report also observed that there was a difference between labor practices at Nike's factories in Vietnam and what Nike told American consumers about its labor practices. Analysts said that though Nike had a good image in the US, its practices in Vietnam and other Asian countries were reprehensible. The sweatshop[6] conditions in Nike's Asian factories was confirmed by several leading newspapers and journals, including *The New York Times, USA Today, The Wall Street Journal* and AP and Reuters.

However, Nike repeatedly claimed that it did not tolerate maltreatment of workers in its Asian factories. The company had developed and published a "Code of Conduct" and had entered into an agreement with its Asian subcontractors, regarding wages and working conditions. But analysts felt that the company had not really shown any real interest in addressing the issue. Jim Cox, executive president of the New York based GCI group[7], said, "Nike has adopted a defensive attitude throughout. Recently, Nike seems to be grudgingly coming around to admit something may be wrong, but they missed an opportunity at the outset when they effectively said 'we're Nike and we're not doing anything wrong. We don't own these plants so they aren't our problem."

According to surveys and interviews carried out by VLW, workers at Nike's factories in Vietnam were exploited in many ways. Nike's Code of Conduct was frequently being violated by its contractors. Though Nike claimed that it was trying to monitor and enforce its Code, it did not have an effective system in place for monitoring and enforcement. There were not enough Nike supervisors in all of Nike's factories in Vietnam to ensure that its contractors were complying with the Code of Conduct on a day-to-day, shift-to-shift basis.

Nike's contractors' violated labor laws concerning overtime wages, night shift wages, and Sunday wages. Many workers received below minimum wages during the first three months of employment. Forced and excessive overtime to meet high quotas was the norm at Nike factories in Vietnam. The subcontractors asked many workers to work over the legal maximum of 200 hours of overtime per year. In 1997, several workers were forced to work such long hours that they reached the yearly limit for overtime in only two months.

In sharp contrast to Nike's Code of Conduct, which assured the payment of minimum wages, employees in Vietnam were not paid even living wages. The daily wage was approximately $1.60, while the cost of three simple meals was $2.10 per day. The employees had to make a choice between eating a balanced meal or paying rent for the single rooms that most of them lived in. Over 90% of Nike's workers in Vietnam were women, most of them between 15 to 28 years old. These workers were abused physically, verbally and sexually by the factory managers. In one instance, a woman manager hit 14 workers with a shoe upper. Reacting to these incidents, Knight said: "I'll point out that there's something like 530,000 workers in Nike shoe factories in Southeast Asia with literally billions of incidents a day, and when you find two of them that basically embarrass you, it doesn't really characterize what goes on in those factories." However, several factory rules themselves violated human dignity. Workers were not allowed to go to the toilet more than once during an 8-hour shift and were not allowed to drink water more than twice per shift.

6 The term sweatshop refers to a workplace in which workers are exploited. They receive less than minimum wages, are forced to labor in poor working conditions, and are subject to arbitrary discipline and verbal and physical abuse.

7 Established in 1984, GCI is one of the largest global public relations firms in the world.

Nike factories in Vietnam ignored many health and safety standards. Several workers fainted from exhaustion, heat and poor nutrition during their shifts. The medical facilities at the factories were inadequate. There were two nurses for approximately 6000 employees and only one doctor who worked for two hours a day, even though the factory operated 20 hours per day.

Nike constantly denied that it used unfair labor practices. The company sent its representatives to college campuses in the US in an attempt to convince students that Nike's treatment of foreign labor was fair. In addition, Nike targeted journalists in countries in which they had factories to report their side of the story. Vada Manager, Nike's senior spokesperson, explained the rationale for this move, "Unlike US-based reporters, who are writing about factories they have never visited, journalists working in those countries understand the local conditions."

Nike also made a 12-minute online video of its contracted shoe facilities in Vietnam. It also produced video films of its factories in Indonesia, Thailand, China and Vietnam. Manager said, "We're a very open company and don't have anything to hide." Reacting to Nike's image building exercises, Jason Mark, a spokesman for the San Francisco-based Global Exchange, a labor-rights group, said, "It's easy for a factory to be set up that may or may not be a model and publicize it as some great thing. It seems more like a publicity stunt than a genuine effort to make systematic changes across the board."

Ultimately, because of pressure from labor activists and human rights organizations, Nike severed ties with four factories in Indonesia for failing to meet company requirements for wages and working conditions. It also created a labor relations department, hired accounting firm Ernst and Young to monitor its factories, and contracted former UN Ambassador Andrew Young to review implementation of Nike's Code of Conduct. In May 2001, a report by a labor rights group claimed that even after three years, Nike had failed to improve working condition in its factories. The report said that Nike used to warn its factory managers about inspections by its own inspectors in advance, allowing them to minimize toxic fumes by the time they arrived. Moreover, according to the report, Nike's workers were still paid wages that were below the legal minimum. However, Knight denied the charges. He said that Nike had done more than any other corporation in the shoe-and-clothing industry to ensure that workers were treated fairly.

Questions for Discussion:

1. Critically examine Nike's labor practices in Asia. In what way can they be considered unethical?
2. Do you think the customer has a role to play in improving Nike's labor practices? If yes, what steps must Nike's customers take to force the company to improve its labor practices?

Caselet 27

Northeast Airlines is said to be a 'great place to work'. Its reputation has drawn the attention of job seekers. However, the criteria for recruitment at Northeast Airlines is not only considering the candidates' skills, but also their attitudes. It mainly looks out for individuals who possess an upbeat, fun-loving, can-do attitude that fits with the company's culture. It believes that people with the right attitude can learn the necessary technical skills to do their jobs well, otherwise, even excellent technical skills will not aid the enhancement of job performance.

Its motto is "Bring your personality and your sense of humor to work." Its corporate values play an important role in making it a highly desirable employer. The top management believed that having fun at work is an important corporate value that promotes an positive, upbeat attitude. Other values focus more on encouraging employees to take their jobs seriously, and promote compassionate and caring attitude among employees. People like working in Northeast Airlines because they feel that they can contribute to the company. Employees know that if they have a suggestion, someone is there to listen to it and appreciate it.

Northeast spokesperson Luther Richie says, "Our people take their jobs seriously, but not themselves." Making work fun has had substantial benefits for Northeast Airlines. One obvious benefit is the positive impact on employee's attitudes. One of the Northeast employees says, "Working here is truly an unbelievable experience. They treat you with respect, pay you well, and empower you. They use your ideas to solve problems. They encourage you to be yourself." Making work fun has also enhanced the quality of service at Northeast. It won the Airline Quality Service Award for major carriers, for three years consecutively. Northeast also showed the best performance and received the lowest number of customer complaints in 1998, the year in which the airline industry as a whole did well in terms of performance. In addition it received numerous awards for its customer service. Northeast employees know that while they should have fun doing their jobs, they should take their jobs seriously to provide excellent customer service.

A customer of Northeast booked a flight ticket to see her mother who was suffering from cancer. Though the Northeast Airlines trip would require her to take two flights and she would have to wait 6 hours before taking the second flight, she decided to travel by Northeast, as it was the most affordable carrier. During the first part of the trip, a flight attendant asked if she and her family were going on a vacation. When he learned about the reason for the trip, the flight attendant changed their family's tickets so that they could take an earlier flight. "The woman reached her mother's house much before the original flight. Otherwise she would have arrived only moments before her mother died." Having compassion and caring for people are really important at Northeast Airlines, said the company's top management.

Questions for Discussion:

1. The HR policies of Northeast could favorably position the company as ethical. Give arguments in support of this statement.
2. What are the different aspects which enable Northeast employees to solve their workplace ethical dilemmas?

Caselet 28

Nova Tech was a well known company, and only the best IT professionals were called for interviews and a very few of them were recruited. Vijay was surprised when he received a call letter from Nova only after two weeks of posting his CV, as he had modest accomplishments (but he was a very talented software professional). He post-graduated from IIT, Chennai, and received a number of awards for the special projects he had completed. Immediately after completing his Masters, he got offers from two companies. One of them was Nexon Engineering, which was located in his city, and was a small, emerging company. Though the company did not offer high pay, the job involved professional challenge and scope for creativity. The other offer came from Dowell Associates located in another city. The company offered him a good salary with several additional benefits. But the job profile was not challenging and even the opportunities for advancement which the company offered were slow in coming. Vijay decided to join Nexon Engineering and his decision proved to be correct. Nexon Engineering was rapidly growing and Vijay was given challenging jobs, which provided an opportunity to prove himself. During his second year on the job, he was given a project that received considerable media attention. The success of the project gave the company and Vijay's career a boost. After the completion of that project, Vijay got an immediate promotion with a pay hike.

However, the call letter from Nova tempted Vijay attend the interview, and he was selected. The pay was generous, but Vijay was disappointed when he came to know that he was entitled to half-a- day's sick leave per month and two weeks of vacation in a year. But it was very honorable for Vijay to work with Nova, among the most talented people. The firm served a broad range of clients from all over the country, and it had a few international projects' too. Nova was very particular with the employees in the case of time accountability. Though the activities of the professionals were not monitored closely, they were expected to record the exact amount of time spent on each project, so that the client could be billed accordingly.

Vijay was working on a big government project that would take six months to be completed. Each person working on the project was given a specific assignment, and rarely did the members interact with each other except at weekly meetings. Vijay was happy working independently, and enjoyed the freedom the company gave him. While working on this project, Vijay came across a great opportunity to buy a house. Vijay had to spend a lot of time on the phone about the dealings of the house. At least once in a day and often several times he had to talk to the bank, the owner and his own family. The whole process became more complicated and time consuming than he expected. Initially, Vijay used to make calls during coffee breaks or lunch hours, but the bankers would call him during working hours and these calls were very lengthy. Nova was very strict with employees who spent a long time on calls during the busy sessions. Vijay was worried as to how to finish the deal as he did not have any sick leave or personal time. Vijay did not want to risk losing his job due to this issue. Vijay realized that he could make calls while he was in the office if he logged the time he spent on the phone as part of the project he was doing.

Vijay knew that he would get into trouble if he followed this idea and the company would find out what he was doing. Probably he would not get caught as long as he kept up with his work. As he was new to the company, Vijay did not know any of the co-workers so well as to be able to ask them about something like that. In a weekly meeting, Vijay overheard one of his project members talking about an employee who worked for Nova several years before, and who billed some of his personal dinner expenses to a client of a private sector. The client found out about it and brought it to the notice of Nova's management. Though the company could manage to smoothen things with the client, the employee was "reprimanded" after which he left the firm. No one knew whether he was asked to resign or he left voluntarily. After hearing this, Vijay was confused. He needed time for the purchase of the house and could not do so without getting into trouble with the company.

Questions for Discussion:

1. Do you think companies should make allowances for certain personal situations? Why or why not? What particular situations would be exceptions?
2. Should Vijay continue to make personal calls during company time and log the time to the government project?

Caselet 29

Sonic Motors was accused of selling new cars and trucks that were test driven up to 400 miles with disconnected odometers. Some of the vehicles were used by executives of the company for their personal work. These vehicles were then shipped to the dealers by reconnecting their odometers. In January 1990, the U.S government filed an indictment against Sonic Motors.

The government claimed that some of the test driven cars had undergone repairs after a few accidents that occurred while testing. The buyers of these cars were not told about these facts before the vehicles were delivered to them. The government claimed that Sonic had been following this practice for the past 40 years. It was said that between February 1988 and December 1999, at least 50,000 of such tested vehicles were sold.

However, the vice president of Sonic, Mike Gamble denied the charge that the vehicles were extensively used by the executives of the company. While Gamble admitted that the odometers of the cars were disconnected while testing, he defended this practice saying that it was necessary. To make sure that there were no quality or safety defects, the vehicles were often driven for 40 miles, sometimes even 70 miles. Gamble claimed that in 15 years, only 40 cars had met with accidents and those cars had been fully refurbished before being handed over to the dealers.

In May 1989, during the period of investigation by the government, Sonic stopped disconnecting odometers and the test drives were limited to 65 miles. Sonic also began to keep notes in the glove compartments of tested vehicles, informing customers that the car had been test driven.

In July 1989, Sonic's president, Wellington thus defended the company's actions: "The only law we broke was the law of common sense." Wellington expressed concern that the government's action would cause buyers to lose faith in the company. He said that the customers trusted the company. Now they had been given reason to question that trust. Simply said, this was unforgivable." Referring to the disconnection of the odometers, Wellington said "Did we screw up? You bet we did. I'm dammed sorry it happened and you can bet it won't happen again, and that's a promise."

Sonic then took several initiatives to restore trust among customers. It announced a current five-year or 50,000-mile engine band power-train warranty on the vehicles which were test driven. The warranty also covered the air-conditioning system and the brakes. Owners of these cars could get their vehicles inspected for free. A brand new car or truck was offered to the owners of vehicles which had been damaged and repaired prior to shipment.

The company ran ads on television and in newspapers apologizing for disconnecting odometers in cars used for tests. These ads even gave details of their compensation programs. Sonic's president supported this activity by stating that this should not be considered as a legal settlement. He said, "This is not a product recall. The only thing we're recalling here is our integrity."

Questions for Discussion:

1. Was the practice of disconnecting odometers in test driven cars ethical? Give reasons for your answer.
2. According to Wellington, "This is not a product recall. The only thing we're recalling here is our integrity." How effective do you think is his response to this incident?
3. What impact does unethical behavior have on the trust between customers and manufacturers?

Caselet 30

A generation ago, generally people in their 50s and 60s suffered from cardiac diseases. These days, due to greater work stress and the fast pace of life, anyone who has crossed his mid-thirties, is at risk. Since the 1980s cases of cardio-vascular diseases have been on the rise. Many young people have died of cardiac arrest.

At this time, the "pacemaker," a product of modern technology, turned to be a blessing to thousands of people suffering from cardio-vascular problems. This device has a timer that rests itself every time the patient's heart beats. If the heart does not beat at normal intervals, the pacemaker automatically gives a stimulus to the heart, making it beat. Cardiotech Ltd., started manufacturing these devices in 1975, when the pacemaker technology was still in its infancy. Cardiotech got pacemaker transistors from Micro Electronics Ltd. (MEL), also a manufacturer of various electronic devices used in medical treatment including pacemaker.

Although the pacemaker was an innovative product, it involved several risks. When doctors implant a pacemaker, the normal functioning of the heart is disabled, and it depends completely on the pacemaker. Thus, if the pacemaker fails, the heart stops functioning, which leads to the patient's death. Moreover, the doctors at that time were not very adept at installing pacemakers- delicate device. In one incident, a patient yawned deeply, due to which the wire in the delicate pacemaker got a pull, and the patient died. Several cases of death due to failure of the transistor in the pacemaker were also reported.

Under such circumstances MEL called a board meeting to reconsider its contract of supplying transistors to Cardiotech.

The Board felt that these incidents were an indication of a major lawsuit awaiting Cardiotech, and Micro electronics would also be held liable, as it supplied the transistors. The Board decided to stop supplying transistors to Cardiotech. When this was conveyed to Cardiotech's representative, he said "You can't stop selling transistors to us. You are our sole supplier, as other suppliers have already stopped supplying, for the same reason. If you also stop the supply now we would have to exit this business, and there would be no pacemaker manufacturer left. Without pacemakers people's lives will be at a risk. This made the Board rethink its decision. The directors had various opinions on this issue. One of them bluntly said. "It's none of our problem. We do not get enough margin from this sale to take such risk. It is high time that we got out of this contract before a lawsuit catches us." Another person asked, "Don't we have an ethical obligation to sell the transistors to the pacemaker company?". A nominee director objected strongly to this statement and said, "Why should we be the sole suppliers to Cardiotech? We need not rethink our decision to stop supplying to Cardiotech, as our only obligation is to our shareholders." The chairman of the Board decided to put an end to this discussion, as situation was going out of control. He interrupted the discussion by saying. "I think it's time for us to work out a solution to this problem. I hope our final decision would be in the interest of all our stakeholders."

Questions for Discussion:

1. Do you think that there is any ethical element in MEL decision to stop supplying transistors to Cardiotech? Justify your answer.
2. "Why should we be the sole suppliers to Cardiotech? We need not rethink our decision to stop supplying to Cardiotech, as our only obligation is to our shareholders." Do you support this opinion of the nominee director? What could be an ethical solution to this problem?

Caselet 31

Ruby Products Inc, a company that had diversified into many areas, manufactured several industrial products like wires, switches and control panels, sports goods (like shoes, bats, rackets, tennis balls), rubber-based products (like tyres for two-wheelers and four-wheelers). The company had also undertaken the distribution of fast food to different restaurants. But during the recession period, the company's earnings fell drastically in a span of four years.

Sales Revenues and After Tax Profits of Ruby Products Inc, 1991 –1994

	1991	1992	1993	1994
SR	1,015,483	1,115,376	1,018,625	935,693
ATP	58,016	29,016	12,271	(3241)
SR – Sales Revenues	ATP – After Tax Profits			

To manufacture new products, the company usually used cash from after-tax income and depreciation from ongoing operations. But, in 1994, the company was left with no profits to support its expansion plan. It also found it very difficult to raise money from the stock markets as its shares were selling at a very low price.

In this situation, the finance managers identified the employee pension fund as a source of additional cash, which was 'overfunded' by nearly $100 million. In general, every organization has an employee pension fund, which are usually of two types: defined benefit and defined contribution. Under the defined benefit plan, the employee was guaranteed a set amount upon retirement and the company credited the amount to the employee's pension fund at a rate that had been actuarially determined to meet the amount. The actuarial rate was determined by assuming a given return on investments on pension funds, which was between 8.0 percent and 8.5 percent (in the year 1994). Under the defined contribution plan, the company credited monthly payments to the pension fund. It was generally a certain percentage of the employee's salary or wages. The company invested these funds and when the employee retired, he would receive the money and the recorded earnings credited in his name. The employee could earn a monthly income over his lifetime through the purchase of an annuity with the money, instead of receiving a lumpsum amount from the company.

Due to the expansion of stock market during 1991-94, the rate of interest on bond and mortgage went up substantially from 8.0 percent or 8.5 percent. For more than seven years, Ruby products had an average return of 16.7 percent per year. The amount needed to meet the defined benefits was oversubscribed by more than $100 million. In 1995, Ruby manufacturers terminated their pension plan, purchased annuities to meet the defined benefits of all employees, and 'reverted' $100 million for investment in the company.

It was reported that more than 250 companies had replaced their defined benefit pension plan with purchased employee annuities and claimed more than $3 billion in reversions. During the period of recession, Ruby Products hived off its sports and wire divisions and sold its tyre division during the recession. Two years later, when many of the global automobile companies started entering the country and oil prices were increasing, Ruby Products entered the oil business, but performed below its expectations, as oil prices were getting saturated.

The $100 million derived from the pension fund is not a result of a superior management, but that of inflation – that made the pensions of those who retired 10, 15 and 20 years ago practically worthless today. To offset inflation, most companies have periodically used a portion of such profits to increase the benefits of those who retired five years ago or before. The pensions of those who retired from the company 10 to 15 years ago are now worth considerably less than half of what they were on retirement and the company took every penny of the fund's earning that could have brought them some relief.

Questions for Discussion:

1. What, in your opinion, should Ruby Products have done with the 'surplus' funds in the employee pension fund?
2. Is it an ethical decision to use the VRS funds for the organization?

Caselet 32

Skylark, a mid-sized oil company in the US, has a net income of about $150 million. The company chairman John Wilson believed in cutting costs, upgrading technology and following aggressive marketing tactics to make the company a dominant oil firm in the US. When Skylark was earning good revenues, a disaster took place. A storage tank in the operating unit burst, spilling over a million gallons of diesel into the Shark river, which provided drinking water for the community located in the surrounding areas. The affected area was a major industrial center with a population of 3 million people. The spilled oil threatened the water source of cities and towns in two states. Drinking water was soon unavailable in these areas. When local stocks of water in overhead tanks were exhausted, residents had to drive for miles to purchase water. Many businesses, particularly service businesses such as restaurants, were severely hit. Some of them had to shut down for as long as a week.

The management's immediate tasks were to clean the river and preserve the company's image and the price of its stock. The press and environmentalists criticized Skylark, claiming that the company was only concerned about preserving its own image. Skylark arranged a press conference and apologized to the community; the management said that the company was ready to pay a reasonable amount for clean up and damages. However, this did not satisfy the public, which did not trust the company's intentions. One of the District Attorney's filed a suit against Skylark and soon other District Attorneys and environmental protection agencies did the same. Skylark did not announce a clear plan for the clean up and its offer of a "reasonable amount'' was considered ambiguous by many people. Unofficially, Skylark executives suggested that the company was willing to spend a million dollars. Environmentalists protested, claiming that ten times that amount would be required to repair the damage done by the spill. Some Skylark managers said that if they adopted expensive safety measures as demanded by the public, then the public would start complaining about increased fuel prices and their dependence on foreign fuel sources. They said that the public must realize that there had to be a trade-off between safety and cost. According to the Chairman, "It comes down to how much risk they are willing to take to avoid paying $ 5.00 for a gallon of gasoline and twice this amount to run a truck on diesel. It is time to realize that the world is not perfect and technology is not foolproof. Every organization has to take chances and make compromises even if they are painful."

Richard Wright, a radio commentator, said that the issue was not of one of possible negligence but of social responsibility. He said that "even if it could be proved that Skylark had acted responsibly and in good faith to prevent the disaster, the company should still pay for the total cost of the clean-up. It's a matter of social responsibility and the cost of the clean-up, which is forced on customers who are not involved in the business. When Skylark buys a widget, there's no question that it has to pay the cost of that widget. But when it spills diesel fuel in the water, there seems to be some question about who should pay to clean it up. Should it be the ordinary citizens who have homes and businesses along the Shark river? Or should it be the profits-first oil company that caused the mess in the first place?"

One newspaper columnist responded indignantly to Wright comment. He wrote: "What does 'profits-first' mean? Does it mean that Skylark is run by some kind of criminals? Or does it mean that the management trying to earn profits for the company's owners? Isn't that the way businesses are supposed to run in a free economy? An organization tries to produce a product at a price that customers are willing to pay and they earn profit doing it. But according to him, the company must be 'socially responsible.'

The oil spill affected the company's image and its stock prices declined. But as Skylark did not deal directly with customers, it's business was hardly affected. Two years, after the incident, the company was still dealing with the law suits filed against it.

Questions for Discussion:

1. Do you think that Skylark should have agreed to pay for all the costs of the spill? Is this ethical or statutory?
2. If a business gives its customers what they want at a price they are willing to pay and thereby makes a profit for its owners, it is demonstrating enough social responsibility. Discuss?
3. Is there really a trade-off between environmental protection and fuel costs?

Caselet 33

Since embryonic stem cell research involves the destruction of the human embryo, it has raised ethical concerns all over the world. Basically, stem cells are undifferentiated cells bordered by a margin of differentiated cells. These stem cells are incipient cells that do not have any traits of a specific organ cell, but are the precursors to normal organ cells. There are three types of stem cells: endoderm, mesoderm and ectoderm. These cells can in turn grow into cells that form gut, bone marrow, cartilage, muscle, kidney, liver etc. Stem cells can be derived from a variety of sources such as the human embryo, fetal tissues, umbilical cord, blood, bone marrow etc.

Stem cells can be successfully used for curing a range of degenerative diseases like cancer, diabetes, cardiac problems etc. Currently, stem cell research is being used for understanding the developmental biology of the embryo, which helps to understand the reasons behind defective births, infertility and so on.

In developing nations like India, where assisted reproduction techniques are considered legitimate, embryos sourced from the fertility clinics are permitted for usage by the research, on the condition that the researchers seek approval from the donors. The government is trying to freeze the possibility of illegal trading or exporting of the human embryos.

Another major issue raised by stem cell research concerns the patenting of stem cells. Right from the beginning of the research on embryonic stem cells by James Thomson at Wisconsin, stem cells along with their production techniques and replication methods were applied for patents to the US Patents office. This office has already granted patents to Aastrom Biosciences. These patents protect various fundamental technologies pertaining to stem cells and ex-vivo gene therapy. Patent rights were issued even for the replication and genetic modification of human stem cells and the procedure for growing human hematopoietic stem cells, which are the source of all blood and immune cells.

Questions for Discussion:

1. Critically comment on the various ethical issues that biological projects like Stem cell research have raised?
2. Is it ethical to allow patenting of biological technologies like stem cell research, which are capable of curing several diseases?

Caselet 34

Sunbeam was founded by John Stewart and Thomas Clark in Dundee, Illinois, in 1897. It acquired rival companies, added totally new product lines, changed its name, went through bankruptcy, went public, rebounded, restructured, relocated and hired and fired many CEOs (including Dunlap who contributed to its recent crisis). Sunbeam was a popular and recognized designer, manufacturer and marketer of consumer products. Sunbeam products are considered household staple items and are known for their utility in cooking, healthcare and personal care. Over its 100 years of operation, Sunbeam had grown and changed according to the needs of the society. Although the name was not officially changed to Sunbeam Corporation until 1946, Stewart and Clark adopted the name 'Sunbeam' and started using it in their advertising campaigns in 1910. Sunbeam acquired its competitor, John Oster Manufacturing Company in 1960, which helped Sunbeam become a leading electric appliances company as well.

The 1980's were a time of high inflation and high interest rates, recovery from the Vietnam conflict, and corporate acquisitions, mergers, closings, and restructurings, with companies exploring every possible option available to operate profitably. In

1981, Sunbeam was acquired by Allegheny International, an industry conglomerate. Allegheny retained the Sunbeam brand and added John Zink (air pollution control devices) and Hanson Scale (bathroom scales) to the product line of Sunbeam. In 1988, a decline in the sales of other divisions of Allegheny International, coupled with the changes during the 1980s, pushed the company into bankruptcy.

Investors Michael Price, Michael Steinhardt and Paul Kazarian bought Sunbeam from Allegheny International's creditors in 1990. They renamed it as Sunbeam-Oster Company. Two years later, they made Sunbeam-Oster public. A year later, Kazarian was forced to move out of the company and the company relocated to Florida. Sunbeam also purchased the consumer products unit of DeVilbiss Health Care and the outdoor furniture business of Rubbermaid, and in 1995, the company was renamed Sunbeam Corporation. In June 1996, Sunbeam had over 12,000 stock-keeping units (SKUs), where every different style or color of a product had a different SKU. Sunbeam had 12,000 employees, 26 factories (worldwide), and 61 warehouses.

In July 1996, Michael Price and Michael Steinhardt selected Albert Dunlap as the CEO and chairman of the board of Sunbeam Corporation. As Price and Steinhardt together owned 42 percent of its stock, they tried to sell Sunbeam before hiring Dunlap, but were unsuccessful. This unsuccessful attempt made them see if Dunlap could save Sunbeam and prevent further decline in the company's stock and profits. They believed him to be one person who could turn the company around and increase stock prices and profits. Dunlap followed four simple rules in trying to turn around the Sunbeam Corporation. The stock prices increased almost instantly and the turnaround took only fifteen months. On July 19, 1996 - the day Dunlap was named chairman and CEO of Sunbeam - the stock jumped by 49 percent, increasing the share price from 12 ½ to 18 5/8, and adding $500 million to the market value of Sunbeam. The stock value increased continuously and reached a high record of $52 per share in March 1998. The reason for the initial increase in the stock prices can be attributed to Dunlap's reputation and acceptance of the position at Sunbeam.

Dunlap's operating philosophy was to streamline the business by making severe cuts in all areas of operations through heavy layoffs. The concept of teamwork and group dynamics seemed alien to Dunlap. He seemed to think that people are dispensable, and fired them if they cost more than he felt they were worth. In order to make money for shareholders, Dunlap developed and followed four simple rules of business: 1) Get the right management team, 2) Cut back to the lowest costs, 3) Focus on the core business, and 4) Formulate a real strategy. With the help of these four rules, Dunlap helped turn around companies in seventeen states and across three continents.

Dunlap's strategic move was to work on the first of his four rules of business: getting the right management team. Only one senior executive of the old management team at Sunbeam was retained in this new team. The new management team created for turning around Sunbeam included Kersh and twenty-five people who worked for him in various companies. Dunlap saw a logic behind hiring these people, as they all had worked with him and had been successful in turnarounds in the past. After working for less than four months as chairman and CEO of Sunbeam, Dunlap announced plans of retrenching half of the 12,000 employees, worldwide. Management and clerical staff positions were cut from 1,529 to 697 and the staff at its headquarters was cut by 60 percent from 308 to 123 employees. It was around the same time the share value rose further and one of its original investors, Michael Steinhardt sold off his shares and divested himself totally from Sunbeam. Reducing the number of SKUs from 12,000 to 1,500 was another cost cutting method Dunlap used. Eliminating 10,500 SKUs enabled him to shut down factories and warehouses that were not required. He brought down the number of factories and warehouses from 26 to 8 and 61 to 18 respectively. The third rule was to concentrate on Sunbeam's core business, which first needed to be defined. Dunlap and his "Dream Team for Sunbeam" identified the company's core business as electric appliances. Five categories of the core businesses were identified as vital to Sunbeam's success - kitchen appliances, health and home, outdoor cooking, personal care and comfort, and professional products. Any business that did not fit into any one of these five categories was sold. The last of Dunlap's four rules was to formulate a real strategy. Dunlap and his team defined Sunbeam's strategy as driving the growth of the company through expansion of its core business. They planned to do it by differentiating products further, moving into new markets, and introducing new products that would relate directly to the emerging customer trends around the world. The stock value rose to over $48 per share a 284 percent increase since July 1996.

In October 1997, only 15 months after Dunlap had taken the charge as chairman and CEO, he issued a statement marking the completion of the turnaround of the company. He also announced that Morgan Stanley of Stanley Dean Witter & Co., had been hired to find a buyer for Sunbeam. However, unable to get the price Stanley quoted, Dunlap decided to invest by purchasing companies. On March 2, 1998, Dunlap announced his plans to purchase three consumer product companies. Sunbeam acquired 82 percent of Coleman (camping gear) from Ronald Perelman for $2.2 billion. Perelman received a combination of stock and cash, and was given 14 percent ownership of Sunbeam. Sunbeam also purchased Signature Brands (Mr. Coffee) and First Alert (smoke and gas alarms) from Thomas Lee for $425 million in cash, giving Sunbeam 95.7 percent control of First Alert and 98.5 percent control of Signature Brands. Two days after announcing its purchase decisions, Sunbeam's stock price touched a record high of $52 per share.

Dunlap publicly praised himself and his "Dream Team for Sunbeam" for turning around the failing company within seven months of taking charge. He was so pleased with the turning around of the company that it made him add a new chapter to his book *Mean Business,* detailing the turnaround process. The chapter titled "Now There's A Bright Idea. Lesson: Everything You've Read So Far About Restructuring Works. This Chapter Proves It—Again" proved his confidence as well as arrogance in his belief that Sunbeam had been turned around because of him. Dunlap also mentioned in this chapter that Kersh, along with other people, had tried to convince him not to take charge of Sunbeam, as it would be difficult for him to save the company. Another paragraph mentioned that he was on top of the most admired CEOs, according a survey conducted by management students of US colleges and universities. The concluding paragraph of the chapter summarized Dunlap's high opinion of himself. It suggested that all CEOs and boards of directors should read his book and run their companies, with him as their role model. In between the self-praise, *Mean Business* detailed Dunlap's philosophy as well. He fired thousands of employees, shut down factories and warehouses, and streamlined the company by eliminating 10,500 SKUs and selling businesses unrelated to its core products. He even attained what he considered the most important goal of any business, and made money for the shareholders. In February 1998, the board of directors, satisfied with Dunlap's leadership, signed a three-year employment contract with him that offered Dunlap shares worth $3.75 million.

Dunlap accomplished what he had set out to do at Sunbeam, but neither did the shareholder wealth last nor the satisfaction of the board of directors. The three purchases made Sunbeam's size more than double and helped increase its share price per share to $52, soon caused upheaval and restructuring Sunbeam at for the second time. Soon after the purchases, rumors started emerging that the three purchases were made to hide losses through write-offs.

Andrew Shore, an analyst from Paine Webber Inc. had been following the Sunbeam episode since Dunlap took charge. As an analyst, Shore's job was to make educated guesses for investing clients' money in shares. Shore had been scrutinizing Sunbeam's financial statements every quarter, and he thought its reported levels of inventory for certain products to be high. He found a massive increase in the sales of electric blankets in the third quarter, that usually sell high in the fourth quarter. Moreover, he found that the sales of grills were high in the fourth quarter (an unusual time of the year for grills to be sold at that rate) and noted that the accounts receivable were high. On April 3, 1998, hours before Sunbeam announced a first quarter loss of $44.6 million, Shore downgraded the shares of Sunbeam, and by the end of the day Sunbeam's stock price fell by 25 percent.

In fact, Dunlap had been using a "bill and hold" strategy with retailers, which boosted Sunbeam's revenue, at least on the balance sheet. A "bill and hold" strategy involves selling products at large discounts to retailers and holding them in third-party warehouses to be delivered at a later date. In essence, the strategy shifts sales from future quarters to the current one. By booking sales months prior to the actual shipment or billing, Sunbeam was able to report higher revenues in the form of accounts receivable, which inflated its quarterly earnings. In 1997, the strategy helped Dunlap boost Sunbeam's revenues by 18 percent. A "bill and hold" strategy is not illegal and follows the General Accepted Accounting Principals (GAAP) of financial reporting. Even then many shareholders felt that the company had cheated them and had made them purchase Sunbeam's artificially inflated stock. Many shareholders decided to file lawsuits against Sunbeam, alleging that the company made misleading statements about its finances. A class-action lawsuit was filed on April 23, 1998, naming both Sunbeam and its CEO as defendants. The lawsuit alleged that Sunbeam and Dunlap had violated federal securities laws by misrepresenting and/or omitting important information pertaining to the company's business operations, sales, and sales trends. Sunbeam's subsequent reporting of earnings significantly below the original estimate caused a sharp decline in its share prices.

Dunlap continued to run Sunbeam and the newly purchased companies as if nothing had happened. On May 11, 1998, Dunlap tried to reassure 200 major investors and Wall Street analysts that the problems faced in the first quarter were behind them and that Sunbeam would post increased earnings in the second quarter. On the same day, he tried to regain the confidence of investors and tried to divert their attention from the losses and lawsuits by announcing another 5,100 layoffs at Sunbeam and the acquired companies. The tactic did not work. The press continued to report on the "bill and hold" strategy and accounting practices Dunlap had used to artificially inflate revenues and profits.

A worried Dunlap called an impromptu board meeting on June 9, 1998 to address and rebut the reported charges. A partner of Sunbeam's external auditors, Arthur Anderson LLP assured the board that the company's 1997 financial statements were in compliance with the accounting standards and firmly stood by the firm's audit of Sunbeam's books. Robert J. Gluck, the controller at Sunbeam, was also present and did not counter the auditor's statement. The meeting went well until Dunlap was asked whether the company was going to achieve the earnings it had projected for the second quarter. The board did not expect to hear that "sales are soft." Dunlap unusual behavior aroused the board members' suspicions, which led to an in-depth examination of his activities. A personal conversation with the executive vice-president, David Fannin revealed that second quarter sales of 1998 were considerably below Dunlap's forecast and, in fact, the company was in crisis. Dunlap had forecast a small increase, but the numbers that Fannin revealed showed that Sunbeam could lose as much as $60 million in that quarter. Outside the boardroom and away from Dunlap, controller Robert J. Gluck revealed that they attempted to do things in accordance with GAAP, but everything was pushed to the periphery of GAAP threshold. These revelations made the board of directors call its own emergency meeting. On Saturday, June 13, 1998, the directors, Fannin, and few lawyers discussed the informal findings, and agreed that they had all lost confidence in Dunlap and his ability to turn around Sunbeam. The directors felt that Dunlap should leave, and drafted a letter stating that his immediate departure was required. The decision was conveyed to Dunlap the same day.

The Securities and Exchange Commission also looked into Sunbeam's accounting practices. On August 6, 1998, Sunbeam announced that the Audit Committee set up by the board of directors determined that it is required to restate its audited financial statements for 1997 and the first quarter of 1998, possibly 1996 as well. Until the audits are completed, Sunbeam would not be allowed to report its financial results for the second quarter of 1998. On August 24, 1998, Sunbeam announced that it would discontinue a quarterly dividend of $0.01 per share. On that same day, it announced a new organizational structure and a senior management team, and outlined a new strategy emphasizing growth. It planned to decentralize its operations while maintaining centralized support and organizing itself into three operating groups. Four of the eight plants that were scheduled for closure under Dunlap's management will remain open to ensure consistent supply of products. The company's goal was growth through enhanced quality of products and customer service. By late 1998, Sunbeam had developed a new management team with Jerry .W. Levin as president and CEO. Sunbeam has still not recovered completely with a stock price less than $10, and is yet to regain investor confidence completely.

Question for Discussion:

1. What were Dunlap's role in Sunbeam's financial and public relations embarrassment?
2. Identify ethical issues that Dunlap's management team may have created by using a short-term focus on financial performance.

Caselet 35

Seagrams – Party Accessories; Old Monk – Cola concentrate; Bacardi – Sheer Music; Haywards 5000 – Darting kit; Royal Challenge whisky – Golf accessories; Kingfisher beer – Packaged drinking water; Gilbey's – Pure Aqua. Many such taglines can be seen in advertisements across different types of media. Why did liquor companies resort to this type of advertising? In 1999, the Ministry of Information and Broadcasting (I&B) imposed a ban on liquor advertisements under Rule 7 of the Cable TV Network Rule. And as per rule 7(2) of the Act, no broadcaster was allowed to display advertisements which directly or indirectly promote the sale or use of cigarettes, tobacco products, wine, alcohol, liquor or other intoxicants, infant milk substitutes or infant food. Since then, liquor and tobacco companies, were busy exploring new ways of promoting their brands. The result of there efforts was surrogate advertisements and the changes were visible in the taglines being used.

The I&B ministry has been in the process of setting up a high powered multi-ministerial committee to look into the issue of surrogate advertising. It is planning to get tough with the surrogate advertisements brought out by cigarette and liquor companies. The ministry had already taken action against McDowell and Gilbey's for using surrogate advertising to promote their liquor products. The ministry even issued a show cause notice to the broadcasters – Star, Zee, Sony and Aaj Tak --- asking why they didn't take any action against these companies for violating rule 7 of the Cable TV Network Rule, 1999. As a result, some channels agreed to stop airing the advertisements. The ministry I&B has also set up a committee for reviewing various advertisements and identifying them for their classification into surrogate advertisements. All advertisements that have a clear impact on the recall of the actual products would be considered surrogate.

This would certainly be problematic for the liquor and tobacco companies, especially when the Indian liquor companies are facing tough competition from global players after the lifting of import restriction on liquor imports. Companies feel that a ban on the most effective channel (TV) of advertising would affect their brand and the brand-building practices.

Now innovative and canny corporates are exploring new avenues for promoting their brands. Romanov Vodka and Bacardi Rum, have brought out music cassettes, Seagram's is holding charity auctions and Johnnie Walker is developing business case studies. Recently, the Indian liquor major Shaw Wallace announced its decision to foray into new product range like men's accessories and sporting accessories under the brand name of its liquor brands – Director's Special and Royal Challenge. Its first launch was expected to be a Eau De Cologne for men under the brand name of Director's Special, which would be followed by a complete range of men's accessories including perfumes and toiletries. It is expected to be targeted at the upper end of the market. Shaw Wallace already has its presence in the golf accessories business under the brand of Royal Challenge. The golf accessories consists of graphite shafted golf sets with lifetime warranty, golf bags, caps, and gloves, and a quarterly magazine that keep golfers updated on the latest in the sport. Bacardi on the other hand, apart from its advertising on its Bacardi Blast album and parties, it entered a contract with rediff.com and was been advertising on TV for its Bacardi Limon channel on the site. Also, there has been an increase in the sponsoring and holding of events by the liquor majors. For example, Teacher's whisky has been organizing Teacher's Achievement awards and the Smirnoff international fashion Awards. The liquor brand, Jack Daniel recently organized a corporate debating competition.

Premium liquor brands are also promoting high profile sports like Golf and Polo, which provide the company an opportunity to directly get in touch with its target customers.

For example, Shaw Wallace, already has a long standing relationship with Golf and has tied up with the Indian Golfing Union (IGU) and the Indian Management Group (IMG) to promote the game. As per a company official, the company would be sponsoring the Indian Open golfing event as the Royal Challenge Indian Open. Moreover, Royal Challenge golf and club accessories would be sponsoring India's flagship golfing event, the $300000 Indian Open, till 2006. Seagram has also been involved in sponsoring events like Chivas Regal Polo Championships and Chivas Regal Invitational Golf Challenges for Corporates. And during festival times, the company aired public service messages on TV to discourage irresponsible drinking.

Due to increasing competition from cheaper smuggled products, cigarette companies are also experiencing a downturn in the business. The effective implementation of a ban on surrogate advertising would definitely hamper the brand building activities of these companies.

Questions for Discussion:

1. Do you think it is right on the part of the Indian government allow the liquor companies reduce the tariff on imported liquor and not allow liquor companies to advertise their products.
2. Critically comment on the strategies adopted by liquor and tobacco companies to overcome the legal hurdles on the ban on advertising liquor and tobacco products?

Caselet 36

Targeting children was initialized by marketers to attract urban parents who felt 'my child must be the best.' Even many of the products' advertisements that were not intended for children do attract children's attention and influence them. Examples are the ads of cars, television, refrigerators brands. Though this type of advertising is considered rational there are several instances where children are used in the advertisements of products which they cannot be associated with.

What is the relevance of a child in the ad of Dhara cooking oil, where a child runs away from home. Depicting a situation where a child runs away from home is an unhealthy way of communication which may trigger wrong emotions in a child. Though Dhara uses the instance of running away metaphorically, it form a lasting impression on children's mind. A few years ago, an advertisement of Gems showed how a strict teacher punished a student for being mischievous in class, and when the student pops Gems into his mouth and the teacher changes into an object of ridicule. Kids were shown enjoying the teacher's transformation into a hen, and finally the punished student knocked off the bully. This leads to the inculcation of wrong values in children. The Cola advertisements showing superstars jumping off trains or planes make kids take those stunts seriously; they may try to initiate these and consequently, injure themselves or lose their lives.

In the Colgate toothpaste advertisement, a doctor comes into the classroom full of small kids and asks 'who among the kids use Colgate toothpaste.' All the kids raise their hands. When advertisers show a single child in the context of a family setting, the kid influences the family's buying decision. But showing a group of children, could develop a feeling of peer pressure among them. And in the Colgate advertisement the doctor's opinion that Colgate is very good toothpaste, is conveyed as a fact.

An ad for a washing machine shows a little girl wash her doll's dress in the machine. This ad shows a child handling equipment, which is not intended for an eight-year-old.

Though these advertisements are the fantasies of the ad-maker and tools to attract customers, watching them are kids who may be impressed by them. Generally, kids take them as short stories. It is not wrong to use kids in ads, but the communication should be correct. Advertisers argue that kids are taken in advertisements to ensure that the advertisements get noticed. Children do not understand 'advertising'; they understand what they see and hear. An adult watches an advertisement to seek more information on a product before arriving at a rational decision about a product. But, it is not the same in case of children. Children accept what they see on TV.

Though tobacco or alcohol advertisements are not intended for children, these advertisements do influence them. About 40% of India's population is under the age of 14, and today's kids have tremendous spending power, and a significant amount of the parents' purchasing decisions are influenced by children. Advertisers should utilize this changing trend in an ethical and rational manner that should not affect the psychology of growing children. Advertisers should keep in mind the tenet "Today's children are tomorrow's citizens who will make the nations."

Questions for Discussion:

1. Why is it unethical for the marketers to air advertisements using children or to target children? What care should be taken while making advertisements that are targeted towards children?
2. Marketers are taking advantage of children and are contributing to the decline of social values. Do you agree or disagree? Justify your answer..

Caselet 37

In August 1997, the Mumbai police arrested a woman along with her newborn baby and two bodyguards at the Santa Cruz airport, as she was leaving for Delhi. The woman was Pranati Deka (Pranati), cultural secretary of the banned militant organization United Liberation Front of Assam (ULFA), and the wife of ULFA's finance secretary Chitrabon Hazarika. Prior to this incident, the Assam and Delhi police had been following Pranati for a few months. The primary reason for the police's interest in Pranati was not her link with the ULFA, but was for her association with India's leading tea company Tata Tea Ltd. (Tata Tea). Tata Tea was alleged to have borne the expenses for her check-up at the Jaslok Hospital plus travel and hotel charges for her two companions and herself.

In September 1997, the manager of Tata Tea's North India Plantation Division in Assam, S S Dogra (Dogra) was arrested on charges of 'aiding and abetting terrorism and assisting persons involved in waging war against the state.' Charges were issued against the company's welfare officer Brojen Gogoi (Gogoi) too, who had accompanied Pranati to Bombay.

Dogra's arrest led to a controversy that soon engulfed many top names from India's corporate and political circles. Ratan Tata, the CEO of Tata Tea's holding company Tata Sons, rushed to Delhi to meet the then chief minister of Assam Prafulla Kumar Mahanta (Mahanta), the Chief Secretary of Assam V S Jafa (Jafa), Union Home Secretary K Padmanabhaiah, the Home Minister Indrajit Gupta (Gupta) and the Prime Minister Inder Kumar Gujaral (Gujaral). Later, the issue was discussed at a meeting between Gujaral, Mahanta and Gupta, as well as at a meeting of the United Front coalition's core group of leaders.

The Tata Tea-ULFA controversy brought to the attention of the rest of the country what the Assam tea industry had to live with over the last two decades – kidnappings, murders and extortion – both by the ULFA and National Democratic Front of Bodoland (NDFB) militants.

Till the late 1980's, militants did not interfere with the functioning of the Assam tea industry, as it was the single largest employer in the state. Even during the bandhs declared in the state during 1979-85, tea gardens were exempted, like other essential services.

The first victim of the Assam tea killings was D Choudhury, Assistant Manager, Ledo Tea Estate, who was hacked to death in February 1989. In August 1989, Amal Barua, a field clerk of Corramore Estate of the Williamson Magor Group, was shot dead. In March 1990, a Tata Tea employee, P C Scaria was gunned down. The April 1990, the killing of Assam Frontier Company Chairman and NRI businessman Swaraj Paul's brother, Surinder Paul (Paul), sent panic all around as it had become apparent that appropriate measures would have to be taken to ensure the safety of life and property in the gardens. In October 1990, Bodo gunmen opened fire at a New Year's party in a planter's club, killing a manager and wounding ten others.

In November 1990, executives of HLL's Doom Dooma Tea Estates in Assam and their families were airlifted out of the tea estates, with the help of the Army and the Air Force. HLL had been asked to pay Rs 35 lakh plus 5% of the net profits of Brooke Bond and Lipton. HLL refused to pay, and decided to close its business in the area instead.

Soon after Paul's murder, the ULFA called a meeting of the Assam tea industry officials, which was attended by representatives from Tata Tea, Williamson Magor, Warren Tea, and Goodricke. The representatives were threatened with further killings if they did not pay money to the ULFA. Most of the companies accepted the ULFA demands. Following this, the killings came down substantially during 1991-93, though kidnapping and extortion continued unabated. Alarmed by the industry's plight, the Assam government set up the Assam Tea Plantation Security Force (ATPSF) to protect the tea estates. The costs of hiring, training, and equipping ATPSF were borne by the tea industry. The tea estates were charged Rs 6 lakh per annum to hire one unit of the ATPSF. However, because of the high expenses, only 95 of about 800 tea gardens in the state chose to maintain their own security forces. Moreover, the ATPSF could not match the firepower of the militants.

Initially, the tea garden managers made direct cash payments to the militants, which were soon replaced by payments through the tea garden contractors who could pay in cash and raise dummy bills on the companies. Exortion rates varied according to the size and number of gardens. Individual tea estate owners paid approximately Rs 5 per kg of tea, while larger gardens paid Rs 1-2 per kg. There was an atmosphere of terror in the tea gardens. Though the companies officially denied it, it was common knowledge that they were paying the militants. Murders resumed in 1994. By the end of 2000, over 15 tea management personnel were killed. All along, Tata Tea was reportedly the only company, which refused to pay the militants despite the fact that its own employees were killed and kidnapped. ULFA's commander-in-chief Paresh Barua (Barua) also confirmed that Tata Tea had never paid money to the outfit.

The reasons for which Tata Tea had been able to avoid making payments to the militants were rooted deep in a complex maze of events involving the Assam state government, the central government, the Intelligence Bureau (IB), the Assam police and Tata Tea itself. The ULFA militants contacted Tata Tea for the first time in 1990. Unwilling to give cash to the militants, Tata Tea offered to invest in the 'uplift of the Assamese people' instead. Over the next few years, the company set up 65 hospitals, 280 adult literacy centres, 173 child care centres, a technical training institute and 110 schools. Tata Tea also instituted scholarships and started a welfare program for handicapped children. In addition, the company took the Lifeline Express into Assam in 1995, which rendered critically needed medical assistance to people from the weaker sections of society. Tata Tea regularly carried out its 'Outreach Medical Program,' under which fully equipped ambulances with doctors visited remote rural areas.

Sensing the company's commitment towards developing Assamese people, ULFA left Tata Tea alone. However, the situation changed in August 1993, when Bolin Bordoloi (Bolin), senior manager of Tata Tea's Guwahati office was kidnapped by Bodo militants. Tata Tea refused to pay ransom and began negotiations with the militants for his release. Bolin was eventually released in July 1994, reportedly after the payment of ransom worth Rs 1 crore. This, however, was denied by Tata Tea and Bolin's family members.

ULFA then contended that since the company was paying other militant outfits, they might as well ask for money. In December 1995, Barua wrote a letter to Tata Tea demanding 100 pairs of walkie-talkies. The company's officials met the home secretary of Assam and requested him to take action against the extortion threats. However, no action was taken in this regard. In January 1996, Tata Tea wrote to ULFA expressing its inability to supply such equipment, but also indicated its willingness to discuss legitimate development projects. The company sent copies of this letter to the Home Secretary, but no action was taken. Meanwhile, Managing Director, K Krishna Kumar (Krishna Kumar) began receiving threatening calls asking him to stop sending such letters to the Home Secretary. At this point, Tata Tea decided to seek the help of the IB based in Delhi. The company was asked to speak to an additional director in IB, Rattan Sehgal (Sehgal). Tata Tea not only kept Sehgal fully informed, but also followed his instructions. Sehgal advised the company never to pay cash, never to give equipment that could have military use, to pursue a dialogue till the very end, and to always keep him informed.

Meanwhile, Tata Tea and ULFA decided to continue the talks at a meeting in Bangkok in early 1996. Dogra, Bolin and a few other company officials attended this meeting, where ULFA reiterated its demand either money or walkie-talkies. Tata Tea refused to budge from its stand and offered to launch a medical scheme for the Assamese people, so that the state's needy people could get medical treatment in specialist hospitals outside the state at Tata Tea's cost. ULFA accepted this offer and Tata Tea launched the medical scheme within a few months.

Things seemed to be going smoothly for the company till Pranati's arrest. She was later brought to Guwahati and produced before a court. During the interrogation by the Assam police and Central Intelligence officers, Pranati reportedly provided information about ULFA as well as Tata Tea's links with the organization. This prompted the Assam DGP K Hrishikeshan (Hrishikeshan) to level charges against Tata Tea. The Assam police began interrogating Tata Tea's top executives including Krishna Kumar, executive director S M Kidwai (Kidwai) and many other Tata Tea officials.

Tata Tea claimed that ULFA had availed of the service without its knowledge and that Pranati's was merely one of the cases referred for treatment of a serious blood disorder during her pregnancy. ULFA sources, too, said that at no point of time had Tata Tea been told about Pranati's ULFA links. However, there was a flaw in the company's defense. Tata Tea's scheme provided only for treatment of cancer, heart and eye ailments in the BM Birla Hospital at Kolkata, Tata Memorial Hospital at Mumbai, and Shankar Netralaya at Chennai respectively. Pranati's treatment at Jaslok Hospital was outside the scope of the scheme and therefore came under scrutiny. Moreover, the fact that senior official like Gogoi had accompanied Pranati weakened the company's stand.

In the last week of September 1997, Tata Tea released a notice in the print media in which the company admitted to having been forced to attend a meeting with ULFA in Bangkok. The Assam government then accused Tata Tea of having a tacit understanding with ULFA and NDFB. The government said it 'failed to understand how any company could be forced to meet the militants outside India unless there was some tacit understanding.'

A few days later, Tata Tea revealed the IB's role in the whole affair, taking everyone concerned by surprise. The Tatas claimed that all their meetings with the militants had been approved by the intelligence agency of the central government. The company also said that the controversial meetings with militants were mostly organized by the intelligence agency themselves, partly to negotiate the release of their senior executive, and partly to ensure the safety of thousands of people working in the tea gardens. Tata Tea further claimed that the central government had itself sanctioned the controversial medical assistance scheme. The then IB Director later confirmed that the Tatas had indeed been communicating with the IB about all their dealings with ULFA, including the Bangkok meeting. This infuriated the Assam state government as it had not been given any information regarding the Tata Tea-IB and Tata Tea-ULFA dealings.

Meanwhile, militancy in the state had assumed alarming proportions. When the Centre started questioning the Mahanta government about the increasing violence, Assam Gana Parisad (AGP) decided to take firm steps against the militants. When ULFA realized that AGP had turned against it, they even made unsuccessful attempts to kill Mahanta and other AGP leaders. At this time, the United Front government, which the AGP was a part of, was at the Centre. Analysts claimed that Mahanta saw the Tata Tea episode as a chance to take 'revenge' against the tea industry. Mahanta complained to Gujral that Padmanabhaiah was forcing Hrishikeshan to stop the interrogation of Tata Tea executives. This was strongly denied by the Home Ministry. It was also revealed that Gogoi had been living in a Tata guest house in Kolkata. All the while, Tata Tea claimed it knew nothing of his whereabouts. To add to the company's troubles, the Assam police discovered documents revealing that the company had paid the airfare for four NDFB militants.

The Assam government however, maintained its stand that funding extremists is an anti-national act on the part of business houses. Mahanta said, "It is the moral responsibility of companies to inform the government, the police or intelligence agencies about extortion by militants." Former West Bengal Chief Minister Jyoti Basu supported him by stating that no business house should pay insurgents to buy peace and that the tea companies in Assam should not have bypassed the state government.

Questions for Discussion:

1. Analyse the reasons for which Tata Tea had to strike a deal with the ULFA. Is it ethical for Tata Tea to help an extremist organization merely to keep its business running?
2. What are the various ethical dilemmas faced by Tata Tea?
3. Though Tata Tea managed to avoid paying cash to ULFA, it could not avoid the charges of encouraging terrorism. What were the options available to the Assam - based tea estates facing extortion threats?

Caselet 38

Amit Mathur paid a farmer Rs.10, 000 to get permission to drill for oil in a farm in Trombay and promised to remove the black ooze that would damage the crops. Mathur was lucky as he found large oil reserves in that area. Big oil companies immediately acquired the surrounding land and Trombay became one of the major petroleum-producing regions of India. In a span of 80 years, it was estimated that 12 billion barrels of oil and 113 billion cubic feet of natural gas were mined in Trombay. This helped companies gain high profits. It also helped in the industrial development of the state. But, it has raised the pollution levels in Trombay extensively. The oil refineries at Trombay dumped tons of waste containing potentially toxic and heavy metals like carbons and organic chemicals into water for many years. The water in the surrounding areas of Trombay was contaminated by the toxic wastes. The towns near Trombay were also affected as the industrial wastes were dumped off in old wells in the adjoining areas. The off-shore drilling sites dumped the wastes into the canal water. People of Trombay had to face serious water pollution problems. Out of the 54 water wells, it was found that 50 contained heavy metal deposits.

Much of pollution associated with oil and gas production was because of the ‘salt’ and the drilled out “mud”. In Trombay, the petroleum reserves were found in salt domes and to pull the oil or gas from there, one had to drill the salt out of these domes. When a well is drilled, thousands of litres of brine (salt water) come to the surface. This is then pumped into disposal wells that have been drilled into porous rocks. Drilling “mud”, another major source of pollution was used to lubricate the drilling bit, flush the drill cuttings to the surface and line the sides of the well. The mud is a mixture of viscous clay, weighing agents and chemicals used in different proportions. Weighing agents and heavy metals, such as barium, chromium, arsenic, lead, titanium, and zinc were added to solidify the rock and prevent it from collapsing. The chemicals used were carbolic acid, caustic soda, ammonia bisulfate, zinc chromate, formaldehyde, asbestos, asphalt and phenols.

One third of the drilling mud was forced into the rock formations, while rest of the mud was recycled. The underground water supplies were polluted by the salt, heavy metals and chemicals disposed of by the petroleum industry.

In Trombay, environmentalists found unacceptable levels of salt, heavy metals and chemicals in drinking water. It was two to three times more than what was found in the drinking water of rural farms and small towns throughout the southern part of Mumbai. As a result, many people living in Trombay suffered serious health problems. Many died of cardio pulmonary arrest and with liver cancer. In a nation wide survey conducted on death caused by cancer, the center for oil and gas production in the state ranked in the top 5 %.

Questions for Discussion:

1. Oil drilled from wells in Trombay provides oil, which is very essential for the country. Moreover, oil drilling has contributed to the economic well-being of Trombay. In this context do you think that business can compromise on the environmental front to achieve economic growth?
2. What do you think is the responsibility of the government in controlling such acts by the businesses?

Caselet 39

In January 2000, United Colors of Benetton (UCB), Europe's largest clothing manufacturer, released its 'death-row' advertisement campaign featuring prisoners who had been sentenced to death. The campaign appeared on billboards and major news publications in Europe, America and Asia. UCB worked for two years on the campaign, of which a special booklet and video were also released. UCB claimed that leaving aside any social, political, judicial or moral consideration, the campaign aimed at showing the public the reality and futility of capital punishment.

The campaign led to widespread protests against the company from customers as well as several governments around the world. The families of the victims (whom the death-row inmates were convicted of killing) objected strongly to the campaign. The state of Missouri in US decided to sue UCB, claiming that the company had deceived the state by using the death-row inmates as part of an advertising campaign. UCB was reported to have falsely told the state that the inmates were being interviewed for a project sponsored by the National Association of Criminal Defense Lawyers. In an out- of - court settlement, UCB had to write apology letters to the families of the victims. UCB was also ordered to pay $50,000 to the Missouri Crime Victims Fund.

UCB expected the protests against this campaign to die down, like it happened in case of its earlier campaigns. However, public opposition in US intensified further. The biggest setback for UCB was the termination of its deal with the US retailing major, Sears Roebuck & Co. to open UCB outlets in Sears stores across US.

UCB had counted heavily on the deal signed in late 1999, to improve its miserable performance in the US markets during the 1990s. In the early 1980s, UCB had over 700 stores in US, and the number had declined to 200 by 1999. After the release of the 'death row' campaign, Sears stores across US were picketed and numerous letters of protest written by the families of the victims. Alarmed by the protests over its association with UCB, Sears opted out of the deal in February 2000. Sears was not the only store alarmed by the public's reaction to UCB's advertising campaign. Analysts commented that most of the 500 UCB stores in US were closed because of the storeowners' personal conflicts with the company's campaigns. Meanwhile, reports appearing in *CNN*, *Wall Street Journal* and *Advertising Age* revealed that the campaign was not liked by a majority of US consumers.

However, UCB defended its campaign. The company's US director of communications said, "Once again, it's very hard for people to see what we're doing and understand that it's not advertising, that it's a way to get people to think." UCB had been credited as pioneering a new era of advertising by removing its product from its advertisements, and focusing only on colors and the selection and placement of items on the copy.

Till the 1980's, UCB advertisements focused on the products, with the logo of a stylized knot of yarn with 'UCB' printed under it and contained within a dark green rectangle. In 1982, Oliverio Toscani (Toscani), a prominent fashion and advertising photographer, joined the UCB group. On Toscani's recommendation, Luciano Benetton, the founder of UCB, handed over UCB's advertising activities to Eldorado - a small advertising agency in Paris. The initial advertisements were conventional in style, showing groups of young people wearing UCB clothing. Toscani soon convinced Luciano that UCB's campaigns should promote UCB as a 'lifestyle accessory' rather than a clothing brand.

In 1984, the 'All the Colors in the World' campaign was launched, showing groups of teenagers from many countries and ethnic groups dressed in UCB clothing, with the company logo in the corner. In 1985, Toscani created the immensely popular 'United Colors of Benetton' theme, aimed at presenting the message of racial unity. By now, Toscani's 'rebel' streak had become rather evident, and complaints had been made against the use of the United States flag in one of the advertisements. In 1989, UCB terminated its contract with Eldorado, and began managing its advertisements internally. The new campaigns neither showed the product, nor used any slogan. The knot in the UCB logo was replaced with the small green rectangle. By 1991, Toscani's photographs were reported to have completely shifted from being slightly disturbing to socially and politically incorrect ones. The company's campaigns appeared only on billboards, at art shows and in select print media. Since UCB wanted its advertisements to appear 'exclusive and art-oriented,' it did not use electronic media like the radio and television.

Throughout the early 1990s, UCB's advertisements – featuring a war cemetery, many different brightly colored condoms, a baby with the umbilical cord, a priest and a nun kissing – invited severe criticism. Though UCB covered sensitive issues such as child labor, death penalty, poverty, the abuse of nature, violence, intimidation, AIDS and peace between the Arabs and Israelis, the portrayal was almost always a subject of controversy.

During the late 1990's, UCB seemed to have become even bolder, increasingly featuring nudity in its advertisements. Even Luciano himself posed naked for a campaign. In 1998, Luciano said, "It's our prerogative to photograph a new collection in unusual places: we're more interested in discovering people than in selling them dreams. So here is the search for real people and real stories, here is the discovery of beauty without stereotypes; here is diversity highlighted by uniqueness."

In 1995, government authorities in Germany banned UCB advertisements featuring child laborers, the human body stamped 'HIV-positive,' and a waterfowl stuck in an oil slick. A German appeal court claimed that these advertisements were unacceptable as they exploited suffering. The ad showing the newborn baby had to be withdrawn following a public outcry in Italy, France, and U.K.

All along, UCB claimed that these advertisements were designed to prompt debate on serious social issues and to draw public attention to the victims of these issues. According to UCB sources, "Bitterly attacked by some and internationally acclaimed by others, UCB's campaigns managed to tear down the wall of indifference, contributing towards increasing the awareness of universal problems among world's citizens. At the same time, they have paved the way for innovative modes of corporate communication."

The notoriety that UCB's campaigns portrayed ensured that the company was in news all over the world. Thousands of articles were written on the company's campaigns. This 'free publicity' helped the company's brand become globally popular. While UCB's advertisements seemed offensive and tasteless to some people, to others they were a crusading effort to promote social values. UCB worked hard to promote itself as a socially responsible business by supporting social organizations and discussing moral issues in its print campaigns all over the world. The fact that Toscani's photographs won awards and were displayed in art galleries around the world strengthened the company's claim regarding the artistic value of its campaigns. According to the company, the death row advertisement was intended to highlight the 'human aspects' of the murderers and express the company's opposition to capital punishment. The bitter experience of the 'death row' campaign seemed to have made UCB realize the damage its advertising strategy was causing. The fact that many people had decided not to shop at UCB as a result of its campaigns could no longer be denied.

A document posted on the UCB website revealed that the company also felt the need to change its advertisement campaign. The document stated, "We need to have models wearing clothes by UCB in our advertisements. We need to show consumers that we are in actual clothing line, and not a political or governmental company. By picturing our stylish clothes, we will attract more business. Consumers want to buy our clothes because they are attractive and have a high quality reputation. People who respect our clothing line are the only ones who actually buy it, despite the political issues that we represent."

Though UCB had always been a supporter of several human causes, such as the fight against racial discrimination, whale hunting, ozone layer depletion, land mines, and North Korean girls being sold into marriage and so on, it stepped up its involvement in these non-controversial social issues. UCB made special efforts to project itself as a responsible company by sponsoring sport events and focusing on racial integration through its magazine,' Colors'. UCB also organized AIDS benefits and educational programs around the world. With this new-found focus on moral and ethical self-policing, UCB seemed to be working hard towards non-controversial advertising.

Questions for Discussion:

1. Critically comment on the controversies associated with UCB's campaigns, with special reference to the 'death-row' campaign. Do you think it was ethical on the company's part to focus on controversial issues in its advertisements to gain the attention of customers?
2. Do you think UCB's advertising strategy was aimed only at creating scandals and controversies? Can this strategy be justified by the fact that it resulted in free publicity for the company? Support your answer with reasons.

Caselet 40

Victor Global Investors is a successful fund management company, with its operations spread across Europe, Asia and North America. It provides services both to institutions and private individuals. It is a market leader in the field of socially responsible investment (SRI). Under SRI, the company identifies and invests in other companies that are not only committed to their own growth but also that of the national economy. Victor Global Investors believe that SRI is one of the most effective ways of bringing about a change in attitude of the firms that it has invested in. Victor also feels that a good business approach will show that the financial returns from investing in companies that are socially responsible and environment-conscious are more than equal to the returns available from a firm with a less responsible approach. Victor Global Investors has taken upon itself as the task of increasing the awareness and understanding of SRI. In operating its SRI portfolio, Victor Global Investors follows certain criteria.

VGI has invested in

i. companies that provide the world with sustainable economic development, that in sectors like healthcare education, public transport, renewable energy and water management industries
ii. companies that are found to be doing well when assessed against conventional measures of financial performance in terms of return on capital employed, profits as a percentage of turnover and labor productivity
iii. companies that exhibit best practices within the sectors in which they operate
iv. companies which are willing to work with institutional investors and Victor Global expert researchers in the area of sustainable economic development and
v. companies that safeguard the human rights of its employees as well as those of the people employed by their suppliers.

Victor Global Investors believes that it is in a good position to influence the way companies conduct their business because it feels that

i. Companies need sources of investment funds in order to survive.

ii. Companies need a healthy share price to attract further investment funds. If institutional investors stop holding a particular company's shares, stock market valuation of the company comes down.

iii. Leading companies believe that Victor Global Investors invest in the best and encourage the rest.

Victor Global Investors believed that working from within the system and also from 'behind the scenes' is the most effective way of bringing about changes, because this is highly pragmatic and recognizes business realities. With worldwide connections, Victor Global Investors has acquired knowledge about the best ways to influence the way companies conduct their business. For instance, it has bought shares in leading companies and has passed resolutions at the company's annual general meeting using its power as a shareholder to improve the company's environmental performance. It has found that companies are becoming keen to see their shares being held within SRI portfolios, which is a seal of approval. Victor has been trying to tell companies that when a business adopts a broader view of its economic, social and environmental responsibilities, it not only serves the interests of society, but also its own interests. VGI's skilled professionals have proved that

- Companies can increase their chances of survival, by taking care of the environment in which they operate and by being socially responsible.
- Businesses put their own future at risk by failing to look beyond their own short-term requirements.
- Projects that are more responsible may seem expensive in the short-term, but they yield long- term benefits.
- Companies in developing countries can improve the education, housing and healthcare facilities for employees to improve productivity and increase staff loyalty.

VGI has also been increasingly successful in convincing its own clients that investments placed within an SRI portfolio not only support a cause that the clients believe in, but also hold prospects of very good financial returns.

Questions for Discussion:

1. What are the different criteria that you would look for while operating a SRI portfolio?
2. In what ways does operating on an SRI portfolio help VGI in the long term?

Caselet 41

On 25th August, 1989 a major accident occurred at the Westbridge railway station. The accident took place when the Western commuter train passed through a red light at Midstreet, two miles outside Westbridge station in Britain. The Western train driven by Rick Hedge collided almost head-on with a Britain bound Eastern high-speed train. Both Hedge and the Eastern train drivers along with 50 others were killed in the accident. More than 50 people were killed and approximately 400 people were injured in the accident. The Britain's Health and Safety Executive (HSE), who investigated the crash concluded that the initial cause of the accident appeared to be the passing over of the red signal by the Western train. The reasons behind the train passing the red signal were likely to be complex and that "any action or omission on the part of the driver was only one such factor in a failure, involving many contributing factors."

Hedge, who joined western train in March 1989 had become fully qualified as a driver just thirteen days before the accident and had completed just nine shifts as the driver-in -charge. However, the HSE reported that this was relevant. According to the HSE report, the signals on the gantry were of unusual design, and hence might have been difficult to read.

Britain rail network was privatized in 1984 and many rail companies have undertaken activities on a large scale to cut down costs. The railway workers felt that the private players were concentrating more on the number of projects than on the safety of the passengers and workers. The railway companies were cutting on their finances for safety as they thought more expenditure on maintenance would decrease their profits. A report on a similar mishap in late 1970's, in which 35 people died, recommended the installation of an Automatic Train Protection (ATP) system across the rail network. The cost of ATP installation was around 1 billion pounds.

Before the privatization of the railway network, the responsibility for ensuring the safety of the railways rested with the government. After the privatization, rail track subcontracted all the work on internal structure and maintenance to other firms which had no previous experience in railways. Moreover, it was alleged that the priority for repairs was given to the most profitable lines, and not to the lines that needed the repairs.

Before 1984, all safety-critical workers would work a maximum nine-hours per day. In the year 2000, drivers worked on either ten-or-eleven hour days, depending on the company. Drivers got as little as nine hours' rest between shifts (and even less, if they worked overtime). Moreover, tougher sickness rules, penalized drivers who were ill 'too often'. Drivers were put under huge pressure to work even if they felt unwell.

Questions for Discussion:

1. Can a system relying on individual action be acceptable in a transport system or where people's lives are at risk? What unethical practices have led to this accident?
2. What steps should the railway authorities take to prevent such accidents occurring again?

Caselet 42

Westman, a lens manufacturing company, faced difficulties when it started diversifying in business, following long-term under performance. The company's underlying perspectives were

- Not to participate in a market or a business which is not based on its technical competence.
- Achieve number one or number two position in markets where the rate of return exceeds the cost of capital.

In 1992, when Westman started its diversifications, it faced serious problems. For instance, its debt worth $10.3 billion had doubled since 1988. In 1988, it acquired the $5.1 billion Nemstex Drug, which never produced the expected returns. Analysts felt that this division could be hived off. They had predicted a growth of 6-8 percent in its core business of photography, but the actual growth was only 2-4 percent. Since 1982, four separate restructuring activities had been undertaken. This included write-offs worth billions of dollars when the company under performed the S&P 500 index by 150 percent.

- The company's principal guide, Reobock Kay advised the CEO, Philip Westman that the involvement of credible customers in the organization would add more value. Though Westman had a dominant position in the markets of photography, increasing competition across the world had posed a question- whether Westman should diversify into other businesses or remain focussed and increase market share in the existing business. Westman undertook the following measures as a response to competition:

- Westman overspent on its core problem competing for a market share without adopting a proper strategy.
- To sustain its corporate growth and regain its margins it invested in diversification.

Though the costs of acquisitions, research programs, and capital budgets were financed by a five-fold increase in debt, shareholders' equity remained unchanged. As the growth rate was slow and margins declined drastically, the management had to write off six times, which totaled to $4.7 billion, in less than eight years with no improvement in margins.

However, the failure of these measures in improving the competitiveness of the company has compelled the management to solicit suggestions to improve the performance of the company.

For improving shareholder value, the following were suggested:

- Increase in realization on assets and sales.
- Concentrate on earning.
- The use of cash flow to increase dividends.
- Reduction in debt and increase in the company's financial strength.
- Distribution of unrelated assets to share holders.

Governance reforms recommended constructive relationship with managers and owners of Westman by:

- Introducing confidential voting.
- Separating the positions of Chairman and CEO.
- Having a genuine, independent board by increasing the ratio of insiders to outsiders.
- Removing annual election of all directors.

It was decided that at Westman's 1993 Annual meeting, a shareholder resolution would be proposed to create an advisory committee of the company's biggest, long-term shareholders. The steps taken by Westman to demonstrate its commitment to the company's owners were:

- The appointment of a new financial officer
- An overhaul of the core imaging business
- A new compensation plan for senior executives
- A new corporate directions committee
- A new long-term strategy

Westman came out of its traditional rule of promoting insiders and appointed Mr. Woodlock who has experience in turning around various sick automobile firms. Westman's stock price moved up by 17 percent. Westman cut its R&D spending, revamped queries operations, and thus hoped to minimize net costs by over $200 million in a year. It formulated a plan, which required top managers to buy stock in the company equal to one to four times their current salary. The CEO of Westman announced his willingness to buy stock worth four times his current salary that is $ 3.8 million, within five years. To assess Westman's competitive position and develop plans to increase shareholders' value, it was decided that the board would consist only of outside directors, and it would have a straightforward charter. The long-term strategy of the company was to formulate a business plan in six months and cut the debt-capital ratio from 59 percent to about 30-40 percent, and it retained the strategy of asset sales to achieve the goal. After this, the stock rose by $2.63.

Though all the above were suggested to improve Westman's performance and a genuine desire to address shareholder concerns, Westman withdrew its shareholders' proposal for a shareholder advisory committee. Woodlock resigned as Westman's CFO. He felt that others perceived his ideas as too 'revolutionary' while they aspired for an 'evolutionary approach'. Following Woodlock's resignation Westman's share price decreased by $5 in a single day. Westman's commitment to change was questioned by its shareholders. The shareholders wanted an explanation for Woodlock's resignation, and how they could trust the present management to bring success to the organization. In a meeting with shareholders, the CEO said that 'the constructive and helpful' role that other investors played during the previous year provided the company with an external point of view that they have to look at, too. The shareholders were not convinced by what the CEO said, and they announced the appointment of Greigmack as Westman's new CEO. On the same day, the stock price rose by $4.87 to $59.62.

Questions for Discussion:

1. Discuss the reasons for the steady increase in Westman's share price.
2. Discuss the role and responsibilities of a CEO in an organization?

Caselet 43

The US telecom industry was thrown deeper into turmoil on June 25, 2002, as Worldcom's bankruptcy combined with a stock earnings warning from Bellsouth to send share prices tumbling across the sector.--FT.com

"The value in Worldcom is not in switches and pipes we have underground, the value in Worldcom is in our 20m customers and our Brands." John Sidgemore, CEO-Worldcom

Worldcom is America's second largest long-distance telephone company. Its founder, Bernard Ebbers, had built up the company over years through a significant number of mergers and acquisitions. Worldcom was started as a result of a merger between LDDS (Long Distance Discount Service) a long-distance resale company and two small companies, MFS Communications and UU net, during the early 1990s. Ebber's acquisitions came to a halt in 1998 with a $37 bn merger with MCI, US's second largest long- distance phone company (the first one is AT&T).

Worldcom is a premier, one-stop global data and Internet solutions provider, meeting varied business and technology needs of customers. The company has many competitive advantages. Its state-of-the-art, private IP networks across the globe in delivering high value service. Worldcom's extensive commercial involvement with the Internet enabled the company build the industry's largest and most rigorously engineered IP backbone network. This network linked 850 cities in 100 countries. Moreover, Worldcom had one of the largest and highest quality IP networks in the world covering six continents, with more than 3800 points of presence and 2.1 million average active dial ports.

During the 1990's, the market dynamics of the telecom industry in US and Europe started changing significantly. Consequently, Worldcom's profits and margins started declining because of the excessive capacity of bandwidth, the price war and the rise in the use of mobile telephones. Worldcom's absence in the mobile telephony was one of the major reasons for its declining margins and profits.

In June 2002, Worldcom hit business headlines with the biggest scandal corporate America had ever witnessed. Worldcom overstated its profits by $3.8bn. And the company admitted this guilt. Then, SEC (Securities and Exchange Commission) filed a lawsuit against Worldcom, charging it with fraud. The chairman of SEC said it was seeking orders that would prevent any dissipation of assets or payouts to senior corporate officers, past or present, and prevent the destruction of any documents. Even the Federal Communications Commission took some action in this case. The company agreed that it did not actually make profit worth $1.4bn, as it reported in 2001. Moreover, the $130 mn profit stated during the first quarter of 2002 was not genuine. The company showed expenses worth $3.8 bn as capital expenditure, because it would boost the value of the business. Apart from showing fraudulent accounts, Worldcom said it would cut 17,000 jobs- about one-fourth of its total staff and fire its chief financial officer, Scott Sullivan. In addition, the company decided to sell its series of non-core business to save $2 bn. The share value of Worldcom started falling during the late 1990s as the businesses slashed their spending on telecom services and equipment. A series of debt downgrades increased the borrowing costs of the company that was struggling with debts worth $32bn. But the company claimed that it has no debt maturing during the next two quarters. During the end of June 2002, the share value of Worldcom fell by more than 98% from its all time high. The company's share price tumbled to an all time low of 6 cents as the investors reacted to the fraudulent accounting practices of the company for the first time. This inflated its financial results artificially by hiding expenses worth $3.8bn. The company also faced a threat of its stock being de-listed from NASDAQ.

The investigators of the accounting irregularities at Worldcom started focusing on the former CEO Bernard Ebbers, who resigned in April 2002. Ebbers was investigated for taking $366 million in personal loans from the company. In addition, a federal probe of the company's accounting practices was carried out. According to a newspaper report, Ebbers said that he did not know what the situation was and what was going to happen. He also said that he did not know what mistakes were made. He commented that no one would find him to have knowingly committed the fraud. But the fired CFO, Sullivan told the lawyers that the chairman of the company, Bernie Ebbers knew that millions of dollars had been moved into capital debt instead of being treated as ordinary debt of the corporation. And during the first week of July 2002, when both the executives appeared before the House of Financial Services Committee, they remained silent and invoked their Fifth Amendment right against self-incrimination.

Upon serious probing by the investigators of SEC and the Federal Commission, Worldcom blamed its auditor, Arthur Andersen - the accounting firm behind the Enron scandal. Arthur Andersen signed off the telecom company's overstated profit statements for a period of 15 months. When a panel of federal law-makers, angered by corporate America's widening accounting scandals, questioned the new CEO John Sidgmore, he said, "I am extremely puzzled that a consulting firm like Arthur Andersen did not discover a wrong-doing of such magnitude." Initially, the House of Financial Services Committee was unable to question the two former executives, the CEO and CFO - who led Worldcom when it inflated its profits. Arthur Andersen defended its auditing at Worldcom by passing over the blame to Scott Sullivan, the former CFO. The accounting firm commented that the Worldcom CFO withheld important information about line costs from Andersen. However, Andersen was found guilty, in June 2002, for obstructing justice by destroying the audit material of Enron that overstated profits before declaring bankruptcy in December 2001. Jack Grubman, an analyst at Salomon Smith Barney, lowered his rating of Worldcom only a few days before the company announced the accounting scandal. He said that he had no knowledge in advance about any fraud when he cut the rating. Grubman had attended three board meetings of Worldcom. The spokesperson of Salomon Smith Barney said that Grubman's presence at the board meeting was in compliance with the rules and guidelines of SEC. Worldcom said in a SEC filing that its former CFO, Sullivan attempted to postpone the declaration of the news of inflated profits. The internal auditor of Worldcom, Cynthia Cooper started reviewing the company's capital expenditures and capital accounts in May, 2002. On June 11 2002, when Sullivan was confronted with questionable transfers to the company's capital accounts, the CFO Sullivan asked Coopers to delay the review. However, Coopers continued the review.

The new CEO, John Sidgemore repeated vows to provide all available details to the investigators looking into the company. He commented that though he could not have changed what had happened, he would be responsible for what he would do at that time and in the future. Worldcom was struggling to survive a $3.8 bn accounting fraud. Sidgemore was in talks with its lenders for financing so as to help Worldcom avoid bankruptcy. However, at least two of the four options being considered involved filing for bankruptcy under chapter 11. Whether or not the company could be considered bankrupt was left to the banks to decide. The company owed $2.65 bn to more than 20 lenders. This could have forced the company into bankruptcy. The lenders were willing to provide capital only if their loan was secured with bankruptcy protection or the company's assets. Sidgemore was trying hard to avoid bankruptcy. He held talks with GE Capital that has experience in providing debtor-in-possession financing to troubled companies. Later, the company clinched a deal with its lenders, so that they would not freeze a crucial $2.25 bn line of credit extended to the company. Under the deal, the banks that were suing Worldcom would drop their request for a restraining order for 70 days to prevent the company from using the money. Worldcom agreed not to sell any of its wholly owned subsidiaries for 80 days.

In its way to bankruptcy, Worldcom missed three interest payments amounting to $79mn and the bondholders had the right to demand payment of their principal after a grace period of one month. As the company had low cash on hand, over 24 banks sought a court order for freezing the $2.25bn loan taken by Worldcom in May 2002. Meanwhile, Worldcom arranged a debtor-in-possession finance of $2bn from J.P.Morgan, Citigroup and GE Capital. This financing would allow it to operate during bankruptcy.

Pressed under the load of debts worth $41bn, Worldcom filed for bankruptcy under Chapter 11 in the southern district of New York. With $107bn assets, Worldcom's bankruptcy became the largest in the history of corporate America, dwarfing even the Enron's scandal. Under Chapter 11, the company could continue to operate while it developed a revamping plan. As per Chapter 11, a company is protected from creditors while it tries to reorganize and pay-off its debts. According to Michael Powell, chairman of the Federal Communications Commission, the bankruptcy would have no immediate effect on the company's customers. On this occasion, the CEO Sidgemore, said that they would use this time of reorganization for regaining their financial strength and focus, and operate with the highest integrity. He also said that the company would emerge from Chapter 11 as quickly as possible and with its competitive spirit intact. For monitoring this reorganization work and reviewing its accounting practices, Worldcom elected two new members to its board - Nicholas. Katzenbach, a former U.S. Attorney General and former general counsel of IBM Corp, and Dennis R. Beresford, currently a professor of Accounting at the University of Georgia and former chairman of the Financial Accounting Standards Board. These two people elects were placed on the special investigations.

Successive accounting scandals concerning organizations such as Enron, Tyco, Global Crossing and Worldcom, hampered investors' confidence and prompted action by lawmakers, including the president of USA, George W. Bush. (Bush Jr.) promised a full investigation into Worldcom's accounts. Bush, said that the information was 'outrageous', and commented, "We will fully investigate and hold all people accountable for misleading not only shareholders but also 17000 employees." He also said that those entrusted with the shareholder's money must strive for the highest of standards. However, Bush himself seemed to be in a great conflict. The White House admitted that Bush had borrowed money from the oil company, Harken Energy Corp. when he was a member of its board. A practice that he condemned in Worldcom to curb corporate abuse and fraud was once practiced by himself at Harken Energy Corp.

Therefore, the final problem was not Worldcom's accounting system or its operation, but how to regain the investor confidence by reestablishing the ethical standards in corporate world, especially with regard to the society, employees and shareholders.

Questions for Discussion:

1. What according to you went wrong at Worldcom? Who do you think should be blamed?
2. What should be the key responsibilities of the auditing firm Andersen, whose approval of overstated profit statements led to the bankruptcy of Worldcom and retrenchment of 17,000 employees? What is ethical auditing and what should be the main objectives of ethical auditing?

Caselet 44

Internal investigations using undercover 'agents' are widespread among American businesses. A survey by Macworld revealed that approximately 20 million employees in the US are subject to some form of electronic surveillance. Employee surveillance is prevalent among retailers whose narrow profit margins are destroyed by employee theft. According to the National Retail Federation, employee theft accounted for an estimated 41percent of the total theft ($27 billion) as reported by American retailers in 1992.

Mach Hub worked for Xmart, a big retailing company. He was reserved and interacted with very few people in the organization. John initiated friendship with Hub by inviting him home along with his family. Within months, John and Hub became close friends and they visited each other a couple of times. John even helped Hub to move into a new house.

One day, the Xmart union received an anonymous package containing invoices and copies of weekly reports that had been prepared for Xmart management by confidential investigate consultants (CICs). The reports covered a wide range of personal information about Xmart employees, including their dating experiences, drinking habits and living arrangements. "Xmart violated every standard of decency you can think of in spying on these workers lives," contended Xmart president, Ron Carry. "No employer should be allowed to snoop around in to employees' personal affairs."

Hub was shocked, when he found that John was one of the under cover investigators hired by Xmart to spy on the activities of employees. "We worked together and talked together on the job. However, when I found that he was a company spy, I really felt betrayed." I was really afraid that I did walked into something too big."

The union was also concerned about the timing of the investigation, which took place shortly before their elections. Although Xmart denied any relationship between the investigation and the election, Tom, another member of the firm disagreed and said that it appeared to be different from a surveillance program aimed at ferreting out theft. The reports were talking about who was shopping at Xmart and who was shopping at different stores, who was living with whom and who was signing up for a union card. If companies want to conduct employee surveillance, "it is essential that they do it correctly. When it's done in a proper manner, it would be a tremendous tool, but it also has its potential for abuse", pointed Nick Timmer, a vendor of drug investigation and education services.

Outraged by Xmart's behavior, the union filed a suit against the company on behalf of several employees who worked at the plant. The suit charged Xmart with violations of privacy law, fraud, deceit and breach of contract. The union also said that Xmart's spies posed as the workers' friends while they probed into their private lives and even followed them into their homes. Xmart argued that the spies were hired to investigate a suspected theft ring, which was broken up as a result of the investigation. But after looking at the reports, the union felt that the kind of information the reports conveyed had nothing to do with legitimate business or security concerns. The reports were talking about who was shopping at Xmart and who was shopping at a different store; who was living with whom and who was signing up for a union card.

Apart from legal complications, spying on employees can prove to be a serious setback for an organization. "The spy is not just watching the guilty employee, he is monitoring everybody and it's deceit," said Lew, director of the American civil liberties Union's project on employee privacy issues. A breakdown of trust within a company can prove far more expensive than any theft. Employees may lose faith in both the company and their purpose in it. Hub who worked for the company for 28 years, asserted that he felt betrayed by the company, and he had no choice but to fight back in court.

Questions for Discussion:

1. How would common morality evaluate Xmart's actions? What would be the impact of such actions on business?
2. Whose rights are at stake? If surveillance is legal does that mean it is ethical?

Part B: Caselets (Suggested Answers)

Every caselet will have more than one possible solution. The guidelines are intended to help students develop their abilities to analyze business situations and develop feasible solutions.

Part B: Caselets (Suggested Answers)

Caselet 1

1. The differences between corporate management and corporate governance are as follows

- Corporate management focuses on the internal activities of the organization whereas corporate governance focusses on the external activities of the organization.
- Corporate management assumes a closed system whereas corporate governance assumes an open system.
- Corporate management is task-oriented whereas corporate governance is strategy - oriented.
- Corporate management is concerned with getting the company to achieve its goals whereas corporate governance is concerned with the strategic direction of the company.

An internal director may face role-conflict in the following situations: An internal director is responsible for monitoring and overseeing his own performance. An internal director can have a myopic look at the interests of the shareholders.

2. The audit committee is comprised of independent directors. The role of an audit committee is

- To review the interim and final accounts.
- To keep the board fully informed about the quality of the financial reporting and the areas of disagreements with the auditors.
- To liaison with the chief executive and the finance director, and to attend board meetings.
- To enable the external directors to understand the financial operations of the firm better.
- To act as a link between the board and the external auditors.
- To look into the matters raised by the external auditors relating to the management systems, and to try to resolve any objections that the auditors raise about the published financial accounts.
- To make recommendations regarding the audit fee, selection and replacement of auditors.

Caselet 2

1. The acts of the grain handlers and the exporters are considered unethical because watering the grains increases their density and, thus, makes the importer pay more. However, the grain handlers and the exporters may defend their acts on the basis of utilitarianism, because their actions are more favorable to every one than unfavorable, as they prevent explosion. But, viewers from the importer's perspective, this act of rejecting the goods can be considered morally right according to the theory of egoism, because the importer would incur losses if he accepts the material. Therefore, he can be said to be morally right as the consequences of his action are more favorable than unfavorable to him.

2. Though it is legal to export the soyabeans with 13.5% moisture content, it would not be considered morally right to export the grains with 13.5% moisture content. It would be ethical if the exporters and handlers water the grains to the minimum threshold level that only prevents the grains from exploding. Since there is always a thin line of differentiation between what is legal and what is ethical, the exporters and handlers may try to place themselves just on the differentiation mark, so that their acts would not fall under the illegal category.

Caselet 3

1. Natesan started his career in 1983 by setting up a consulting firm called 'Yours Faithfully Consultancy.' In 1984, he ventured into construction business along with three other partners who closed their operations just after three years, to start Anubhav Foundation. In 1992, Natesan floated Anubhav Plantations Ltd. as a public limited company. With the passing of time, Natesan started diversifying into unrelated business areas, such as Anubhav Homes Ltd., Anubhav Resorts Ltd., Anubhav Finance & Investments, Anubhav Communications & Advertising (Pvt.) Ltd., Anubhav Royal Orchards & Exports, Anubhav Hire Purchase Ltd., Anubhav Green Farms & Resorts (Pvt.) Ltd., Anubhav Agro, Anubhav Security Bureau, Anubhav Interiors and Anubhav Health Club. By 1998, Anubhav was a Rs 250 crore group which, apart from its teak-plantation schemes, was involved in finance and real estate businesses. However, its profit margins started fading away probably because of the unrelated diversification and syphoning of funds into its other businesses. The company's paid-up equity capital was only Rs 36 lakh, while its secured and unsecured borrowings, totalled up to Rs 2.64 crore. Of the Rs. 25.95 crore loans and advances, Rs 10.75 crore had been lent to Anubhav Foundations, Anubhav Green Farms & Resorts, Anubhav Resorts and Anubhav Communications. The funds were invested to purchase residential apartments (Anubhav Foundations) and farmland (Anubhav Green Farms), and to meet the expenses incurred on advertising and marketing (Anubhav Communications). The reason for the fall of Natesan and the Anubhav Group, could be diverting the money raised from the investors in plantations to other group holdings and activities.

2. In July 1999, SEBI requested the Supreme Court to consolidate all the petitions filed in various courts against Anubhav Plantations and its firms. In addition to this, extensive media coverage created a widespread public outrage against plantation schemes. The negligence of the concerned regulatory authorities can be regarded as a major factor behind the scam. In the early 1990s, setting up a finance company was very simple as there was no supervisory authority for sole trading or partnership firms, nor did these firms come under any regulatory framework. This loophole in the regulatory frameworks gave the finance companies a competitive advantage over the other non-banking financial companies (NBFCs). Though there was a limit on the number of depositors in these sole trading or partnership firms, there was no limit on the amount of deposits they could collect. Further, the RBI did not have the power to set a limit on the interest offered by these firms on their deposits. Thus, the finance companies were able to lure the public through their unbelievably high interest rates. As agricultural companies did not come under the purview of RBI, it was easy for these schemes to flourish.

The SEBI appointed a committee under the chairmanship of S.A. Dave, a former chairman of UTI and SEBI's first chairman, to frame a comprehensive set of regulations, only after the failure of such finance companies. But when SEBI issued a set of directives on mandatory registration and credit rating, only 540 companies complied with the SEBI requirements. SEBI then appointed chartered accountants to audit the books of the top 50 of these companies and thereafter issued show-cause notices to 11 of them for non-cooperation. Companies that did not get registered were barred from raising fresh funds from the public till they satisfied SEBI the directives. But, by the time SEBI took action and implemented the measures, significant damage was done and the investor's money had vanished forever.

It is the duty of the regulatory agencies and the government to device laws and regulations to prevent such scams.

Caselet 4

1. Firing employees is common in the present day business environment, but this can be considered unethical when it is done arbitrarily - without just criteria. In this case, the management's act of firing employees is unethical as it is not based on performance appraisal or any other just policy. It is also unethical as the company has fired people without formally announcing that it was planning to retrench employees.

Arbitrary firing practices like firing 'at will' or for unjust reasons are considered to be unethical as they lower the morale of the remaining employees and result in decreased long-term owner value.

The company can take the following steps to make the firing process transparent and fair.

- The employees should be laid off on the basis of proper criteria, and not at will or for personal gains.
- The criteria can be based on performance, discipline, and so on. If possible, the management should hire outside consultants to devise the lay off process.
- The company should announce ahead of time that it is retrenching people because of poor business conditions. This will improve the employment prospects of employees who are fired.
- The remaining staff of the company should be informed why some people were retrenched. This measure can reduce discontent and uncertainty among the employees.

2. The company is right in setting certain rules and regulations regarding the continuation of employment. Including clauses that would enable the company's management to fire people at-will is legal but it is unethical to evoke such clause to fire employees for some unjust reasons. This can also be considered unethical because such clauses create distrust and uncertainty among the employees, which may reduce the long-term owner value.

Caselet 5

1. The success of Bharath Housing Corporation (BHC) exemplified the utilitarian and integration views of ethics.

According to the Utilitarian view, business is a part of moral structure and moral ethics. If businesses want to survive and flourish in the long run, morality and ethics cannot be separated from their operations. This view also emphasizes, the role of businesses in serving society.

Talcott Parsons proposed a view called the integration view. He was of the opinion that ethical behavior and business should be integrated or combined in a new area called 'Business Ethics.' He argued that while business, as a economic entity, has the right to make profits, it should at the same time discharge its social obligations.

According to this view, business and morality are inter-related and are guided by external factors like government, market system, law, and society. The government and market system are related to business. i.e. rules laid down by the government directly or indirectly affect business, and may thus affect the market system. Similarly, laws will guide business and determine what business practices are right or wrong.

In this case, BHC has adopted an ethical approach to business to gain customer loyalty and survive in the long run. It believes that a business can function in an ethical manner even in a corrupt industry like construction. Not only did the company carry out business in an ethical manner, it also emerged as the single largest builder in Bombay.

2. According to the theory of corporate moral excellence, Bharath Housing Corporation can be considered an ethical organization.

The theory of corporate moral excellence focuses on 'corporate culture' and 'ethical behavior.' The proponents of this theory believe that organizational culture has an impact on the behavior of its employees. Culture is based on the values of an organization. According to Deal and Kennedy, "Values produce a sense of direction for employees and help to guide and control their day-to-day behavior".

Corporate values can be classified as:

- Espoused Values
- Values in Practice

Espoused values refer to a company's statements, credos and code of ethics. They describe the organization's purpose and ethical perspective. Ethical perspectives are aimed at guiding the members who are responsible for leading and directing the organization. They are also intended to communicate to employees, customers, competitors and suppliers the type of behavior that is acceptable to the organization. The actual values practiced by an organization in its day- to -day operations are called values in practice. An organization should align its "Values in practice" with its "Espoused values" if its wishes to be regarded as an ethical organization.

BHC's 'Espoused values' are articulated in its corporate mission statement; "To try and prove that organized business when deeply committed to human values is the best equipped to lead society to a better quality of life." BHC put its values in practice by not following any unethical business practices. Therefore, BHC can be considered an ethical organization.

Caselet 6

1. One of the ethical issues for Mary is whether she should design a labeling and advertising campaign that strongly promotes health benefits – thereby, ignoring new scientific evidence, new FDA standards; or design marketing strategy that is more scientifically-grounded and aligned with FDA's standards. The ethical problem has primarily to do with how accurate, reliable and truthful the health claims made on the label and in natural brand product labels are. Should she go ahead with marketing strategies adopted earlier by CFI's competitors, even though she now has evidence that these claims have been scientifically challenged, simply to avoid confrontation with Tom Lee. Will it be wrong to convince its customers that natural brands' ingredients will help them prevent cancer -- when such ingredients actually do not have any such prevention potential? Will CFI be placed at risk if its advertising claims are proven misleading?

2. Many people could have reservations about the first option proposed by Mary because it involved the promotion of an aspect of the product (vitamin enriched) that did not differentiate it from other products. Moreover, the strategy can be considered unethical because most Americans do not suffer from vitamin deficiency. In other words, this option persuades the consumer to buy something he doesn't needs.

The second option tries to exploit consumers' fear of cancer. It is likely that CFI brands (at least temporarily) garner a considerable share of the market from individuals hoping to prevent cancer by consuming the cereals. This, of course, would be a false hope, since cancer prevention is not known to be associated with consumption of any single food item or brand, but with many lifestyle choices, environmental conditions and genetic pre dispositions. If CFI mentions cancer, it should specifically mention the type of cancer that may be prevented. Moreover, the importance of a well balanced diet should also be emphasized.

It is likely that the cereal consuming public will be attracted to the third campaign because it combines overall healthy lifestyles with traditional marketing approaches. Individuals who are seeking a high-fiber, low-fat diet (either on their own or on a recommendation of their physician) will be attracted to the product for these qualities -- without having the product specifically spell out, promise or imply that certain health benefits will occur. Sales of the product would increase and moreover, it is an approach that is the least risky.

I feel that Mary should recommend a fourth option, which would be, a combination of the three strategies suggested above. It could emphasize well known and accepted health benefits offered by the product (13 essential vitamins and minerals, no fat, etc.) and the unique and convenient packaging of the item. A reference could also be made to the various studies that indicated that a high-fiber, low fat diet reduces the risk of cancer. By doing so, the product could be projected as unique, innovative and attractive, while simultaneously avoiding any legal or pressure group problems.

Caselet 7

1. From a business point of view, Coke's strategy of signing a deal with the district administration to gain exclusive rights to sell its products in schools is right. Although Coke spent huge amounts to acquire these rights, it is unfair on its part to gain marketing benefits by exploiting children. Thus, from an altruist angle, such a practice is unethical. Moreover, Coke's act of donating funds for schools cannot be considered as fulfillment of social responsibility as it was doing so expecting returns in the form of exclusive selling rights. It would be better if Coke adopted more ethical marketing strategies, which do not involve children.

2. The Belgium incident was one of the worst public relations nightmares ever faced by Coke. Coke's bottling plant at Antwep seems to have used inferior quality carbon dioxide to produce Coke. France also banned the sale of Coke after it learnt that some cans of coke were contaminated with a preservative while shipping. Coke claimed that fungicide might be the reason for the illness of many adults and the children. However, the European commission blasted the company, saying that the company did not cooperate adequately and its justifications were not entirely satisfactory. Coke and the European commission which seem to have locked up in a battle of public relation, spoiled things further by providing inconclusive reasons for the health problems.

Coca-Cola failed to handle the crisis created by the contamination soda in Europe. Even after about 200 people in Belgium and France, including school children, claimed they fell ill after drinking Coke, the company denied responsibility for the same. It assured that there was no problem with its bottling plants. Escalating investigations by European governments and a raft of negative media coverage across the globe compelled Douglas Ivester, CEO Coke to accept responsibility and apologize. According to *Fortune* magazine, Ivester had realized earlier that a bad batch of carbon dioxide had made the Belgian children sick. But he ignored it as something minor, and did not consider it a health hazard. Assuming that the furor could vanish soon, Ivester, chose to keep silent. But, he failed to understand that his silence sent a message that the company was insensitive and indifferent to the sick school children. The crisis turned out to be a major blow to the company's reputation and public confidence in Europe, where the company did not have a positive image due to Ivester's aggressive and unpopular efforts to takeover several companies.

3. According to Karen Berg, CEO of CommCore Communication Strategies, whenever a crisis of this kind erupts, organizations should respond to the situation as early as possible.

But, in the time of crisis, organizations usually deny or delay responding to the situation, just as Coke did. Delaying or denying the response to the crisis would be the worst action any organization can take. Delaying the response to a crisis can send a signal of failing to act on the issue, especially when it is concerned with the health of the public. Though, delaying and denying can seem to be the most attractive strategies to address the crisis, these strategies would further tarnish the image of the company. Delaying may be a good choice if the organization is not sure of the cause of the problem or if there is a probability of the issue being exaggerated. Denial may be the appropriate strategy if the organization feels that the issue is insignificant. In case of Coke, it should have directly acknowledged the problem and provided regular updates as the situation developed. An honest and timely response to the media, public and the employees, would certainly help protect the reputation and credibility of the firm. Coke should have faced the crisis head-on to avoid the kind of troubles it faced later. Coke should have carefully reviewed and monitored its consumer food safety complaints, which could have acted as a highly effective early-warning system. Though no one can win a crisis situation, but planning and preparation can differentiate between life and death – not just of the organization but the stakeholders as well.

Caselet 8

1. The root cause of the ethical dilemma faced by James is that there will be many people who will be affected by any decision he takes (to move or not to move). His first dilemma is whose interests are to be protected while making the relocation decision. In this case, James must ask himself: To whom does Electrotech owe its loyalties, and at what costs? Whose interests will be guarded and whose rights may be violated by his decision? Are there ethical lines that he must not cross regardless of the cost?

The answer to these questions are quite simple. The shareholders, employees, and surrounding communities will be directly affected by his decision. While the shareholders have the right to expect the maximum gain from their investment in the company, the employees have the right to expect job security for their continued loyalty and devotion to the corporation. The community also deserves the right to stability and continued employment for its citizens in return for the services it provide, and hazards it may have been exposed to. At the same time, the country to which they move should not be affected negatively by its operations.

Therefore, while making a decision James should consider the rights of all the above mentioned groups and select a course of action which ensures that the company has fully and properly discharged its moral duty (i.e. all those who affect or are affected by its activities). If James decides to relocate in favor of some stakeholders, he should also take care to minimize the damage done to other stakeholders. The employees should be given prior notice in order to allow them the opportunity to find new jobs and readjust their lives in case of the plant closures. The management should also consider the option of closing the plant gradually rather than abruptly in order to make the transition easier for all the shareholders involved. Electrotech should also offer retraining programs for those employees who will need to find new jobs after the company has relocated. The company may consider trying to place some workers in other jobs or give them good severance packages to help lessen the blow of unemployment. These and other such programs should be looked into in order to minimize the damage done to others. When making the decision to move, the costs of such programs need to be incorporated into the decision making process to see if the move is truly profitable.

2. Electrotech is under pressure from its shareholders to relocate to another country so as to minimize the production costs and maximize profits. As a corporation Electrotech's first responsibility is towards its shareholders as its existence depends on their continued support. Hence it is essential for the company to move to off shore locations to maintain profitability and competitiveness. But profit should not be the only criteria for selecting a country for relocation. In this case Philippines seems to be a best place to relocate in terms of costs. But James should ask himself as: To what extent can the company pollute the global environment taking advantage of the relaxed environmental and labor regulations in developing countries. To be known as an ethical company even after moving to a country like Philippines, Electrotech can set its own environmental and labor standards, which are in compliance with its own code of ethics. It can pay its employees in Philippines around 4 to 5 $ per day, which would be considered as a good living wage. At the same time, it should also try to instal safety systems in accordance with its home country norms.

Caselet 9

1. Firestone has played a significant role in the controversy. Because of its concern over tread separation, accidents, injuries and deaths, Firestone recalled all Radial ATX and ATX II and Wilderness AT tyres. Of the 6.5 mn tyres recalled, 3.8 mn tyres were Radial ATX and ATX IIs, and 2.7 mn tyres were Wilderness AT. These tyres were original equipment used in certain Ford Explorer SUVs, Mercury Mountaineer, Ford Ranger pick-up trucks, and Mazda Navajo and B-series pick-up trucks. The recalling of tyres by Firestone was perhaps the biggest auto safety crisis in the history of US. All the Firestone executives in Japan were unwilling to respond to queries and doubt of investors and the media. In September 2000, Firestone announced that it would inspect 1.4 mn tyres not covered in the August 2000 recall, free of cost. Firestone officials said that the tyre models identified by NHTSA, were found to have higher than average rates of tread separation, and would be inspected without charge at the company-owned stores and authorized retailers. However, NHTSA recommended that the tyres to be inspected be recalled because preliminary investigation by NHTSA had revealed that those tyres had an incidence of tread separation that was sometimes higher than that of the recalled tyres. But Firestone refused to include the tyres in the recall. John Lampe, Executive vice president, Firestone, said that Firestone would replace any tyres found to be unsafe. According to a public relation manager at Bridgestone, recalling the tyres was a customer satisfaction initiative. Firestone was even ready to replace faulty tyres with either its own tyres or with its competitor's. This statement made by the company officials show how serious the company actually was on this issue. Firestone alleged that Ford Explorer had some design problems, as it was still rollover, when it met with an accident, even without Firestone tyres in it. Firestone's defensive stand can be justified on the basis of a statement of General Motors Corp (which used the same type of tyres on many of its 1999-2001 trucks), expressing that their performance has been 'excellent'.

2. Ford, right from the initail days of the controversy, was trying to put the blame on Firestone's tyres. During this time Ford's analysis of the data on tyre failures revealed that Firestone's 15 inch radials ATX and ATX II produced in North America, and Wilderness AT tyres produced at Decatur, Illinois plant, showed very high rates of failure treads peeled off, leading to the rolling down of the vehicle. Ford and Firestone seemed to have been aware of the flaws in the tyres for almost a year prior to the recall but it was not until NHTSA launched a preliminary investigation that Firestone recalled its tyres voluntarily. But according to the officials at NHTSA, Explorer seemed to be too heavy for 15-inch tyres. However, there was no definitive evidence to blame either Ford's design specifications or Explorer's tyres. But, during that time, Ford was planning to switch over to 16-inch tyres for its redesigned Explorer, which was expected to be launched in 2002. Analysts also felt that Ford's response to the crisis was also not very positive. Moreover, Ford's CEO, Jacques Nasser seems to appear too stiff on the television, as a spokesman for Ford. Going by the track record of Ford being accused of unethical response to its Pinto case (faulty design of fuel pump), it is difficult to strongly claim that Ford's role in the controversy was completely ethical.

Caselet 10

1. After knowing the fault in the design, Ford seems to have struck an ethical dilemma between its profits and its concern for the safety of Pinto users. By deciding not to redesign its car, Ford seems to have followed the Teleological Ethical Theory, wherein organizations think more about their end goals - profit maximization. Moreover, weak consumerism and communication technology might have influenced Ford's decision not to redesign the car. To be more specific, Ford seems to have followed, the theory of Egoism, which made it think that its actions are morally right if the results of that action are more favorable than unfavorable for itself. However, following these kinds of theories when the life of the customers is at stake would push the company into serious troubles.

2. Whenever a company uses cost-benefit analysis for resolving an ethical dilemma, the probability of choosing a approach which is less costly and more beneficial is more. Similarly, in the case of Ford Pinto, it would have cost the company $49 million for compensation and $137 million to rectify the mistake in its car. So, according to the theory of Egoism, it chose to compensate for the accidents than to rectify the mistake, as the first option was cheaper. But this act of selecting the cheaper alternative is unethical because the negative outcome (loss of life) of the decision outweigh the benefits. In this case, the company should have ensured the safety of its customers by placing a spring-mounted crash guard in between its rear bumper and the gas tank. And to make the design modifications to be economically viable, Ford should have passed on a portion of the cost of redesigning to the customer. This would have made the Pinto project a success, both in terms of safety and profit.

Caselet 11

1. A popular way to protect a company from takeover is Greenmail. Greenmail is an offer through which a potential bidder, who has accumulated a near controllable stake in a target company, is bought out by an offer (including a premium offer from the target company) for its shares, which is not available to other small shareholders. When a potential takeover agent purchases stock in the company greenmail occurs. Legally, after the purchases have totaled five percent, the agent must announce his intention to take over the company. It is usually found that the stock price goes up in anticipation of the takeover, and it is seen that the agent who takes over the company sells the shares back to the company for this increased price. The management of the target company sends greenmails to prevent a shareholder from taking over the company by himself or by teaming up with another competing company. This is considered to be unethical when

- the target company is forced to incur debts to raise funds to finance the buyback of the share at a premium price.
- the management sends greenmails financed by owners' money without their knowledge.
- the potential bidder increases his stake in anticipation of getting a greenmail from the company.
- money, which can be productively used is used to avert the takeover.

2. Any shareholder invests money in an organization to earn returns. Samco, paid $46.7 million for 1.1 million common shares held by the Moshe's for preventing a takeover. In a situation where Samco is not performing well, and other company is willing to acquire it for developing and enhancing its position, Samco is doing injustice to its shareholders. Usually companies adopt the greenmail technique to avoid an unwanted takeover, by buying their shares. It can also be that Samco's top management is trying to benefit the Moshe's family by buying its (Moshe's) shares at such a high price. This is unethical as the management has used the funds of the company without the consent of the other stakeholders. To be ethical, the company's management should allow the takeover to take place, if this would improve the performance of the company and the wealth of its owners in the long run.

Caselet 12

1. The Human Genome Project (HGP) is expected to provide the complete information on the composition and charecteristics of DNA. Information on the effects of DNA variations among human beings can help invent some revolutionary new ways of diagonizing, treating, and preventing thousands of disorders that affect humans.

The HGP's potential benefits can come from the disciplines of molecular medicine, microbial genomics, risk assessment, bioarchaeology, anthropology, evolution, human migration, DNA forensics (identification), agriculture, livestock breeding, and bioprocessing. Research in molecular medicine would improve the diagnosis of a disease, early detection of genetic predispositions to a disease, rational drug design, gene therapy and control systems for drugs, and pharmacogenomics "custom drugs". Research on microbial genomics will help develop new energy sources (biofuels) conduct environmental monitoring that detect pollutants, provide protection from biological and chemical warfare, enables efficient toxic waste cleanup, understand disease vulnerabilities and reveal drug targets. Research on risk assessment, would assess health damage and risks caused by radiation exposure, including low-dose exposures. Risk assessment would also help assess the health damage and risks caused by exposure to mutagenic chemicals and cancer-causing toxins and reduces the likelihood of heritable mutations. Research on Bioarchaeology, Anthropology, Evolution, and Human Migration would help study evolution through germline mutations in lineages, study migration of different population groups based on female genetic inheritance, study mutations on the Y chromosome to trace lineage and migration of males and compare breakpoints in the evolution of mutations with ages of populations and historical events. Research on DNA forensics (identification) would help identify potential suspects whose DNA may match evidence left at crime scenes, identify crime and catastrophe victims, establish paternity and other family relationships, identify endangered and protected species as an aid to wildlife officials (could be used for prosecuting poachers), detect bacteria and other organisms that may pollute air, water, soil, and food, match organ donors with recipients in transplant programs, determine pedigree for seed or livestock breeds and authenticate consumables such as caviar and wine. And Research on agriculture, livestock breeding and bioprocessing would help develop disease, insect, and drought-resistant crops, healthier, more productive, disease-resistant farm animals, more nutritious produce, biopesticides, edible vaccines incorporated into food products and new environmental cleanup uses for plants like tobacco.

2. The main objectives of HGP is to derive benefits for the welfare of mankind. However, before doing that many societal and ethical issues need to be addressed. Therefore, DOE and NIH have assigned 3-5% of their respective annual budgets for analysing the ethical, legal and social issues of the project. It is also shown in the case that NIH and DoE have spend more than $1mn on ELSI (Ethical, Legal and Social

Issues) research. This proves the ethical commitment of the project sponsors. And looking at the magnitude of benefits it proves to mankind, some of the criticisms can be overlooked.

3. To be patentable, an invention must be novel, non-obvious and useful. If a protein sequence is known, then the sequence of DNA that code for it will not be usually patentable. It would be patentable only if the sequence is specifically advantageous, and if there is no obvious reason behind choosing a particular sequence from the other sequences that code for the protein. Once the genetic sequence of many organisms, including human beings is developed, most of the genetic information would no longer be novel as it will be available in a database.

What is ethical might not be same as what is legal, though attempts can be made to minimize the gap. Concerns over ethics have an impact on the patent laws. The public in some countries have opposed the idea of patenting animals, and the patenting of human genetic material could potentially be more contentious. The attitude of public towards patenting of human genetic information might not be too positive. The negative reaction gives out a general feeling (of the public) that genetic material is special, and should be treated differently from other types of information. Patenting is said to reward innovation, which can be a basis of the successful contemporary democratic economic systems, and agreed under TRIPs (Trade Related Intellectual Property Rights). Therefore, there is an existing precedent for exemption from property ownership, when the property is of great benefit to the public.

Moreover, as per the existing legal concept, things that are of international interest of should be the cultural property of the entire human race. Genome, being common to all human beings can be considered as a shared property, and therefore, the maps and sequence should be open to all. People may even argue that the sequence is 99% similar to their own. According to the United Nations Declaration of Human Rights, Article 27, the two basic commitments that many countries in the world have made are

(a) Every individual has the right to participate freely in the cultural life of the community, to enjoy the arts and *to share the scientific advancement and its benefits.*

(b) Every individual has the right to *protect the moral and material interests resulting from any scientific,* literary or artistic *production of which he is the author*.

An important question that raises from point (b) is whether all the individuals are the authors of the genetic information that is shared by the people all over the world. The writers of this legal rules might not have taken DNA into consideration, but it should certainly be in the spirit of legal rules for interpreting the DNA sequence as shared ownership. According to point (a), every individual has the right to share the scientific advancements freely. The sale of the human genetic information and sequence data may be a strong offense to many and may generate adverse public reaction, that may force the legislators to exclude it from patenting.

Caselet 13

1. Tylenol received a major setback in late 1982 when it was found that many bottles of Tylenol extra strength capsules were laced with cyanide. The publicity about the poisoned capsules has led to a nationwide panic. J&J acted immediately, by alerting consumers across the US, not to consume any type of Tylenol product. They drove through Chicago where the incidents were first reported, announcing the warning over loudspeakers, and all the three national television networks reported the deaths on their evening news broadcasts. The company asked its consumers not to use the product until it determined the extent of tampering in Tylenol. J&J recalled all

Tylenol bottles and publicized the recall through full-page newspaper advertisements. The company asked the consumers to return the bottles to the stores and exchange them for Tylenol capsules that were not subjected to cyanide tampering. The company temporarily stopped the production, distribution and advertising of the drug. Right from the initial days of the news break out, J&J worked with federal investigators to find the reasons behind the deaths. After testing the eight million capsules that were recalled, J&J determined that the bottles were been tampered on the shelves of the drug stores. As per the analysts, it was not an easy task for J&J to recall all Tylenol products. Executives were concerned about the panic that could raise in the industry over such a wide scale recall.

A month after the crisis, J&J launched an aggressive campaign to regain its market share and customer trust. Towards the end of 1982, the company `decided to re-launch the product in a new triple-tamper-resistant package. The efforts put in by the company paid off as it was able to recapture 32 of its original 37 percent market share within six months after the cyanide poisoning incidents.

2. J&J's reluctance to place adequate warnings on the tylenol tablets, can be attributed to its fear that such an action would remove Tylenol from the over the counter drug category. Moreover, placing a warning signal on the product would have certainly reduced the usage of the product. No consumer would like to consume an over the counter drug, with a warning label of that intensity. This would have ultimately resulted in the fall of demand for product and less of revenues.

3. J&J would certainly have to face a conflict between, the social performance and the economic performance in the Tylenol overdose controversy. Looking from the perspective of social performance, J&J should be concerned about the health risks that Tylenol poses to its consumers, and therefore J&J should ideally place a warning sign on its product and make its consumers aware of the risks of overdose. On the other hand, satisfying its social performance can pose a significant threat to its economic performance. Placing a warning label on the product would possibly reduce the usage and the consumers may be drifted away to less risky products.

Caselet 14

1. The Manasarovar Project, which was expected to cost $4,600 million, would facilitate the irrigation of 1.8 million hectares of land, provide drinking water to over 40 million people, and generate 1,450 megawatts (MW) of power. But the implementation of this project was expected to displace more than one million people. According to various environmental protection agencies, Manasarovar was progressing without any assessment of its impact on the environment. The Manasarovar project would submerge 14,000 hectares of forests, disturb aquatic ecosystems, and it threatened the existence of the Marsh crocodile. Moreover, many valuable forests and terrestrial biological diversity would be lost because of the project. The forests under the project zone were comprised of a huge diversity of flora and fauna, that could support over 70,000 people. According to the local tribals, the submergence zone of the project contained over 150 species of flora, which were of economic, nutritional and cultural importance. The impact of the project would be high on the aquatic life in the valley as it would lead to the destruction of Hilsa, a giant freshwater prawn. It could even lead to flash floods. The construction of the project would change the volume and flow of water in the downstream river, and would block the flow and deposition of nutrient-rich silt in the downstream area. These changes would result in an adverse effect on the downstream river, which would reduce the migration and breeding of fish. This would in turn, increase pollution and changes the composition of the flora and fauna, thereby affecting the fertility of the land. It was also anticipated that the project would lead to water logging and salination. Moreover, sub-soil water in these regions tends to be saline due to inadequate flushing by rainwater. Irrigation water, being saltier than rainwater, adds more salt to the system leading to increased likelihood of salination.

2. This project, though beneficial to many people (for it would provide them with electricity, drinking water and water for irrigation), can be considered unethical from many angles. First, it would disturb the ecological diversity of the region and would displace many people from their habitat. Therefore it is right to analyze the issues being raised from the point of view of different ethical theories. According to the theory of Utilitarianism, the Manasarovar Project is ethical because the consequences of the project are more favorable than unfavorable to everyone. But this project is unethical according to Anthropocentric, Anxiological and Eco-centric approaches, which emphasize environmental responsibility. Moreover, as this project seems to have a greater impact on the external stakeholders than on the internal stakeholders, the concerns of the various environmental organizations and the local people should be addressed, especially when the project has a huge negative impact on the ecological balance of the surrounding environment.

Caselet 15

1. Smith is in great dilemma as his organization's espoused value of manufacturing a product differs with the values in actual practice. Espoused values refers to a company's statements, credos and code of ethics. Ethical perspectives are aimed at guiding the members, who are responsible for leading and directing the organization. They are intended to communicate to employees, customers, competitors and suppliers the type of behavior that is acceptable to the organization. When espoused values differ with values in practice they create dilemmas for an employee. Smith is facing a dilemma as his personal values are in conflict with the goals of the organization.

Smith wants to work in an organization, which follows ethical principles. But the organization where Smith is presently working is following unethical principles to maximize its profits.

As its competitor was selling superior products at a lower price by reducing costs, Smith's organization wanted to maintain its market share by providing poor quality goods at lower prices.

But Smith believed that when the organization is selling an inferior product then the products should also be priced accordingly and to compete effectively in the industry, it should develop cost-cutting strategies.

2. In the present situation Smith wants to retain his job, as he is worried about justifying his short presence at the company if he resigns. He cannot say that he had to leave his job as the organization's values were not in congruence with his values. This would lower the chances of him being employed elsewhere. After all, in this competitive business environment every organization cannot always be ethically correct.

In the present situation, if Smith wants to retain his job he has to rethink his personal values as they contradict the organization's values. An organization cannot or will not change its values for an individual. Smith's organization will continue in the same way and the involvement of lab technicians, phone-order clerks, and the company's sales force shows that all the employees are tuned to the organization's unethical method of operating.

Caselet 16

1. Any business relationship with the customers beyond a certain limit can prove detrimental to the company's image. For instance, giving a prospective customer a complimentary gift such as a diary, a calendar or a pen of minimum value can be considered ethical. But, if the value of the pen is in thousands, then it would no longer remain ethical. Similarly, offering a complimentary lunch to a prospective customer can be considered ethical, but offering a liquor bottle or a gift worth Rs.50, 000 would certainly be treated as unethical. In this case, by offering a gun to a prospective customer Tarun might be unduly influencing Jyothindra's decision. Such business relations may lead to requests for unethical favors from any of the party. So it is better for Tarun to do business using ethical means.

2. Commission and straight salary are two different compensation plans that affect the way in which the sales personnel approach customers. With commission as a compensation plan, the sales personnel's income would be directly proportional to the amount of sales he makes. The more he sells the more he earns. This kind of payment will certainly motivate a sales person to sell more, and in order to reach his personal targets, he may resort to giving costly gifts to prospective customers in order to close the sale. But, with salary as a compensation, the organization can ensure to a certain extent that its salespeople would stick to ethical marketing practices.

Caselet 17

1. The senior management of Marvel seems to have been taking decision with social responsibility as the criterion. Primarily, a business runs on the basis of maximizing the profits of their shareholders. According to the Unitarian view, business is a part of moral structure and moral ethics. If businesses want to exist, survive and flourish in the long run, they should not separate morality and ethics from their operations. According to modern writer Jeurissen (1995), it is not practical for businesses to follow moral principles alone, they have to take into consideration economics and market forces, too.

Marvel can be said to be following the Unitarian view of ethics, taking into the consideration the following strategies it has adopted:

- Adopting slow growth to maintain good relations with Nevadh community.
- Buying the milk from Nevadha cooperative society for a higher price than the market price.
- Not accepting the distribution offer of the top American supplier only because it did not have a good reputation for supporting social causes.

2. The fundamental purpose of conducting any business is to earn profits and contribute to the welfare of the society. This can be achieved by gaining loyal customers and suppliers. As business becomes larger, its impact on a community and the interest of the public in the company also increases. Consequently, the organization has to maintain a proper image, which results in taking greater social responsibility initiatives. To survive in the long run and discharge social obligations, businesses (both small and large) have to operate on ethical grounds. Though some experts comment that the purpose of a business is to produce goods and services and maximize profits for the shareholders, businesses are accepting the idea that being ethical and moral would get them loyal customers and help them achieve their final goals in a much more effective manner. This forms the basis for adopting ethical practices in a business. This was the main philosophy of Marvel for not accepting the offer made by the Japanese distributor and maintaining good relations with the Nevadh community. The stakeholders of Marvel are shareholders of Marvel and the Nevadh cooperative society.

Caselet 18

1. Strict adherence to ethical practices would certainly give Mattel many benefits in the long-run. Mattel's commitment to ethics is evident from its commitment to product safety and quality, its environmental responsibility, its commitment to customs, evaluation and monitoring, and compliance with regulations and principles. Primarily, the commitment of all the business partners to product safety and quality would bring in more customers to Mattel as it would be easy to convince parents on how safe and qualitative the toys are for their children. Adhering to Mattel's stringent safety and quality standards at workplace would give employees job satisfaction. It would also give an HR friendly image and finally help the company in building a good brand image in the society. Mattel works only with those manufacturers or suppliers who comply with all applicable laws and regulations, and who share and support its environmental commitment. This would help in building its social image as an environment friendly company. Mattel ensures strict adherence to local laws by making it a mandate for its global business partners to follow all the local and international laws strictly.

2. Different countries in the world have different legal rules and so are the cultural backgrounds and ethical standards. In such a situation, enforcing a single corporate ethics code in all its businesses globally may cause some problems because what is ethical in one country might not be ethical in other country. Moreover, it is necessary to study the cultural values of a country before implementing the company's corporate code of ethics, so that the code would not invoke any culturally sensitive issues that finally have an impact on the company's image.

Caselet 19

1. A company has many responsibilities towards its customers, other than selling quality products. It is the responsibility of the company to educate the customers about using a product and the hazards associated with the products.

In this case, McDonald's knew that the coffee it sells is maintained at 180-190 degree Fahrenheit, which is far above the temperature of coffee that one can drink without suffering burns. McDonald's was too concerned about providing tasty coffee rather about the safety of its customers. It seems that the company's way of warning the customer about the hazards associated with the coffee was too casual. The way it handled the claims was also improper. The company should have apologized to the customers and rectified the problem by paying compensation to all victims. By not doing so, it scarred its own image, and even landed in trouble on account of a spate of law suits against it.

2. It is ethical for customers to claim compensation from the company for the troubles that the company or the use of its product causes, them. However, claiming exorbitant damages far above the loss suffered raises some ethical questions about the integrity of the customers. Although courts, in many cases, do uphold such claims, it is not an ethical practice.

Caselet 20

1. Mergers and acquisitions seem to be justified from an economic point of view, as they are aimed at using the available resources in an efficient way. But they raise many ethical questions as they disrupt the existing arrangements and pose hardships to people who lose their jobs. Many mergers and acquisitions result in organizations with excess manpower and capacities. In such cases, the management is forced to downsize the staff and, in this process, unproductive assets may be sold out and excess manpower retrenched. The ethical dilemma occurs when one tries to weigh the benefits of mergers and acquisitions against the problem caused by them. The actions that seem beneficial from an economic point of view may be harmful from a social point of view. Being a very sensitive issue, downsizing should be carried out carefully, as it may raise many ethical questions. Often, organizations are found to be making mistakes while selecting employees for retrenchment. This raises serious ethical questions related to the criteria for retrenchment. In this case, the policy of retrenching older employees seems to be malicious, as the organization here aims at making profits out of the savings accrued from the provident fund and the medical benefits of the retrenched employees. Mergers and acquisitions are also criticized as something, of which the economic benefits (which are uncertain) are not immediately seen, but their disadvantages on the social front are observed immediately.

Ethical decisions are not simple choices between right and wrong. They are complex judgments about the balance between the economic performance and the social performance of an organization. Harbour Inc. has to maintain a balance between the economic and social performance of Heights Inc. If an organization wants to achieve a balance between economic and social performance, it should analyze its actions and decisions from an economic, legal and ethical perspective.

Economic analysis: According to the microeconomic theory, market forces should not be relied on to achieve a balance between economic and social performance. It is true that in many of the merged companies, most of the employees lose their jobs due to which they face many problems, as in the case of Richard Helly, who had to search for another job at 58, was given a pension and medical insurance by his employer. But economic analysis enables us to think from a different point of view though workforce reduction and closing down of plants are unpleasant for workers who lose their jobs, the labor market exists and these workers can be employed again, provided they are willing to adjust their wage demands to market conditions.

Legal analysis: A democratic society can establish its own rules, and if people and organizations follow those rules, employees will be treated as justly as possible. Workforce reduction and closing down of plants are unpleasant, but it was never felt that they are so harmful to the people involved to an extent that a law to prohibit them is required. If they cause major problems, a law can be passed to deal with the situation.

2. The number of years of service of an employee may not be a criterion for evaluating the ethical nature of the retrenchment decision. But the way a person is deprived of his pension because of retrenchment seems to be unethical. It is unethical for a company to deny an employee his due share of the provident fund, for his services to the organization. This act is unethical because it aims to gather profits for the shareholders at the cost of the employee who has devoted 32 years of his life to the organization.

According to the normative theory the choice between "right" and "wrong" should be based on the concept of "the greatest good for the greatest number". When Harbour Inc acquired Heights Inc it should have developed a rule for workforce reduction and plant closings on the basis of the above principle. By so doing, it would have acted in a fair and consistent manner towards the employees of Heights Inc.

An ethical criterion for retrenchment would be to remove those employees who contribute the least towards the long-term owner value. Considering age, gender or years of service as criteria for retrenchment amounts to ignoring the efficiency of an employee in contributing towards the long term owner value.

It is unethical to fire Richard Helly, who served the firm for 32 years, in the manner the executive of the Harbour Inc did. When an employee is retrenched from the organization which is merged/ acquired, it is the duty of the merged organizations' top management to ensure that the employees who are retrenched are provided an adequate compensation package for their survival in the future. It was irrational on the part of Harbour Inc., to give just 11 weeks' severance package to Helly, and depriving him of his pension and medical insurance.

If Harbour Inc, wants to retrench the older employees, it should give them a compensatory package including the benefits of pension, medical insurance and an amount, so that the employees who are above 50 need not search for a job at that age.

Caselet 21

1. Efforts towards elimination of discrimination at the workplace over the past three decades have indeed resulted in a more diverse workforce, that refers to the presence of different cultures, languages, ethnicity's, races, affinity orientations, genders, religious sects, social classes, ages, and national origins of the individuals in an organization. This diversity has helped organizations gain a number of benefits but, it has also brought in conflicts that were not present earlier. In the US, almost every corporation has guidelines and policies for the prevention of discrimination and sexual harassment at the workplace. If an organization is careless in the prevention of discrimination and harassment at the workplace, it can be held liable for the same and would have to pay millions of dollars for the damages caused. This has led to the establishment of an Equal Employment Opportunity Commission (EEOC), that provides guidelines that prohibit certain types of behavior at the workplace. But, proving the cases of discrimination and harassment has always been a difficult task. And in order to solve this problem, the courts in the US have come out with a principle known as the "Reasonable Women Standard", which would determine a person's guilt or innocence. According to this principle, the accusation of the female plaintiff was upheld if a theoretically reasonable woman considers the conduct in question to be sufficiently pervasive to change the conditions of employment and create an abusive working environment. With such support from the legal departments, the organizations can frame their own rules against such acts and educate their employees, to prevent discrimination and harassment at the workplace.

2. Microsoft should take an affirmative action as a means of remedying the past mistakes and preventing them in the future. Microsoft should consciously take positive steps to seek minorities and women for recruitment and promotion, and should often set goals and follow schedules to measure its progress towards building a workforce that consists of qualified people selected on an equitable basis.

Caselet 22

1. Napster allowed all its users to share music files among themselves. It acted as a guide, taking users to their destination files. The company did not physically hold any music files. RIAA's suit against Napster for promoting such a service, raised an important question: if something is right when a few people do it slowly, does it become wrong when millions do it almost instantaneously? Numbers should not change the strength of moral arguments. What's right for one should be right for everyone. The fact that Napster had over 70 million fans shows that given a choice between paying for something and getting it for free, consumers mostly prefer getting it free.

2. Since it is technology that enables the process of sharing music files across the network, what needs to be questioned is the legal framework that governs technological innovations, not the individuals who use such technologies. Napster defended its stand on the basis of the US Supreme Court's ruling in 1984. The US Supreme Court found that the use of VCRs for recording television programs for non-commercial use in the home was ethical. Later, the Audio Home Recording Act of 1992 permitted the use of digital audio tape players or other similar gadgets to record digital music for personal and non-commercial use. So there is a precedent for song swapping. According to the 1992, Audio Home Recording Act, people are allowed to copy music for personal use. The supporters of Napster claimed that the law should also be applied to the downloading of music, as music was being downloaded for personal use, not for redistribution or profit. But this claim of Napster's supporters was disregarded by the US Department of Justice, as the Act addressed the use of digital audio tape players, not the use of the Internet.

Caselet 23

1. Sharma is in a conflict of interests, as he has to make a choice between the economic interests of the company and its ethical obligation to provide good and healthy food to its customers. Moreover, he also has to take a decision whether he should concentrate on the company's stock prices and reputation or act ethically and inform the people of the possible food poisoning in their product. While formulating a strategy to counter this crisis, Sharma might be accessing the possible responses of Naturas' stakeholders. Any decision that he takes, to protect the interest of one stakeholder will go against the interests of the other i.e, either shareholders may lose financially or the customers health might be at stake. Thus, Sharmas' dilemma is to decide between the economic interests of the company/shareholders and the company's ethical obligations towards its consumers.

2. The questions asked by Sharma are:

- "Should we warn the retailers asking them to stop selling the product?"
- "Should we also warn the customers?"
- "Will these steps erode the company's reputation and lower its stock price?
- How serious should a problem be for us to respond to it and how much information do we need to respond to such problems?

If i were a manager at Natura Foods, i would have answered the above questions as follows:

- Since the reports coming in from the market are pointing out at one product, it is better to withdraw that product before its start affecting the sales of other products.
- It is always better for a company to be in touch with the customers at the time of crisis. Although nothing is confirmed about the cause for the deaths, it is safer for Natura to warn its customers against the possible dangers associated with its non-pasteurized products.
- In the short run, the company may suffer in the stock markets, but if it fails to take any morally correct decisions at this juncture it might lose more in future in the form of lawsuits launched by affected customers.
- The company should respond immediately to the problem. Later, it can collect details and come out with an elaborate strategy to eliminate the root cause of the problem.

3. If I were Nitin Sharma, I would have immediately launched an inquiry to examine the hygiene measures taken at all the processing plants to trace the source of the problem. If a product is suspected of being faulty, immediate action is required. An initial step would be to advise all retailers of the possibility of some contamination in a particular product line and have them pull it off the shelves.

In situations like this, one must evaluate three things for confirming the ethical nature of an activity:

a. The action itself,

b. The circumstances surrounding the action, and

c. The intent of the action.

In this case, the action, which caused significant danger to customers' health, was the company's negligence in terms of sanitation and health standards. Because this action leads to food poisoning and deaths, it is wrong. However, taking into account the circumstances, we must consider the possibility that whatever went wrong may not have been the company's fault. As the company has been so successful in the past, one can assume that they have been ensuring that proper sanitation and health requirements are met. However, if any cases of food poisoning and death have resulted from using its products, the company should take moral responsibility for it.

It would be better for a company to have a crisis management team to handle such situations, as they put tremendous pressure on the company. Having such teams would enable them to solve the problems in a systematic manner.

Caselet 24

1. While starting various social activities, Naturex overstated them, which is an unethical act. Naturex had clearly set high standards for itself. Naturex also enjoyed several benefits from its publicly espoused values while, apparently failing to meet many of them. Naturex claimed that its products were natural, while they actually contained many chemical and synthetic ingredients. Such an act amounts to deception, and is hence unethical. Also Naturex had announced its commitment to environmental protection, but it had failed to prove it in practice. It was also unethical on the part of the company to present a false social image.

Thus, there seems to have been a wide gap between the company's espoused values and its practices, which makes its ways unethical.

2. Naturex initiated several social welfare programs like Save the whales and Trade not aid, which had the potential to change the way business is done. The first step towards coming out of the controversy is to bridge the gap between its virtual image and its real image. Through its publicity programs, Naturex has clearly developed an impressive social image which is in contrast with the company's occasionally unimpressive performance as in case of its environment protection and Trade not aid programs. Naturex should change its campaigns to project a socially responsible image.

Caselet 25

1. One of the main reasons was the negligence of the bank in giving its Miracle Worker such autonomy and freedom. As Leeson's duties were not segregated, it was easy for him to cover his misdeeds. Had other people been working with him, it might not have been possible for him to keep the bank management in dark for such a long duration. Lack of supervision on Leeson can be another major reason. No one seemed to have bothered to question Leeson about the unusual profits he was making. Even while questioning about the abnormalities, the bank management did not seem to have probed seriously into the issue. This incident also shows the lack of proper governance mechanism at Baring's Bank.

2. From the facts provided in the case, Leeson should be considered responsible for the present situation. However, not all of the blame should be foisted on to Leeson, the company management was also equally responsible. It could be quite possible that Leeson had resorted to speculating on the stock exchange to live up to the expectations of his bank. Thus, driven by greed they concentrate more on the ends than the means used to achieve those ends. Only after Leeson, failed to get the revenues did every one start questioning the means used. Thus, the sloppy governance mechanism were responsible for going people like Leeson to resort to unethical means to make profits and when these means an opportunity.

Caselet 26

1. A company’s practices can be considered unethical:

- if it refuses to recognize trade unions engaged in collective bargaining
- if it does not ensure equal opportunity for everyone at the workplace
- if it employs expatriate staff for all significant management positions
- if it neglects the occupational health and safety needs of the local workers
- if it exploits the labor of the host country
- if it does not employ local employees in managerial decision making

In Nike’s case, there is wide variation between espoused values and values in practice. Nike projected a good image to customers in the U.S. and Europe and claimed that it did not use any unfair practices in the manufacture of its products. But, in actuality, it ignored the working conditions of the employees working for its franchises. It is Nike’s responsibility to ensure that all its franchises follow its code of conduct. Nike is guilty of ignoring unethical labor practices at its Asian factories. It paid less than the legal wage, employed child labor and permitted abuse of its employees. The managers of these factories should have informed Nikes top management of the exploitation of employees. Top management could then have intervened and put an end to such practices before they became a major issue for the unions and the media.

2. The power of customers can change the policies of any company. The customers of Nike, both retailers and end users, can order Nike to improve its labor practices by refusing to purchase the company’s goods. The dealers can monitor Nike’s labor practices by requesting the company to allow them to visit its production facilities. In addition, all the dealers can come together to form an association so as to improve their bargaining power with the company. They can then appoint a representative to visit all of Nike’s factories on a regular basis to monitor the company’s practices closely.

Caselet 27

1. The corporate culture of Northeast Airlines requires employees to “bring their personality and their sense of humor to work.” According to the theory of corporate moral excellence, an organization’s culture has an impact on the behavior of its employees, and its culture is based on its values. Values give the employees proper direction and guide and control their day-to-day behavior.

Corporate values are classified as

- Espoused values and
- Values in practice

Espoused values refer to a company’s statements, credos and code of ethics. They describe the organization’s purpose of being in business. They make employees, customers, competitors and suppliers aware of the type of behavior that is acceptable to the organization.

The espoused values of Northeast airlines are

- Making work fun to create a positive impact on employees’ attitude.
- Treat employees with respect.
- Empower the employees.
- Use their ideas to solve problems.

When organizations align their values in practice to espoused values then the organization can be said to be an ethical organization. Northeast Airlines aligns its espoused values with its values in practice. This is proven when the flight attendant helps the customer (who wants to visit her ailing mother) travel earlier than her scheduled flight. This shows the extent of employees empowerment in the organization, which results in enhanced quality service.

According to Micheal Hoffman who proposed the theory of corporate moral excellence based on corporate culture for judging an organization's ethical nature, corporate culture is classified into three types:

- Basic values, attitudes and beliefs of the organization
- Organizational goals, policies, structures and strategies that are shaped by the values, attitudes and beliefs prevalent in the organization
- Organizational procedures and processes

2. Northeast Airlines has adopted a very professional approach to reduce friction at workplace by adopting the following methods:

- Hiring the right kind of people. One of the basic beliefs of the organization is that hiring people with the right attitude and necessary technical skills will enhance the organization's overall performance, while hiring people who possess excellent technical skills but do not have a healthy attitude will not result in superior performance.
- Making work fun: This enables employees to enjoy their work and promotes a positive upbeat employee attitude.
- Empowering the employees.
- Making employees realize that they should take their jobs seriously.
- Conducting programs for mentoring. During these programs, employees can give their suggestions for improving service quality (these suggestions are promptly appreciated).

Thus, the participative style of management enables the employees to be attentive to customer needs.

Caselet 28

1. An employee with problems in his personal life will be less productive. In such a situation, the business can either part with him or try to help him out. However, it would not be ethical to part with an employee like Vijay, who has contributed considerably to the organization, only because he had encountered a problem in his personal life. The second course of action is ethical, because businesses can benefit more by helping the employee solve his problem. This would lead to higher productivity, loyalty and a sense of support and confidence in the employee. Businesses can help its employees in problems by giving 'remedial' benefits like loans, grants and medical assistance, which are clearly distinguished from the standard remuneration. The ultimate purpose of such assistance by any business would be to "help itself by helping its employees in need."

2. Any employee should not take the advantage of the organization's resources for his personal work. This would not only lead to the wastage of organization's valuable resources, but also the most valuable time of the organization during the business hours. The business hour of any organization is worth money. So wasting time during business hours is nothing but wasting an organization's money. Therefore, Vijay should ideally stop making personal calls during the company's time and resources, and should take the government project more seriously.

Caselet 29

1. Trust is one of the major variables of micro-perspective of ethics. From a firm's perspective, ethics is closely associated with trust. It is necessary that any business be ethical in their behavior in order to gain the trust of their customers. The only variable, which influences interpersonal and intergroup behavior, is trust. Sonic Motors has violated this major ethical norm. Trust acts as a risk-reducing mechanism which is developed over a period of time and which reduces the perceived risk of dealing with various parties. As trust is defined as the reliance of one person, group or firm upon a duty voluntarily accepted by another person, group or firm to recognize and protect the rights and interest of all others engaged in a joint endeavor or economic exchange. Thus the Sonic's act of disconnecting the odometers during the test run is unethical, as it breached the trust of its customer.

2. When the government accused Sonic for disconnecting odometers for the test driven vehicles, Sonic was on the verge of losing its customer's trust. Without the company's president Wellington's immediate response, the situation would have cost the company heavily. But Wellington's immediate step helped the company to recover in time. Though Sonic did not admit that it was indulging in unethical practices, they have realized that its act depleted the customer's trust in the company. So, to regain customers' trust Sonic undertook many steps like extending the warranty on the test driven cars from five years to seven years and free inspection of cars that were test driven, and offering new cars or trucks in place of the cars that were damaged during testing. Since all the responses of Sonic were aimed at building integrity and trust, Wellington's remarks seem to be right.

3. By being ethical, sellers gain the needed trust to support the exchange relationships with buyers. Trust promotes productivity. Trust brings with it predictability, dependability and faith in the business. Businesses or its customers cannot easily adapt themselves to change. If we trust someone, we can accept the unpredictable. Trust cannot be gained in a short period of time, it develops over a period of time. Trust acts as risk-reducing mechanism. Dependability provides assurance that one can be counted on to perform as expected, faith is the belief that an individual possess that one will continue to be predictable and dependable. As customers are the external stakeholders of a firm, trust plays a vital role in binding the customers with the organization. A company's salesforce plays a major role in building trust among the customers. The manufacturer contacts the customers through the salesforce. It is the salesperson of an organization who interacts with its customers and earns trust by being dependable, honest, competent and customer-oriented. Customers rely on the salesforce for information about the organizations' goods and services and expect quality products. A salesperson provides customers with relevant product information. Customer orientation encourages the sales staff to give top priority to the customer. This, in turn, enhances customer satisfaction, and helps the supplier to establish a relationship of trust with the customers.

Caselet 30

1. MEL's decision to stop supplying the transistors to Cardiotech is unethical as it goes against the contract. MEL was aware of the risks involved in the business even before it entered into the contract. However, its decision to stop supplying transistors to Cardiotech was driven by its growing fear of liability in case of a lawsuit. It had decided to enter into the contract with a fair knowledge of all the facts. Withdrawing from this contract all of a sudden would be violation of the rights of the pacemaker company, its employees and its customers.

This decision is also unethical as per the utilitarian theory of ethics. The utilitarian theory of ethics focuses on the consequences of actions or policies on the well-being of all individuals who are directly or indirectly affected. According to this theory, the action taken should produce the greater benefits than loss. In this case, the action taken is unethical as it leads to the following negative consequences.

- Cardiotech would be forced to move out of the business.
- People who are badly in need of pacemaker would be unable to prevent life risks due to cardiac problems.
- It would deprive the patients of their 'right to life'
- If Cardiotech exit the business, its employees will lose their jobs.
- By withdrawing from the contract, MEL would lose a business opportunity, that is it will forego profits
- The society would lose the lives of people who are capable of building the nation.

Therefore, MEL should continue to supply transistors, to Cardiotech though this involves some risk.

2. A nominee director has to perform his duty of protecting the interests of stakeholders whom he represents on the Board. He has the right to question the Board/company about the safety of the funds that are invested by his principles (banks, shareholders etc.). However, as a member of the Board he should also safeguard the interests of other stakeholders, that is Cardiotech, its employees and its customers.

Any solution that the MEL management finds should address the interest of all the affected parties. If MEL decides to continue the supply of transistors to Cardiotech, it should convince its shareholders that their investments will be protected. MEL needs to examine ways to reduce the cost of its liabilities by re-negotiating the terms of its contract with Cardiotech. It should probably also re-examine the pacemaker and transistor designs. MEL can also make Cardiotech promise that the testing procedures would be improved to prevent pacemakers from malfunctioning. Doctors should educate patients about the risks associated with the device before they are implanted.

Caselet 31

1. The employee pension fund, which was over funded by $100 million, can be used in two ways:

- Defined benefit
- Defined contribution

By adopting the defined contribution fund system, the employee gets the money credited in his name along with the returns earned by investing the funds. Under the defined benefit plan, the employee was guaranteed a set amount upon retirement and the company credited the amount to the employee's pension fund at a rate that had been actuarially determined to meet the amount. The actual rate - is 8 or 8.5%. When the stock market was booming, it enabled the organization to earn 16.7% per year due to high interest rates available on bond and mortgage investments. This resulted in over funding of about $100 million in the pension fund. As the company purchased annuities to meet the defined benefits due to employees and 'reverted' the $100 million for investment in the company, it deprived the employees of the returns on this investment. In this situation, the company should have used the surplus funds for other investments, which guaranteed certain returns for the employees rather than using them for the diversification of the company.

2. It is certainly ethical to use the funds of the VRS for the organization in the following situations:

- When it gives more returns to the employees who are going to take VRS.
- If the employees agree up on the use of the funds for other activities related to the development of the organization, which would enable it to grow.

It is unethical if the organization uses the funds without taking into consideration the employees' needs, and does so only realize its strategic vision, which may turn out to be either positive or negative.

Caselet 32

1. It is clear that the river has to be cleaned, but who should pay for the clean up? The company (shareholders, customers), the government, or the public. It is very difficult to say exactly what amount Skylark should pay for cleaning the oil spill. Skylark should definitely pay for the entire cost of cleaning up if it has enough resources and if it can afford to do so without going out of business. Here, we should realize that the local community and many other people are the indirect stakeholders of the company. Since they are the stakeholders, they are entitled to the benefits arising from the well being of the company i.e., employment opportunities, quality goods at reasonable prices, community development etc. At the same time, they should also be prepared to bear a portion of the possible risks that may arise from the business.

2. One of the primary responsibilities of a corporation is to give its customers what they want at a price they are willing to pay, and thereby make a profit for its owners. But when a corporation operates at a higher level of ethical consciousness i.e., when a corporation acts as a corporate citizen, it will seek to transform and improve the society. It will provide customers with only those products that are good for them and society. Such corporations will also adopt environmentally friendly processes for serving customers. Therefore, we can say that a corporation's responsibility is to supply goods that are good for the organization and society. So customers should be willing to bear the extra costs incurred by corporations manufacturing goods in an environmentally friendly way.

3. Oil companies always argue that there is a trade-off between environmental protection and oil costs. Moreover, customers are not bothered about the environment as long as they get low priced goods. Clearly, society is also motivated by profit. From the eco-centric approach, their is no ethical trade off between the environment and the cost of goods. According to this approach, the environment should be influenced by direct moral considerations, those that are derived from human interest. Therefore, a tradeoff between the environment and the prices of material goods is unethical as it deprives future generations of a clean environment, which is essential for their survival.

Caselet 33

1. According to the theory of applied ethics, biological projects like Stem cell research often become controversial. The theory of applied ethics specifies certain moral standards that provide a reference point for judging the moral value of a decision. The first major ethical issue is that of the destruction of the human embryo. As assisted reproduction techniques are legal, stem cell researchers may source embryos from fertility clinics after seeking approval from the donors. Such scouring of embryo's can led to many ethical controversies. Many other ethical questions may arise if research companies start encouraging the creation of embryos or the termination of pregnancies for research purposes.

2. As stem cell research can cure a number of degenerative diseases like cancer and diabetes, it would benefit mankind. Patenting the research output or research information would transfer the benefits to private players, who may use the research findings for commercial purposes. Thus, it would not be ethical to allow patenting of biological research in this area.

Caselet 34

1. Dunlap was the major agent who caused financial and public relation embarrassment for Sunbeam. The reason behind the initial steep increase in the stock prices of Sunbeam can be attributed to Dunlap's reputation and his acceptance of charge at Sunbeam. Dunlap resorted to massive cuts in all areas of operations through heavy layoffs, in order to streamline the business. This ruthless attitude tarnished its public image. He seemed to believe that no one is indispensable and fired anyone who, he thought cost more than he was worth (according to Dunlap). He seems to have been totally committed to increase the shareholders' wealth, for which he adopted his own rules of business: 1) getting the right management team, 2) cutting back to the lowest costs, 3) focusing on the core business, and 4) getting a real strategy. He claimed that it is with the help of these four rules that he turned around companies in seventeen states and across three continents. Another major issue that seems to have tarnished the public image of Sunbeam was the authoring of a book by Dunlap in which he praised himself extensively and also stated that he should be taken as an idol for turning around companies.

The reason for the financial embarrassment that Sunbeam experienced was the use of the "bill and hold" strategy with retailers which boosted Sunbeam's revenue on the balance sheet. Dunlap and his team booked sales months prior to the actual shipment or billing, Sunbeam reported higher revenues in the form of accounts receivable, which led to the inflation of its quarterly earnings. A "bill and hold" strategy is not illegal, and it was in absolute compliance with the General Accepted Accounting Principals (GAAP), but this practice was considered unethical as it misled the company's shareholders and depleted their trust.

2. Right from the day he took charge as CEO, Dunlap contributed to the turnaround of Sunbeam and attracted significant media attention. The team formed by Dunlap consisted of his former colleagues, all of whom emphasized on increasing the share value. Increase in the share value on the next day of Dunlap's taking charge raised doubt, though the company defended this by saying that Dunlap's reputation was the reason. Cutting more than half of the staff within only four months of Dunlap's becoming CEO was another controversial issue that was not given a serious thought with regard to its impact on the societal concern of the business. Moreover, extensive self-praise in the book authored by Dunlap seems to be his strategy to gain media attention.

Caselet 35

1. According to the theory of Utilitarianism, the government's act of imposing a ban on the advertisements of liquor and tobacco companies cannot be called ethical. Banning the advertisements of these companies would have a significant impact on the sales of these companies and affect many people whose livelihood is dependent on these industries. This action certainly raises questions like Why did the government allow the industry to grow to such a significant size? And why should government deny the basic fundamental right of communication from these companies?

However, as the government is responsible for protecting the interest of all the citizens, its decision to ban the advertisements of liquor products can be considered right. Moreover, it has imposed a ban on advertisements and not the products and such companies are still allowed to operate in the country.

2. With the implementation of the ban on liquor and tobacco advertisements, these companies are exploring various ways of reaching their target customers, as they cannot sustain in a competitive market place without advertising. In the process of exploring indirect ways of reaching the target customers they had to extend their brand name to different product categories like, water, music cassettes, golf accessories. Currently, this strategy by passes the legal restrictions imposed by the government. However, government is also planning to include advertisements in their surrogate advertisements category and impose a ban on them. However, it seems from the companies' perspective their actions cannot be considered as unethical as all organizations have a basic right to communicate freely with all its stakeholders. However, if these companies have any complaints or grievance's they can consider legal options in order to bring about a change in the government policy.

Caselet 36

1. In today's avalanche of available programs, with about 100 channels on television, 300 satellite channels and above 1,000 over- the-air television stations, it would be almost impossible to find a program that does not have children watching a channel. The basic nature of kids is irrational, impulsive, and they lack realistic thinking. They cannot understand the intent of an ad and usually tend to believe what they see. We find that today's children tend to know the brands they prefer. Analysts say that kids aged over eight can evaluate the advertising and they try to know what 'marketing' is all about. They are said to be critical in evaluating what is said in ads. Advertising research reveals that any message that is communicated to children in their own 'language' will be registered even in the first showing. While children are vulnerable to the persuasive intent of advertising, ads ignore the fact that children are not capable of being selective to dismiss messages due to their age. Advertisements influence a child's wants. Advertisements push children indirectly to have a wish or a lifestyle with the suggestion that doing certain things will make them happy, popular and socially acceptable. The message usually seems to be that it does not matter what means you adopt, as long as you get there. They are not shown the hard work required to reach the goal, leaving them with the wrong impression that everything is quick and easy.

For example, the Dhara (cooking oil) ad shows an adorable child running away from home, thus glamorizing the act of running away. Adults watching this ad gush, "How sweet" or "oh! How well this child has acted!". If a child hears all this, wrong emotions are triggered in her. The child thinks that such an act will get her the same kind of reaction, so in a similar situation, she may act in the same manner. If the advertisements are made, keeping in mind the child's mindset, then it is ethical. However, it is unethical for marketers to show ads which impact kids negatively, only to increase the visibility of their products.

2. Most of the countries have banned advertisements targeted at children. A major reason for advertisements being targeted towards children is to influence, create an effect, so that children would have a significant impact on the purchasing decisions of their parents. Their influence is not limited only to the products in which they have direct interest, but is spread to all types of products – from cooking oil to electronic equipment to cars. Though children might be very well aware of the brands, their ability to make rational choices might not be strong. Marketers claim that by using kids in advertisements they can achieve the following objectives:

i) Most of the parents admit that their children pester them to buy the products which they get to know through advertisements. Though advertisements are responsible only for a part of this attitude, researchers claim that pestering parents is a characteristic phase in child development, and is as much about testing the boundaries of behavior as it is about reflecting television message. It is generally thought that advertisement that show smoking influence children and make them smoke. But, the Children's Research Unit (CRU) stated that when they conducted 24,000 face-to-face interviews among 7-15 years old children across 18 countries to establish the factors that make them smoke, it was found that advertising played a negligible role.

ii) It is also said that children do not understand the social and economic context of advertising. They watch the television programs interrupted by commercials and do not realize that the advertisements are made with a purpose that is different from that of the program.

Although some studies claim that advertisements have a negligible impact on a child's behavior, it is clear from the ad content of many advertisements that marketers believe they can increase sales by motivating children to influence their parents product/brand choices.

Caselet 37

1. The fundamental reason for which Tata Tea struck a deal with ULFA is the 'going business concern.' Businesses are established to operate profitably for years together, even under extreme market conditions. Tata Tea might have associated with ULFA because it may not have found any other way to tackle the situation. Moreover, when the Assam government failed to get the killings under control, Tata Tea seems to have been left with no other option, but to give up to the demands of ULFA. Ultimately, the company had to protect its employees and get its business going smoothly. Further, while it is the responsibility of the government to curb all the extremist practices in the state and help businesses operate smoothly, the government of Assam does not seem to have acted properly during the tussle between ULFA and the Assam tea industry.

Though Tata Tea's act of associating with the ULFA can be considered unethical, it may seem ethical from other perspectives. From the perspective of the organization, the only thing that might seem important for the company is the safety of its employees, and the profits of its business. By associating with ULFA, Tata Tea seems to have contributed significantly to the upliftment of the Assamese people by setting up 65 hospitals, 280 adult literacy centers, 173 child care centers, a technical training institute and 110 schools. Tata Tea instituted scholarships and started a welfare program for handicapped children. The company also took the Lifeline Express into Assam in 1995, which rendered the critically needed medical assistance to people from the weaker sections of society. Tata Tea regularly carried out its 'Outreach Medical Program,' under which fully equipped ambulances with doctors visited remote rural areas. However, from the perspective of the society external to this environment, the acts of Tata Tea can be considered unethical, as the consequences of such acts are detrimental to the development of the society in the long run. The consequences of such acts can encourage terrorism in the long run.

2. The various ethical dilemmas Tata Tea faced range from the internal human resource issues to the external association with the extremists. The killing of its staff by ULFA pushed the company into a situation where it had no other choice but to protect its employees, because it is the employees that constitute an organization and no organization can function without the employees. Therefore, it extended help to ULFA regarding a social cause for the uplift of the Assamese people. Tata Tea, unwilling to give cash to the militants, proposed to invest for the 'uplift of the Assamese people'. The company set up 65 hospitals, 280 adult literacy centers, 173 childcare centers, a technical training institute and 110 schools. Tata Tea also instituted scholarships and started a welfare program for handicapped children. In addition, it took the Lifeline Express into Assam in 1995; a program that rendered critically needed medical assistance to people from the weaker sections of society. Tata Tea regularly carried out its 'Outreach Medical Program,' under which fully equipped ambulances with doctors provided medical aid to people in remote rural areas.

3. Though Tata Tea avoided paying cash to ULFA through its investments in the welfare of the Assamese population, it can be said that the company complied with the demands of the extremists in some form or the other. This would certainly have a negative impact on the development of the society and could encourage the vulnerable groups of the society to adopt extortionist methods to meet their social demands. However, the Assam tea industry had no other option to save its employees. Therefore, it might have resorted to such practices, especially because the government had failed to protect the interests of these businesses.

The tea industry should have tried to explain to people the importance of the tea industry for Assam, thereby pressurizing the government and the extremist groups to stop harassing the tea producers.

Caselet 38

1. Clean and green environment is the wealth of mankind. It is the responsibility of the present generation to pass on a clean environment for the future generation. Therefore, men/businesses should not involve themselves in any act that will degrade this long-term wealth of mankind. Although, drilling operations provide material benefits to millions of people, they are considered to be unethical as they harm the environment. To strike a balance between economic well-being and environmental well-being, corporate entities should ensure that they conduct their operations in a environment friendly way. It is the responsibility of the business to protect the environment. Local people are also the major stakeholders in the business and hence, it is the responsibility of the business to spend a part of some profits on their well-being. A business can be profitable in the long run only if it delivers its responsibilities towards all its stakeholders.

2. Government plays a significant role in controlling the unethical acts of businesses, such as polluting the environment. Government, as a regulatory body should not have permitted the oil companies to set up their exploration facilities in a residential area. But, once it had decided to allow the companies to explore oil, it should have asked the companies to compensate and provide a make- shift residential accommodation for all the people who live in the vulnerable area. The government should also have asked the companies to set up water affluent treatment plant that would remove all the harmful chemicals from the water before it is finally supplied to the people in the affected areas.

Caselet 39

1. UCB's strategy of eliminating its core products from its advertisements might have been effective in gaining substantial attention of its target customers, but at the same time, highlighting the socially sensitive issues did have a damaging effect. The ethical nature of the advertisements can be judged only when the motives of the company and the impact of these ads are clear. Before determining whether an advertisement is ethical or not, it is necessary to decide whether the advertisement is trying to make people think about a serious social issue or to gain their attention to a rather mundane product. Advertisements that draw attention to important social issues can be considered unethical when they cause more displeasure in the society than awareness towards social evils.

2. The idea behind UCB's advertising strategy might not be only at creating scandals and controversies. The intention might be to create social concern for such issues. But, as its controversial advertisements triggered many demonstrations and agitation against the company, they helped create free publicity for the company. Moreover, the company publicly stated that its intention behind such advertisements was to create a social awareness and to show its concerns towards the society. As advertisement is a tool for communication, it can be said that there is nothing wrong within it.

Controversies arise because of the gaps in people's perception. Different individuals in different societies have different sensitivity levels. So what seems right to people in one society might not seem right to people in another society.

Caselet 40

1. While operating a socially responsible investment portfolio, VGI should invest in

- Companies that provide the world with sustainable economic development in sectors like healthcare, education, public transport, renewable energy and water management industries.
- Companies that are found to be performing well when assessed against conventional measures of financial performance in terms of return on capital employed, profits as a percentage of turnover, and labor productivity.
- Companies, which exhibit best practices within the sectors in which they operate.
- Companies, which are willing to work with institutional investors for sustainable economic development.
- Companies which safeguard human rights, both of its employees and of the people employed by its suppliers.

2. Socially responsible investment is an important way of encouraging and supporting firms that are taking a responsible approach towards their contribution to sustainable economic growth. Financial investments in companies that are run in a socially and environmentally responsible manner, earn more than the returns available from those firms that are less responsible. By taking care of the environment in which they operate, companies increase their own chances of survival. Long-term benefits are reaped by companies that undertake socially responsible activities like improving the education, housing and healthcare of employees in developing countries. This improves productivity and increases staff loyalty. Firms that adopt businesses approaches that are socially and environmentally responsible cause their chances of long-term survival to improve rather than deteriorate. It follows from this that investors who place their funds in the stocks and shares of such firms are making judicious investments in their search for reasonable dividends and long- term capital gain. Companies that manage their social and environmental impacts as well as their financial matters are more likely to be able to operate their business more efficiently and effectively.

3. In the world of business, investments mean spending money in ways that add to the capital stock of the business by extending factory buildings or office buildings, or modernizing machinery. Investment can also assume the form of purchasing financial assets in the form of stocks, bonds and shares. These financial assets yield interest payments (in case of loan certificates) and dividends (in case of share certificates). Firms that specialize in investment management offer a service to clients (firms, institutions, charities, private individuals) who want specialist advice and support with regard to where best to place their investment funds. Such firms make the investments and monitor their performance in the light of the requirements of the client. They build up a portfolio of investments on behalf of the client and manage the portfolio (buying and selling financial assets at the most appropriate time).

Socially responsible investment (SRI) is concerned with identifying and investing in companies that are not only committed to their own growth but also that of the national economy. SRI involves investing only in companies whose operations satisfy certain criteria in relation to acting responsibly towards the environment and towards human welfare. It is one way of encouraging and supporting firms that are already taking a responsible approach towards their contribution to sustainable economic growth. The financial returns from investing in companies that are run in a socially and environmentally responsible manner are considerably higher than those of other companies.

Caselet 41

1. The rail companies gave utmost importance to the maximization of profits. Both rail track and the train operators ignored the safety to the extent of cutting costs on the training of drivers and abandoning the time-honored practice of ensuring that new and inexperienced drivers were always accompanied by a colleague with greater driving experience.

The late Mr. Hedge, the driver of the commuter train, who drove through Signal 109 into the path of the speeding express, was precisely such an inexperienced driver. “You wouldn’t put a pilot straight out of British Airways training school into the pilot’s seat on a Boeing 747 on his own,” observed Roger Ford, technical editor of Modern Railways.

Human involvement always carries an element of risk. Hence, it is better to install ATP. Although the costs of installing it will be high and increase the price, it will ensure greater safety.

2. To avoid such mishaps in the future, the organization should frame a ethical code of conduct and govern all the activities of its employees. It seems that the rail operator did not follow the rules regarding the facilities that are to be provided to the drivers. Any company would land in problems if it does not take care of its human resources. Apart from this the company should:

- Introduce sophisticated safety equipment
- Set clear operating procedures
- Ensure better layout of railway tracks
- Provide better training for staff
- Establish an efficient, independent and well-staffed enforcement agency.

Caselet 42

1. In order to improve the value of its shareholders, Westman suggested an all new mantra for its overhaul - increasing the realization on assets and sales, concentration on earnings, reduction of debt and increase in the company’s financial strength, and distribution of unrelated assets to shareholders. It was decided that in the 1993 annual meeting, a proposal to create an advisory committee of the company’s biggest, and long-term shareholders would be put forward.

Westman’s strategy of appointing Woodlock helped its stock price increase by 17%, as he had a record of turning around major automobile firms successfully. Westman cut its R&D expenditure, and set plans to minimize net costs by over $200 million in an year. To assess Westman’s competitive position and develop plans that increase shareholder value, the company decided to appoint only external directors on the board, and to have a straightforward charter. The long-term strategy of the company to formulate a business plan in six months and cutting the debt-capital ratio from 59 percent to about 30-40 percent helped raise its stock value by $2.63. Though these strategies were proposed to improve Westman’s performance, the company ignored its shareholders’ proposal for a shareholder advisory committee. With Woodlock’s resignation, Westman’s share price decreased by $5 in a single day. The shareholders wanted an explanation for Woodlock’s resignation and on what grounds to trust the present management for the organization’s success. The shareholders were not convinced by the CEO's explanation, and announced the appointment of Greigmack as Westman's new CEO. This took the stock price up to $59.62.

2. The primary role of a CEO is to run the organization in an efficient manner so as to produce the desired results. Apart from running the business effectively, the CEO is expected to have a constructive working relationship with the chairman and the directors. Establishing a constructive working relationship with the chairman requires a high degree of trust, respect and an ability to communicate openly. The CEO should maintain cordial relationships with the directors so as to ensure that they act in the interest of the organization as a whole instead of pursuing the narrow interests of the owners (shareholders, employees, banks, government, etc.). Apart from the roles discussed above, a CEO is expected to be able to

- assist the executive directors in formulating strategic proposals that have to be endorsed by the board.
- provide leadership and direction to all his executive directors.
- develop a plan for implementing the strategy formulated by the board and/or management, and to convince the non-executive directors that the strategy will work.
- act as the representative of the executive directors when interacting with the non-executive directors.
- present the company to major investors, the media and government.
- be a source of inspiration, leadership and direction to the employees, customers and suppliers.
- be able to identify situations that require his intervention.

Caselet 43

1. As per the case, the first signs of trouble appeared during the late 1990's with the significant changes in the market conditions of the US telecom industry. The profits and margins of the company started moving down because of the competition, excess capacity of bandwidth, consumer price war and increasing use of mobile telephones. One of the major reasons for Worldcom's declining profits and margins was its absence in the rising mobile telephony industry. Moreover, as the share value was decreasing continuously during the late 1990s, its then chairman Ebbers and CFO Sullivan misreported the profits during late 2000. The company reported profits worth $1.4bn in 2001, which it had not actually earned. The company managed to show its regular expenses as capital expenditure, which was later reflected as profit. Ebbers and Sullivan could manage to carry on with this for 15 months continuously until it increased to $3.8 bn. Apparently, this misreporting was done to keep the company's share prices high. However, the actual reasons for the scandal was not known as both Ebbers and Sullivan were tight-lipped, and invoked their Fifth Amendment right against self-incrimination.

Though the blame can be foisted on the chairman and the CFO, the auditor Arthur Andersen had the responsibility of checking the authenticity of the accounts being presented. However, Andersen seems to have signed off Worldcom's overstated profit statements for a period of 15 months. It was also found in an inquiry that the CFO and Andersen were just passing the blame to each other. As per Andersen's statement, the CFO had withheld important information on line costs.

2. According to GAAP (Generally Accepted Accounting Principles), the basic objective of an ethical audit is to monitor the actions of a firm that are directed towards enhancing the long-term value of the investors and to monitor the extent of distributive justice. Distributive justice refers to a teleological approach to ethical decision-making and is based on the concept of fairness. An ethical audit should evaluate the structures, procedures, systems and policies of a company. An ethical audit should also measure the degree to which the activities of a company comply with the standards it promised its clients to meet. An ethical audit should help the company examine the environment in order to determine the issues that may provoke action by pressure groups. Such examination gives an opportunity to instigate such groups to participate in the decision-making process. On the whole, an ethical audit measures the standards and procedures of a business against the principle of distributive justice and helps in maximizing shareholders' wealth. Andersen should have the objectives given below in conducting an ethical audit:

- Identify the extent to which the decisions taken at different levels of the organization are capable of maximizing the long- term shareholder value and how well they are developed to achieve distributive justice.
- Help provide a critical assessment of how well a business is actually run by evaluating the business systematically.
- Help scrutinize the basis on which accounts are made, and evaluate whether the management has reliable information for conducting business.
- Help the business in acquisitions, restructuring etc.
- Help establish an ethical conduct for the business, and provide an objective measure when external auditors conduct audit.
- Enhance the quality of governance by analyzing the performance and ensuring the availability and reliability of financial information.
- Help stakeholders and the directors evaluate the performance of each other.

Moreover, an ethical audit should contain two different approaches the integral approach and the comprehensive approach. Its approach should be integral because it combines different approaches with different methodologies and comprehensive because it takes the entire organization into consideration with various prevailing perspectives in different functional areas.

Caselet 44

1. In general, employees have a right to safeguard their personal information from unwanted intrusions, while employers have a right to determine all relevant data from their employees. But, problems arise where the employer believes that some information is relevant for the job, while the employee does not. In some cases, the methods employers use to collect this data raises many ethical questions about the employers right to intrude into the privacy of their employees. In this case, the issue is about "how far an employer can intrude into his employees private life to protect his business interest." We can classify the morality of this act depending on the intent of that act and the circumstances in which it is done. In this case, the act of spying was actually intended to gather some information against the employees who are suspected of theft. But the information collected and the means used to collect that information don't seem to support the claimed intention of the company. The act is morally wrong as it has used a personal relationship to collect the desired information. Moreover, data collected is no way relevant to the company's objective of identifying the thief.

This type of covert spying activities will break the element of trust in employee-employer relationship, which is very important for enhancing the long term owner value. Decreased trust will lead to a working environment that is demotivating. This will have an adverse effect on the overall performance of the employees. Therefore, organizations should desist from such practices that intrude the privacy of the employee beyond the requirements of his job.

2. The employees right to privacy is at stake. Although a corporation has legal right to get information from its employees, it has to honor his right to privacy away from work. Some times, even acts that are legal may be found wanting on ethical grounds i.e., even though it is legal to collect some information, the means used may be unethical. The intention with which this information is collected may also decide its ethical nature. The act is unethical if the information collected is intended to coerce a person.

Part C: Applied Theory Questions

The applied theory questions in this section are intended to deepen the student's understanding of theoretical concepts and their practical implications. Students have to apply the theories they've learnt to a wide variety of business situations and come up with innovative solutions to the problems posed.

Part C: Applied Theory (Questions)

1. Ethical decisions are not simple choices between 'Right' and 'Wrong'. Discuss the complexities of ethical decision making with the help of examples.

2. "Unethical conduct is a burden on the corporation and high ethical standards are assets." What benefits can an organization gain by being ethical?

3. Suppose you have a business in North America where offering gifts to your business partners is legal. However, such behavior violates the laws of your home country. Discuss briefly how you would handle this situation with reference to concepts like, ethical subjectivism, ethical relativism and consequentialism.

4. Consider three different organizations:

i. A central government organization that gives importance to socially responsible behavior.

ii. A private firm that generates wealth for its shareholders, reduces production costs, and optimizes labor productivity. The firm does not give importance to ethics and morality in business.

iii. A private firm that is concerned more about the welfare of stakeholders than about ethics and morality in business.

Discuss the various views regarding the relationship between business and ethics. Which view do the above organizations hold?

5. Central Foods manufactured packaged food made from fruits for children. Anil Kumar, operations manager of the food processing unit, felt that some defects in one of the processing systems used may contaminate the final processed product. The management, however, did not agree with him and argued that the possibility of contamination was low. The management wanted to ignore the problem as the system reduced the time and cost of production. It therefore argued that since the system produced cost effective products, it was good for customers and the company to continue with it. Analyze this situation from the customers' and the management's point of view in light of the following ethical theories:

- Egoism
- Utilitarianism
- Altruism

6. Trust is very important for maintaining good relations with stakeholders. How will unethical behavior affect trust in business relations?

7. In the present era, organizations can survive in the market by providing customers with quality products at reasonable prices, in an ethical way. Describe the process of building an ethical organization.

8. Developing a corporate code that suits the needs of the company and also complies with the country's laws is a complex task for many corporations. What guidelines must a company follow when developing a corporate code? How should this code be implemented?

9. Infosys maintains a high degree of transparency when disclosing information to stakeholders. It provides consolidated financial statements under US GAAP to its global investors and financial statements under Indian GAAP to Indian shareholders. It also provides a segment wise break-up of revenues. It has an executive chairman, chief executive officer (CEO), managing director, president and chief operating officer (COO). The founders only take salaries and dividends as payments. They do not receive any other financial benefits. What theories provide a framework for judging the ethical nature of an organization? According to which theory does Infosys qualify to be an ethical organization?

10. Values give employees a sense of direction and guide their behavior in their day-to-day activities. Discuss the way in which a company can attain moral excellence.

11. Organizations draft corporate codes that reflect the purpose of the company and help employees behave in an ethical manner. What is a corporate code? What formats are used for formulating the corporate code? How can the implementation of such a code be monitored?

12. What is the relationship between Law and Rule? How can Law enforce Rules?

13. A law is formulated by an individual, a group, a society and a political process. Discuss, in brief, the processes involved in the formulation of law.

14. Each and every individual has his own moral standards. Laws are formed on the basis of group consensus regarding moral standards. However, even though they are based on consensus, they may not be acceptable to everyone. Discuss the problems that may arise in the transformation of moral standards to legal requirements.

15. Laws are based on the moral standards of individuals living in a society. Discuss the process of formulating a fair law.

16. Vohra Chemicals Limited, manufacturers of chemicals for a pharmaceutical company, closed down some of its units that were polluting the environment. List and discuss the various approaches adopted by organizations to fulfill their responsibility to protect the environment. Identify the approach adopted by Vohra Chemicals.

17. Hindustan Pharmaceutical Limited (HPL), has a formulation unit in Hyderabad. A survey found that HPL was responsible for heavy pollution in the city. The government sent a notice to the company, ordering it to close down its formulating unit. As the costs of shifting the unit were high, HPL went to court against the government order. But the court decided in favor of the government. Do you think the court took an ethically correct decision?

18. Globally, environmental issues have been gaining significance and many companies have adopted operating methods that provide their customers with environmental friendly products. In this context, discuss the steps taken by Indian companies to address environmental issues?

19. A survey conducted by Business Today in 2001 on India's greenest companies ranked ABB, ICI, and TISCO 1, 6 and 10 respectively. In this context, discuss the concern showed by these companies towards the environment.

20. Most firms try to become environment friendly by 'going green' and adopting green initiatives. Discuss the benefits companies derive from adopting these initiatives. How can companies implement them?

21. The senior managers of many organizations face many ethical dilemmas during their day- to- day operations. The decisions taken by them have an impact on the different stakeholders of the organization. Discuss briefly the ethical decision-making model that senior managers should use to solve their day-to-day ethical dilemmas.

22. The CEOs and Chairpersons of bluechip companies receive astronomically high remuneration. Do you think that it is ethical for a Chairperson to receive such a high remuneration?

23. What are the different unethical practices commonly followed by organizations involved in mergers and acquisitions?

24. A Pune-based market research agency rated an upcoming FMCG company very high, but soon after the company faced many lawsuits for making unethical claims in advertisements. Discuss the various ethical issues a market research agency has to consider when rating a company.

25. Natura, a cosmetics company introduced "SnowWhite" herbal cream. The company claimed that SnowWhite was an all natural herbal cream, but the Medical Research Association found that it contained chemicals. The company also increased the price when the demand for the product increased. Comment on the ethical aspects of the marketing strategy employed by Natura to promote "SnowWhite" as a herbal cream.

26. Market research plays an important role in the competitive business environment as it helps generate, refine, and evaluate the actions of an organization. Discuss briefly the rights and responsibilities of the various participants in the conduct of a research study.

27. Viceroy, a mid-size knitwear company, has been manufacturing garments for three decades. Seeing the potential for knitwear, in the US market, the top management of Viceroy has decided to launch its products in the US. But the major hurdle for the launch of the knitwear in the US is the concern for environmental, labor and ethical issues in US, which are not that strong in India. Following the suggestion of one of its board of directors, the company decided to become a member of the American Marketing Association. In the context of this case, discuss the code of ethics developed by the American Marketing Association.

28. The Organization for Economic Cooperation and Development has issued privacy guidelines for Ethics in Digital marketing Research by Peters, (1994) What are the advantages of following privacy guidelines in marketing?

29. Narayan Gupta, diploma holder in operations management, is the Assistant Manager – Operations at Krishi Tractors Limited, which manufactures tractors and other farm equipment for rural markets. Discuss the ethical aspects of Gupta's roles and responsibilities as the operations manager in the production division.

30. Discuss briefly the ethical aspects of the roles and responsibilities of an individual working as operations manager in the service sector. Critically examine the difference between the operations manager working in a production sector and the operations manager working in the service sector?

31. Operations managers of different industries face different ethical dilemmas in their day-to-day activities. What factors help an operations manager resolve those dilemmas and enable him to produce cost effective goods?

32. Aryan is a newly appointed Assistant Purchase Manager in Indian Electricals Limited. Discuss the various unethical practices in the profession that Aryan should avoid when taking decisions.

33. Every organization has a purchase department whose role is to get the right quantity and quality of material required by the organization from the right source, at the right cost, and at the right time. But these are not the only responsibilities of the purchase department. Discuss briefly the roles and responsibilities of a purchase manager and the functions of the purchase department.

34. The code of ethics is different in different countries for marketing, finance, operations and purchase personnel. Write a brief note on the code of ethics of purchase personnel in the US.

35. The purchase manager of Priya Leathers faced an ethical dilemma when he had to choose between a close associate and a new supplier for awarding the contract for the supply of raw materials. Whom should he select? Justify your answer.

36. Shiam Textiles Limited has many senior workers. In 1998, the company bought new machines for automating weaving and dyeing activities. The company wanted to replace its older workers with younger ones, instead of retraining them to use new technology. Is this type of behavior ethical? What would be a better way of handling the situation?

37. A private security agency advertised in a leading newspaper for a personnel manager. The advertisement is given below:

"The post is open for male candidates only. The ideal applicant should be under 35 years. The candidate should possess a PG diploma in personnel management. The candidate will have to take a written test, and attend a group discussion and a final interview." Comment on the ethical aspects of the recruitment criteria.

38. Barghav and Vineet are assistant managers of Watrich Toys Limited, which has branches all over the country. Barghav is a senior employee with over 15 years experience at Watrich. He is considered very talented and capable. He is very loyal to the organization, works hard and finishes his work on time. Vineet joined Watrich Toys in 2000. He is smart and talented. In addition, he used to finish his work ahead of schedule. When employees were given increments, Barghav was given a pay hike of Rs. 3000, whereas Vineet was given a pay hike of Rs.5000. Most employees felt that this type of discrimination was unethical. Do you agree with them? Justify your point of view.

39. Timeshare.com is a Bangalore based dotcom company established in the year 1998. The portal was started to offer investment solutions to individuals and institutions. Within a span of one year, the staff doubled to 250 in four branches. But recession and the failure of dotcom companies as a concept forced the company to downsize by invoking the retrenchment "at will" clause in the employment contracts of the employees who joined in the last six months. The retrenched employees filed a suit against the company, charging that their layoff was unethical. Write a note on ethics in retrenchment.

40. Thrill Limited, a manufacturer of aerated soft drinks, wants to acquire its competitor Chill Drinks. This acquisition is expected to give Thrill access to Chill's bottling units and distribution channels. The employees and the management of Chill are against the acquisition; they want to stop the acquisition by Thrill. How do you think the management of Chill can prevent the takeover bid by Thrill Limited?

41. The Unit Trust of India (UTI) and the Global Trust Bank (GTB) decided to merge to become the largest private sector bank in India. However, the merger did not work out because GTB was accused of insider trading. Why is insider trading considered unethical?

42. A number of initiatives have been taken for dealing with money laundering at national and international level. Discuss the various steps taken by India and other countries for combating money laundering.

43. One of the biggest cases of money laundering investigated by the Enforcement Directorate (ED) is a Foreign Exchange Regulation Act (FERA) violation by ITC. What is money laundering and how is it done?

44. Sunrise Inc,. an electronics company based in the US, is considering a merger with Microchips Limited, an Indian software company. Since many mergers and acquisitions in the recent past had failed to achieve the desired results, the management of both the companies decided to examine the concerns of various stakeholders that should be considered to ensure the success of the merger?

45. Why do managers of the target company oppose takeovers? Comment on the ethical nature of the two-tier tender offer technique for taking over a company.

46. According to a report in a business magazine, investors in the stock markets have lost close to $200 billion in the past years in earnings restatement and stock meltdowns following audit failures. What are the various ways in which companies commit fraud in financial statements that could lead to failure in the long term?

47. Transparency is a prerequisite for good corporate governance. Explain the role played by different accounting personnel in ensuring the transparency of the financial activities of an organization.

48. Nextcell Ltd, an IT company, went public recently. Its stock prices achieved phenomenal growth during the first few weeks of listing. However, some industry analysts expressed doubts about the credibility of the company in light of the recent news of the collapse of companies like WorldCom. What do you think are the characteristics of a company that is prone to follow fraudulent accounting practices?

49. UTI was facing a lot of problem due to its US64 scheme in which many middle class people had invested their money. Investigation revealed that the UTI did not have a fair and reliable management accounting system. Discuss the steps that a company's management should adopt to have a fair and reliable management accounting system.

50. Discuss briefly the different steps taken by the Indian government to stop the illegal operations in the use of information technology?

51. The Enron scandal has brought to light the unethical auditing procedures followed by its auditors, Arthur Andersen. What is Ethical auditing? What are the major objectives of an ethical audit?

52. Employees sometimes face ethical dilemmas at their workplace arising from a mismatch between personal and organizational goals. How can the organization help employees make ethical decisions at the workplace?

53. It is usually found at the workplace that managers show favoritism towards certain employees because of various reasons. Is it ethical for a manager to adopt favoritism?

54. Nike, a global company, which has its manufacturing units in different countries, has framed a code of conduct to be implemented in all its manufacturing units across the world. What are the different issues to be considered while framing the code of conduct for a global corporation?

55. Callserve, US based ITES Company, has decided to shift its operations to India. What do you think are the reasons behind a company shifting its operations to other countries? What ethical codes of conduct should these companies follow? List some characteristics of an ethical code?

56. Most MNCs are said to dominate in the third world countries by adopting unethical (political, environmental, technological and marketing) practices. Discuss some of the unethical practices that the MNCs adopt?

57. Earlier when an organization wanted to extend its operations into a foreign country, it considered aspects such as the needs of the people of that country, the labor costs and the laws of the country. But nowadays organizations are also considering the ethical issues that may arise when they extend their operations to foreign countries. Discuss the ethical issues which have to be dealt with while entering countries like Japan, France, Germany and China.

58. Many countries have now developed a code of conduct for companies that are operating or entering their countries to protect the rights of their people. Discuss briefly the various steps taken by different countries to check the unethical practices of organizations?

59. The Government of India wanted to adopt German technology in generating, distributing and regulating power. What are the different factors that should be analyzed by the Indian government so that the transfer of technology does not raise any ethical issues?

60. Every organization has a social responsibility to fulfill. Also, there seems to be a shift in the consumer behavior, as they support organizations that endorse social responsibility. Discuss the evolution of the concept of social responsibility of business.

61. Mayur Limited is a FMCG company that manufactures toothpastes, soaps, oils and shampoos. It has been funded by institutional as well as individual investors. 40% of its capital is provided by institutional investors and the remaining 60% by individual investors. It has around 5000 employees in its manufacturing, marketing and sales departments. The company is managed by a board composed of the executives and non-executives of the company. Its supplier base, which spread across the country, provides it the necessary raw material. It has its own retail chain to deliver its products to customers. Mayur Limited has a large and diverse customer base. It faces heavy competition from global companies like HLL and P&G. It has built schools, hospitals and childcare centers in the country as part of its community development program. Identify the major stakeholders of Mayur Limited and explain why they qualify as stakeholders of the company?

62. On the 10^{th} anniversary of Mayur Limited, the CEO wanted to re-examine the corporate strategy. Discuss the stakeholder interests that should be taken into consideration when formulating the strategy? Why?

63. To gain certain synergies, Mayur Limited decided to merge with Sympco Limited, another FMCG company. What will be the effect of the merger on the internal and external stakeholders of Mayur Limited? What are the responsibilities of the organization towards its internal and external stakeholders?

64. The success of a company in the long run depends on its relationship with external stakeholders. What is the significance of a company's relationship with its external stakeholders?

65. An organization's role is not limited only to earn profits. It has certain responsibilities towards its shareholders, customers, employees and the community. Discuss briefly the different responsibilities of an organization in society.

66. Due to the increase in size of businesses, private and partnership firms find it very difficult to raise the funds required for expansion of their industrial units. The modern day corporate structure allows them to raise the necessary funds. Discuss the characteristics of a corporate which attract huge investments from a large number of investors?

67. Corporations play a major role in serving the needs of the society. Discuss briefly the main purpose of corporations in a society?

68. In which model of corporate governance do the shareholders elect the board of directors? Discuss this model of corporate governance and the roles and responsibilities of the board members of such board?

69. For many decades, corporate lawyers have been trying to establish complete citizenship for business organizations. They argue that corporations should be entitled to the same political and voting rights that are guaranteed by the constitution to citizens. In what way can a corporation act ethically like a "moral person"?

70. "Good corporate governance has to make sure that the organization structure functions to maintain the corporation's integrity, reputation and responsibility to its various constituencies." How do various organizations define the concept of corporate governance?

71. What is a code of corporate governance? Do you think such a code can improve the corporate governance mechanism in organizations? Discuss the codes of corporate governance laid down by the Kumara Mangalam Birla Committee.

72. How does corporate governance align the management of the company with the interests of shareholders and other stakeholders?

73. The Directors play an important role in the process of corporate governance. Discuss.

74. Discuss the model of corporate governance in which the employees of an organization play a major role in the selection of the board of directors.

75. Discuss the model of corporate governance in which financial institutions play a major role.

76. What is the importance of corporate governance? What are the factors that contributed to the evolution of corporate governance?

77. What are the different theories of corporate governance? How does corporate governance differ from corporate management?

78. Bharat Cycles Limited (BCL) is a public limited company run by Bharat Vikas and his family. The capital of the company consists of equity from shareholders and loans from financial institutions and other creditors. For efficient running of the organization, the company's management want to introduce a corporate governance mechanism. How should the board of the company be constituted?

79. The shareholders of Vidhya Automobiles Limited felt that the board of directors was not functioning efficiently. Vinayak was the Chairman of the board and the CEO of the company. The board comprised seven executive directors, five non-executive directors, and three nominee directors and two associate directors. What could be the reasons for the unhappiness of shareholders?

80. Discuss the matrix, which measures the performance of the board on the two variables, decision- making and interpersonal relations.

81. An ideal board of directors consists of individuals who have expertise in varied functions such as marketing, finance, law, human resources etc. In this context, list the various responsibilities of the board of directors in ensuring good corporate governance.

82. Do you agree, "A group of outstanding individuals always makes an effective board." What is the role of the chairman in the successful functioning of a board?

83. Performance evaluation of the board of directors ensures better corporate governance. Do you agree? Who should evaluate the performance of the BoD and how should this evaluation be done?

84. Before the liberalization of the Indian economy, public sector companies managed by the Central and State governments dominated the industry. There were only a few private companies. After 1991, private companies started growing rapidly. In this context, discuss the different types of board structures that came into existence.

85. Every company has a Board of Governors or a Board of Directors. Briefly describe the role, functions, and responsibilities of the members of the board.

86. Depending on their relationship with the corporation, the board of directors can be classified as executive directors, non-executive directors and nominee directors. What are the duties and responsibilities of these directors in the governance of a company?

87. Ashok Pumps Private Limited was earning good profits before the liberalization of the Indian economy. Post liberalization (in1991) it faced many problems and its profits declined. To manage the company efficiently, the company decided to form various board committees to improve the performance of the board. What committees should Ashok Pumps set up to improve its performance?

88. The three major players in corporate governance are the corporate boards, shareholders and employees. Efficient functioning of corporate boards enables shareholders, employees and the organization to achieve the desired goals. Discuss the different issues, corporates should address while designing a board structure.

89. Nirmal Soaps Limited is a new, fast moving consumer goods company (FMCG) in India. It produces shampoos, soaps, toothpastes and baby care products. Which of the following board structures would suit Nirmal Soaps Limited? Why?

a. All executive board

b. Majority executive board

c. Majority outside board

d. Two-tier supervisory board

90. The Confederation of Indian Industry (CII) drafted a code of corporate governance for Indian companies to compete efficiently in the global market place. Discuss the code of conduct for corporate governance as recommended by the CII.

91. The Cadbury committee and the Kumaramangalam Birla committee recommended the presence of non-executive directors on organizational boards to ensure better corporate governance. Discuss briefly the qualities that non-executive directors should possess.

92. What is the difference between a code and a regulation? List out the benefits of a self-regulatory code.

93. Once a corporate governance code is framed, it should be reviewed and updated according to the changing needs of stakeholders. Discuss some recent developments in the field of corporate governance in India.

94. Discuss briefly the rights of shareholders, as mentioned in the OECD Report on corporate governance.

95. The Kumaramangalam Birla Committee report recommended that companies should have two different persons as the Chairman and CEO. Discuss the role and functions of a CEO.

96. Of late, the remuneration of directors has become a controversial issue. Discuss the norms framed by different committees with regard to the remuneration of the directors?

97. Global businesses are expected to show commitment to social obligations. Comment.

98. Why do you think is there a need for ethics in business?

99. Corporations exist and operate with the help of various inputs sourced from the society and produce various goods and services for the well being of society. In this context, briefly explain the relationship between the corporation and the society and the laws governing this relationship.

100. Codes are self-regulatory rules for guiding the conduct or behavior of an individual. What are the benefits of self-regulation?

Part C: Applied Theory Answers

Each question can be answered in a variety of ways. Students should be able to come up with reasoned answers that reflect their knowledge of theoretical concepts and the current business environment.

Part C: Applied Theory (Answers)

Answer 1

Ethical decisions are not just simple choices between 'Right' and 'Wrong,' but complex judgments. Decisions taken by managers should aim at striking a balance between the economic and social performance of organizations. Some examples of the ethical dilemmas managers face are:

- signing the transfer order of an officer to please an influential member of the board
- arranging cash payments for the income-tax commissioner, who is on the informal rolls of the company at the instance of the owners
- manipulating data to understate the profit figures for the purpose of negotiating with trade unions
- bribing an important customer to keep him from switching to the competitor
- showing a higher profit figure to the board

Technological changes and increasing competition are making it difficult for managers to identify what is 'right,' 'proper,' and 'just.' When a large corporation takes over a small company, some of the positions are duplicated. Should top management fire or demote executives holding these positions, many of whom have served their respective firms for years? It would be wrong to fire these executives, but not firing them would defeat the basic purpose of the merger. The purpose of the merger was to make the company more competitive, but without cutting the staff, the company would not be able to survive in the market.

In such a situation, what should a manager do? As an individual, the manager should act fairly towards all the concerned partners. As the manager of an organization, he should pursue the company's economic objectives. As a member of society, the manager must act in accordance with the norms of society.

Answer 2

An organization builds its image through its contribution to society. An organization can be said to be socially responsible if it i) meets the requirements of the customers; ii) acts in a socially and environmentally responsible manner, and iii) uses non-renewable energy resources. Ethical dealing will enable an organization to gain both financially and non-financially.

Financially ethical conduct reduces friction with society. For organizations, social friction arises when behavior, which is considered to be legal by an organization, is seen as illegal or unethical by society. This can result in demonstrations, protests and criticism by the media and social activists. This creates a bad image for the organization. This can lead to a fall in the share prices and decrease in sales. Therefore, by being ethical and building a good image, organizations can gain a competitive advantage. This can become a decisive market advantage when an organization offers products and services that are comparable in quality and usefulness with those of other companies.

Corporate behavior prompts customers to buy and motivate investors to purchase shares, and the society looks to the corporation with pleasure and pride.

Employees are an organization's most valuable assets. An organization's value systems, decision patterns and modes of behavior induce an "us" feeling among employees and boost their motivation to work. The top management's strong support for ethical conduct increases job satisfaction along with the degree of employee identification with the organization. However, when employees see their colleagues promoting their careers in an unethical way they can feel demoralized. This can lead to the departure of valuable employees from the organization.

Ethical corporate behavior prompts customers to buy, motivates investors to purchase shares and earn goodwill for the company.

Answer 3

According to ethical subjectivism, what is ethically right or wrong is entirely a personal matter and depends on the ethical principles chosen by individuals. It also holds that morality of a decision depends on the circumstances of the person making it. American law considers it illegal for businessmen to take gifts, even though their counterparts in business consider it customary. This is a case of ethical subjectivism, since the laws and regulations of their respective government govern the partners. If the businessman strictly follows the laws of his country, then he should not offer gifts to his partners in the U.S.

According to ethical relativism, there is no universal set of principles for judging morality. As each society has its own rules and regulations, it would be inappropriate to compare the ethical rules of one society with that of another, or judge one society by the rules of other societies. According to ethical relativism, it is not advisable to offer gifts to a counterpart in the US, as it is unethical to do so in the U.S.

According to consequentialism, an act is ethically permissible only if it provides maximum value to everyone affected by it. In this case giving gifts is ethical according to consequentialism because it helps build better business relations.

Answer 4

According to the Unitarian view, business is a part of the moral structure and cannot be separated from it.

According to the Separatist view of ethics, as proposed by Adam Smith and Milton Friedman, a business should concentrate on its goal of profit maximization in order to flourish. They believe that business is a distinct entity that does not include ethics and morality. They also feel that a business should focus on concerns like reducing production costs, optimizing labor and other concerns that are relevant to the marketplace. If ethics and morality are taken into consideration, the efficiency of the business could be adversely affected.

Separatists believe that a business should concentrate on profits and that managers should concentrate on the interests of shareholders. Shareholders should be given the choice to decide the effective utilization of resources.

According to the Integration view of ethics, proposed by Talcott Parsons, ethical behavior and businesses should integrate. As business is an economic entity, it has to make profits, but it still has to fulfill its social obligations. Business and morality are inter-related and are guided by external factors like government, market system, law and society.

The central government organization described in the question follows the integration view of ethics, that businesses act as economic entities that make profits and at the same time fulfill social obligations such as generating jobs, employing physically challenged people and making basic necessities available at reasonable rates.

Private firms, whose main aim is to generate wealth for shareholders, follow the Separatist view of ethics, as proposed by Adam Smith and Milton Friedman. They believe that morality and ethics have no role in business. Such firms concentrate on cost reduction techniques to improve their business.

Private firms, that strike a balance between stake holder's welfare and ethics follow the Unitarian view of ethical standards, which says that if businesses have to exist, survive and flourish in the long-run, morality and business objectives cannot be separated.

Answer 5

According to Egoism, an action is morally right if the consequences of that action are more favorable than unfavorable to the individual performing the action. According to the theory of egoism, the use of the processing system is morally right from the management's point of view. The system is more favorable than unfavorable to the management of Central Foods as it reduces the time and cost of production. The possibility of contamination is low and can be ignored. According to this theory, the management's action is ethical.

The theory of Utilitarianism claims that an action is morally right if the consequences of that action are more favorable than unfavorable to everyone. According to the management of Central Foods, the possibility of food contamination is low. The use of this system is ethical, because by reducing the time and cost of production, it is more favorable than unfavorable for the management. And by reducing the cost of the product, the system is more favorable than unfavorable to customers. However, if management's claim that the possibility of contamination is low is incorrect, then the use of the system is unethical.

According to Altruism, an action is morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual/organization performing the act. The use of the processing system may result in the contamination of the food, which may have an adverse impact on the children consuming the food. Therefore, according to the theory of Altruism, management's action is unethical.

Answer 6

Building trust with suppliers and customers will help organizations project a good image of them. As a result, organizations will be able to achieve their goal of profit maximization.

Supplier Relations

Suppliers provide organizations with the goods and services necessary for their functioning. Over a period of time, organizations build a relationship with their suppliers, based on mutual trust and cooperation.

Maintaining good relations with suppliers enables organizations to procure raw materials on time, reduce production costs and produce quality products for customers. Organizations that use unethical practices will lose the trust of their suppliers. Practices that are considered unethical in relationships with suppliers are

- Playing off one supplier against another
- Lying to suppliers to gain an unfair price advantage
- Passing on information to the supplier who has a close relationship with the organization
- Giving orders to suppliers who are close to the managers of the organization

Such practices will have a negative effect on the performance of the organization.

Customer Relations

Customers enable an organization to achieve its goal of profit maximization. This, in turn, enables the organization to give high returns to its shareholders. An organization can gain the trust of customers

- By developing a product that meets the needs of customers
- By pricing the product reasonably
- By ensuring that the product fulfills the minimum quality requirements
- By ensuring that the promotion activities undertaken by the organization provide correct information about the product
- By providing good after-sales service
- By ensuring that the customers are provided with the necessary services and spare parts when the product is upgraded

Employee Relations

Organizations should operate within a climate of trust. When relationships among all the employees in the organization are based on trust, there is little scope for friction among employees and a reduction in employee turnover. Trust leads to greater predictability and dependability of information, and therefore to greater confidence among employees. Trust can be promoted in an organization by

- Communicating openly
- Sharing critical or important information
- Encouraging employee participation in decision-making
- Sharing of perceptions and feelings.

Therefore, trust plays a major role in promoting a positive image of the organization internally and among the members of society.

Answer 7

An organization can transform itself into an ethical organization by following the principles established by any one of the following theories:

- Theory of corporate moral excellence
- Ethics and stakeholder theory
- Ethics and corporate governance

According to Clutterback, corporate moral excellence can be achieved by

i) Appointing an ethics auditor who assesses the ethical nature of the company's actions and operations. The ethics auditor would be responsible for supervising the financial reporting process, establishing financial and accounting controls, and ensuring compliance with the financial policies of the company.

ii) Setting up an ethics committee to supervise the behavior of the organization. The ethics committee should be given complete access to the financial data of the organization.

iii) Adopting an ethical reward system that motivates employees to achieve the organization's goals.

According to the ethics and stakeholder theory, the primary purpose of any organization is to maximize the wealth of its shareholders. Managers can behave in an ethical manner by paying attention to the needs and rights of stakeholders. The ethical responsibilities of the managers include the distribution of benefits and the allocation of costs to all stakeholders in a right, proper, and just manner.

According to the theory of ethics and corporate governance, an organization should determine the "right," "fair," "proper" and "just" decisions and actions that affect its stakeholders. Organizations adopting corporate governance should focus on improving business relationships with employees, customers, stockholders, creditors, suppliers and the members of the community in which they operate. They should follow a "voluntary code of best practices to ensure transparency in their operation." Some of these best practices can be:

- To prevent the undue concentration of power.
- To divide responsibilities between the chairman and the CEO
- To ensure transparency in the remuneration of top management.
- To establish an audit committee that ensures the reliability of the accounts published by the company.

Thus, one can build an ethical organization by following the principles established by any one of the three theories of ethics, namely theory of corporate moral excellence, ethics and stakeholder theory and ethics and corporate governance theory.

Answer 8

Most organizations today are drafting "corporate codes" to govern their activities in a way that is acceptable to all stakeholders. Organizations are fast realizing the need for adopting an exemplary "corporate code" to boost their corporate image, and increase the long-term value of the company. Corporate codes reflect the purpose of an organization and help employees behave in an ethical manner. Developing a corporate code involves

- Identifying the key behaviors of the organization
- Reviewing key behaviors of the organization (by key members)
- Communicating the code to all employees
- Updating the code

Identifying the key behaviors of the organization

The first step that any organization must take when drafting the corporate code is identifying the key behaviors that maximize the long-term value of the organization. The behaviors that are required to follow the code of ethics are also noted. These behaviors may relate to the product, service, work place or any other crucial areas that an organization must focus on to achieve its corporate goals.

Reviewing the key behaviors

Once the key behaviors that maximize long-term value are identified, the list of key behaviors should be provided to the legal department of the organization and to the concerned departments so that they can review the effectiveness of the code in ensuring ethical behavior.

Communicating the code

Once the corporate code has been finalized, a copy of this code should be sent to every employee in the organization.

Updating the code

The code should be reviewed at least once a year to ensure that it is in accordance with the laws of both the organization and the government.

Implementation of the corporate code

Implementation of the corporate code requires modifying the organizational structure, coordinating employee activities, motivating employees, and communicating with employees.

The organizational structure facilitates the delegation of authority, which is crucial for effective implementation of the corporate code. Coordination synchronizes employee activities, thus allowing the organization to achieve its objectives effectively, efficiently, and ethically. Coordination also ensures that the different departments of an organization follow the same ethical code.

Motivating employees involves identifying the different ways through which different people should be motivated. Organizations should also conduct training programs to make employees conform to certain acceptable ethical behaviors. These training programs should also address the various ethical dilemmas faced by employees/managers while implementing the corporate code.

Answer 9

Nowadays, many organizations are trying to be recognized as ethical organizations as they believe that ethical behavior will earn goodwill their organizations. The following theories provide a framework for judging the ethical nature of organizations:

- Theory of corporate moral excellence
- Ethics and stakeholder theory
- Ethics and corporate governance

According to the first theory, an ethical organization is one that is based on moral values. These moral values guide the behavior of the employees in their day-to-day activities.

According to the second theory, an ethical organization is one whose managers act in a responsible manner by paying attention to the "needs" and "rights" of all stakeholders. Hence, the behavior of the management towards its stakeholders plays a crucial role in building an ethical organization.

The third theory states that the "governance practices" adopted by an organization to ensure "right," "fair," "proper," and "just" decisions and actions play a major role in building an ethical organization.

Corporate Governance is the system by which business corporations are directed and controlled. This system specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions regarding corporate affairs. By so doing, it provides a structure for setting and attaining the company objectives and monitoring the performance.

Ensuring transparency is the key objective of corporate governance. Infosys can be considered an ethical organization as it has systems that ensure transparency in all its dealing with its shareholders.

Answer 10

Analysts believe that an organization's culture has an impact on the behavior of its employees. Culture is based on the values of an organization. According to Deal and Kennedy, "Values produce a sense of direction for employees and guide their behavior in their day-to-day activities."

Corporate values can be classified as:

- Espoused Values
- Values in Practice

Espoused values refer to a company's statements, credos and code of ethics. They describe the organization's purpose and ethical perspective. Ethical perspectives are aimed at guiding the members who are responsible for leading and directing the organization. They are also intended to communicate to employees, customers, competitors and suppliers the type of behavior that is acceptable to the organization.

Espoused values may, in certain situations, differ from Values in Practice. Take the case of an organization whose mission statement states that "The customer is the king", but in practice the organization pays little attention to customer service. Clearly, there is a difference between espoused values and values in practice. As a result of this difference between the values espoused and values practiced, level of trust in the organization will decline.

An organization should align its "values in practice" with its "espoused values" if it wishes to be regarded as an ethical organization. For example, if an organization's espoused values state that, "As a responsible citizen of the global community, we treat our employees with respect," and the organization practices the same in its appointment, induction, training and development and remuneration of employees, it would be considered an ethical organization. This congruence of espoused values and values in practice will improve employee morale and increase their conformity to the organization's code of ethics.

Michael Hoffman proposed the theory of corporate moral excellence for judging the ethical nature of an organization. He classified corporate culture in the following manner:

- Basic values, attitudes and beliefs of the organization.
- Organizational goals, policies, structure and strategies that are shaped by the values, attitudes and beliefs prevalent in the organization.
- Organizational procedures and processes.

Hoffman was of the opinion that employees were responsible for developing organizational goals. According to him, they also play a major role in evaluating the corporate culture and implementing a change process if required. He further states that to attain moral excellence, corporations should try to strike a healthy balance between corporate culture and the autonomy of its employees. Organizations should also see that espoused values and values in practice are ethical.

Clutterbuck proposed another approach for achieving corporate moral excellence:

- Appointing an ethics auditor - organizations conduct a self-assessment exercise to gauge the ethical nature of their actions and operations.
- Disclosing exceptions of employee behavior, a common practice followed in Europe and the US.
- Supporting the ethical behavior of the organization. Ethical behavior can be supported by creating an ethics committee with a wide range of powers.
- Establishing reward system to encourage ethical behavior.

If these approaches are followed by an organization, the management will be able to identify the difference between espoused values and values in practice and take corrective measures to attain corporate moral excellence.

Answer 11

Every organization, whether large or small, has its own corporate code. Corporate codes reflect the purpose of the company and help employees behave in an ethical manner.

A corporate code refers to policy statements that establish a company's ethical standards. The code is designed to govern the conduct of employees. Corporate code enhances clarity of strategy, ensures better decision-making, clearer communication and ease in delegation, and inspires employees to have greater commitment and loyalty towards the organizations. Corporate codes can address any issue such as employees' safety and health, workers rights etc.

The CEO, board of directors, legal departments, consultants and top management formulate the corporate code. In some organizations, employee representatives or a group of employees selected by the management may be involved in the formulation of the corporate code.

A corporate code can be developed in any of following formats:

Compliance codes: Directive statements, which provide guidance and prohibit certain kind of conduct.

Corporate credos: The broad general statements of corporate commitments relating to constituencies, values and objectives.

Management philosophy statements: The formal statements of the company or the CEO's vision of the business.

Special documents: Special documents are also known as codes of conduct. They reflect the company's values, principles and guidelines. These documents communicate the purpose of the business and the nature of the company's relationship with suppliers, customers, consumers and stakeholders.

Circulated letters: Circulated letters reflect the company's policies on certain issues concerning suppliers, contractors and buying agents.

Compliance certificates: These certificates are especially designed for suppliers, contractors and buying agents to certify that they abide by the company's stated standards.

Purchase Orders: Purchase orders are also referred to as letters of credit. They are drafted in accordance with the company's policies, which list the organization's contractual obligation towards its suppliers.

The success of a code of conduct depends on its credibility. A code is considered credible when its existence and meaning is widely known to various groups such as contractors, workers, and the government. To be credible and successful, a code must be *transparent and* easy to *enforce* and *monito*r.

A code can be made transparent through its posting, disseminating and training regarding its provision. Monitoring aims at ensuring the proper implementation of the code. A code can be monitored internally and externally. Internal monitoring involves monitoring by a committee or an ombudsman. This monitoring can be achieved through regular reporting, regular field visits or through the use of hotlines. External monitoring involves monitoring by an outside auditor, consultant etc. Enforcement can be of two types: positive enforcement and negative enforcement. Positive enforcement involves retaining current contracts and awarding them additional contracts. Negative enforcement involves monitory fines, corrective acts, cancellation of an individual contract, and severance of the employment or business relationship.

Answer 12

Law can be defined as a consistent set of universal rules that are widely published, generally accepted and usually enforced. The term 'rules' refers to the collective moral judgments made by the members of society to guide individual behaviors or action. Rules guide individuals to act in a *desired manner* to maintain relationships with other members of society. Law also gives the do's and don'ts for a given situation.

A law can achieve its objective of enforcing rules only when it is consistent, universal, published, accepted and enforced. These characteristics of law are explained below:

***Consistent*:** The requirement to act or not to act in a particular situation has to be consistent so as to be a part of law.

***Universal*:** The term universal means applicable to all. The requirement to act or not to act in a given situation has to be universal, as law is applicable to every one who faces similar circumstances.

Published: The requirement to act or not to act in a particular situation has to be published in written form, so that is accessible to all individuals within a given society.

***Accepted*:** The requirement to act or not to act has to be acceptable to society. Laws have to be accepted to be obeyed. If the majority of the members of society do not obey the law, then it becomes difficult to enforce it.

***Enforced*:** Enforcement implies imposition of law. Laws are enforced when people disobey them.

Thus, law states the consequences of not following the rules. These consequences may result in loss of convenience, money or time etc.

Answer 13

Law is a consistent set of universal rules that are widely published, generally accepted and usually enforced. Laws can be enforced only if they are widely accepted, therefore laws must be framed in such a way that they are acceptable to the majority of the members of society. The formulation of law involves four processes: i) individual processes ii) group processes iii) social processes and iv) political processes.

Individual Process

Society is made up of different individuals, with differing moral standards, based on their norms, beliefs and values. These moral standards are the outcomes of their different cultural, family and social backgrounds. Norms are criteria for behavior. They reflect society's expectations of the way people should ideally act. Belief refers to the way an individual expects people to think. For instance, an individual may believe that environmental preservation is a moral act because it prevents pollution. Values are priorities that a person establishes for his or her norms. Though norms, beliefs, and values differ, they form the basis for moral standards. Individuals who share common beliefs, norms and values form a group.

Group Process

Every society has its own unique set of inter-linked elements, like religious teaching, cultural traditions, economic conditions, technological developments, social structures and political processes, that influence an individual's selection and development of norms, beliefs and values. Thus, moral standards may differ from individual to individual. Any changes in the basic set of elements of society will influence the moral standards of individuals and will, subsequently, lead to changes in the law.

Social Processes

Social processes are concerned with the accretion of power. Individuals sharing common norms, beliefs and values form small groups. These groups then become a part of large organizations, such as business firms, labor unions, political parties, charitable trusts etc. Over a period of time, these groups may achieve an acceptable compromise on norms, beliefs and values or split into small groups.

Political Processes

Political processes institutionalize moral standards into law; standards are institutionalized by being incorporated into the laws of the country. For example, when the majority of the citizens objected to the foeticide of females, the government enacted a law prohibiting scanning for identifying the gender of the unborn child.

Thus, by taking all the processes into consideration, a legal framework can be designed that incorporates the different moral standards of different societies.

Answer 14

Moral standards define right and wrong behaviors for individuals. They focus on what ought to be done and what ought not to be done by an individual or group in a given situation. Moral standards state what is right and wrong behavior, and the law compel individuals to follow "right" behavior. Moral standards supported by a legal system constitute law. Law also defines the way in which one must act or must not act in a given situation. Certain problems arise during the transformation of individual moral standards to universal legal requirements.

- Moral standards are sometimes formulated on the basis of inaccurate information, thus making it difficult to formulate appropriate laws.
- The moral standards get diluted by the formation of small groups. These groups are formed on the basis of beliefs, values and norms. In many cases, these beliefs are not widely accepted and the members of different groups have to arrive at a compromise.
- Legal requirements formulated by the political process are often incomplete and imprecise. These drawbacks are apparent in product liability cases and employment reviews.
- The moral standards of members of society may be misrepresented while shaping the consensus of a large organization. This is due to the unequal influence of the different groups involved in formulating the law. Such unequal influence is commonly found in the formulation of tax legislation, where the laws are skewed in favor of a particular class of a society.

There are cases in which the moral standards of the members of society have been misrepresented as the consensus of large organizations. This is due to the fact that all individuals and groups within the organization may not share the norms, beliefs and values of large organizations.

Answer 15

Moral standards deal with desired right and wrong human behavior. They focus on *what ought to be done* and *what ought not be done* by an individual or group in a given situation. Laws, on the other hand, aim at producing a *desired human behavior*. They focus on behavior that is required by society. In a nutshell, moral standards deal with right and wrong behavior, and law compels individuals to act in the "right" or desired manner.

Laws govern human conduct in society. When laws are not developed properly, some problems may arise at the time of their interpretation and enforcement. In such situations, managers should base their decisions on moral standards.

Considering the relationship between moral standards and legal requirements, the following are the requirements laid down to develop a fair law:

- Laws and moral standards overlap to a certain extent. For instance, although a bank robbery violates federal law, it also violates of moral standards. In addition, both law and moral standards are concerned with issues like sexual conduct, product liability or bankruptcy, and contract adherence.
- The law does not always represent collective moral judgments. For instance, chemical wastes are considered harmful to health and laws are framed to monitor and control the release of hazardous material. But even though charity is considered as a moral act, no laws are framed for it. But laws such as 'stop when the signal is red and move when the signal is green' are considered to be morally inert with no ethical content. The traffic law that requires vehicles to stop when the signal is red and move when the signal is green is neither right nor wrong, but a requirement to guide the motorist. Some laws, therefore, are framed for our convenience and have nothing to do with moral standards.
- The requirements of law tend to be negative while moral standards tend to be positive. Law represents a minimum set of standards for generating human behavior in society. And these standards are beyond the minimum standards and have to come from the individual's initiative. Law states that one should forbid unethical behavior such as theft, robbery etc. But at the same time, no laws have been laid down to help the needy. For example, an individual may feel it is his moral duty to help accident victims, but there is no law that requires individuals to help accident victims. Thus, law often leaves many issues to the judgment of the individual. Hence for the laws to be fair should be formulated after considering all the moral standards.

In many cases, the law does not accept all the moral standards adopted by society. Acts such as racial discrimination, bribery, etc have recently been declared illegal. However, this rejection of some of society's moral standards does not mean that the relationship between legal requirements and moral standards has ceased to exist.

Answer 16

There are three approaches that organizations adopt to fulfill their moral responsibility towards the environment:

- Anthropocentrism approach
- Anxiological approach
- Eco-centric approach

The *Anthropocentrism* approach focuses on the utility that human beings can derive from protecting the environment. Since the survival and well being of human beings depends on the environment, it is the moral responsibility of human beings/ organizations to support and preserve the environment.

According to the *Anxiological* approach, it is the moral responsibility of humans to protect animals. This responsibility includes the preservation of animals and animals' rights.

The *Eco-centric* approach is considered to be a radical approach towards environmental responsibility. According to this theory, the environment has to be influenced by *direct moral consideration, and* not that which is derived from human interest. The term direct responsibility involves activities aimed at preserving the environment.

Vohra Chemicals has adopted an eco-centric approach. The company's decision to close down polluting units indicates its concern for environmental protection. Vohra Chemicals seems to have closed down its polluting units voluntarily, without the intervention of the government. Thus, we can say that Vohra Chemicals decided to curb pollution because it felt it has a moral obligation to do so.

Answer 17

An organization should not only earn profits for its shareholders, it should also fulfill its social obligations. To satisfy its social obligations, it must run its business in a manner that promotes the well-being of society. If HPL does not close its formulating unit in the city, there would be

- An increase in air pollution, which could lead to respiratory diseases and even premature deaths in children.
- Contamination of drinking water
- Disease and pollution related health ailments.
- A negative impact on the overall environment of the city, which would affect animals and the inhabitants of the city.

Any act that indirectly harms or produces a negative impact on human beings can be considered unethical. From the above point of view, the court's verdict in favor of the government can be said to be ethically correct. But, if we consider the impact of the closure of the plant on the other stakeholders of the firm like, shareholders, employees and customers, the decision can be considered unethical. According to the utilitarian view of ethics, the decision to close down the factory can be conducted ethical only if the cumulative effect of this decision is positive.

Answer 18

The growing number of organizations has resulted in heavy industrial pollution. Companies often dump industrial wastes and hazardous chemicals into rivers and other water bodies. This causes great harm to the environment. The growing consumer concern for the environment has forced many companies, globally to adopt environmentally friendly methods of operations. Some of the steps taken by Indian companies in this direction are described below:

i) Many companies closed down old and polluting units (e.g. Tata Iron and Steel Company closed its old steel units).

ii) Many companies have adopted a green policy. ABB's Vadodara plant organized a green campaign, encouraging employees to plant about 2500 trees on its 100 acre premises. To deal with the problem of disposal of dry leaves and twigs, it stated vermiculture (breeding of earthworms). Dry leaves and dead wood were converted into organic manure. Eighty percent of this manure was used for its own gardens and the rest was sold. Tata Iron and Steel planted 1.5 million plants when it adopted a green policy.

iii) Most companies have adopted several safety measures. For example ICI India adopted the SHE (Safety, health and environment) principle. In line with this principle, the company seeks to ensure that all its activities worldwide are conducted safely. The company makes efforts to protect the health of its employees, its customers and the public. In addition, the company tries to ensure that its operations are carried out in a manner that is acceptable to the local communities. To deal with fire accidents, ICI plants have tanks that can hold enough water for 3 hours of fire fighting. ICI also ensures that as far as possible, no chemicals are used in the production process and that no pollutants are discharged during the entire production process. Tata Iron and Steel has appointed "safety and environment inspectors" to keep an eye on oil leakage's, water or stream leakage's and noise levels of equipment and to monitor the segregation of waste to ensure the safety of the environment.

Many companies now maintain an ecological balance-sheet that shows the extent of the damage they have caused to the environment. The balance-sheet contains particulars of the cost of the environmental damage caused by the company (due to air pollution, water pollution, soil damage and noise pollution). The increasing significance of environmental issues has made organizations undertake environment friendly activities to differentiate themselves from other firms and to build their image.

Answer 19

ABB

ABB's Vadodara plant was ranked the greenest company in India. The company organized a green campaign as part of its environmental policy. The campaign encouraged employees to plant about 2500 trees on its 100 acre premises. To dispose of dry leaves, twigs and other plant waste, ABB undertook vermiculture (breeding earthworms). The company for gardening used Eighty percent of the organic manure so produced and the rest was sold. The company also implemented ISO 14001 at all its offices to asses its 'corporate sustainability' i.e. economic, social and environmental performance. This program was implemented with the aim of reducing waste, identifying environmental hazards, and maximizing resources.

ICI INDIA

One of the strengths of ICI is its SHE (safety, health and environment) principle. The principle states, "The ICI group will ensure that all its activities worldwide are conducted safely; the health of its employees, its customers and the public will be protected; environmental performance will meet contemporary requirements, and that its operations are run in a manner acceptable to the local communities."

ICI also insists that the local managers of its companies ensure that manufacturing facilities does not destroy the physical environment. The firm ensures that in the process of production, few or no chemicals come contact with the external environment. It also recycle all solvents that are used in the production of paints. The firm ensures that no pollutants or waste are discharged during the entire production process.

To prevent fire accidents, ICI plants have tanks that can hold enough water for 3 hours of fire fighting. ICI's concern for human and environmental safety has placed it high in list of "green" companies.

TATA IRON AND STEEL

It seemed almost impossible for Tata Iron and Steel Company to strike a balance between production objectives and environmental responsibilities. Yet, surprisingly, it has succeeded in achieving both. The company has planted around 1.5 million plants to celebrate its adoption of a green policy and the closure of its old and environmental unfriendly steel units. It has started to modernize its equipment to make it environment friendly.

The company is known for its unique HR approach for ensuring the safety of the environment. The company created the post of 'safety and environment inspectors' for inspecting oil leakages, water or stream leakages, and noise levels of equipment and ensuring segregation of waste.

The main objectives of three companies mentioned above is to preserve the environment by reducing waste and framing effective eco-friendly policies.

Answer 20

When a company adopts an anti pollution environment policy, it is said to be 'going green'. Organizations adopt green initiatives for the following reasons:

- To gain economic benefits from increased efficiency.
- To gain a competitive edge over rivals through the process innovation, waste reduction and the use of environment friendly technologies.
- To build their public image through good environmental performance. Consumers, investors and employees respond positively to such companies.

Companies try to gain competitive advantage by taking some green initiatives. Green initiatives in business include the development of environmentally friendly technological innovations, participation in green tourism, activities and projects, green community, environmental campaigning and environmental counseling.

Green tourism: Some organizations offer convention holidays and tours. The amount collected by promoting green tourism is donated to 'green' organizations or charities. The government also organizes special package tours to encourage people who wish to preserve or repair degraded landscapes.

Green community service projects: In 1992, many initiatives were taken to encourage green businesses. These initiatives were encouraging investment in landscape improvement, fund collection for implementing green practices, voluntary campaigns and rehabilitation programs for various country sites etc. These programs were developed for the benefit of local communities.

Environmental counseling: This green program aims at encouraging employees to express their concerns about environmental issues. In many companies, employees are given an opportunity to discuss environmental issues. Companies also publish articles on 'green' topics and organize competitions to encourage ecologically sensitive innovations in work processes.

Answer 21

The senior managers of organizations use an ethical decision-making model that provides a framework for tackling ethical issues. This ethical decision making model helps managers identify business problems and work out solutions for the problems they face. The ethical decision-making model consists of four steps: i) evaluating the decision, ii) judging the decision, iii) establishing the moral intent, and iv) engaging in ethical behavior.

Senior managers facing an ethical dilemma must first identify the stakeholders concerned with the outcome of the decision. They should determine whether the proposed decision violates the fundamental rights of the company's shareholders.

In the next step they must judge the decision on the basis of certain moral principles of the organization. The principles stated in the mission statement and the moral principles of the company should form the basis of the judgment.

In the third step, they should establish the moral intent of the decision. They should give priority to those activities that are aimed at resolving moral concerns. The senior managers should take the help of the top and middle level managers to resolve ethical dilemmas. The involvement of only top-level managers can skew the decision in favor of the economic interests of the shareholders.

In the fourth step, the senior manager must ensure that all the employees are engaged in ethical behavior. If an organization wants to be ethical in its dealings, some mechanism should be put in place to ensure ethical behavior on the part of its employees. The corporate code guides employees to behave in an ethical manner.

Answer 22

The role of chairperson has gained importance in the present era. The chairperson does not just chair the board meetings, he/she is also responsible for

- Formulating long-term strategic decisions
- Ensuring the smooth functioning of the business
- Implementing the decisions taken by the board of directors to achieve the business objectives
- Formulating policies, which suit the organization
- Acting as a representative of the company to external entities
- Taking critical decisions, which help the organization, resolve problems in times of crisis
- Ensuring that the board of directors makes valuable suggestions for the long-term growth of the organization

Maintaining good interpersonal relations with the CEO, the executive directors and the non-executive directors to enhance the working of the organization. By maintaining good relations with the CEO, the chair person can be informed of the status of the organization. This knowledge will help the chairperson take suitable decisions regarding the organizational functions. By maintaining good relationships with the non-executive directors, the chairman can motivate them to contribute to the development of the organization to the best of their abilities.

- Motivating employees to achieve organizational goals.
- Making good decisions and acting decisively in the time of crisis

In the light of these responsibilities, high remuneration paid to the chairperson can be regarded as ethical. As long as the chairperson's contributions enable the organization to perform efficiently and profitably, such remuneration is justified.

Answer 23

In today's global environment, change has become the order of the day. Rapid changes in technology, competition, and customer demands have led to an increase in the rate at which companies need to alter their strategies to survive in the market. In the 1980s, firms adopted the mergers and acquisitions strategy to secure themselves against takeover/bids. When viewed positively, mergers and acquisitions are essential for the successful expansion of firms. Moreover, for successful entry into new markets, firms have to opt for mergers and acquisitions at some stage of their development. Mergers and acquisitions also increase the value and efficiency of the firm for the stakeholder and move resources in order to achieve their best use.

Changes in strategy (through mergers and acquisition) bring changes in ownership. A change in ownership results in activities such as exchange offers, repurchasing of shares, going private and leveraged buy-outs.

Exchange offers involve exchanging debt for common stock, which increases leverage, or exchanging common stock for debt, which decreases leverage.

Share repurchase involves buying back by the corporation of some fraction of its outstanding shares of common stock.

A *going-private* transaction involves the purchase of the entire equity interest in a former public corporation by a small group of investors.

Leveraged buy-outs involves financing the buyout through substantial borrowing from a third party.

The strategic rationale for such moves has always been to either diversify or gain a more dominant position within a particular industry. But in the process of restructuring, many ethical issues arise. Are these activities (mergers and acquisitions and restructuring) good or bad for the economic health of the company? Do they divert managerial energies from economic activity to financial manipulation?

Financial manipulation could be in the form of '*Corporate raiders*'. Corporate raiders create an environment of threat of takeover and force the target company to buy back shares at a premium i.e. 'Greenmail' technique.

This threat of financial manipulation has led to the development of defensive strategies like 'poison pills,' which require the potential buyers to spend a huge amount of capital in order to gain a controlling interest in the target company. Such activities have an adverse impact on the stakeholders, as they unnecessarily increase the cost. Stakeholders can be served better without such activities.

Moreover, will the merger enhance the company's mission? Though synergy is beneficial, it can take place only when the culture and management styles of the two organizations complement each other.

Answer 24

The information derived through marketing research helps identify and define marketing opportunities and problems. It also helps generate, refine and evaluate marketing decisions. In addition, this information helps improve the marketing process and performance of a company. If a market research agency ranks a company No.1, then it should specify the reasons for having done so and explain why that company is better than the other companies included in the research. The marketing research process affects many stakeholder groups such as society, the respondents in the specific study, the client, the researcher and the research profession.

Each of these stakeholder groups has some rights and responsibilities in the conduct and use of research results. Some of the rights of society are i) The right to be informed of critical research results. ii) The right to expect objective research results i.e. the research should not be to conduct just to confirm or deny a particular claim with the intention of deceiving consumers.

Although researchers work for their clients, their findings have a significant impact on society as a whole. The rights of the researcher include:

Protection against improper solicitation of proposals: Clients should not invite proposals from researchers without the intention of engaging an external research agency.

Not to Misrepresent the Findings: the client should not misrepresent the research findings.

Right to expect ethical subject behavior: The respondents or the subjects should take the responsibility of reporting data truthfully and in as unbiased a manner as possible. They should also keep the research findings confidential if requested to do so.

Apart from the above mentioned rights, a researcher also has the right to ask for information from the client that is essential for the completion of the research.

Since the research findings of market research affect many people, the research agency should report the findings accurately.

Answer 25

A marketing strategy is a plan designed to attain the marketing objectives of a firm. Strategies relating to competitive pricing, effective advertising, distributing, product development, and efficient supply chain management can lead to ethical problem. These strategies can reduce the choice for customers and, consequently negatively affect the buyer-seller relationship. The marketing mix (product, price, promotion and place) plays a crucial role in the marketing decision making process. Natura's marketing strategy, to project SnowWhite as a herbal cream, was unethical as the cream was not a herbal product. The ethical issues associated with the marketing of SnowWhite cream are related to the pricing and advertising of the cream.

Organizations price their products on the basis of the cost of inputs and the demand in the market. It is unethical to charge a higher price for a product when it is in great demand. It is unethical for Natura to increase the price because this act deprives the use of the product by those customers who cannot afford to buy the product at the increased price.

Natura claimed that its product was 100% herbal. But when tests were carried out, it was found that the cream contained artificial chemicals. It is unethical on the part of Natura to make such false and misleading claims.

Answer 26

Market research is an important exercise for an organization and requires analyzing and predicting the desired outcomes of the research. It links the consumer and general public to the organization.

Five distinct participants in the market research process are

- The research profession
- Client
- Respondents in the specific study
- The researcher and
- Society

Some of the rights and responsibilities of the above participants are as follows:

The research profession

The research profession in business has to protect the rights of society. These rights include i) The right to be informed of critical research results and ii) The right to expect objective research results (i.e., the study should not be conducted to confirm or deny a particular claim with the intention of deceiving consumers

Client

Protection against improper solicitation of proposals:

Research proposals should be requested only as a means to decide the utility and viability of a research project.

Misrepresentation of Findings:

The client is responsible for the accurate representation of research findings. Distortion in any form to benefit the client is unethical.

Reneging on promises:

Clients often promise the researcher access to certain data, such as sales and cost data that are relevant to the research. However, when the time arrives to supply such information, the client does not provide what was originally agreed upon. The completion of the project might prove difficult or laborious, or even impossible.

Availability of funds:

When requesting research proposals, clients should provide approximate budget estimates so that researchers can design their process within the constraints.

The respondents

Respondents should report data truthfully and in as unbiased a manner as possible. It is the responsibility of the respondents to keep the matter confidential if they are requested to do so. With the increasing use and impact of marketing research on the industry and society, ethical issues relating to the conduct of distinct entities such as clients, respondents and researchers are under scrutiny.

Answer 27

As a member of the American Marketing Association, Viceroy should be committed to ethical professional conduct. The Code of Ethics developed by the AMA is given below.

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations and actions function to identify, serve and satisfy all relevant publics- customers, organizations and society.

Marketers' professional conduct must be guided by:

- The basic rule of professional ethics: not knowingly to do harm;
- The adherence to all applicable laws and regulations;
- The accurate representation of marketer's education, training and experience; and
- The active support, practice and promotion of this Code of Ethics.

Honesty and Fairness

Marketers shall uphold and advance the integrity, honor and dignity of the marketing profession by being honest in serving consumers, clients, employees, suppliers, distributors, and the public; not knowingly participating in conflict of interest without prior notice to all parties involved; and establishing equitable fee schedules including the payment or receipt of usual, customary and/or legal compensation for marketing exchanges.

Rights and Duties of Parties in the Marketing Exchange Process

Participants in the marketing exchange process should be able to expect that products and services offered are safe and fit for their intended uses; communications about offered products and services are not deceptive; all parties intend to discharge their obligations, financial and otherwise, in good faith:

- In the area of product development and management: disclosure of all substantial risks associated with product or service usage; identification of any product component substitution that might materially change the product or impact the buyer's purchase decision; identification of extra cost-added features.
- In the area of promotions: avoidance of false and misleading advertising; rejection of high-pressure manipulations or misleading sales tactics; avoidance of sales promotions that use deception or manipulation.
- In the area of distribution: not manipulating the availability of a product for the purpose of exploitation; not using coercion in the marketing channel; not exerting undue influence over the reseller's choice to carry a product.

- In the area of pricing not engaging in price fixing; not practicing predatory pricing; disclosing the full price associated with any purchase.
- In the area of marketing research: prohibiting selling or fund raising under the guise of conducting research; maintaining research integrity by avoiding misrepresentation and omission of pertinent research data; treating outside clients and suppliers fairly.

Organizational Relationships

Marketers should be aware of how their behavior may influence or impact the behavior of others in organizational relationships. They should not demand, encourage or apply coercive tactics to make the employees, suppliers, or customers behave in an unethical manner. Any member found to be violating any provision of AMA's Code of Ethics may have its membership of the association suspended or revoked.

Answer 28

Customers are vital for a company's success. Customer service is an important aspect of marketing management. Good response to customer needs and customer interaction will lead to repeat customers. It is easier and more economical to retain existing customers than attracting new customers. An ethical organization lays down policies and procedures for the entire organization and encourages the staff to follow the set guidelines. Negligence on the part of the organization in looking into the needs of employees will lead to inefficient service, which will affects customer trust and loyalty. As firms need monetary resources to trade, material resources to produce, and human resources to add value to their offerings, increasingly firms need high quality information resources to gain and sustain a competitive advantage in the marketplace. The degree to which customers are willing to share sensitive information with firms can be interpreted as a powerful signal about their assessment of a particular company.

The right to individual privacy and calls for tougher legislation have made many companies aware of the ethical issues inherent in their information acquisition activities and the strategies being used for acquiring information. A customer will be willing to share his information depending on the relationship and course of action that a firm demonstrates to the customer. Thus, firms must address the ethical issues raised by their customers, ensure the privacy of the information provided by customers and develop an understanding of the way in which customer relationships are affected by trust and commitment.

Answer 29

Operations management mainly deals with the design, operation and improvement of the production systems that create a firm's primary products or services. Operations managers are under continuous pressure to produce the products using the minimum resources possible. As a result, they often face many ethical dilemmas concerning employee safety, employee training etc. As operations manager, Narayana Gupta is responsible for achieving the desired output (i.e., meeting the production targer for tractors) with the desired quality and with the available inputs. The job responsibilities of Narayana Gupta as operations manager in the production department would be:

- Receiving raw materials
- Storing them in a safe and secure environment
- Supervising the movement of materials in the plant
- Assessing the standard time values used in the manufacturing process
- Record keeping, scheduling and following the orders

- Maintaining the established quality standards
- Negotiating with suppliers on just-in-time issues
- Distributing the products
- Ensuring that employees follow quality standards in production process
- Giving directions to employees in operational areas to achieve the desired quality
- Ensuring the health and safety of the workers
- Initiating employee suggestion schemes
- Taking decisions on operational and quality issues
- Designing the layout of the work areas
- Taking care of staff payments and bonus schemes
- Forecasting to ensure timely production

Answer 30

An operations manager in the service sector deals with customers directly and his primary responsibility involves building trust and loyalty in consumers. The responsibilities of an operations manager in the service sector are:

- Motivating staff and giving them direction and timely guidance
- Negotiating with suppliers
- Dealing with inquiries
- Taking decisions regarding policies that have to be implemented
- Holding up training sessions for staff
- Ensuring the health and safety of workers
- Taking decisions regarding operational issues
- Ensuring quality management
- Keeping track of schedules
- Maintaining Total Quality Management (TQM)
- Receiving incoming calls, faxes and mails
- Storing documents of relevance
- Prioritizing jobs
- Transferring information/data required in different departments

An operations manager in a hospital (in-charge of ward admittance and discharge) would have to decide what action to take when an unfit patient is discharged.

While negotiating with suppliers, the operation manager would have to decide whether to buy from a supplier who takes care of cost cutting or to buy from a supplier who supplies quality material.

An operations manager in the production sector deals with tangible resources. In this sector, the output can be checked and verified by objective methods. But for an operations manager in the service sector, a greater degree of subjectivity is required in decision-making as he directly serves the customers.

Answer 31

Operations managers in different industries face different ethical dilemmas in their day-to-day activities. There are six parameters that help operations managers resolve these dilemmas and produce cost effective goods. They are i) Magnitude of consequence, ii) Probability of the effect, iii) Social consensus, iv) Time interval, v) Proximity, and vi) Concentration of effect.

Magnitude of consequence: Ethical dilemmas are resolved by comparing the degree of harm done when compared to other alternatives.

Probability of effect: Problems are resolved by producing the product that is harmful to consumers.

Social Consensus: The operations manager resolves the problem by taking into consideration the degree of social acceptance of a particular action.

Time Interval: This refers to the interval of time between the introduction of a product and its impact on the consumer. A manager should give priority to solving those problems, which have an immediate impact on consumers.

Proximity: While solving ethical dilemmas, managers may take those decisions that are socially, culturally, psychologically or physically beneficial to him or other stakeholders.

Concentration of effect: When taking decisions, the manager has to consider the number of people affected by his decision.

Answer 32

Accepting gifts, deceiving suppliers, favoring certain suppliers, revealing confidential information and similar acts are all considered unethical for procurement personnel.

Accepting gifts: This is an important issue in purchase departments. Companies are now developing a code of conduct for their employees and buyers with regard to accepting/offering gifts in business deals. According to The Chartered Institute of Purchasing and Supply (CIPS, 1977), purchase personnel can accept gifts of very low value such as pens and calendars, which are primarily promotional materials. Accepting gifts such as cars and expensive holidays at exotic locations is considered unethical. So, Aryan should be able to differentiate between gifts that are given for promotional purpose and those in the hope of receiving favors.

Deceiving suppliers: Often purchasing personnel exaggerate defects in the earlier consignments to pressurize suppliers to cut prices. Managers defend their purchasing personnel by arguing that such deception is necessary to increase competition among suppliers and get the best terms possible. But professional purchase managers feel that these tactics can destroy the trust that is vital for maintaining good relations with vendors. Free and honest communication between buyers and suppliers can eliminate such practices. Aryan should communicate the requirements and the terms of the organization in a straightforward manner in order to build a good relationship with vendors.

Discrimination and favoritism: Discrimination in a purchase department takes the form of favoritism towards certain suppliers. The following are some instances of discrimination:

- Favoring loyal customers
- Favoring suppliers recommended by senior management
- Giving orders on the basis of personal preferences
- Allowing suppliers to deal directly with other departments that do not have a professional approach to procurement.

Aryan should not favor any specific supplier because, by so doing, he may overlook other suppliers who may be able to supply better quality products.

Disclosing confidential information: Sometimes purchase managers reveal the criteria of selection to some suppliers, putting others at a disadvantage. In other cases, companies leak the bid amount so as to encourage other bidders to quote the lowest possible prices. This selective disclosure goes against the concept of ethical purchasing.

Aryan should not connect any of the unethical actions described above and should follow the code of conduct of the organization and the industry.

Answer 33

The purchase department's responsibility is to get the right quantity and quality of material required for the organization, at the right time, from the right source, and at the right cost. It is also required to monitor suppliers and pass on information about the market to other departments of the organization. The effectiveness of the purchase department depends on the purchase manager's knowledge of the market and the organizations. For example the purchase manager should have clear answers to questions like

- Is there going to be any shortage in the near future?
- Will the shortage push up the prices of inputs?
- Are any good substitutes available?
- Which supplier can supply better quality material and better quality components at the same or lower price?
- Who are the potentially good vendors who could be developed into reliable suppliers and loyal partners?

The main functions of the purchase department are:

- Ensuring the availability of materials for the smooth functioning of the production department
- Procuring materials at reasonable prices for the company.
- Ensuring the supply of quality materials.
- Gathering information about substitute materials that are available in the market (including price information).
- Sharing information about substitutes with other departments of the company
- Identifying possible substitutes for raw materials and components
- Maintaining good vendor relations, monitoring vendors, and evaluating and developing new vendors. Purchase managers should maintain good relations with existing vendors and identify new vendors to ensure the continuous flow of quality raw materials at reasonable prices

The importance of the purchase manager and the purchase department has increased with the growing importance of just-in-time purchasing and total quality management in product manufacturing. The purchase department can enhance the company's image and increase the profitability of the firm by behaving ethically when carrying out his duties.

Answer 34

In the US, most purchase departments are familiar with the National Association of Purchasing Management. This code of ethics was established to guide the conduct of purchase managers. The code of ethics is given below:

- To avoid the intent and appearance of unethical or compromising practices in relationships, actions and communications.
- To refrain from accepting money, loans, credits, prejudicial discounts, accepting gifts, favors or services from present or potential suppliers that might influence purchasing decisions
- To refrain from reciprocal agreements that restrain competition
- To conduct international purchasing in accordance with the laws, customs, and practices of foreign countries, consistent with United States laws, your organization's policies and these ethical standards and guidelines.
- To refrain from any private business or professional activity that would create a conflict between personal interests and the interests of the employer.
- Enhance the proficiency and stature of the purchasing profession by acquiring and maintaining current technical knowledge and the highest standard of ethical behavior.

Answer 35

Every manager in an organization is empowered with power and authority, according to his position in the organization. The role of the purchase manager is to ensure the supply of quality material at reasonable costs for the smooth functioning of the production department. In the situation described in the question, the purchase manager has to choose between two suppliers, one of whom is a close associate. The supplier who is a close associate of the purchase manager can be given the contract for the following reasons:

- It enables mutually beneficial relationships
- It helps them gain the support and confidence of the top officials

The purchase manager can also give the contract to the new supplier. He can justify this on the ground that this move:

- Enables him to develop relations with new vendors
- Increase competition between suppliers and acquire quality materials.

Answer 36

The employees of an organization should be treated fairly and equally. They should not be discriminated on the basis of age. Most organizations gauge a person's ability on the basis of age and feel that young employees are more enthusiastic about learning new skills. Such employees, they feel, can adapt quickly to changes in the organization. This type of discrimination on the basis of age is unethical. Older employees can also be trained to adapt to new technology. Since they are very experienced workers, they can learn quickly and contribute to the maximization of long-term owner value.

Senior workers tend to be loyal to the company. They generally invest a lot of time and effort in maximizing long-term owner value. Discrimination against senior employees projects a bad image of the organization. As a result, the organization loses the trust of the employees, which finally leads to a decrease in long term owner-value.

In such a situation, the organization should organize regular training sessions to retrain senior employees.

Answer 37

Selection criteria that are designed to select candidates who can contribute to the organization are considered ethical. Rejecting candidates who do not meet the requirements of the job also constitute ethical behavior. For example, candidates with health problems are not eligible for fighting a war, so the army can refuse to recruit without violating any ethical norms.

The criteria for selection should be based on abilities necessary for carrying out a particular job. For example, a personnel manager should be able to maintain good relationships with employees and train and motivate them to achieve organizational goals. The selection process for personnel managers can be considered discriminatory and unethical if the candidate is judged on the basis of age, gender, religion and other factors that have no bearing on the requirements of the job. Hence, the selection system of the private security agency can be called unethical, as it discriminated candidates on the basis of age, gender, qualifications (i.e., over qualifications).

According to the advertisement placed by the security agency, candidates above 35 years were not eligible for the post. This criterion is unethical because there is no relationship between age and the type of work a personnel manager has to do. A talented individual, who meets the job requirements, can contribute to the company even if he is over 35. The advertisement also discriminates against candidates on the basis of gender. According to the advertisement, the position was open to males only. This criterion is unethical because there is no relationship between sex and the type of work a personnel manager has to do. If women candidates have the necessary qualifications, they should also be considered for the job.

Answer 38

The norms of promotion/reward in any organization should consider the contribution of the employees towards meeting organizational goals. An employee's achievements within a given period of time should be considered before deciding his/her increments or promotion. Since all the employees are expected to be hardworking and talented, they should be rewarded to the extent these qualities increase owner value. According to the principles of ethical remuneration, business should not reward an employee for anything other than contribution to long-term owner value.

The remuneration of an employee should be based on results and not by mere possession of superior skills and abilities that do not result in better work.

Organizations should encourage result-oriented work instead of simply hard work. Individuals who work hard but fail to achieve results deserve sympathy but not rewards. When determining remuneration, expertise is more important than experience.

These principles are based on the idea that rewarding behavior irrespective of the results achieved would depreciate long-term owner value and would threaten the very existence of the business. Employees who possess relevant experience do not always possess expertise in that area of work. An employee who has expertise should be considered for higher remuneration than an employee who has experience but a limited level of expertise.

Hence, Watrich Toys is justified in giving Vineet a bigger pay hike. Not only does Vineet have the necessary expertise, he also has the ability to finish his work ahead of schedule.

Answer 39

The turn of the new millennium saw a slump in major world economies. Consequently, many businesses were compelled to retrench or lay off people. These businesses did not have the expertise to handle the issue of retrenchment and ended up sullying their corporate image.

Firing may have a devastating effect on employee morale, but it is considered ethical when the dismissal is aimed at maximizing long-term owner value. Firing, to be ethical, should be honest, fair, legal and without coercion or physical violence.

Many organizations follow arbitrary firing practices. The reputation of such organizations will suffer if word gets out that the organization is discriminatory, unfair, or vindictive in its hiring and firing practices. Employers sometimes include an "at-will" clause in the employment contract that enables them to fire their employees "at-will" or for a "cause". Arbitrary firing practices like firing "at will" or for unjust reasons are considered to be unethical as they lower the morale of the remaining employees and result in decreased long-term owner value.

Firing at will for unjust reasons has a devastating impact on the performance of an organization. It is very difficult to measure the negative impact of firing on the basis of an "at-will" clause in an employment contract. But, since it will lower employee morale, it will definitely have a negative impact on productivity. Thus, firing at-will for unjust reasons does not serve the purpose of enhancing long-term owner value. Instead it will create an atmosphere of fear and uncertainty. Firing at will is unethical because it destroys trust, which is essential for any business to survive and earn profits.

Firing is considered to be ethical when there is a clear reason for doing so. This reason for firing may be related to poor performance, acts of sabotage and dishonesty or misuse of authority (which are considered to have an effect on long-term owner value).

Organizations have to face criticism when they opt for layoffs, right-sizing, downsizing or delayering. Such organizations, can defend themselves by making it clear that the purpose of business is to enhance long-term owner value. In difficult times, who should be fired first? The decision to fire whether or not to fire an employee has nothing to do with his age or years of association with the organization. The ethical decision at such times would be to fire employees who are least productive or who contribute the least towards long-term owner value.

Even though dismissing employees is correct according to law, it would create a sense of fear among employees if it were not carried out in the right way. This atmosphere of fear and mistrust within an organization would make it difficult for the organization to attract fresh talent and retain experienced employees. Thus, it is very important for businesses to adopt and practice ethical hiring, remuneration and firing policies that are directed towards enhancing long-term owner value.

Answer 40

Most companies opt for mergers and acquisitions to derive synergies that enable them to survive in the market and compete effectively. But sometimes companies take over other companies to eliminate competition or gain access to facilities. In such situations, companies (in this case, Chill) can use the following strategies to prevent takeovers.

- Poison Pills
- People Pill
- Sandbag

Poison Pills: A poison pill is an anti-takeover strategy that can be used by management to make a takeover expensive for the bidders. By using this strategy, the management of Chill Drinks can make the bid expensive for Thrill Limited. As part of this strategy, it could change the articles of association to give the shareholders special rights, like special voting rights and the right to buy and sell preferred stock at highly favorable prices. These rights can then be exercised to make the takeover prohibitively expensive. The use of poison pills is ethical as it protects shareholders from unwanted takeover bids.

People Pill: Another defensive strategy that can be adopted by the management of Chill Drinks is the People Pill. Using this strategy, the management of Chill Drinks can threaten Thrill Limited with the resignation of its entire top management team in case of takeover. This technique can hinder a takeover bid because Thrill Limited would not like to run a company without an experienced team. Though Thrill can set up a new management team, it would be very difficult for a new team to run the company effectively.

Sandbag: If Chill Drinks wants to stop Thrill Limited from taking over the company, it can merge with some other company. This is called the sandbag technique.

Answer 41

Insider trading refers to trading on price sensitive information by company employees or individuals closely connected with the firm. Insider trading has been criticized because it does not give a level playing field to both insiders and outsiders. Shareholders who are entitled to full information about the company are given only limited information. The primary victims of unethical insider trading are the shareholders as they can lose money when corporate insiders harm the ownership value and cause the company's share price to fall. If a firm that is providing services to a subject company employs insider trading, then the shareholders of the other firm will also suffer. Unethical insider trading in the stock market can harm the exchange as a whole because investors will not be willing to trade on that exchange. The manner of acquiring the information, the trading on that information, the trader's relationship to that information, and the subject of the information are all essential to determine the ethical nature of the insider trading.

Answer 42

The first ever laws governing money laundering originated in the US. In the US, money laundering laws were enacted primarily to control drugs and narcotics dealers who were legalizing the profits earned through their nefarious activities.

In 1998 the Indian government introduced a bill for dealing with money laundering. The feedback that was generated by the first draft resulted in the withdrawal of the bill and its re-introduction in the form of the Prevention of Money Laundering Bill, 1999. This bill defined 'money laundering' as:

- Acquisition, ownership, possession or transfer of any proceeds of crime; or
- Knowingly entering into a transaction related to the proceeds of crime, directly or indirectly; or
- Concealment /aiding in the concealment of the proceeds of crime.

Large-scale money laundering schemes invariably contain cross-border elements. Since money laundering is an international problem, international cooperation is essential to fight it. A number of initiatives have been established for dealing with the problem at the international level. The Financial Action Task Force (FATF), set up by the governments of the G-7 countries at their 1989 Economic Summit, has representatives from twenty-four OECD countries, Hong Kong, Singapore, the Gulf

Cooperation Council, and the European Commission. Participants include representatives from members' financial regulatory authorities, law enforcement agencies, and ministries of finance, justice, and external affairs. The FATF has made the best-known efforts to date towards creating a global approach for dealing with money laundering. Its Forty Recommendations on combating money laundering have formed the basis of counter laundering legislation in its own 31 member states and in many others.

Answer 43

Money laundering involves hiding, moving, and investing the proceeds of criminal transactions. In other words, it involves disguising assets so that they can be used without detection of the illegal activity that produced them. The success of organized crime depends on its ability to launder money. Through money laundering, the criminal transforms the monetary proceeds derived from criminal activity into funds with a seemingly legal source.

Although money laundering often requires a complex series of transactions, it generally involves three basic steps. The first step is the physical disposal of cash. This can be accomplished by depositing the cash in domestic banks or, increasingly, in other types of formal or informal financial institutions. Or the cash might be shipped across borders for deposit in foreign financial institutions, or used to buy high-value goods, such as works of art, airplanes, and precious metals and stones, that can then be resold for payment by check or bank transfer.

After the funds have entered the financial system, the second or layering stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be laundered through the purchase and sales of investment instruments, or through a series of accounts at various banks across the globe. These accounts are located in countries that do not cooperate with anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

The last step is to make the wealth derived from the illicit proceeds appear legitimate. This can be done by using a number of techniques, such as using front companies to lend the proceeds back to the owner or using funds deposited in foreign financial institutions as security for domestic loans. Another common technique is over invoicing or producing false invoices for goods sold--or supposedly sold--across borders.

Answer 44

Every organization's goal is to maximize shareholder value. By merging, Sunrise Inc. and Microchips can gain a competitive advantage and increase shareholder value. To ensure the success of the merger, the management should try to understand some of the concerns of the stakeholders.

Concern I: Mergers can destroy industries, increase unemployment and harm the interests of stakeholders by disrupting the organization's relationships with suppliers and customers.

Solution: The management of Sunrise Inc and Microchips Limited must focus on protecting the interests of the stakeholders and shareholders of the organization.

Concern II: Stakeholders have unrealistic expectations of mergers

Solution: The management should clearly inform stakeholders the likely future of the company. This will prevent them from having unrealistic expectations regarding the company's growth.

Concern III: Mergers involve transfer of wealth to the shareholders by ignoring the rights/interests of other stakeholders like employees, suppliers etc. The merged organization can look out for other suppliers or the employees can be laid off.

Solution: Both Sunrise Inc. and Microchips Limited should agree to respect certain contracts or promises. If a firm promises performance-related bonuses to employees and the company that acquires it does not take into account these contracts or promises, the employees of the acquired company would feel demotivated and would not perform as expected. This would result in poor work performance

Concern III: Sometimes mergers take place simply because other companies are doing so or to satisfy management's imperial ambitions. In such situations resource misallocation takes place.

Solution: The management of the merging companies should make sure that the merger is purely aimed at increasing the long term value of their shareholders.

If the management of Sunrise Inc and Microchips frame a clear policy to address all the above Concerns, the merger of these companies can achieve the desired results.

Answer 45

Takeovers are opposed for the following reasons:

Protecting their own interests

If managers feel that their jobs are threatened or that they will not continue to occupying the same managerial position, they oppose the takeover.

Disagreements over price

The managers of the target company sometimes quote a price that is higher than what the company is actually worth. If the company making the takeover bid does not accept it, the managers may oppose the takeover.

Hostile takeovers are often criticized for not taking into consideration the interests of the target company. However, this is not legitimate criticism as the bidding company cannot be expected to aim at increasing the value of the target company. Its main aim is to maximize its own long-run owner value, not that of any other company. Some of the criticisms leveled against hostile takeovers are not justified. In a takeover using a two-tier tender offer (an American bidding technique), 51% of the shareholders who tender their shares to the bidder receive a premium over the existing market price, while the remaining 49% receive only promissory notes for the tender amount, which can be encashed in the future. This process has been criticized for being unethical because it offers different shareholders different prices for their shares. But the bidding technique is ethical, as the bidder does not force the shareholders to sell their shares.

Answer 46

Accounting enables an organization to keep track of its financial activities (by recording its debits and credits and balancing its accounts). It provides a system of rules and principles, which govern the format and content of financial statements. By adhering to these principles, accounting can provide a fair and accurate report of the financial position of a business. But in order to keep their stock prices high, many of the listed companies misrepresent their financial condition to their shareholders. Fraud in financial statements can be committed in five ways, through fictitious revenues, fraudulent timing differences, concealed liabilities and expenses, improper and fraudulent disclosures or omissions, and fraudulent asset valuations.

Fictitious revenues: Fictitious revenues refers to revenues that are shown in the books but have not actually been earned. Such revenues are shown by debiting accounts receivables and crediting sales. Fictitious revenues can also be entered by showing fictitious sales to existing customers. Accountants show fictitious transactions with a few major customers (such as large organizations and government agencies) that they know will be difficult to confirm. Sometimes accountants take the help of major vendors who are willing to provide false confirmations about such transaction to auditors. Fictitious revenues can be detected by comparing financial statements over a period of time, examining unusual journal entries, and verifying supporting sales documents and unusual sales transactions.

Fraudulent timing differences: Some companies overstate their assets and income by taking advantage of the accounting cutoff period to either boost sales and/or reduce liabilities and expenses.

Concealed liabilities and expenses: These are liabilities and expenses that are not shown in the financial statements of a company. This is done by

- not recording certain liabilities or contingencies
- understating or omitting warranty costs/ liabilities
- reporting revenue rather than a liability when cash is received.

Fraudulent disclosures or omissions: Fraudulent disclosures or omissions result in materially misleading financial statements. The Generally Accepted Accounting Principles (GAAP) require adequate disclosure in financial statements. Any material fact not covered in the financial statement should be given as a footnote. One form of fraudulent financial reporting is creative accounting. This is done by using accounting principles selectively and interpreting transactions or events in such a way as to provide a misleading picture of operations. Accountants resort to financial manipulation by overstating or understating the value of fixed assets such as buildings or machinery, inventory or work in process. Cash is another good area for the creative accountant. The amount of cash in the business can be manipulated by varying the timing of payments and receipts.

Fraudulent asset valuations: Fraudulent asset valuations refers to incorrect valuations of the inventory. Managers can sometimes falsely state the amount of inventory present.

Answer 47

The role of accountants in ensuring transparency is increasing as a large number of new investors, who do not have any knowledge of accounting, depend on them for information relating to the financial well being of the company they invest in.

The management accountant, the financial accountant and the auditor play a major role in building trust in stakeholders and ensuring the efficient functioning of the organization. Management accountants and financial accountants handle internal management accounts. They examine the internal accounts of various departments and make a record of their financial activities.

The Management Accountant: The main task of a management accountant is to provide trustworthy and credible information on which the management can base its decisions. The management accountant provides information that the management needs for formulating policies, planning and controlling the activities of employees, making decisions, communicating with shareholders and others who are external to the business, communicating with employees, and safeguarding the assets of the organization. A management accountant should see that all the departments of the organization are given the required financial information and the required financial support. If this is not done, the employees may be unwilling to put in their best efforts and the long-term objectives of the organization may not be met.

The Financial Accountant: The role of a financial accountant is to advise directors regarding the items that have to be selected for inclusion in the financial statements, and the methods for measuring them and presenting them. A financial accountant is responsible for providing economic information to investors, employers, suppliers and outside people associated with the organization. This information describes the financial performance of the organization. The accounts prepared by the management of a firm should accurately represent the financial position and performance of the firm and should comply with the statutory requirements of the Companies Act, 1985.

The auditor: Independent professional accountants are appointed by shareholders to audit a particular company, in which they have invested. The auditor is an outside party, whose role is to perform an audit for the benefit of the public, the shareholders and the government. The main duties of an auditor are i) to give an accurate statement to the members of the board about the state of affairs of a company and to follow the Companies Act, 1985; ii) to meet the objectives of the Companies Act 1985 and also the Articles of Association of the company; iii) to be reasonably skillful and careful in identifying the true nature of the accounts.

Above all, an auditor must be fair, reliable and skillful in dealing with accounts. He should be unbiased and should have an independent opinion of the state of affairs of the company.

Answer 48

The following are the characteristics of a company that is most likely to follow fraudulent accounting practices.

- Unduly aggressive financial targets
- Domination by person or group, whose actions are unchecked.
- Over emphasis on performance-related compensation
- Pressure to reduce tax liabilities
- Aggressive accounting practices to keep stock prices high
- Inadequate monitoring of significant controls
- Weak corporate ethics
- Involvement of unqualified personnel in accounting matters
- Companies in sectors involving high degree of innovation and progress, such as in the technology industry

Answer 49

Companies usually maintain two sets of accounts. Financial accounts that are given to the shareholders and internal management accounts that provide details about the functioning of different departments, the work they do, the cost involved and the revenues earned. If this information is not recorded properly, it becomes impossible for managers to present the accurate financial position of the company. The effectiveness of all management decisions depends on the accuracy of its financial statements. Hence, it is essential for companies to have a reliable management accounting system. To ensure a true, fair and reliable management accounting system, the company management should take care of the following:

- Determine the key elements of a business (like the objectives of the firm) and see how they are defined and measured.

- Ensure that funds are allocated to different activities on the basis of their importance.
- Frame rules that have a positive effect on business activities. It is important to ensure that each project or department is allotted its fair share of funds and that the projected earnings of the project or the department are in accordance with the funds allocated to it.

Sometimes, a project may be allotted less than its fair share of funds but may be expected to contribute a higher share of earnings. In such cases, even if work proceeds smoothly, the project may not achieve the expected earnings. This can affect the performance related pay of the employees. Employees may feel demotivated when they do not receive the right amount of pay for the work that they do. As a result, they may not perform efficiently in the future. In such a situation, a company will not be able to make the profits it is expected to make. Thus, care must be taken to ensure that each department is allocated its fair share of funds.

Moreover, the rules and regulations formulated by the management should be applicable to all departments. This will give coherent picture of the business. The methods used for calculating financial data should also be consistent and comprehensive. The objectives of ethical auditing are to bring in accountability and transparency in the company's operations, track the progress of the company and identify the ethical objectives the company has yet to achieve. Stakeholders have a right to accurate information on various issues and maintaining accurate accounts is an important step for building trust among them.

Answer 50

The Parliament of India passed its first cyber law, the Information Technology Act in 2000, which provides the legal infrastructure for electronic commerce in India. According to this law, an electronic form of any offer, culminating in an electronic contract is legal and enforceable. For the first time in the history of Indian law, digital signatures have been recognized. The Act also requires the appointment of a controller for certifying authorities, adjudicating officers and a cyber appellate tribunal. Hacking is punishable with up to three years' imprisonment and a fine (which may extend to Rs 200,000) or both. The Information Technology Act 2000 aims to provide the legal framework for the authentication of electronic records/communications through digital signatures. This helps reduce the number of unethical activities online. The Act states that unless otherwise agreed, an acceptance of the contract may be expressed by electronic means of communication and the same shall have legal validity and enforceability.

Answer 51

The main objectives of an ethical audit are:

- To determine the extent to which the decision taken at all levels of an organization are towards maximizing long-term ownership value and how well they are framed towards achieving distributive justice.
- To help provide a critical assessment of how well a business is actually run by systematically evaluating its business practices.
- To help scrutinize the basis on which accounts are drawn and evaluates, whether or not, the management has reliable information in running the business.
- To investigate acquisitions or restructuring operations.
- To determine the type of training necessary for employees.

- To help establish an ethical code of conduct for running the business which inturn, helps attract valuable investments.
- To improve the quality of governance by evaluating the performance of the company and ensuring that the financial information made available to stakeholders is reliable.
- To help the stakeholders evaluate the performance of the directors and vice-versa.

Answer 52

Employees sometimes face ethical dilemmas arising from a mismatch between personal and organizational goals. Organizations can help their employees by identifying and communicating their values and beliefs to all their employees. The employees should also be trained to manage their day-to-day ethical dilemmas, arising from their work. Most organizations use the "Believe" approach as a training method to help employees resolve their day to day dilemmas in the work place. Believe is an acronym for background, estimate, list, impact, eliminate, value and evaluate.

The various parameters have been explained below:

State the background: The first step while resolving an ethical dilemma is to state the background of the case, which includes the context, origin and other important details like the history of the problem, the other members who are involved in the problem and identification of other information needed to resolve the problem.

Estimate the intensity of the Dilemma: The next step is to identify the core issues and the main ethical conflicts in the problem and estimate the intensity of ethical dilemma.

List the problem issues and solutions: After identifying the core issues of the problem, the possible solutions to the problem should be listed.

Estimate the impact: The impact of each of these solutions should then be analyzed. While analyzing the impact of the solutions, answer to questions such as - what will be the likely outcome of each solution, who will be affected by these and how a solution can harm or help the people concerned should be found.

Eliminate the unacceptable solutions: The next step would be to eliminate totally unacceptable solutions which will harm the employees as well as the organization.

Values: After identifying the acceptable solutions, the company's values should be assessed. The solution should then be cross checked to ensure that the company's values are not overlooked.

Evaluate the solutions: The solutions should be evaluated on the basis of their likely impact and the values that will be upheld or violated by these solutions. The evaluator must answer questions like: Why is one solution better or worse than another? Is there another solution that has not been considered?

By following this approach, employees can resolve their ethical dilemmas to a large extend.

Answer 53

Every manager enjoys a certain degree of power and authority, which is conferred to him by his position in the organization. A manager's primary responsibility is to make his subordinates accomplish their work efficiently and on time. If any of his subordinate is not able to accomplish his work on time, it is his responsibility to help the subordinate and direct him to finish his work. He should ensure that work is allocated according to the skills and capabilities of the individual. He should make his subordinates understand the reason behind the difference in the distribution of work. He should motivate the subordinates to develop the skills, which deprived him of the work. It is unethical for a manager to favor employees who perform better as it hampers his relationship with other subordinates and affects their performance.

Answer 54

Organizations attempt to tackle problems of unethical practices by framing their own policies. For instance, in order to maintain control over labor standard compliance in its geographically spread supply chain, Nike has decided to frame a code of conduct which addresses issues like forced labor, child labor etc. These have been discussed below:

Forced Labor: All manufacturing units should avoid using forced labor in any form - prison, indentured, bonded or otherwise.

Child labor: No unit should employ any person below the age of 18. Where local standards are higher, no person under the legal minimum age should be employed.

Compensation: All manufacturing units should provide each employee atleast, a minimum wage, or the prevailing industry wage, whichever is higher. They should provide each employee a clear, written account for every pay period and should not deduct any amount from worker pay for disciplinary infractions, in accordance with the Nike Manufacturing Leadership Standard on financial penalties.

Benefits: As benefits vary from country to country, then manufacturing units should provide each employee all legally mandated benefits. They may include meals or meal subsidies, transportation or transportation subsidies, cash allowances, health care, child care, emergency, maternity or sick leave, religious, bereavement or holiday leave, and contributions for social security and other insurance, including life, health and worker's compensation.

Hours of Work/Overtime: All units should comply with legally mandated work hours not more than 60 hours a week. They should be provided one day off for 7 days of work. If employees work overtime, they should be fully compensated according to local law. Care should be taken to inform the terms of mandatory overtime in the employment contract.

Management of Environment, Safety and Health (MESH): They should have well written health and safety guidelines. All units should have a factory safety committee and should comply with Nike's environmental, safety and health standards. They should limit organic vapor concentrations at or below the permissible exposure limits mandated by the U.S. Occupational Safety and Health Administration (OSHA), provide Personal Protective Equipment (PPE) free of charge, and make its use mandatory. They should also comply with all applicable local environmental, safety and health regulations.

Documentation and Inspection: All manufacturing units should maintain on file all documentation needed to demonstrate compliance with this code of conduct.

Answer 55

Some of the reasons that encourage companies to shift their operations to other countries are:

- Lower wage rates in other countries
- Reduced transportation cost
- Opportunity to be closer to suppliers
- Saturation of local markets

- To maintain growth rate
- To exploit opportunity in new markets
- Recession or domestic competition

According to analysts, MNC's are agents of change and progress and help create a worldwide economic order based on rationality, efficiency, and the optimal use of resources. MNC's bring in technology and equipment into the host country that it would have otherwise found difficult to acquire. Not only that they also bring with them skills, the requisite, ideas and practices. This helps to improve the research and development infrastructure of the host country. Certain international organizations have been working for the past decade towards developing international, universal corporate codes of ethics, which they hope, can be universally accepted and enforced. Organizations like the UN and OECD (Organization for Economic Cooperation and Development) suggest that these should be decided by the stakeholders of the firm. Depending on the nature and seriousness of the issue, the code should include separate sub-sections dealing with each aspect of the issue. Some basic characteristics of a code of ethics are:

Easy to understand: Easily understood by all readers.

Comprehensive: Stakeholder involvement is of paramount importance in creating a code that deals with all pertinent issues and challenges. Open communication through surveys, interviews, public forums, the media, Internet and other methods should be utilized to their full capacity.

Positive: The code should not have a negative tone or underlying threats.

Enforceable: The implementation of these rules has been the biggest challenge for firms. Management's enforce a code at different levels. However, when an infraction occurs at the management level, these are completely ignored.

Answer 56

Multinational corporations are those that have significant investments in several countries and which derive a substantial part of their income from foreign operations. MNCs allocate resources across the globe in an optimal manner resting on the proposition that the world's resources are best utilized through an interplay of unfettered market forces. But they also distort market free mechanisms in some areas that upset the entire world wide resource allocation process. MNCs have been accused of indulging in unethical practices in the following areas:

Politics

- Supporting repressive regimes
- Paying bribes to secure political influence
- Showing no respect for human rights
- Paying protection money to terrorist groups
- Destabilizing national governments which they do not approve

Sales, marketing and advertisement

- Their advertising and marketing methods sometimes undermine ancient culture and traditions.
- They do not accept responsibility for unsafe products.
- They provide products that are inappropriate to local needs
- They promote goods that waste valuable resources in poorer nations.

Environment

- Depleting natural resources
- Polluting the environment
- Not paying compensation for environmental damage
- Causing harmful changes in local living conditions
- Paying little regard to the risks of accidents and causing major environmental catastrophes

Technology

- Not engaging in research and development in host countries
- Encouraging 'brain drain' from poorer countries
- Making host countries technologically dependent on the West
- Not giving local employees access to key technologies
- Not training local nationals in the use of imported technologies
- Not transferring latest technology
- Dumping old or outdated technologies to earn revenues

Personnel Management and Industrial Relations

- Refusal to recognize trade unions who engage in collective bargaining
- Not ensuring equal opportunity policies for all in the workplace
- Using expatriate staff for all significant managerial positions
- Ignoring the occupational health and safety needs of local workers
- Not involving local employees in management decision-making

Answer 57

In the era of global business, organizations face different ethical issues in different countries. While expanding one's operations in countries like Japan, France, Germany and China it is important for organizations to have an understanding about the different ethical aspects of these countries.

Japan achieved remarkable success in global business, but has been rocked by a number of scandals. To gain favor, MNC's offered bribes to politicians and influential business people. In Japan, businessmen and politicians try to influence each other through reciprocal favors.

French and Germans are more concerned on maintaining a successful business posture. In a study conducted to examine the ethical practices in France and Germany, it was found that French and German executives believe that bribery is not unethical and neither France nor Germany has laws that consider bribery illegal.

China is well known as a violator of human rights, but Chinese officials do not view their actions as unethical. Though China offers low production costs, it violates the rights of its workers. The most prevalent unethical activities in China are:

- Child labor - Children are exploited and paid much less than adults.
- Prison labor - The Chinese government even used prisoners to produce goods for the export market
- Unsafe work environment
- Long working hours – Workers in China work up to 12 hours a day, 7 days per week.

As a result of these unethical practices, the US government imposed certain conditions on the renewal of China's most Favored Nation status. Later, due to presidential support, the conditions were withdrawn. Levi Strauss stopped getting goods made in China due to extensive violations of human rights in Chinese factories.

Answer 58

The bribery scandals in the 1990s led to the development of the Foreign Corruption Practices Act (FCPA) in USA. According to this act, it is illegal to influence foreign officials through personal payment or political contributions. The objective of the act was to prevent US based MNCs from encouraging corruption in foreign governments and to improve the image of businesses both within and outside the US. MNC's of all countries have to obtain formal approval from the US government before acquiring a US company. An inter agency committee on foreign investment has also been formed and it supervises the process of granting approval. The committee was set up with the aim of preventing foreign firms from gaining control of US businesses. Countries require MNC's to obtain government clearance before establishing a new operation or purchasing an ongoing business in the US. This kind of regulation ensures that the government remains in control of the economy.

US and Japan are making an effort to carry out their social obligations. For instance, the US is developing an ethical code for its global operations. Japan is helping third-world countries deal with their economic problems by providing food, machinery and equipment. Many third world countries that borrowed huge amounts to improve their economic condition are now finding it difficult to repay their debts. Both the US and Japan have taken the lead to provide assistance to those countries. The assistance includes debt reduction or re-negotiation and direct grants. The US offered debt reduction plans to third world countries and Japan proposed a package worth $43 billion aimed at improving the global environment and encouraging economic growth. The assistance package also includes, low-interest loans to other countries, and grants to specific nations in Sub-Saharan Africa. A 3-year program of grants and credits for environmental needs. Most importantly, it encourages other countries to help to fulfill their social obligations.

Answer 59

Before importing German technology, the Indian government should

- evaluate the various areas where there is need for technological improvement and identify areas where foreign collaboration is required for updating technology.
- develop policies and regulations with respect to foreign capital and technology, institutional assistance and infrastructure and other facilities for industrial development
- ensure that the technology is suitable for use under domestic conditions.

The conditions for transfer of technology and the terms of equity participation of both the partners should be determined, depending on the suitability/usefulness of the technology to the country's economy.

The Indian government should take care that the agreement has a provision for training Indians in various areas like production and management, research and development, engineering and design. It should also study the details required for the adoption and development of imported technology. The suitability of a particular technology to the socio-economic and ecological conditions in the country should also be evaluated and compared with other available technology. Technology imports with highly restrictive terms should not be favored. The procurement of capital goods, components, spares, raw materials, pricing policies and selling arrangements should be avoided.

Answer 60

The first Industrial Revolution changed the focus of traditional organizations from hand-made items to machine-made goods and mass production. When industries took up mass production, they started employing women and children at nominal wages. The working conditions at that time were deplorable. Yet, most organizations did not make any effort in this direction. The Industrial Revolution brought about many changes. Improvement in technology, mass production, and new methods of labor organization changed the relationship between the employer and employee. These lead to more social changes such as the mass exodus of people from rural to urban areas and increase in the population of urban areas. During the second industrial revolution (1875-1905), changes such as the use of electricity in industries, the adoption of new technology, changes in people's social lives, and speeding up of communication with the help of telephone and telegraph took place. After the second industrial revolution, many socialists stressed the need for improving the living standards of people. Robert Owen, who was actively involved in social welfare activities such as public health, education and prohibition of liquor, proposed the following changes in a company's policies towards its employees:

- Providing better wages to employees.
- Improving working conditions
- Abolishing child labor i.e not employing children under 11 years of age

During this period, people not only migrated from rural to urban areas but to different countries as well. All these factors brought significant changes in the social values and in the relation between individuals, groups, communities and the society as a whole. These changes necessitated businesses to become more socially responsible.

Answer 61

According to Freeman and Reed, stakeholders include

- groups of people who have a stake in the business
- individuals who are vital for the survival and success of the organization
- any group that is affected by the activities of the organization.

The stakeholders of Mayur Limited will therefore include its shareholders, employees, management, customers, suppliers, and the community. Organizations issue shares to raise capital and the individuals or institutions who buy these shares become the shareholders of the company. Therefore, all individual and institutional investors who have purchased shares from Mayur Limited are its shareholders. Shareholders invest in the company to earn a return on their investment. Shareholders automatically becomes stakeholders as they earn returns only if the company earns profits, and they have to suffer a loss if the company fails to earn profits. Similarly, employees have a stake in the company as they depend on the company for their livelihood. Thus, all the 5000 employees of Mayur Limited are its stakeholders. Arun Khan and the other eight executives manage the company and play a key role in the successful running of the organization. They have a stake in the company as they bear the risk involved in the effective management of the company. Organizations cannot continue in the market or develop new products without their customers as they provide revenue for the company. Hence, the customers of Mayur Limited (i.e., those who buy its tooth pastes, soaps, oils and shampoos) are also its stakeholders as they expect value for the money they pay to buy the product. The suppliers have a stake in the company as they supply the company with inputs (raw materials and spares) on credit. The community also has a stake in the company as it provides the company with the necessary infrastructure. Moreover, the company provides employment for members of the community.

Answer 62

Shareholders are considered to be the owners of the company, as they invest money in it. They have a stake in the company as they bear the risk. While formulating a corporate strategy for his company, the CEO should consider how he could maximize the wealth of its shareholders. The CEO of Mayur Limited should consider the effect of the company's strategies on its employees. The top managers, who are involved in decision- making and effective running of the organization, bear the maximum risk. Hence, the CEO while formulating the strategy should consider the interests of the top management. As customers buy the products and generate revenues for Mayur Limited, the strategies adopted by Mayur Limited should aim at delivering quality products at reasonable rates, provide value to customers, and satisfy their needs and wants. As suppliers play an important role in the running of an organization and supplying the required raw material on time. Thus, Mayur Limited should ensure that it develops strategies, which helps improve its relations with its vendors. The organization should pay the suppliers on time and should provide them the necessary information regarding the supply of raw materials. Creditors offer financial help to organization. Therefore, companies should honor their contract with creditors. When framing strategies, the CEO should ensure that the company to pays its creditors on time. The community provides the basic infrastructure necessary for the organization. As 5000 members of the community are dependent on the company, it must pay attention to community development and continue to organize community development programmes.

Answer 63

Shareholders, employees and management are said to be the internal stakeholders of an organization as the decisions of the management have a direct impact on them. A merger can result in an increase or decrease of the company's share price, depending on the market conditions. If the share price of Mayur Limited increases after the merger, the shareholders will benefit and earn a good return on investment. On the other hand, if the share price decreases, the shareholders will incur losses. The merger of any company would lead to a considerable change in the way an organization functions. It may even result in heavy retrenchment of employees. Mayur Limited should ensure that its employees do not lose their jobs. The management of the company is also considered as an internal stakeholder and all major decisions will directly affect their remuneration. External stakeholders are those individuals or groups who have a claim on the company and include customers, suppliers, creditors, competitors and the community. Customers provide revenue for the organization. The organization reinvests this revenue to develop new products for the customers. When a company merges with another, customers expect to receive better products and services from the company. The merged company should therefore, strive to fulfill the expectations of its customers. Due to the synergies gained from the merger, the company may have to reduce the number of suppliers or identify new suppliers to meet their changed requirements. Mayur Limited should help suppliers to adjust or upgrade themselves to meet the new requirements of the merged company.

Answer 64

Consumers, suppliers, creditors and the community are considered to be the external stakeholders of a firm. Consumers are the major external stakeholders of a firm as they pay for the products of the firms and in return receive the benefits of the products. Since organizations re-invest these earnings, customers can be said to be indirectly contributing towards the development of new products and services. By paying attention to the needs of the customer, the management automatically addresses the needs of owners (profit motive). All business organizations should respect the five 'rights' of their customers - the *right quality, the right quantity, the right time, the right place* and the *right price*. Customer satisfaction is essential for the success of an organization. Customers help increase the sales of a product by spreading a positive 'word-of-mouth' about the company, product or a brand. Often, suppliers are not included in the list of a firm's stakeholders. But, they play a important role in the success of any business since the quality of raw materials they supply will determine the quality and price of the final product being produced by the organization. In this era of global competition, the ability to control costs rather than the ability to increase sales is the key to profitability. Having a good relationship with the supplier can help reduce costs. An organization's relationship with its suppliers and sub-contractors must be based on mutual respect. While dealing with suppliers, organizations must be fair and honest. They should: ensure that business activities are free from coercion and unnecessary litigation foster long-term stability in the supplier relationship in return for value, quality, competitiveness and reliability; share information with suppliers and integrate them in the planning processes; pay suppliers on time and in accordance with agreed terms of trade; and seek, encourage and prefer suppliers and sub-contractors whose employment practices respect human dignity.

Creditors play an important role in the activities of the organization. Usually, organizations buy goods from suppliers on credit. Although suppliers have a considerable stake in business, they may cease to fill orders, if a company is unable to pay the amount due, or takes too long in making the payment. Organizations often delay in repaying the credit to the creditors. It is the responsibility of the organization to make timely payments for goods that have already been delivered.

Business entities are equally obliged to other businesses as their operations would have an impact on other businesses. In the era of global competition, organizations compete with each other to grab a major share of the market. Although economic competition is one of the basic requirements for increasing the wealth of nations, all organizations have certain responsibilities towards their competitors. Some organizations promote competitive behavior that is socially and environmentally beneficial and demonstrate mutual respect for competitors, refrain from either seeking or participating in questionable payments or favors to secure competitive advantage, respect both tangible and intellectual property rights, and refuse to acquire commercial information by dishonest or unethical means such as industrial espionage.

The community gives organization the right to build or rent facilities, benefit from the tax revenues raised in the form of local services, infrastructure etc. In return for these services, an organization is expected to act in a responsible manner. Therefore, organizations should not expose the community to unreasonable hazards in the form of pollution and toxic waste. Organizations can fulfill their responsibility towards the community by: respecting human rights and democratic institutions; supporting public policies and practices that promote human development, through harmonious relations between business and other segments of society; collaborating with such activities that aim at improving the standards of health, education, workplace safety and economic well-being; promoting and stimulating sustainable development and playing a leading role in preserving and enhancing the physical environment and conserving the earth's resources; supporting peace, security, diversity and social integration; respecting the integrity of local cultures, and encouraging charitable donations, educational and cultural contributions and employee participation in community and civic affairs.

Answer 65

Though earning profits is the ultimate goal for any organization, it should also perform certain other responsibilities, which are aimed at the well being of its shareholders, customers, employees and the community. An organization can fulfill these responsibilities by undertaking financial tasks, economic tasks, and production tasks, maintenance tasks, adaptive tasks, managerial or political tasks and social tasks.

Financial tasks: Organizations have certain responsibilities towards all the stakeholders who have invested money in them. To convince shareholders that they are acting in their best interest, they must ensure transparency in all their accounting procedures. This can be done by adopting generally accepted accounting principles and the rules and regulations governing the functioning and trading of shares. This will instill confidence among investors.

Economic and Production tasks: Activities pertaining to the maintenance of wealth are referred to as economic and production tasks. These include manufacturing of goods and services, distribution of goods and the identification of new products. Organizations should ensure that while trying to maximize returns for their shareholders, they are not resorting to unethical means like buyouts, mergers and market manipulation.

Maintenance tasks: Businesses can help society by providing educational, religious, health and welfare services.

Adaptive tasks: Activities, which bring about a change in the society, are known as adaptive tasks. Organizations can change according to the needs of the society by changing their R&D activities, creating products that are useful for society and designing the products in accordance with changes in consumer preferences.

Management or Political Tasks: Organizations should protect human rights and not suppress basic rights freedom of speech, association etc.

Environmental tasks: Each organization has its own set of regulations to limit pollution and protect the environment.

Answer 66

According to Melvin Avon Eisenberg, an organization is "an instrument through which capital is assembled for the activities of producing and distributing goods and services and making investments". A basic premise of organizational law is that a business should conduct such activities to enhance the organization's profit i.e., the shareholders profit.

According to Robert Clark, Dean, Harvard Law School, the four characteristics of a corporation that attract investors are the limited liability for investors, free transferability of the interests of the investor, the legal personality and centralized management.

Limited liability differentiates the corporation from its shareholders. Consequently, what is owed to the corporation is not owed to the shareholders, and the shareholders do not owe what the corporation owes. So when a corporation becomes bankrupt and is sued by its creditors for recovery of debts, the members of the corporation cannot be individually held liable. However, when people gather funds and enter into a partnership, they become personally liable for everything they undertake. In a partnership, the liability can be shared among the partners. But in the case of a corporation, the liability is borne by the individual who has invested in the company.

Transferability of stock-holding: This is another characteristic that attracts investors. When a shareholder finds that his stock is losing value, he can sell his stock and reduce his risk.

Legal Person: A partnership cannot exist if one of the partners of a business opts out, but the organization continues to exist as long as it has capital to run the business. An organization is a legal entity with the following rights:

- Corporations can own and sell property, including real estate, copyrights and intellectual property.
- Corporations are empowered to give protection to individuals working for them.
- Corporations can make donations to political parties.

Centralized Management: The board of directors plans the organization's overall direction and the managers are empowered to manage the day-to-day operations of the organization. By law, organizations can manage their activities without seeking the approval of the government.

Answer 67

Corporations perform a wide range of activities, and serve a number of purposes. In essence, corporations work towards promoting:

- Human satisfaction
- Social structure
- Efficiency and efficacy
- Ubiquity and flexibility
- Identity

Human Satisfaction: Business corporations help human beings satisfy their basic needs of security, success and fulfillment. Corporations enable individuals to market their skills and experience and get due rewards. In a corporate environment, ambitious individuals can achieve, enterprising individuals can prosper, and ingenious individuals can enrich themselves. A well-designed corporation enables individuals to create more wealth.

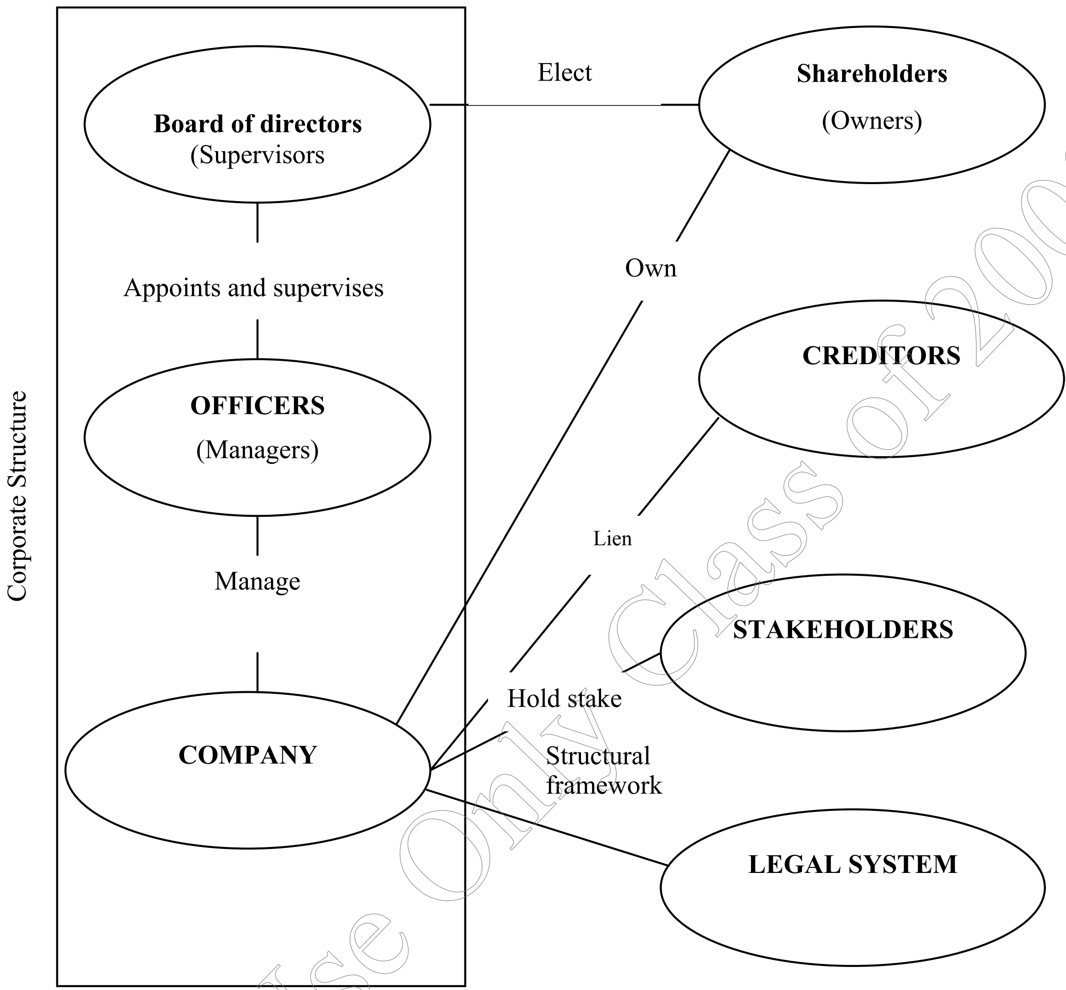
Social Structure: Social structures are created to promote cooperation and specialization in society. Nowadays most governments follow a corporate structure to fulfill the needs of society. They emphasize the role of corporations in achieving a particular objective. For example, in 1980 the United States synthetic Fuels Corporation was created by the US Congress to assure better control by America of its fuel needs.

Efficiency and Efficacy: The quality of work put in by corporations for achieving their objectives determines their efficiency and efficacy. Efficiency refers to the ability of a person to produce desired amount of work using minimum effort. Efficacy implies the ability of a person to produce the desired result.

Ubiquity and Flexibility: Corporations provide flexibility to individuals enabling them to perform better as, they are not limited by time or space. They are perpetual entities and can carry out their business activities anywhere in the world. Corporations are also movable, i.e.; they can also be transformed or restructured by changing the legal or financial structures. The place of incorporation can also be changed nearer to other existing business locations and new businesses can be opened without reallocating the capital amount.

Identity: Corporations are living entities and exercise rights and powers like normal citizens. As "persons", corporations are given protection for the safety of their property. They can also contribute money to political parties. Corporations also play a crucial role in deliberations leading to the enactment of various laws.

Anglo – American model



Answer 68

In the Anglo-American model of corporate governance shareholders elect the board of directors. The members elected by the shareholders play an advisory role on the board. The Anglo-American model is based on the concept of shareholders taking control of a private organization thorough the board of directors appointed by them. The board of directors elected by the shareholders performs three major functions on their behalf namely: Representation, Direction and Overseeing.

According to this model of corporate governance, the board of directors appoints and supervises the managers, who are responsible for the daily activities of the organization. The employees, suppliers and creditors (because they have a lien on the assets of the company) are the stakeholders of the organization. The board of directors design a policy for the organization, which is implemented by the management. The board uses a well-designed information system to monitor the implementation of the policy. This model is well-suited to a production or manufacturing organization, as it facilitates the efficient monitoring of production and performance of the company.

Organization can use this model to reallocate financial, physical and human capital through the market.

Answer 69

A corporation needs to adopt a moral decision-making process to qualify as a "moral person". The process of moral decision-making includes:

- The ability to use moral reasoning in decision-making;
- The ability of the decision-making policy to not only control the explicit corporate acts, but also the structure of policies and rules;

The ability to use moral reasons while making decisions will enable corporations to raise themselves above the level of mere machines. To qualify as moral persons, corporations should show moral reasons for their activities and actions. Although corporations can not think as human beings, they can give reasons for their actions to show that they are morally accountable.

Corporations can claim they are morally accountable only when they maintain a proper internal structure that can give an account of their behavior like humans. Moral accountability would enable corporations to specify moral reasons that prompted their behavior. Apart from being morally accountable, corporations should also ensure that they benefit from following morally correct behavior.

Answer 70

Corporate governance is concerned with ensuring transparency of management systems in business. "Corporate governance" has succeeded in attracting a good deal of public interest since it is important for the economic health of corporations and the society at large. It is difficult to define the concept of corporate governance as it covers a large number of distinct economic phenomena. However some definitions have been provided below:

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance" OECD April 1999.

The concept of corporate governance, as brought out in "Corporate Governance: Time for a Metamorphosis" described corporate governance "as a system of structuring, operating and controlling a company with a view to achieve long-term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers with the legal and regulatory requirements, apart from meeting environmental and local community needs. It leads to the building of a legal, commercial and institutional framework. It also demarcates the boundaries within which these functions are to be performed."

According to the Advisory Board of the National Association of Corporate Directors (NACD), New York, "Corporate Governance ensures that long-term strategic objectives and plans are established and that the proper management structure (organization, systems and people) is in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation and responsibility to its various constituencies."

Answer 71

A code is a set of rules that are considered as general principles, or a set of written rules, which state how people in a particular organization or country are expected to behave. Thus, a code of corporate governance is a set of standards to be followed by a group of people working in a particular organization. The need to evolve a code of corporate governance in India was stressed by the Institute of Company Secretaries of India (ICSI). Many organizations in India have boards, comprising family members and close friends. The promoters often run the business to further their own interests, while the interests of the shareholders are often overlooked. Having a code of corporate governance would help the organization making its operations transparent. Different countries have their own documented corporate codes relevant to their own needs. The Cadbury report, the CII report and the Kumara Managalam Birla report have all drawn up standardized codes of corporate governance to suit needs of organizations in India.

The Kumara Mangalam Birla Committee identified the shareholders, the board of directors and the management of a company as the three constituents that play a key role in corporate governance. This committee tried to identify the roles and responsibilities of these in ensuring effective corporate governance. Some of the recommendations made by Kumara Mangalam Birla committee are as follows:

- The Board should have an optimum combination of Executive and Non-executive Directors and at least 50% of the board should comprise of Non-executive Directors. Further, atleast one-third of the Board should comprise of independent Directors where Chairman is non-executive and atleast half of the Board should be independent in case of an executive Chairman.
- The board should set up an independent "Audit Committee", which has well-qualified members. This would help enhance the credibility of the financial disclosures of a company and promote transparency.
- The board should set up a "Remuneration Committee" to determine the company's policy on specific remuneration packages for executive directors including pension rights and compensation payment.
- The board should set up a committee under the chairmanship of a non-executive/ independent director to specifically look into issues related to shareholders including share transfer and redressal of shareholder complaints.
- To expedite the process of share transfers, the board should delegate the authority of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority should attend to share transfer formalities atleast once in a fortnight.
- The corporate governance section of the Annual Report should make disclosures on remuneration paid to the directors in all forms (including salary, benefits, bonuses, stock options, pension and other fixed as well as performance linked incentives).
- Board meetings should be held atleast four times in a year, with a maximum time gap of four months between any two meetings and all suggestions recommended by the SEBI Committee should be disclosed at the board meeting.
- The Management Discussion and Analysis Report should also form a part of the Annual Report sent to the shareholders.
- All company related information like quarterly results; presentations made by companies to analysts may be displayed on company's website or may be sent in such a form so as to enable the stock exchange display on its own website.
- There should be a separate section on corporate governance in the Annual Report, with details on the level of compliance by the company. Non-compliance of any mandatory recommendations should be mentioned along with reasons. The extent to which the non-mandatory recommendations have been adopted should also be specifically highlighted. The non-executive chairman of the company should be

entitled to maintain an office at the company's expense and also allowed reimbursement of expenses incurred while performing his duties. This will enable him to discharge his responsibilities effectively (This is a non-mandatory recommendation).

- No director should be a member in more than 10 committees or act as chairman of more than five committees. Furthermore, it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and any changes thereof.
- While appointing a new director or re-appointing an existing director, the company should provide his/her brief resume including his/her expertise in specific functional areas and the names of companies, in which he/she is the director and member of the board,. These should form a part of the notice to shareholders.
- Management should disclose to the board all the information relating to material, financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large. These include dealing in company shares and commercial dealings with organizations in which managers and their relatives have shares.
- The half yearly declaration of financial performance including summary of the significant events in the last six months, should be sent to each shareholder.
- Under normal circumstances, financial institutions should have no direct role in the decision- making. They should not have nominees on the board, merely by virtue of their stake in the company. However, to protect their interests as creditors, financial institutions can have nominees on the boards of the borrower companies. In such cases, the nominee directors should take an active interest in the activities of the board and assume equal responsibility, as any other director on the board.
- A separate section on compliance with the mandatory recommendations of Clause 49 should form a part of the report and the details of non-compliance should be highlighted.
- A certificate from the auditors on compliance to rules and regulations should form a part of the Annual Report and Annual Return and a copy should be sent to the stock exchanges.

Answer 72

Corporate governance practices are a set of structural adjustments that are emerging in free-market economies to align management of companies with the interests of their shareholders in particular and other stakeholders and society at large. Corporate governance tries to achieve this (alignment) by dealing with the following issues: Ethical issues, efficiency issues and accountability issues.

Ethical issues: In order to achieve their goal of maximizing long-term value for the shareholders, organizations might resort to fraudulent unethical practices like bribing and lobbying (as individuals or as cartels). By so doing, they try to exert pressure on the government to formulate policies against the interests of society. Corporate governance addresses such ethical issues to protect the interests of the stakeholders.

Efficiency issues: The performance of an organization is related to the efficiency of the management, which is directly responsible for ensuring reasonable returns on the investments made by the shareholders. Corporate governance is the mechanism through which investors can control the activities of the management whose efficiency is essential for ensuring good returns on their investments.

Accountability issues: The activities of an organization influence its workers, customers, the general public and society at large. Some of the accountability issues are concerned with the social responsibility that a corporation must shoulder.

Answer 73

The board of directors plays a dual role while governing the activities of an organization: the performance role and the conformance role. In its performance role, the board of directors aims at enhancing the overall performance of the organization. The board of directors acts as a source of know-how, expertise and external information. An organization can increase its networking capabilities and enhance its status by appointing directors who are usually well-known for their expertise in various disciplines. Their knowledge and experience can be used to deal with various issues. Non-executive directors provide information related to international markets and financial or technological developments, which is not easily accessible to the corporation (since such information is usually confined to a few influential groups). The presence of external directors, renowned in various fields of public life, lends status, reputation and credibility to the board. This is important to boost customer/shareholder confidence in the company.

In its conformance role, the board of directors is concerned with ensuring that the company follows the policies and procedures laid down by the board. Directors usually accomplish this by questioning and supervising the executive management. The conformance role is very tricky as it sometimes involves monitoring and evaluation of their own performance (in case of majority/all-executive boards). Independent outside directors are in a good position to analyze issues that are brought to the notice of the board from a perspective that is different from that of the executive directors. Since top managers often have a very narrow vision about the future of the company, independent evaluation of top management's performance by outside directors is necessary to direct their attention towards broader corporate objectives.

Answer 74

In the German model of corporate governance, a majority of the board members are elected by the labor unions and the shareholders, who are also considered to be the owners of the organization, elect the remaining members. The employees are not just stakeholders but also influence the governance mechanism of the organization. Employees are responsible for implementing the policies and attaining the objectives (profit, market, share, high volumes) of the organization. The shareholders and labor unions appoint the supervisory board and monitor the performance of the management board jointly. This management board independently conducts the day-to-day operations of the organization. In the German model the labor relations officer finds a place on the management board. This ensures the participation of workers in corporate governance.

Answer 75

In Japanese business model, financial institutions play a significant role. This model is categorized by features like: lifetime employment, seniority-based promotions and cross-shareholdings. This model allows managers to focus on building long-term value for the company. Negative economic growth, demographic and social change and fierce global competition caused Japanese policy makers and corporate managers to re-evaluate the way in which business was conducted in Japan. This led private firms to introduce the changes needed to ensure their long-term viability.

According to the Japanese model of corporate governance, financial institutions play a major role in the governance mechanism. In this system, the banks and shareholders appoint the members of the board. The president of the board is appointed with the consensus of shareholders and banks. Financial institutions monitor performance of the management by nominating some managerial personnel. The banks have the authority to suspend the board in case of an emergency. In contrast to the U.S., where corporate governance emphasizes a separation of ownership and control, Japanese companies have been governed by a system, in which the management and labor work together with the leading banks in the country.

Answer 76

Establishing an organization requires huge investments. Shareholders invest their money in an organization, which is expected to earn profits and share them with the shareholders. For the effective distribution of wealth to their shareholders, it is essential to have a code of conduct. Earlier, the government was expected to ensure good corporate conduct and most shareholders believed that stringent government controls would help prevent malpractices of the corporations by installing the fear of punishment. However, shareholders soon realized that the government could not always be the best guardian of public interest and their realization led to the evolution of market driven corporate governance that was more democratic and flexible. The active participation of various stakeholders like shareholders, financial institutions, etc. strengthened the mechanism of corporate governance and helped it evolve beyond a set of static rules. Some major factors that led to the evolution of corporate governance are:

- Changing trends in economy (shift from a socialist to a capitalist economy).
- Active participation of the individual and institutional investors
- Increasing competition in the global economy

With the relaxation of direct and indirect administrative controls by the government, alternative mechanisms became necessary to monitor the performance of corporations in free-markets. Shareholders believed that market forces could ensure good corporate conduct (self imposed) by rewarding success and punishing failures. Many free-market economies laid down effective regulations to monitor the corporations. However, regulations alone do not ensure good governance. To b effective, they must be enforceable by law.

The second factor that boosted corporate governance is the growth of global fund management business. Institutional investors such as insurance companies, pension and tax funds account for more than half the capital in .U.S corporations. This can be seen in India, as well. Earlier, institutional investors did not monitor the activities of the corporations in which they invested. However, competition in the fund management business has forced them to play an active role in the corporate governance and safeguard their investments. Hence, these institutional investors monitor along with the non-executive directors, the performance of corporations regularly.

The investor demands good performance in the form of return on investment and it also expects timely and accurate information regarding the performance of the company. Institutional investors can exert pressure on the management, as they own a considerable share in the capital. Investors believe that only strong corporate governance mechanisms and practices can protect them from the ever-growing power of corporations, which can influence public policy to the detriment of investors.

The enhanced competition in the global economy has compelled corporations to perform better and in-order to do so, they are taking several measures like cost-cutting, restructuring, mergers, acquisitions, etc. These activities can be carried out successfully only if there is proper corporate governance. Hence, the need to develop a proper code of conduct and ensure its proper implementation.

Answer 77

The first theory of corporate governance (Theory of Macgregor) was based on the assumptions that humans are by nature trustworthy and act in good faith, with integrity and honesty. These beliefs are also reflected in the company law. The corporate governance concept believed that monitoring is required only to curtail the rare misconduct of humans working in corporations.

The ***stewardship theory*** proposed by Donaldson and Davis in 1988 was also based on the same beliefs. This theory also accepted the assumptions on which some behavioral theories like Macgregor's theory Y of human behavior. According to Theory Y

- The management of a corporation is responsible for organizing its productive resources like men material, money and machines in the best possible way to accomplish the corporate goals (profits, volumes, quality products, etc.)
- Employees by nature are not averse to behaving in accordance with the corporations' requirements.
- Every employee has an in-built motivation to behave in a way that will help the corporation to achieve its objectives. Studies carried out by Berle and Means in 1932 in the field of corporate governance brought to light some facts that contradict the assumptions of stewardship theory. The validity of these assumptions were questioned in this changed corporate scenario. The critics of stewardship theory sited the divergence of interests of the owners and the management as a basis for changing the assumptions of corporate governance concept. Some of the reasons put forth by critics of stewardship theory are.

a. Separation of ownership form management.

b. There is no single shareholder who holds a major chunk of equity capital.

c. The inability of small investors to directly monitor the activities of the corporation in which they have invested.

d. Control over the corporation changing from the owners to the management.

e. Divergent interests of the owners and management.

Beale argued that when the interests of the owners (share price, dividends etc..) differed from that of the management (Job security, remuneration and other benefits) management was not likely to be interested in optimum utilization of the resources of the corporation, as desired by the owners. Owners needed some monitoring mechanisms to ensure that the interests of the management were aligned with their owners.

In 1976 Jensen and Meckling strengthened Berles' argument by stating that there exists an agency relationship between the owner and the management. This relationship can be defined as a contract under which one or more persons (the principals) engage another person (the agent/manager) to perform some service on their behalf. It involves delegating some decision-making authority to the agent. If both parities to the relationship are utility maximizers there is good reason to believe the agent will not always act in the best interests of the principal.

This assumption gave rise to the ***agency theory***. This theory assumes that the agent manager will not always take decisions that will maximize long-term owner value. Managers often take decisions, which further their own interests but are detrimental to the interests of the organization. This theory states that agents/managers/employees cannot be trusted to act in the best interests of the shareholders and should be monitored and controlled to ensure that they follow the set policies, procedures and plans of the corporation.

Corporate governance is concerned with the intrinsic nature, purpose, integrity and identity of the institution, with a primary focus on the entity's relevance, continuity, and fiduciary aspects. Governance involves the monitoring and overseeing of strategic direction, socio-economic and cultural context, externalities, and constituencies of the institution. On the other hand, corporate management is more of hands on activity. It is characterized as conducting or supervising action with the judicious use of means to accomplish certain ends. Management primarily focuses on specific goal attainment over a definite time frame and in prescribed organization.

Answer 78

Effective functioning of Bharat Cycles Limited requires an efficient board that should consist of executive directors, non-executive directors, nominee directors, alternative directors, and shadow directors. Shareholders are the owners of the organization. As each and every shareholder cannot become the member of the board, nominee directors are appointed on behalf of the shareholders and they protect the rights of the shareholders. Some executives should also be appointed to the board to facilitate decision making with regard to the operations of the firm. The employees of the organization are the executive directors. According to the Company law, executive directors are responsible to the shareholders. BCL should therefore, nominate employees who can take up the responsibility of the executive director, after which, the shareholders can elect the most suitable candidate.

To ensure that the organization performs its duties according to the rules and regulations laid down by the government, it is essential to include some non-executive directors on the board. Non-executive directors do not hold any position in the company, but influence the company's decisions and strategies. They enable the board to see things objectively and ensure that the executive directors do not treat the company as their private possession.

Financial institutions that financed BCL should also be given a chance to appoint their representatives to the board. Such directors are referred to as nominee directors. These nominee directors look after the interests of the principals, which usually are the financial institutions like banks and mutual funds. To safeguard the interest of stakeholder groups, representative directors are appointed to the board of directors.

Some alternative directors should also be elected to act as substitutes in the absence of the original director. Shadow directors influence the decision of the board even being without formal present on the board. Bharat Vikas and his family members can act as shadow directors and ensure that they work in the best interest of their stakeholders and the company.

Answer 79

The structure of a board plays a significant role in the effective governance of an organization. While designing the structure of a board, the key elements that should be considered are: the size of the board, distinction between the role of the Chairman and the Chief Executive, and the presence of a non executive directors (from the parent company) on the board of a subsidiary company.

The size of the board has a direct impact on the group dynamics of the board. As the number of members on the board increase, there might be problems in maintaining good interpersonal relationship among them.

In the case of Vidhya Automobiles Limited, the number of directors on the board should be reduced. Presently, there are seventeen members on the board, while it is generally considered advisable to limit the number to fifteen. Moreover, Vinayak Chowdary, the CEO of Vidhya Automobiles Limited, is also serving as the chairman of the board. So, it is advisable to appoint another member as the chairman of the board, which will helps in the decentralization of the power.

If the executives of the parent company become the non executive members of the board of the subsidiary, conflicts may arise between the executive directors of the subsidiary and the non-executive directors appointed by the parent company, as they may feel that the subsidiary is being used as a cash cow to finance the needs of the parent company. But, as Vidhya Automobiles limited does not have any subsidiary, this factor does not affect its governance.

Answer 80

Depending on its style of functioning, a board can be categorized: rubber stamp board, a representative board, a country club board, and a professional board.

A rubber stamp board gives more importance to the decisions taken by the CEO, than to the interpersonal relationships between the other members of the board and effective decision making involving all the board members. Usually wholly owned subsidiaries, which have such board are just formed in compliance with the company law norms and do not play any significant role.

A country club board lays more emphasis on maintaining good interpersonal relations within the board members. But in the process of achieving this objective, decision-making sometimes becomes very difficult.

A representative board gives more importance to effective decision-making and less priority to the interpersonal relationships among the members of the board. The present trend of organizations is to have a professional board where, equal importance is given to interpersonal relationships and effective decision-making for achieving organizational goals.

Answer 81

The board of directors is considered to be the heart and soul of a corporation, and comprises promoters, directors, professional directors and institutionally nominated directors from specialized areas like marketing, finance, law, human resources, etc. Ideally, a board should consist of people from varied fields who can render their services to the organization. According to Sir Robert Brown, a board should be responsible for:

- Laying down the principles of accounting, statistics and management procedures
- Deciding on what products to make, which markets to enter and determine the manufacturing capacity of the organization
- Achieving a balance between the competing interests of the shareholders, customers, lenders, promoters and directors

According To Cohin J Coulson, The Board Of Directors Is Required To:

- Establish achievable and measurable objectives and formulate a strategy for their achievement
- Ensure that the company has adequate finance, people and technology to help the management to implement a strategy
- Appoint a management team and establish the framework of policies and values within which the management can operate

- Review plans and monitor performance against accepted targets, and takes corrective action, if required.
- Report performance to various shareholders in the company, particularly to those with 'ownership rights' and a legal entitlement to certain information.

Answer 82

A group of outstanding individuals can form an exemplary board, only when, they share their expertise and knowledge with other members of the board. The success of such boards can be guaranteed only when the members

- Share a common and clear vision about the organization
- Have mutual trust and respect to complement each other's responsibilities and contributions
- Are committed to realistic strategies to make the vision a reality.

Apart from maintaining cordial interpersonal relations, among the members of the board, the success of board also depends on the ability of the organization to provide necessary resources, processes, and enabling technologies for the successful implementation of the strategies developed by the board.

The Chairman of the board manages the board of directors and ensures that the management implements polices that were laid down by the board. The Chairman works closely with the company secretary and addresses legal issues. The chairman must have a good understanding of the financial condition of the company and must monitor the performance of the organization and identify gaps between the objectives and actual performance. The chairman must ensure that the decisions taken by the board enhance the value of the shareholders in the long run.

The chairman is expected to have a broad understanding of the way in which a company is managed and how well it is performing. He must be able to determine the shortcomings of the board. A chairman is also expected to be proactive and should be able to identify a problem even before the CEO senses it. By so doing, he can help the CEO take timely action. The chairman also plays an important role in maintaining a good relationship between the board and the various constituents of the external environment of the corporation. The chairman should ensure that the decisions taken by the board are in the interests of the shareholders and the stakeholders of the company.

Another important responsibility of the chairman is to manage the board. He is expected to handle high-level influential people, who serve on the board. To ensure the smooth conduct of the board's activities a chairman requires good interpersonal skills and the ability to influence people. For ensuring effective functioning of the board, a chairman should also maintain good relationships with the CEO, the executive and the non-executive directors.

Answer 83

The board of directors plays a major role in the effective functioning of the corporate governance mechanism. Therefore, it is essential to evaluate their performance on a regular basis. The evaluation process help the current performance of the board and take corrective action, when needed. The board is evaluated against certain goals and standards. According to Demb and Neubauer, the effectiveness of the board can be measured on the basis of the following:

- Whether the board has members from all functional areas, so as to evaluate the performance of the organization correctly
- Whether the board members possess the expertise, knowledge and skills required to manage the organization efficiently
- Whether the members of the board have good interpersonal relationship among them
- Whether the members of the board are devoting the necessary time and attention to achieve the organizational goals
- Whether the members of the board are clear about the mission of the organization

But, according to Huge Parker, the performance of the board can be evaluated by answering the following questions:

- Has the board recently devoted significant time and serious thought to the company's long-term objectives and to the strategic options open to it for achieving them?
- Has the board consciously thought about and reached formal conclusions on its basic "Corporate Philosophy" i.e., its value system, its ethical and social responsibilities, its desired image?
- Does the board review the organizational structure of the company periodically?
- Does the board routinely receive all the information it needs to ensure its control on the company and its management? Have there been any "unpleasant surprises"?
- Does the board require the managing director to present its annual plans and budgets for their review and approval?
- Does the board have the time and knowledge required to take major decisions, or is it obliged to rubber stamp decisions already taken or commitments already made?
- What proportion of the board's time and attention as a board is devoted to finding solutions concerned with the organization?

Positive answers to all the above questions or for the majority of the above questions would give the performance of the board.

Answer 84

Before the liberalization of the Indian economy, public sector companies dominated the industry and there were very few private companies. However, post 1991, with the opening up of Indian markets for the global companies, there was a considerable change in the way businesses were managed. International companies entering India brought with them new management and corporate governance techniques. This also led to the changes in board structures. Some of the board structures prevalent in India are i) An All–executive board, ii) A Majority executive board, iii) A Majority outside board, and iv) An Advisory board.

- In an all-executive board, every member on the board is considered to be a member of the management. The responsibilities of the managers are mentioned in the employment contract and labor law. This board does not have a single outside directors. This board structure suits the family-owned private companies and other companies that have subsidiaries. This board structure automatically protects the interests of the company.

In a majority executive board, most of the board members are executive directors. However, some non-executive directors are also present. They help to bring required expertise, knowledge and experience and represent the interests of the stakeholders (shareholders, employees and customers). Non-executive directors act as a check on the domination of the majority executive directors on the board. For the effective functioning of the non-executive directors, companies should ensure that they have atleast one-third seats on the board filled by non-executive directors. Such boards are generally found in private organizations, which are funded by equity stakeholders, creditors and financial institutions.

- In a majority outside board, the majority of the directors are non-executive directors. These directors represent the various stakeholder groups like major stockholders, customers, suppliers, creditors and financial institutions. This board structure has been adopted by many organizations. Regulatory agencies have made it mandatory for the companies to have independent directors on the committees appointed by the board. This ensures objective evaluation of the board's decisions. This type of board structure is common in companies that are listed on the New York Stock Exchange. However, a majority outside board is not very effective in situations where most of the non-executive directors are directly or indirectly related to the company and represent a vested interest in the company.

Large companies, with operations in many countries have advisory boards to ensure better governance. The parent company selects experienced members from foreign countries to advise the company on issues relating to the business environment in those countries. The advisory board does not have any executive powers or decision-making powers.

Answer 85

The board of directors are responsible for the governance of their corporations. It is the board, which decides what products to make, and which markets to penetrate. A board plays a vital role in determining the manufacturing capacity, ensuring proper utilization of resources and taking investment decisions about the company. A director must exercise care while discharging his duties should:

- Attend all the board meetings and pay adequate due attention to the affairs of the company
- Make sure that other members of the board do not commit any act that could attract tort cases against the company
- Never misuse his power
- Act in the best interest of the company and its stockholders and customers
- Maintain confidentiality of crucial information
- Although the responsibilities of a director may vary from one country to the, there are certain basic responsibilities common to directors all over the world.

It is considered to be the basic responsibility of directors to safeguard the interests of shareholders. They should provide strategic direction to the company by framing appropriate policies and monitoring the performance of the top management. Directors are accountable to the shareholders and should therefore; submit regular reports and accounts, duly audited in a statutory form. Directors are expected to act with honesty and integrity. It is the duty of the directors to take decisions for the common good. They should provide the shareholders with adequate and accurate information regarding all issues that can affect their interests.

Answer 86

The role of an executive director in the board of directors is quite complex. He has to perform a dual role, one as a member of the board of directors and the other as an executive in the organization. Though he is appointed as director by the shareholders and is responsible to the shareholders, as an executive, he is an employee of the organization and is bound by an employment contract.

Non-executive directors do not hold an executive position in the concerned organization. Such directors are also known as external directors. Depending on their level of independence, non-executive directors can be categorized as nominee directors and representative directors. Nominee directors work towards safeguarding the interests of their principals (shareholders, banks etc.). They are appointed to the board of directors by the major shareholders or financial institutions like banks, mutual funds etc. Even though they are appointed by external stakeholders (like banks) appoint them, nominee directors along with other directors, should act in the overall interest of the organization. Representative directors are similar to nominee directors. They safeguard the interests of stakeholder groups like employees, customers, etc. But they also act in the overall interests of the company.

Answer 87

For managing the company efficiently, and keeping a check on the management, the board can set up an audit committee, a remuneration committee, and a nomination committee.

An **audit committee** consists of independent directors, who act as a link between the board and the external auditors and report to the board. The audit committee members look into all the matters raised by the auditors regarding the company's management systems and help the management deal with any objections raised by the external auditors with regard to the published financial accounts. The corporate audit committee of a company is expected to:

- Discuss the problem that they face in completing the audit with the independent auditors
- Review the interim and final accounts
- Inform the board about the effectiveness of internal controls and the quality of financial reporting as pointed out by the independent auditors
- Give recommendations on audit fee, selection and replacement of auditors

Remuneration Committee: One major issue of concern for shareholders is the lack of transparency in the remuneration of directors and top-level managers. The remuneration committee is made up of independent directors that enable the organization to design a transparent reward policy that can attract, retain directors and top managers and motivate them to achieve long-term goals of the organization.

The main function of a **Nomination committee**, which is headed by the chairman is to shortlist, interview and select the non-executive directors. As non-executive directors play a key role in the effective functioning of the board, the nomination committee must ensure that only members who possess the required expertise and knowledge and can run the organization efficiently are selected.

Answer 88

Corporations play a significant role in society. They produce various types of goods and services, provide employment opportunities, and encourage rapid business development. As the structure of board plays a key role in running the company effectively, it becomes necessary for companies to design their board structures carefully. The major issues that companies should address in order to design an effective board structure are i) The board size ii) The role of the Chairman and the Chief Executive, and iii) Presence of non executive directors (from the parent company) on the board of the subsidiary company.

The size of the board has a direct impact on the group dynamics of the board. Boards with more than seven or eight members may have problems maintaining good interpersonal relations. If the board is too big members may form opposing groups due to differences in beliefs and opinions; and if the board is too small the company will not have access to the necessary experience, knowledge and expertise. A company's articles of association help it determine the number of directors it should have on its board. Some boards may have only two directors while others may have twenty or more directors. The size of the board generally depends on the size of the company. The larger the company, the larger the size of the board. The board members can increase or decrease the size of the board by passing a special resolution.

Role of the Chairman and the Chief Executive officer. To ensure a balance of power on the board and curtail the dominance of the CEO in a corporation, it is necessary to separate the roles of the Chairman and the CEO (as recommended by the Kumaramangalam Birla committee on corporate governance).

Presence of non-executive directors (from the parent company) on the board of the subsidiary company. When executives from the parent company become non-executive directors on the board of a subsidiary, clashes may occur between the executive directors of the subsidiary and the non-executive directors from the parent company. The executive directors may feel that the subsidiary is being used as a cash cow to finance the needs of other SBUs of the group. As the performance measurement and the career prospects of the executive directors on the subsidiary board rest in the hands of the managers in the parent company, the effectiveness of the effectiveness of the subsidiary board in questioning the policies of the parent company are doubted

Answer 89

The structure of a board is designed on the basis of the type of directors on the board or their relationship with the company. There are four types of board structures: i) An all executive board ii) A majority executive board iii) A majority outside board iv) A two-tier supervisory board.

In an all-executive board, every member of the board is a member of the management and it does not have a single outside director. The responsibilities of the managers are clearly written in the employment contract. This type of board structure is suitable for family owned and completely owned subsidiary businesses, where there is no difference between the owner and the management of the company. In a wholly owned subsidiary the board functions according to the managerial policies and guidelines framed by the group's management.

If Nirmal Soaps Limited is a family owned business then, an all-executive board structure will suit the company. But, the company should ensure that the members of the management have required expertise, knowledge and experience to look after the governance of the company. However, problems may arise in managing the company effectively. When the family owning the company is directly involved in its management or when the shareholders are widely spread.

In a majority executive board, executive directors have a majority and the number of external or non-executive directors is limited. The Non-executive directors are appointed on the board to represent the interests of the stakeholders groups like shareholders, employees and customers. Non-executive directors are nominated to utilize them expertise, knowledge and experience and improve the performance. Non-executive directors act as a check on the majority executive directors who are dominant on the board. In a majority executive board, non-executive directors should fill one-third of the seats, so that they have the power to influence the decisions of the board.

It is not advisable for Nirmal Soaps Limited to have a majority executive board as the executive directors who dominate the board can overlook the discrepancies in performance while evaluating their own performance. Moreover, to ensure more resource allocation for their own divisions, they have arguments frequently.

- The majority outside board consists of a majority of non-executive directors who are not directly related to the company. The degree of independence and the effectiveness of these outside directors is debatable since they represent stakeholder groups like major stockholders, customers, suppliers or creditors (banks) and other financial institutions.

Nirmal Soaps Limited can adopt a majority outside board structure as most of the regulatory agencies are making it mandatory to have independent directors but the management should see that these directors fulfill their duties effectively as many of these directors are related to the company and represent a vested interest in the company.

Answer 90

A national task force on corporate governance was set up in 1996 under the leadership of Rahul Bajaj, CMD Bajaj Auto Limited, and the ex-president of CII. The CII report focused on the highly debatable issues of corporate governance in a liberalized economy. The report emphasized the need for greater interaction between the companies, their shareholders, creditors, capital markets and the company law. The recommendations on the CII committee on corporate governance are as follows:

- A simple board structure will help maximize shareholder wealth. Therefore, it is essential to have a simple board structure.
- The full board should meet a minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half a day's discussion.
- Companies with a turn-over of Rs. 200 crores and more should have professional, competent, independent and acclaimed non-executive directors, who constitute at least 30% of the board.
- If the chairman is a non-executive director, then the non-executive directors should account for at least 30% of the board.
- Non-executive directors should actively participate in the decisions made by the board and their roles within the board should be clearly defined.
- Non-executive directors should be able to interpret a balance sheet, profit and loss account, cash flow statements and financial ratios. They should also be aware of the company laws.
- Directors should hold directorship in not more than 10 companies. This ceiling excludes directorships in subsidiaries (where the group has over 50% equity stake) or associate companies (where the group has over 25% but no more than 50% equity stake).
- The board of directors should have thorough knowledge of annual operating plans and budgets, quarterly results; internal audit reports must be regularly reported to the board.
- An audit committee must be appointed to assist the board of directors. It must have full access to all financial information.
- Companies with paid-up capital of more than Rs. 20 crores should provide the same information to a domestic investor as they provide to a GDR investor.

- Companies with a turnover of Rs 100 crore or a paid-up capital of Rs.20 crore should set up audit committees within two years.
- Companies should not accept further deposits if they have defaulted on fixed deposits.
- The takeover code should be congruent with international norms.
- Financial institutions should divest their stake in companies where they have less than 10 percent stake.

Answer 91

Non-executive directors play a key role in maximizing the long-term value of shareholders by ensuring better corporate governance. Some of the qualities that the non-executive directors should possess are:

- They should be self-confident, independent, and free from conflict of interest.
- They should be well informed about the organization and the industry.
- They should be aware of their statutory and fiduciary requirements and the role they play to ensure that they are implemented properly.
- They should be well acquainted with the key staff and responsible enough to keep the important matters confidential.
- They should attend board meetings whenever they are requested to do so and they should be thoroughly prepared for such meetings.
- They should maintain good relationships with the management and have a proper understanding of the process of committee work. They should use their knowledge and skills to influence the decisions of the board, whenever necessary.
- They should be able to provide suggestions on innovations, strategic direction and planning.
- They should have thorough knowledge of trends in the industry. They should also have a good understanding of impact of ownership on productivity.

Answer 92

A code is a set of rules, which are accepted as general principles, or a set of written rules, which state how people in a particular organization or country should behave. Thus, it is a set of standards agreed on by a group of people who do a particular job. A regulation is an official rule that lays down how things should be done. Both codes and regulations are "sets of rules" or "principles" or "standards" that are intended to control, guide, or manage behavior or the conduct of individuals working in organizations, the basic difference being that codes are "self-imposed or self-regulated" sets of rules, while regulations are "official," i.e. imposed by the State (government).

Codes are generally self-regulatory rules for guiding conduct or behavior. They do not direct or control behavior by some official authority. International Capital Markets Group (1992) listed the following benefits of self-regulation:

- In "self-regulation," it is possible to impose ethical standards, which go beyond those, which can be imposed by statutory legislation.
- "Self-regulators" are directly accountable to the members of their group. Self-regulatory systems have built in motivation to regulate for effectiveness and least interference.

- Self-regulation operates in an environment where there is a willingness to accept regulations formulated from within for the common good of the group.
- Self-regulators, being “part” of the group understand the issues facing the group more intimately and are therefore more sensitive to the needs of entire group.
- The “regulated” have an opportunity to participate at all levels of the self-regulatory process. This makes it easier for them to appreciate and accept new regulations.
- Self-regulation has a built-in system of checks and balances as the regulated see it as their duty to expose non-compliance.
- Self-regulators can identify complex regulatory problems at an early stage and develop suitable solutions before these problems reach a stage where they can disrupt group operations.
- Self-regulations are more comprehensive than official regulations and are easier to operate and implement.

Answer 93

Some of the recent developments in the field of corporate governance in India are as follows:

In December 1999, the government of India made the following amendments to the Companies Act to protect the interests of individual investors.

- Companies, failing to repay deposits of small investors on maturity must inform the Company Law Board (CLB) within 60 days.
- Private companies must have a minimum paid-up capital of Rs. 1 lakh and the floor level for public limited companies should be Rs. 5 lakh.
- All securities offered by a company (to more than 50 persons) should be deemed a public issue.
- Though the Securities and Exchange Board of India (SEBI) would supervise listed companies, the management of the companies should communicate to the CLB regarding defaults.

According to the codes framed by SEBI on 21st February 2000, at least 50% of the members of the corporate board should be non-executive directors. The boards should set up an independent audit committee to supervise the implementation of corporate governance guidelines. As per the SEBI directives, if a firm has a non-executive chairman, at least one-third of the board members should be independent directors. The firms should disclose all transactions of the non-executive directors in the annual report and publish a detailed report on corporate governance in a separate section of the report. Non-compliance with any mandatory requirements should be mentioned and the reasons for this should be clearly stated in the annual reports. SEBI has made it mandatory for companies to publicize the board discussion and analysis of the suggestions and views on corporate governance the annual report. Whenever a new director is appointed or re-appointed, the shareholders must be given a brief resume of the director, details about his expertise in specific functional areas, the names of the companies in which he holds directorship and the membership in committees of the board. The audit committees, consisting of at least three non-executive directors, and chaired by an independent director, should meet at least once every six months and at least thrice a year - before finalizing the annual accounts. The audit committee should be given the power to investigate any activity within its terms of reference, seek information from any employee, and obtain legal and other professional advice from external sources. SEBI also defined the role of the audit committee in detail and added that it shall have such additional functions and features as contained in the listing agreement, if the company has set up the panel as per the provisions of the Companies Acts 1956. The organization should get a certificate from the auditors stating the compliance of the corporate governance as mentioned in Clause 49 of the Companies Act, and annex the certificate to the director's report. This report should be sent to the shareholders annually. The certificate should also be sent to the stock exchanges, along with the annual returns filed by the company. The company board should meet at least four times a year, with a maximum time gap of four months between any two meetings.

Answer 94

The OECD ad-hoc task force on corporate governance (with representatives from all member countries and key international organizations including the World Bank), developed a set of corporate governance principles that could be useful to the member and non-member countries. This body had a number of representatives from the private sectors and labor representatives with special expertise in corporate governance. These principles guide stock exchanges, investors, private corporations and national commissions on corporate governance. The report, lists the following rights of shareholders:

- Right to secure ownership and registration of shares, as well as the right to share the residual profits of the company.
- Right to participate in basic decisions concerning the company i.e., in general shareholder meetings.
- Right to all information about the corporate structure and devices that re-distribute control over the company in ways that deviate from proportionality to ownership.
- Transfers of controlling interest in the company should take place under fair and transparent conditions and anti-takeover defenses should not be used to shield management from accountability.
- Right to equitable treatment of all shareholders, including minority and foreign shareholders.
- Right to vote in shaping the decisions of the corporation.
- The opportunity to obtain effective redress for violation of their rights.

Answer 95

The primary role of a CEO is to lead the directors of the board and run the organization in an efficient manner. The CEO should also have a constructive working relationship with the chairman and the directors, which requires a great degree of trust, respect and an ability to communicate openly. Apart from maintaining constructive relationship with the chairman and the director, the CEO:

- Works with the executive directors on framing strategic proposals to be endorsed by the board
- Directs all executive directors
- Plans and implements the strategy formulated by the board and the management
- Acts as a representative of the executive directors, while interacting with the non-executive directors
- Projects a positive image of the company before the major investors, the media and the government

- Inspires and direct employees, customers and suppliers to achieve the organizational goals
- Identifies the situations that require intervention of management.

Answer 96

Remuneration of top managers in organizations has been a highly debatable issue these days. The remuneration of a director is determined either by the articles of association or by a resolution of the general body or by a special resolution. The remuneration for a director can be paid in the following ways:

- In the form of a fee for each board meeting attended by him
- According to Section 309(3), a managing director may be paid a fixed remuneration on a monthly basis or as a specified percentage of the net profits of the company or a mix of these two elements. The percentage of profit paid out should not be more than 5% of the net profits for one director and not more than 10% for all the directors.
- Directors (other than the full time directors and managing directors) can be paid on a monthly, quarterly or annual basis. They can be paid in the form of a commission, provided a special resolution is passed authorizing such payment. This payment should not exceed 1% of the net profit of the company.

Answer 97

Countries such as the US and Japan are putting in their efforts to discharge their social obligations. For instance, the US has been developing and updating an ethical code for its global operations and Japan has been helping third-world countries deal with their economic problems.

The bribery scandals of the 1990s in the US led to the formation of the Foreign Corruption Practices Act (FCPA). According to this act, it is illegal to influence foreign officials through personal payments or political contributions. The objective of the act was to prevent US MNC's from initiating corruption in the foreign government and to upgrade the image of business both within and outside the US. Detractors argued that this act would have an adverse affect on international business, especially in those countries where bribery is very common. But, this controversy did not have much effect on the US government.

Japan assists underdeveloped countries by providing food, machinery and equipment. Many third world countries that borrowed huge amounts to improve their economic conditions are now finding it difficult to repay their debts. The US and Japan have taken a lead in providing assistance to those countries that are unable to pay their debts. The assistance includes debt reduction or re-negotiation and direct grants. The US offered debt reduction plans to third world countries and Japan proposed a package worth $43 billion aimed at improving the global environment and encouraging economic growth. This assistance enabled third world countries to improve their economic conditions to some extent. Most importantly, it encourages other countries to help fulfill their social obligations.

Answer 98

As all businesses exist and operate within a society, they should contribute to the welfare of the society. According to George A. Steiner, "The managers of the biggest companies know as a business gets larger, the public takes more interest in it as it has a greater impact on the community. The antennae of these managers must be tuned to the perception of the public and should react accordingly. Managers seek to maintain a proper image of their company in the minds of the people. This would lead to taking up of greater social responsibilities". Thus, to survive in the long run, all businesses, whether big or small, must operate on ethical grounds and discharge their social obligations.

Some businessmen feel that an organization, being an economic entity should have nothing to do with ethics or morals. They believe that the objective of a business is to produce goods and services and maximize the value of the shareholders. Eminent philosophers like Milton Friedman were of the view that the aim of business is to earn profits by utilizing the resources and engaging in open and free competition, without deception or fraud. They were of the opinion that, if business ethics were allowed to form a part of the corporate culture, the consumer would have to bear the extra cost. He expressed that the social responsibility of business is contrary to the basic business function. Another philosopher Theodore Levilt, was of the view social values would dominate business values if ethics area allowed to form a part of the corporate culture. In the mid 1950's and 1960's, philosophers were putting different views about business ethics forward. People at that time feared that any ethical conduct or embracing of any moral philosophies would lead to a decline in efficiency and productivity; would no longer remain competitive. However, of late, this misconception has been removed. Today businessmen believe that being ethical and moral would provide them loyal customers. Today, more and more businesses are considering 'business ethics' as a part of business conduct.

Answer 99

The interaction among the corporation, society and the markets can be understood better by examining the relationship between them. In general, the society expects more from corporations in terms of providing more jobs opportunities, decent salaries and superior quality goods and services. Society also invites challenges from corporations to exhibit creativity and ingenuity. Corporations are also expected to work with society to maintain a healthy environment. Society seeks an assurance of growth and progress from corporations. Above all, society has a stake in the company, either as employees, shareholders, customers, suppliers or creditors.

There are two related sets of laws that govern the relationship between the corporation and its employees, shareholders, customers, suppliers and creditors. The first set of laws are enacted by the legislature and serve as benchmarks for establishing minimum standards that are to be maintained in the relationships. These laws enable corporations and their governing bodies to function with maximum flexibility. In other words, government's intervention is needed only when the system of corporate governance fails to safeguard the interests of society.

Governments and corporations influence each other. Usually, the corporate "citizen" shows a powerful influence on the laws that affect his "citizenship." Theoretically, corporations assist the free market, with minimum interference from the government. But in reality, corporations persuade the government to pass legislations that set barriers to protect them from competition in the free market. Though laws establish the standards of corporate governance, the standards acquire value only by providing a feeling of accountability. Mostly quorum rules are so designed as to require a healthy representation of the investors on the boards. While discouraging lifetime directorships. It also necessitates majority of the investors to participate on critical decisions. Directors and shareholders expect "major" transactions to be presented to the board rather than getting approved by managers or a committee.

The laws of the market (second set of laws) influence the operations of a corporation. The final arbiter of corporate performance is the marketplace. The laws of the marketplace influence the decisions of directors and officers, irrespective of the company's location and production capacity. This law is known as the law of economies. For example, if a company changes its state of incorporation so as to take advantage of taxation, it becomes a function of economies. Similarly, different social laws of states and nations that govern occupational safety and environmental standards can also be an example of law of economies.

Corporations are very careful when selecting their place of domicile. Corporations evaluate all costs and benefits of different options before selecting a particular area. Usually, this type of evaluation is adopted when corporations have to decide whether to establish a factory locally or abroad.

Answer 100

Code of conduct refers to self-regulatory rules for guiding the conduct or behavior of an individual. Some of the benefits of self-regulation are:

- They add an ethical dimension to impose ethical standards, which go beyond those, which can be imposed by statutory legislation.
- "Self-regulators" are directly accountable to the members of their group. Self-regulatory systems have built in motivation to regulate for effectiveness and least interference.
- Self-regulation operates in an environment where there is a willingness to accept regulations formulated from within for the common good of the group.
- Self-regulators, being "part" of the group understand the issues facing the group more intimately and are therefore more sensitive to the needs of entire group.
- The "regulated" have an opportunity to participate at all levels of the self-regulatory process. This makes it easier for them to appreciate and accept new regulations.
- Self-regulation has a built-in system of checks and balances as the regulated see it as their duty to expose non-compliance.
- Self-regulators can identify complex regulatory problems at an early stage and develop suitable solutions before these problems reach a stage where they can disrupt group operations.
- Self-regulations are more comprehensive than official regulations and are easier to operate and implement.

Part D: Model Question Papers with Suggested Answers

The model question paper consists of three parts – A, B, and C, Part A is intended to test the conceptual understanding of the students. It contains 30 multiple – choice questions carrying one point each. Part B consists of cases and carries 50 points. Part C consists of applied theory questions, carrying 20 points. Students should note that ICMR reserves the right to change the format of the question paper without notice. The faculty members of ICMR with a view to assisting the students have prepared the answers. These answers should not be regarded as the only possible answers.

Model Question Paper I

Time: 3 Hours **Total Points: 100**

Part A: Basic Concepts (30 points)

Answer all the questions. Each question carries one point.

1. Which of the following financial frauds can be detected by comparing financial statements over a period of time, examining unusual journal entries, verifying supporting sales documents and unusual sales transactions?
a. Fictitious revenues
b. Fraudulent timing differences
c. Concealed liabilities and expenses
d. Fraudulent asset evaluations

2. Which of the following is not an objective of an ethical audit?
a. To determine the extent to which the decisions taken at all levels of an organization are aimed at maximizing long-term ownership value and achieving distributive justice
b. To help scrutinize the basis on which accounts are drawn and also evaluate the information the management has access to for running the business
c. To measure business conduct against the moral or religious standards of the community in which the business operates
d. To improve the quality of governance by evaluating the performance and ensuring that the financial information is both available and reliable

3. Which of the following statement(s) is/are true regarding the Indian Information Technology Act 2000?
a. It provides the legal infrastructure for electronic commerce in India
b. It recognizes the validity of digital signatures
c. It defines hacking
d. All the above

4. According to Gellaraman, which of the following is not a rational assumption made by managers to justify their behavior when resolving ethical dilemmas?
a. Their actions are within reasonable ethical and legal limits and hence are not illegal or unethical
b. They take actions that are in the best interest of individuals or corporations
c. Their actions will not be disclosed or published, and hence there is no danger to them or their company
d. Their community will protect them

5. Why is the 'believe approach' used?
a. To detect frauds in financial statements
b. To resolve ethical dilemmas
c. To enhance the efficiency of audit procedures
d. To enhance employee morale

6. Which of the following is not the responsibility of a business corporation towards its customers?
a. Providing goods according to the specific needs of consumers
b. Improving living standards by producing goods and services of high quality
c. Ensuring the health and safety of consumers
d. Providing technologically superior goods and services at discounted prices

7. Which of the following tasks is a corporation performing when it creates products that are useful and designed in accordance with changes in consumer preferences?

a. Financial tasks
b. Maintenance tasks
c. Adaptive tasks
d. Environmental tasks

8. Which of the following is not a format for developing a corporate code/ethics statements?
a. Compliance codes
b. Corporate credos
c. Compliance certificates
d. Safety rules

9. In which of the following activities do individual, group, social and political processes play a major role?
i. Formulation of the corporate code
ii. Formulation of laws
iii. Formulation of the code of corporate governance
a. Only i
b. Only ii
c. Only iii
d. Both i and ii

10. Which of the following approaches focuses on the utility that human beings can derive from protecting the environment?
i. Anthropocentric approach
ii. Anxiological approach
iii. Eco-centric approach
a. Only i
b. Only ii
c. Only iii
d. Both i and ii

11. Which of the following is not a green initiative taken up by businesses?
a. Green tourism
b. Green community
c. Green house
d. Environment counseling

12. Apart from taking strategic decisions and being morally responsible for the operation of the business, a leader has to maintain a healthy relationship with stakeholders through 'contracts.' Which of the following is not one of those contracts?
a. Knowledge contract
b. Employment contract
c. Empowerment contract
d. Psychological contract

13. Which of the following activities aimed at changing the ownership of a company involves financing from third parties through substantial borrowing by the private company?
a. Exchange offer
b. Share repurchase
c. Leveraged buy-outs
d. Management buy-out

14. Which of the following is not regarded as unethical behavior in the purchase function?
a. Deceiving suppliers
b. Forward buying for smooth functioning of the production department
c. Favoring suppliers who are also good customers
d. Accepting free gifts from suppliers

15. Which of the following is not one of the principles for deciding the ethical remuneration of an employee?
a. Remuneration depends solely on results
b. Employees who work hard to perform a task need not be rewarded more than those who do it effortlessly
c. An employee, who works hard but fails to achieve results, deserves no reward but sympathy
d. An employee should be rewarded for his experience and the loyalty he shows towards his organization, even if these are not reflected in his performance

16. In which anti-takeover technique does the entire management team threatens to resign in the event of a takeover?
a. Poison pills
b. People pill
c. Sand bag
d. Green mail

17. Which of the following involves the acquisition, ownership, possession or transfer of the proceeds of criminal activity?
a. Insider trading
b. Money laundering
c. Hostile takeovers
d. Management buyout

18. Which of the following statements is associated with the concept of ethical relativism?
a. What is ethically right or wrong for an individual depends on the ethical principles he or she chooses
b. There is no universal set of principles going by which one can judge the morality of a decision/action
c. An act is ethical when it maximizes happiness and unethical when it does not
d. Ethical problems usually arises from a conflict between an organization's economic performance and social performance

19. At which level of ethical consciousness do corporations seek to achieve certain social objectives such as promoting community health programs, participating in job creation, employing handicapped people, encouraging the self-realization of employees, and ensuring the financial success of the company?
a. Stake holder concept
b. Corporate citizenship
c. Profit-maximization in the short-term
d. Profit-maximization in the long-term

20. According to which of the following consequentialist theory/theories is an action morally right if the consequences of that action are more favorable than unfavorable to everyone?
i. Egoism
ii. Utilitarianism
iii. Altruism
a. Only i
b. Only ii
c. Only iii
d. All i, ii and iii

21. Which of the following judge the ethical nature of an organization on the basis of 'espoused values' and 'values in practice'?
i. Theory of corporate moral excellence
ii. Ethics and stake holder theory
iii. Ethics and corporate governance
a. Only i
b. Only ii
c. Only iii
d. Both i and ii

22. Which of the following characteristics of a corporation does not attract individual investors?
a. Transferability of stockholdings
b. Legal personality
c. Centralized management
d. Size of the corporation

23. In which corporate governance model do financial institutions have a major say?
a. Anglo-American model
b. German model
c. Japanese model
d. Indian model

24. Identify the type of directors who are appointed to the board by the major shareholders or financial institutions like banks, mutual funds etc.
a. Nominee directors
b. Representative directors
c. Shadow directors
d. Associate directors

25. Identify the type of board which lays more emphasis on maintaining cordial interpersonal relations among members than on effective decision-making?
a. Rubber stamp board
b. Representative board
c. Country club board
d. Professional board

26. Which of the following is not a function of the chairman of the board?
a. To set standards and ensure that policies and practices are established
b. To act decisively in times of crisis
c. To develop a plan for implementing the strategy formulated by the board
d. To ensure that directors are continuously upgraded to the levels required by investors to meet the current and future needs of the company

27. Which of the following is not a function of the corporate audit committee set up by the board?
a. To discuss with independent auditors any problems they experience in completing the audit
b. To review the interim and final accounts *in toto*
c. To inform the board about the effectiveness of internal control and the quality of financial reporting (as pointed out by the independent auditors
d. To select the new non-executive directors to the board

28. Which of the following statements regarding the managing director of a company is false?
a. He can be appointed by virtue of a resolution passed by the board of directors
b. His remuneration should not exceed 5 percent of the net profits of the company
c. He cannot act as a managing director for more than one private company
d. He cannot be appointed for a term exceeding a period of 5 years

29. How many times should the full board meet in a year, according to the CII committee on corporate governance?
a. Six times a year
b. Once a year
c. Twice a year
d. Once in every 4 months

30. Which of the following is a statutory duty of a director?
a. To act honestly and with utmost good faith
b. To act to the best of his abilities
c. To reveal his financial interests in a contract to the board, if any
d. To convene the annual general meeting

Part B: Caselets (50 points)

Each case carries 25 points.

Caselet 1

Tim Electronics Company (TEC) is a US-based company, which has a sales office in UK. It manufactures electronic components required for military and civil establishments. TEC has a very good reputation and is a leader in most of the market segments to which it caters. The key to TEC's reputation is its consistency in producing quality goods. In 1990, the UK sales office bagged a major contract from the military force for the supply of components of dosimeters (a type of Geiger counter), which are used to find out whether a person has been irradiated. Dosimeters were also used in nuclear power stations. TEC was supposed to manufacture these components as per the stringent military specifications and seal them hermetically. The quality of the seal was tested using special equipment because a broken seal could affect the performance of the component, leading to inaccurate readings by the dosimeter. Using a faulty dosimeter might not indicate properly whether a person is irradiated or not.

TEC shipped its first consignment of the components to UK on time. But these were rejected; the components were too big to fit into the dosimeter boxes. Ideally, the sales office should have sent the components back to the factory, to change the size of the components. But as this would take time, the sales office itself tried to solve the problem by making the components smaller so that they would fit into the dosimeters. This was supposed to be done by qualified engineers. Instead, it was taken up by the sales people who used sharp knives and emery boards to make the components smaller. This idea worked and the problem was solved. But people at the sales office feared that the seals were damaged. They were also doubtful as to whether the parts would be watertight, as they were modified. These were to be tested for their seal, but the company was running short of time. The quality control department at the head office suggested that the components should be boiled in water and air bubbles be watched for. The sales office followed this instruction. The components were boiled on the hob of an oven but no air bubbles were found. So the components were shipped to the military base and nuclear power stations. REC's management was happy, as the components were not rejected this time.

Questions for Discussion:

1. Comment on the behavior of the managers and the employees at TEC. Do you think the way they solved the problem is ethical?
2. How can organizations encourage their employees to adopt ethical business practices?

Caselet 2

In 1901, H.W. Johns-Manville Company, New York, was formed by the merger of H.W. Johns Manufacturing Company and Manville Covering Company. Later, in 1926, it was reincorporated as Johns-Manville Corporation. The Johns-Manville Corporation (Manville) manufactured and sold a variety of products. Some of the products it produced, particularly insulation products used in buildings, contained asbestos.[1] In the United States, Manville was considered a highly successful corporation due to its membership in what has come to be known as the "Fortune 500." Having attained a measure of financial achievement, the Johns-Manville Corporation and its affiliated companies were regarded as models of success in corporate America by the financial community. There was, therefore, considerable surprise when, the corporation filed for protection under Chapter 11 of the Bankruptcy Code on August 26, 1982. Manville stated that the number of suits (16,000 by the filing date) brought against it because of its use of products containing asbestos compelled it to file for bankruptcy. However, many argued that the Johns-Manville Corporations filed for bankruptcy to avoid paying claims arising out of the incidence of asbestosis in citizens exposed to the company's products.

Some suits claimed that Manville had known for 40 years that there was something wrong with the asbestos - based products it produced. What was more serious was the charge that the senior management of Manville had suppressed research findings that stated that asbestos harms people who come in contact with dust from the substance. Exposure to asbestos may result in one of three diseases: (1) Asbestosis, a chronic disease of the lungs that causes shortness of breath; (2) Mesothelioma, a fatal cancer of the lining of the chest; and (3) lung and other cancers. There was also news that in 1952, Dr Kenneth Smith, the company's medical director, asked the company to stick a warning label on some asbestos products that were considered fatal to construction workers.

1 A general term given to the fibrous form of mineral silicates belonging to the serpentine and amphibole groups of rock forming minerals.

Chapter 11—Reorganization

Chapter 11 of the Bankruptcy Code is frequently referred to as "reorganization." Although an individual may file under Chapter 11, generally it is used to reorganize a business. Individuals with large federal or state tax obligations may use Chapter 11 because an extended period of time may be obtained for the repayment of taxes. Chapter 11 generally allows the debtor to continue its business operations as it proceeds towards the desired goal of a confirmed Plan of Reorganization, which must meet certain statutory criteria. A major rationale for business reorganization is that the value of a business as an ongoing concern is greater than it would be if its assets were liquidated and sold. Generally, it is more economically efficient in the long run to reorganize than to liquidate, because doing so preserves jobs and assets. Cooperation among the various parties involved, is crucial to a successful reorganization.

But the company refused to stick a warning label as it felt that labels might decrease the sales of its asbestos-based products. The case against Manville was strengthened when a lawyer testified that 40 years ago he unsuccessfully confronted Manville's corporate counsel about the company's policy to conceal chest X-ray results from employees.

By 1982, over 16,000 asbestos related lawsuits were filed against Manville. In most cases that have reached judgment, the jury awarded compensatory and punitive damages against Manville. It was estimated that up to 120,000 such lawsuits would eventually be filed against Manville and that their combined liability could exceed $3 billion. When the company filed for bankruptcy on August 26, 1982, an Asbestos Committee comprised of attorneys for clients who had allegedly been injured by asbestos manufactured by Manville filed a motion to dismiss the bankruptcy petition filed by Manville. But the company argued that it could not wait until its economic picture had deteriorated beyond salvation to file for reorganization under Chapter 11. The company also argued that it would not be in a position to rehabilitate the future victims of death and disability if it were not given protection under Chapter 11 of the Bankruptcy Code. Eventually, the bankruptcy court stated that Manville qualified for reorganization under Chapter 11 of the Bankruptcy Code, which automatically suspended all personal injury lawsuits and preserved the company's financial viability to compensate asbestos claimants.

In December 1986, the United States Bankruptcy Court for the Southern District of New York approved Manville's Plan for reorganization (the "Plan"). A key aspect of the Plan was the creation of the Manville Personal Injury Settlement Trust (the "Trust") to compensate individuals who suffered personal injury because of exposure to asbestos or asbestos-based products manufactured by Manville. Following several appeals, the U.S. Court of Appeals for the Second Circuit confirmed the formation of the Trust on October 28, 1988. The Trust went operational thirty days later, from November 28, 1988.

The Trust was created as an independent organization to distribute funds as equitably as possible while balancing the rights of current claimants against those of future, unknown claimants. The Trust's mission was to "enhance and preserve the Trust estate" in order to "deliver fair, adequate and equitable compensation to (claimants), whether known or unknown." The Trust was established as a negotiation-based settlement organization pursuant to Plan provisions (which explained that claimants need not litigate or threaten to litigate in order to negotiate a fair settlement). The Trust owned 50 percent of Manville's new common stock as well as convertible preferred stock and a $1.8 billion bond. In 1992, the Trust converted its preferred stock into common stock. It currently owns around 80 percent of Manville. Since 1992, the Trust has received 20 percent of Manville's net profits. The Trust has settled more than 25,000 personal injury claims, paying out more than $1 billion to injured victims. More than 150,000 claims remain. As of December 31, 1995, the Trust has received over 280,000 claims. According to the Plan, the Trust will receive 83,000 to 100,000 claims during its lifetime.

Questions for Discussion:

1. In many situations, companies facing ethical dilemmas often choose the easy way out. Why do you think Manville's managers were not concerned about the safety needs of their key stakeholders?
2. In this case, do you think that filing for protection under Chapter 11 of the Bankruptcy Code, which automatically suspends all personal injury lawsuits, was an ethical action?

Part C: Applied Theory (20 points)

All questions carry equal points.

1. The ethical selection of employees is the first step towards building an ethical organization. Explain the various aspects of the ethical selection process.
2. List the recommendations made by the Cadbury committee, which was set up to look into the financial aspects of corporate governance.

Model Question Paper II

Time: 3 Hours **Total Points: 100**

Part A: Basic Concepts (30 points)

Answer all the questions. Each question carries one point.

1. According to which of the following are business and morality inter-related and guided by external factors like government, market system, law, and society?
   a. Unitarian view of ethics
   b. Separation view of ethics
   c. Integration view of ethics
   d. Normative theory

2. Which of the following statement is not true according to the integration view of ethics proposed by Talcott Parsons?
   a. Business and morality are inter-related and are guided by external factors
   b. Laws will guide business and decide what is right or wrong in business practices
   c. Business and ethical behavior should be integrated in the new area called 'Business Ethics'
   d. Business is a distinct entity and does not include ethics and morality

3. Which concept of ethics considers that an act is ethical if it maximizes happiness?
   a. Ethical Subjectivism
   b. Ethical Relativism
   c. Consequentialism
   d. Ethics of Virtue

4. Which is the highest stage of ethical consciousness in business?
   a. Profit maximization in the short-run
   b. Profit maximization in the long-run
   c. Law of the jungle
   d. Corporate citizenship

5. Which of the following is not the objective of ethics?
   a. To establish moral standards and norms that guide human behavior
   b. To frame laws that spell out appropriate punishment for unethical behavior
   c. To judge human behavior based on a set standards and norms
   d. To set a standard or code for moral behavior and make recommendations for the desired behavior

6. According to which of the following consequentialist theory/theories is an action morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual performing the action?
   a. Egoism
   b. Utilitarianism
   c. Altruism
   d. Both a and b

7. Which of the following is not considered as a form of unethical behavior in the market system?
   a. Speculation
   b. Bribery
   c. Coercion
   d. Deceptive information

8. Which of the following theories provide a framework to judge the ethical nature of an organization?
   a. Theory of corporate moral excellence
   b. Ethics and stakeholders theory
   c. Ethics and corporate governance
   d. All of the above

9. An organization is considered to be ethical, if its

a. 'Esposed values' are same as 'values in practice'
b. 'Esposed values' are far better than the 'values in practice'
c. 'Esposed values' are not entirely the same as the 'values in practice'
d. 'Esposed values' are totally different from that of the 'values in practice'

10. Which of the following processes is/are involved in the formulation of laws?
a. Individual process
b. Social process
c. Political process
d. All the above

11. A law can be defined as a consistent set of universal rules that are
a. Widely published
b. Generally acceptable
c. Not enforceable
d. Only a and b

12. When a company adopts an anti pollution environment policy, it is said to be
a. Going blue
b. Going green
c. Going red
d. Going white

13. A multinational company operating from a developed country is said to be ethical, if it adopts
a. The standards of the home country to frame its policies
b. The standards of the host country to frame its policies
c. The best of both the home and host country
d. The industry norms

14. Which one of the following methods can an organization adopt to make a takeover prohibitively expensive for the bidders?
a. Poison pills
b. Green mail
c. People pill
d. Sand bag

15. Using of price sensitive information by company employees to gain undue advantage is referred to as
a. Money laundering
b. Management buyout
c. Insider trading
d. Wistle blowing

16. Who are the primary victims of insider trading?
a. Shareholders
b. Employees
c. Customers
d. Top management

17. Levi Strauss stopped outsourcing raw materials from China because of the
a. High costs of raw material
b. Strict rules and regulations for conducting operations
c. Violation of human rights
d. China is not the member of WTO

18. Which of the following statements about a corporation is false?
a. A corporation is a perpetual entity
b. A corporation cannot act independently on its own
c. A corporation is recognized as individual under law
d. A corporation can buy and sell assets

19. Which of the following statements about the shareholders of a corporation is false?
a. Their liability is limited to the amount of their initial equity capital (in case the business fails)
b. They can hold the directors accountable for their actions
c. They can nominate or elect directors to govern the corporation
d. They have unlimited liability in case of business failure

20. Which of the following statements is not true about the Japanese model of corporate governance?
a. Members of the board are elected by shareholders and banks
b. The Chairman of the board is a representative of the employees

c. The executive management performs the management function
d. The President is appointed on the basis of the consensus between the shareholders and the bank

21. Which of the following is not true about corporate governance?
a. It has external focus
b. It is strategy oriented
c. It is task oriented
d. It assumes an open system

22. The CII committee report, the Cadbury Committee report, and the OECD report address issues of __________
a. Corporate governance
b. Corporate responsibility
c. Ethics in work place
d. Accounting frauds

23. Shadow directors are _________
a. Directors appointed by major shareholders
b. Directors who get the title as a token of appreciation
c. Directors who influence the board without their formal presence on the board
d. Directors appointed by the government

24. Which of the following is not a type of board structure?
a. Advisory boards
b. Two - tier supervisory board
c. All executive board
d. Matrix board

25. Which of the following gives high importance to both interpersonal relations and effective decision making?
a. Rubber stamp boards
b. Representative boards
c. Country club boards
d. Professional boards

26. The Companies Act 1956 makes the directors liable for the
a. Failure to return subscription money to investors
b. Contravention of the law
c. Any act committed by an employee
d. All the above except c

27. According to the Kumaramangalam Birla Committee, how many times (at the least) in a year should a company hold board meetings?
a. 4
b. 3
c. 2
d. 1

28. Which of the following is a statutory duty of a director?
a. To act honestly and in good faith
b. To act with the best of skill and expertise
c. To reveal his financial interests in the contract, if any to the board
d. To convene the annual general meeting

29. Which of the following concerning the remuneration of a managing director is correct?
a. He can be paid up to 4% of the net profit
b. He can be paid up to 10% of the net profit
c. He can be paid up to 5% of the net profit
d. He can be paid up to 15% of the net profit

30. Which of the following is/are the function(s) of a CEO?
a. To act as a representative of executive directors when interacting with the non-executive directors
b. To provide leadership and direction to all executive directors
c. To act as a representative of the company before the stakeholders
d. Both a and b

Part B: Caselets (50 points)

Each case carries 25 points.

Caselet 1

Global Trust Bank (GTB) was one of the first private sector banks to enter the market when the Indian banking sector was opened up for private participation in 1994. GTB was promoted by Ramesh Gelli (Gelli) and his team. Before floating GTB, Gelli was with Vysya bank, from where he picked most of his team for his new bank.

GTB achieved many "firsts" in Indian banking since its inception on 30th October 1994. It was the first bank to bring in foreign participation into its equity. The bank's shareholders included International Finance Corporation and the Asian Development Bank. It had strategic tie-ups with leading financial institutions of the world. GTB soon made a name for itself in the private sector. The bank's initial public offer was oversubscribed 60 times and, on its first day, it had a deposit base of Rs 100 crore. Within a decade, GTB built up a deposit base of Rs 4,000 crore, established 63 branches, and employed over 800 people. GTB offers its clientele a wide range of services: retail banking, wholesale banking, treasury products, investment banking, depository services, advisory services, etc. Global alliances, advanced technology and highly skilled professionals enabled the Bank to offer international standard products and services at competitive prices.

GTB became the first bank in India to formulate and adopt a corporate governance code in January 2000. The bank released its own Code of Corporate Governance on January 1, 2000, well before the release of SEBI's Code of Corporate Governance. This move was the finest feather in GTB's cap. Addressing a press conference after releasing the code of corporate governance, the GTB Chairman and Managing Director, Mr. Ramesh Gelli, said, "This step would bring the bank closer to the best international practices and elevate the bank to near global standards." The banks board set up various committees – the audit committee, the remuneration committee and risk management committee – in line with the recommendations of its corporate governance code.

When everybody thought that GTB had reached its pinnacle, Gelli took the industry by surprise on 24 January 2001, by announcing his intention to merge GTB with UTI Bank to create one of the largest private sector banks in the country. The new bank, when formed, would be known as UTI Global Bank. UTI would be the principal shareholder in this new entity. UTI Global would be the largest private sector bank in terms of assets, deposits, profits and branch network. It was expected to effectively combine the strengths and complementary features of the two banks and would be strongly capitalized with a net worth likely to exceed Rs. 1,000 crore by the end of March 2001. The new entity would also have a well diversified branch and ATM network, reinforcing the existing retail strengths of the two banks. The two banks at that time had a network of 157 branches and 321 ATMs spread across the country. At the end of December 2000, the combined net worth was Rs. 928.82 crore, the combined advances Rs. 7,904.24 crore and the combined deposits Rs. 15,665.13 crore. The net profits of the two banks aggregated Rs.161.24 crore.

The planned merger had all the makings of a fairy tale marriage. However, a little over a month after the announcement of the swap ratio (one share of GTB for every 2.25 shares of UTI Bank), there were signs that the alliance was coming unstuck. Since, RBI (as regulator) had to approve the merger, both the banks duly applied for the approval. However, RBI had its doubts regarding the share price of GTB. In order to clear charges about share price rigging of the GTB scrip prior to the merger, the central bank ordered SEBI to investigate the issue.

It was found that of GTB's Rs.570 crore exposure to the stock market, its exposure to Ketan Parekh's firms was Rs.370 crore. In other words, the bank had huge exposure to one broker group. Sebi alleged that Gelli had leaked sensitive information of GTB's merger with UTI Bank to Parekh, who ramped up the price of the GTB scrip just before the announcement of the merger to get a swap ratio favorable to GTB's promoters. Sebi also alleged that GTB's promoters indulged in trading of shares ahead of the announcement of the merger.

Gelli was quick to reject Sebi's claims about his nexus with Parekh and his role in insider trading. Meanwhile, GTB had to deal with a new problem- a downturn in the stock market. When markets fell steeply after the budget, the value of GTB's portfolio was badly affected. GTB's stock price crashed from Rs 100 (a day after the announcement of the merger) to a dismal Rs 21 on 4 April 2001, the day the GTB board decided to pull out of the merger. Gelli had no choice but to resign from his post. He decided to step down as managing director, but to continue as the chairman. In line with the recommendations of Heweltt Associates, a global HR consulting firm, he decided to separate the positions of Managing Director and Chairman. Gelli announced the proposal to the board of directors on August 16, 2000. The board agreed to the proposal and requested him to continue as CMD till March 31, 2001. Then the board referred the matter to RBI for approval. Global Trust, meanwhile, found a new CMD, R S Hugar, the former chairman of Corporation Bank. Analysts felt that the move was indeed a timely one since it prompted RBI to call off its investigations on price rigging. Even though the investigations were called off, many questions remained unanswered. The biggest question: What was the board doing when all this was going on in the organization?

Questions for Discussion:

1. Had the stock market scam not been exposed, GTB would have merged with UTI and we would have been praising the largest private sector bank in India. What unethical practices landed GTB in trouble?
2. Why do you think many irregularities at GTB went unnoticed in spite of a Code of Corporate Governance? What should the board have done to check these irregularities?

Part C: Applied Theory (20 points)

All questions carry equal points.

1. When is a takeover bid labeled 'hostile'? What are the popular anti-takeover measures taken by companies to protect themselves against predators?

2. Manishanker is an operations manager in Vrudhi Pharmaceuticals Limited, which produces generic drugs. Manishanker faces various ethical dilemmas at work when selecting suppliers, purchasing materials, etc. What are the different factors that managers like Manishanker should consider when resolving ethical dilemmas?

Model Question Paper III

Time: 3 Hours **Total Points: 100**

Part A: Basic Concepts (30 points)

Answer all the questions. Each question carries one point.

1. A lady is trapped in a burning house. When an individual wants to save the lady, he is stopped by other people because he may lose his life attempting to save the lady. These people are following the theory of
   a. Egoism
   b. Utilitarianism
   c. Altruism
   d. Virtue ethics

2. Which of the following aspects of an organization helps in building an ethical organization?
   i. The organization's values
   ii. The organization's mission
   iii. Its policies
   iv. Responsibility towards environment
   a. Only i
   b. ii and iii
   c. i, ii and iii
   d. All the above

3. Which of the following groups did the Kumaramangalam Birla Committee recommend for deciding a fair remuneration package for the CEO and the executive directors?
   a. Boards of directors
   b. Remuneration committee
   c. Chairman and CEO
   d. Stakeholders

4. One of the major ethical dilemma faced by operations managers in the present scenario is
   a. Forecasting the future
   b. Achieving daily targets in production
   c. Quality control
   d. Updating to technology innovations

5. According to the principle of ethical remuneration, in which of the following situations can seniority and loyalty be considered as factors in determining rewards?
   i. When their contribution increases owner value
   ii. When senior employees are loyal to the organization
   iii. When seniors employees have considerable experience
   iv. When senior employees forego rewards during a financial crunch
   a. i & iii
   b. ii & iii
   c. i & iv
   d. ii & iv

6. The bidding technique (in a takeover) in which the first 51% of the shareholders who tender their shares for a premium over the prevailing market price and the remaining 49% receive only promissory notes for the tender amount is referred to as a
   a. Management buyout
   b. Two-tier tender office
   c. Management buy-in
   d. Greenmail

7. In which of the following countries is bribery considered unethical and illegal under the Foreign Corruption Practices Act (FCPA)?
   a. Japan
   b. China
   c. America
   d. Germany

8. Which of the following theories supports a contract under which one or more persons engage another person to perform a service on their behalf?

a. Stewardship theory
b. Agency theory
c. Mc Gregor's theory Y
d. Mc Gregor's theory X

9. Which of the following is a feature of the German model of corporate governance?
a. Shareholders role being performed by elected Board of Directors
b. High rate of worker participation in the governance mechanism
c. Crucial role of financial institutions in governance mechanism
d. Representatives of shareholders and employees participate in the governance mechanism

10. According to companies act which of the following factor (s) can board of directors can be held liable for?
a. Misrepresentation in offer documents
b. When funds of investors are not repayed by due date
c. When laws are contravened
d. All the above

11. Right, equitable, good, proper, fair and just are the key aspects of:
a. Ethical decisions taken in overt ethical situations
b. Ethical decisions taken in covert ethical situations
c. Ideal decision virtues
d. Business Ethics

12. Which of the following statements best explains the difference between ethics and morality?
a. Ethics refers to standards of behavior whereas morality refers to system of beliefs
b. Ethics refer to system of beliefs whereas morality refers to standards of behavior
c. Morality refers to the interrelated beliefs than an single opinion as considered in ethics
d. Morality encompasses the system of beliefs

13. Which of the following organizations closed its old units to prevent pollution?
a. ABB
b. ICI India
c. Tata Iron and steel
d. Indian Aluminum company

14. Who among the following decides the remuneration of a CEO in an organization?
a. Shareholders
b. Board of directors
c. Chairman
d. Government

15. To improve sales, NewIndia marketed its new fax machines as machines which just took five seconds to transmit the documents, but in reality, they took ten seconds to transmit the documents. The marketing manager was in a great dilemma as to why the firm did not have
a. An ethical compliance program
b. A social responsibility initiative
c. Personal ethics training
d. A commitment to marketing

16. The main objective of National Institute of Occupational Safety and Health (NIOSH) which administers the Occupational Safety and Health Act (OSHA) is to
a. Ensure lawful, safe and healthy operations in coal mines
b. Ensure a healthy and safe work environment in the US industries
c. Ensure a safe work environment in the toy industry all over the world
d. Counsel and facilitate rehabilitation of employees who are addicted to drugs and alcohol

17. Which of the following unethical acts can be associated with the purchasing function?
a. Deception
b. Bribery
c. Price rigging
d. All the above

18. An MNC recruits people from its home country for the top posts in its establishment in a foreign country and pays lower salaries to employees who belong to the host country. How would you describe these unethical practices?
i. Exploitation of host country labor
ii. Use of expatriate staff for all significant managerial positions
iii. Failure to implement equal opportunities in the workplace
iv. Violation of government rules
a. i and ii
b. i and iv
c. i, ii and iii
d. ii, iii and iv

19. Which of the following companies has very strict safety and employment standards for its overseas operations?
a. Levi Strauss
b. Nike
c. Body Shop
d. Hindustan Lever

20. The Cadbury Committee was set up to address the
a. Issue of good corporate governance
b. Financial aspects of corporate governance
c. Problem of deteriorating of values
d. Mal practices in the corporate world

21. An individual from South America believes that it is morally acceptable to pay small bribes to the customs officer to obtain quick clearance of imports. But an individual from the United States finds this practice to be morally unacceptable. This is an example of
a. Ethical subjectivism
b. Ethical relativism
c. Consequentialism
d. Normative ethics

22. Dependability, predictability and faith are the three elements that constitute
a. Values
b. Moral principles
c. Trust
d. Justice

23. To which of the following do a company's statements, credos and code of ethics relate?
a. Values in practice
b. Espoused values
c. Mission of the organization
d. Vision of the organization

24. Which of the following terms refers to the policy statements that define a company's ethical standards?
a. Corporate credo
b. Corporate values
c. Corporate code
d. Corporate governance

25. A fundamental norm or absolute belief which is accepted by an individual determines an individuals
a. Belief
b. Moral standard
c. Ethical stance
d. None of the above

26. In the ________ takeover method, lucrative benefits are paid to top executives who lose their jobs.
a. Golden parachute
b. Sandbag
c. People pill
d. Greenmail

27. Ramalinga Raju is the CEO of Satyam Infoway which is into Internet access business. What are his functions as a CEO?
i. To achieve the goals of Satyam Infoway
ii. Maintain good relationship with the chairman and directors
iii. He should cater to the internal needs of the board
iv. He must identify shortcomings and see that the board discusses them
a. i and ii
b. i and iii
c. i and iv
d. ii and iii

28. In which of the following models of corporate governance are the duties of shareholders (representation, direction and oversight) being performed by the Board of Directors?
a. German model
b. Chinese model
c. Anglo-American model
d. Japanese model

29. Which of the following factor(s) contributed to the evolution of corporate governance?
a. Active participation of individual and institutional investors
b. Global presence of multinational companies
c. Shift of responsibility for good corporate conduct from government to organizations
d. All the above

30. Who among the following are also known as outside directors?
a. Executive directors
b. Non-executive directors
c. Shadow directors
d. Nominee directors

Part B: Caselets (50 points)

Each case carries 25 points.

Caselet 1

Sangami Constructions is a medium-sized and moderately successful family-owned construction company started by Aditya Jain in 1964. In 1998, Mahaveer Gupta (who is married to Sangami, daughter of Aditya Jain) took over the company as its CEO. Mahaveer wanted to make the company more professional even if it required hiring people from outside his family.

In his first move towards achieving his objective, Mahaveer appointed Jomy George, a graduate from IIM Ahmedabad as the Chief Financial Officer. George was the first non-family member to hold such a position and to be nominated to the executive committee. When Mahaveer announced his decision to appoint George as the CFO, some family members expressed their concern about George's ability to "fit with the company culture." But Mahaveer supported George strongly.

Soon George became a confident of the CEO. He consulted George before taking any decision. In 2001, the company for the first time announced its plans to "right-size" the organization. George also felt that this move would help the company improve its financial health. Hence, George was entrusted the job of determining how the company should make its lay-off decisions in an ethical manner. George recommended a lay-off plan, which would be based on the annual performance of employees. As per the plan, each department head would submit a list of employees ranked on the basis of their average scores from the last 4 appraisals. George also instructed the departmental heads to state which employee they valued in case two employees received the same scores.

According to George's plan, once the scores were ready, the executive committee (in consultation with the departmental heads) would work out an acceptable cut off point. Employees with scores below the cut off would be laid off.

Within a week George had received appraisal scores of employees from all the departments. While he was going through those reports he was wondered why the three senior employees had not been assessed.

When George enquired the departmental heads about this, they told him that those employees were with the organization from its inception and they were not formally appraised in the last 4 years. To his surprise, George learnt that in 1998, Mahaveer had obliged to the requests of the senior employees to exempt them from formal performance appraisal. When George bought up this issue in an informal talk with Mahaveer, he was told that he could lay-off those employees as they were not performing well. George asked Mahaveer whether these employees were conveyed formally about their performance. Mahaveer responded that they did not know that and added that there would not be any legal suits even if they are laid-off. Mahaveer left the decision regarding these employees to George saying that "the company cares for its employees as long as they perform."

Questions for Discussion:

1. What is the ethical dilemma faced by George? What should be an ethical solution to the lay off problem presented in the case?
2. "The company cares for its employees as long as they perform." Comment.

Caselet 2

In 1991, Mr. Narayana Swamy, an electronics graduate, set up business for marketing an external storage device "magic pen" that enables PC users to store and carry 1.5 GB data while on the move. This device can be connected to any PC via the USB Port. Swamy purchased an electronics company and renamed it Swamy Electronics Limited. Out of the 1000 shares issued, Swamy owned 900 shares and his wife Shaswati owned the remaining 100. At this stage, the board structure was of little importance to Swamy Electronics Limited as Swamy was the owner as well as the manager. Board meetings were never held. But Swamy and his wife Sahaswati completed all formalities with the help of an auditor.

By 1994, Swamy Electronics Limited had prospered and its auditor, Raj Gopal advised Swamy to restructure the capital. Swamy increased his capital base to 10,000 shares. He offered 5% shares of these to his employees who looked after production and marketing. Swamy also invited them to join the board in recognition of their contribution to the company's growth. As the business grew, Swamy concentrated less on his family and spent most of his time traveling abroad to meet his foreign clients. Eventually, he and Shaswati were divorced. Swamy tried to dilute Shaswati's 10 percent stake at the time of capital restructuring, but in vain.

Swamy then started holding board meetings regularly. He was the Chairman and CEO of the company. He used to meet the members of the board to discuss the procurement, production and marketing aspects of the company. But he took most of the financial decision himself without consulting any of the directors.

The three executive directors, Shaswati and her lawyer attended the first annual general meeting. In the meeting, Shaswati's lawyer called for the appointment of independent directors to take care of the interests of minority shareholders. Shaswati also questioned the practice of ploughing all profits back into the business without giving dividends to the shareholders.

Swamy wanted his friend Rajesh Kumar, a Chartered Financial Analyst to be appointed as a member of the board. Swamy thought that Kumar's experience would be valuable to the board and at the same time, assure the minority shareholders that the board was balanced.

Shaswati was still unhappy about the composition of the board as Swamy (with 80% of the shares) still dominated the board with the help of his friend and non-executive director, Kumar.

By 1996, Swamy Electronics was finding it difficult to maintain their present growth rate from retained earnings. Therefore, the board decided to invite a merchant bank to provide venture capital by way of a convertible loan, secured on the company's assets and 20 percent equity holding. The bank demanded a seat on the board in return for the loan.

Now the board had three executive directors and two non-executive directors (Kumar and the bank's representative). By 1998, the business grew three fold and there were plans to go public. Frasier Inc., a multinational company, which operated from Tokyo, expressed its willingness to acquire Swamy Electronics Limited. The negotiations went on for a month and finally a deal was struck. According to the deal, the MNC would get 60 percent of the equity and the balance would be retained by Swamy. Swamy would continue to be the CEO of Swamy Electronics Ltd. He was also appointed to the board of Frasier Inc., The two executive directors and Shaswati sold their stake to Frasier Inc.

Frasier Inc. appointed new directors for SF Electronics, who also figured on its board. The vice-president of overseas operations was appointed as new chairman of SF Electronics Limited.

It was a new experience for Swamy as the board meetings were more professional. Moreover, he noticed that the board had only 5 executive directors. The CEO of Frasier was always kept informed by the board on the various issues related to the functioning of the company.

However, over a period of time, Swamy felt that the parent company was diverting funds from SF Electronics Limited to other subsidiaries abroad. Swamy tried to oppose this but was voted-out at the board meeting. Swamy felt that his interests were being overlooked, so he sold out his 40% stake to Frasier and walked out of the company.

Questions for Discussion:

1. Identify the reasons for Shaswati's unhappiness regarding the composition of the board of directors?
2. Compare the board structures of Swamy Electronics Limited and Frasier Inc.? Do you think the composition of the board can improve its performance?

Part C: Applied Theory (20 points)

All questions carry equal points.

1. Market forces, active individual and institutional investor participation, and enhanced competition have helped corporate governance to evolve beyond a set of static rules. What are the various steps taken by SEBI to strengthen corporate governance in India?

2. You are the chief general manager of a company and you face many ethical dilemmas in your day-to-day activities. Discuss briefly the ethical decision making model you would use to solve your day-

3. to-day ethical dilemmas.

Model Question Paper I

Suggested Answers

Part A: Basic Concepts

1. a	2. c	3. d	4. d	5. b	6. d	7. c	8. d	9. b	10. a
11. c	12. b	13. c	14. a	15. d	16. b	17. b	18. b	19. b	20. b
21. a	22. d	23. c	24. a	25. c	26. c	27. d	28. c	29. a	30. c

Part B: Caselets (Suggested Answers)

Caselet 1

1. The primary objective of a business is to increase their profits. The ethical mandate for business is to increase shareholders' profit. Ethical business decisions differ from individual to individual and organization to organization. These are made, depending upon the frame of reference or value system of a particular organization. In order to survive, a company has to think about its profits, and about maintaining its image in society. Sometimes managers are forced to make decisions, which are not ethical, but have to be taken according to their frame of reference.

In TEC's case, ethical problems in the business arose when a particular problem worsened. This resulted in the company's taking some ethical actions. According to the Separation view of Ethics, the only thing that a company should take into consideration is maximizing its profits. According to this view, companies always try to provide goods to the people in way that maximizes its shareholder's wealth. In TEC's case, the company's main object is to make profits. Since it has incurred a certain production cost, it cannot afford to lose by its profits by spending too much time on taking back the dosimeters and rectifying the problem at the head office. As this project could increase their revenues, the firm has had to take those steps.

In many business situations, employees actions are driven towards achieving goals. In the process, they deviate from behaving ethically at times. These employees tend to rationalize their behavior by thinking that

- Their actions are within reasonable ethical and legal limits and hence, are not illegal or unethical.
- Their actions would serve the best interest of individuals or corporations.
- Their actions will not be disclosed or published and hence, there is no threat to the company or to themselves.
- They will be protected by their company.

According to the utilitarian theory, employees may defend their act by arguing that the act has saved the company from loosing a contract. But while judging the ethical nature of an action, one has to consider the intent of the act and the circumstances under which it was performed. In TEC's case, the act is not intended to harm anyone. However, if these dosimeters do not function properly (in case the TEC components turn out to be faulty), then many people's health may be at stake. The act thus may have a potentially harmful effect, and is, hence, unethical.

2. Organizations should formulate a code of ethics and communicate it to all the employees. The top management should set an example by strictly following the code of ethics in various management functions. It should also be made clear to the employees that they will not be protected by the organization if they indulge in unethical business practices, even if these are meant for the well-being of the organization.

According to Unitarian view, businesses should consider morality and ethics. Following the Unitarian view when TEC found that their dosimeters were too big to fit in the dosimeters box they should have withdrawn them and incur the loss.

According to Separatist view of ethics, businesses in order to flourish should concentrate on its goal i.e., profit maximization. Morality and ethics has no role in the business. The only aim of the business should be to generate profits. TEC's step to cut the dosimeters to the required size is acceptable.

According to Integration view of ethics business has right to make profits but at the same time it should discharge the social obligations too. It implies that every organization should have "Business Ethics" and business and morality are inter-related and guided by law and society. According to this view, the dosimeters which do not work well after fitting them in the dosimeter box should be taken back by the company.

Caselet 2

1. Manville's managers might have thought that neglecting the health concerns of the company employees was within reasonable ethical and legal limits. In this case, the managers might not have been aware of the severity of the problems that would arise from their neglect of the impact of hazardous materials in their products. The managers may have felt that ignoring this impact was in the best interest of the corporation. In many cases, employees feel that they should do whatever is necessary to keep their companies in business.

Generally managers tend to neglect the safety aspects of their company's products as they feel that they will never be found out - 'We will never get caught, so why worry'. Managers do not know when they have overstepped the limit until they have done it. It is not uncommon for ambitious managers to avoid costs by cutting corners. Manville's managers failed to assess the long term damages that would arise from there decision to focus on profits instead of the community's well being.

2. Filing for bankruptcy cannot be considered unethical in Manville's case. The company had to file for bankruptcy to survive the crisis. If the company had opted for liquidation, it would have been able to compensate all those who had filed suits against it, but it would not have been able to compensate future victims. Reorganization is more efficient than liquidation, because assets that are used for production are more valuable than those same assets sold for scrap.

It is abundantly clear from the case that Manville's reorganization will enable it to compensate future asbestos claimants whose compelling interest must be safeguarded. Manville expects many claims in the next 30 years by those exposed to its asbestos based products. So, in order to resolve Manville's economic crisis, the rights of future claimants must be considered and represented at this crucial point in the reorganization case so as to avoid functional extinction of the debtor enterprise.

The setting up of the Manville Personal Injury Settlement Trust (which owned 50 percent of the common stock of the company) clearly showed that Manville planned to fulfill its obligation to the community.

Part C: Applied Theory (Answers)

Answer 1

Whatever the purpose of the business, the right principle of selection would be to hire that individual who is perceived as having the ability to contribute most to long-term owner value.

Ethical selection is all about acting in a way that is honest, fair, non-coercive and legal. An ethical personnel officer evaluates all the candidates for a given post on the basis of the same criteria. He also ensures that all the requirements and benefits of a job are clearly conveyed to the applicants.

The recruiter's job is not just to eliminate unsuitable candidates, but to find the most suitable candidate. It is not always possible for a business to find the best person for a given post. Sometimes it is forced to accept the best among the available applicants / candidates. But a business can continue its search for a suitable candidate if the expected contribution from this candidate justifies the cost of the search.

An ethical selection process does not discriminate between applicants on the basis of age, gender, religion and nationality. However, when the nature of the job demands that the business practice discrimination, adequate care should be taken to see that this discrimination is based on relevant criteria, i.e., maximizing long-term owner value. Discrimination based on any other criteria is immoral.

Apart from preventing discrimination, an ethical selection must ensure that every applicant is given equal opportunity, irrespective of the organization's criteria for hiring.

To ensure equality of opportunity to every applicant, a business must ensure that

- rules apply equally to all the prospects under consideration for selection.
- no prospective applicant is prevented from subjecting to rules, using coercive means.
- no applicant is rejected for reasons other than those laid down by the rules for hiring.

Equality of opportunity specifies how rules for hiring should be applied, but it does not determine the results of applying the rules. It seeks to ensure that all applicants are screened by the same criteria.

Answer 2

A committee was set up under the chairmanship of Adrian Cadbury in May 1991 by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession to look into the financial aspects of corporate governance. The committee first submitted its report for public scrutiny on 27 May, 1992. The recommendations made by the Cadbury Committee are as follows:

- Decision-making power should not be vested in a single person, i.e., there should be a separation of the roles of chairman and chief executive.
- Non-executive directors should act independently while giving their judgment on issues of strategy, performance, allocation of resources, and the design of codes of conduct.
- The majority of directors should be independent non-executive directors, i.e. they should not have any financial interests in the company.

- The term of a director should not exceed three years. This can be extended only with the prior approval of the shareholders.
- There should be full transparency in matters relating to directors' emoluments. There should be a judicious mix of salary and performance related pay.
- A Remuneration Committee composed should decide on the pay of the executive directors.
- The Interim Company Report should include information from the balance sheet that has been reviewed by the auditor.
- The pension funds account should be managed distinct from the company.
- There should be a "professional and objective" relationship between the board and the executives.
- Information regarding the audit fee should be made public and there should be regular rotation of auditors.

Model Question Paper II

Suggested Answers

Part A: Basic Concepts

1. c	2. d	3. c	4. d	5. b	6. c	7. a	8. d	9. a	10. d
11. d	12. b	13. c	14. a	15. c	16. a	17. c	18. b	19. d	20. b
21. c	22. a	23. c	24. d	25. d	26. d	27. a	28. c	29. c	30. d

Part B: Caselets (Suggested Answers)

Caselet 1

1. Today insider trading has become an acute problem in the market. We frequently come across news on corporate managers gaining undue advantage from price sensitive information. In this case, news about insider trading at GTB broke, at a crucial moment, when the banks were just about to finalize the merger. Until the news broke, every business analyst was predicting a successful mega merger in the banking industry. This merger would have taken place if Sebi has uncovered the scam.

Some of the unethical practices that landed GTB in trouble were insider trading, exposure to markets above the stipulated RBI norms, nexus with stock brokers to manipulate the share price, and ignoring principles of corporate.

2. In an organization a corporate governance code in itself will not ensure fair business practices. To function in an ethical manner, a business should not only adopt a governance code, but should also implement it in all its processes. GTB was one of the first private sector banks to develop corporate governance code, but it is not clear whether they has a system for implementing it. The features of corporate governance at GTB could be attributed to the fact that the post of CEO and Chairman where held by the same person (Gelli). As a result there was no one to question the activities of the management. The board clearly failed to check the activities of the management of the company. To ensure that a company behaves in an ethical manner it should

- Monitor and supervise the corporation to ensure that it adopts the right strategic direction
- Regularly check whether the business is following the policies laid down for achieving the goals (deviations, if any, should be investigated
- Review the plans, policies and strategies of the corporation in light of the changing competitive environment
- If necessary, make changes in the corporation's strategies

For effective executive supervision, a board has to monitor all the activities of the company that are crucial for ensuring consistent growth and building market share.

In this case, the board failed to monitor key activities. The board did not question the company's exposure to markets or inquire into the increase in share value at the time of the merger. To ensure good corporate governance, the board should have appointed some independent committees to evaluate the performance of the executive management. Timely audits conducted by various independent committees of the board could have checked these unethical practices in their early stages.

Caselet 2

1. Much before the French fries controversy, McDonald's faced many allegations, most of them, related to improper marketing communications. Since it was such a big company, it felt it could always successfully defend itself. Consequently, it tried to cover-up its small mistakes. But with the passage of time and media exposure it could no longer afford to ignore its mistake. Perhaps McDonald's overlooked its small mistakes to maintain its reputation in the industry. The management might have thought that acknowledging its mistakes publicly might tarnish its image. It perhaps did not foresee the impact such misdeeds could have on its brand image.

2. The French fries controversy of McDonalds acquired considerable media attention. This was mainly because of McDonald's varying its stand on the issue. Initially, the company's officials denied that its French fries contained beef extracts. However, it later admitted a miniscule amount of beef flavoring was used to enhance the flavor. The justification provided for not listing beef as an ingredient was that the company voluntarily followed the 'Code of Federal Regulations' for labeling its products and according to the code, restaurants were not required to list ingredients used in their product. McDonald's also stated that it never claimed that the French fries it sold in the US were vegetarian. According to a spokesperson of the company, the company never seemed to have stated explicitly that the fries were appropriate for vegetarians and customers were always told that the flavor came partly from beef. The spokesperson also claimed that it was up to the customer to ask about the flavor and its source. However, McDonald's claims proved totally wrong. A letter sent by the company's corporate headquarters to a consumer in response to an inquiry about vegetarian menu items in 1993, clearly categorized French fries, garden salads, whole grain cereals and English muffins as completely vegetarian items.

Prior to 1990, the company made the fries using tallow (shortening made from beef fat). However, to address the increasing customer concern about cholesterol control, McDonald's declared that in future it would use only pure vegetable oil to make the fries. However, after the decision to change from tallow to pure vegetable oil, the company realized that it could have difficulty in retaining customers who were accustomed to beef flavored fries and therefore, added beef extract. But, the variation in its stand and the lack of transparency on the issue shows that McDonalds did not handle the crisis well.

Part C: Applied Theory (Answers)

Answer 1

Hostile takeovers are those that are opposed by the boards or employees of the target company. Some of the popular methods used by companies to protect themselves against predators are

- Poison Pills
- Greenmail
- Golden parachute
- People pill
- Sandbag

'Poison pill' is an anti-takeover device used by a company's management to make a takeover prohibitively expensive for the bidders. The company under threat changes the 'Articles of Association' so that a group of shareholders has special rights, which are involved when a takeover is attempted. These rights include, special voting rights, and the right to buy and sell preferred stock at highly favorable prices. These rights can be exercised only when someone is attempting a takeover to make the takeover prohibitively expensive. Properly designed poison pills can make a company bid proof and prevent the company from being takeover. The Takeover Code prohibits 'Poison pills' in Britain because they prevent open competition between bidders for shares. But the use of poison pills is considered legal in the United States of America. When companies face hostile takeovers, the poison pills method allows shareholders to buy shares from their company or sell shares to it or the potential acquirer at a non-market price. The use of poison pills is considered ethical in the US if they are designed to protect shareholders against unwanted takeover bids.

Greenmail occurs when a potential takeover agent purchases stock in a company. After the purchases have totaled five percent, the agent must announce his intention to take over the company, if that is the intent. The stock price goes up in anticipation of the takeover battle. When the attacked company struggles to thwart the takeover, the takeover agent ends up selling the shares back to the company for an increased price or higher negotiated price. The management of the target company sends greenmail to prevent a shareholder from taking over the company by himself or by teaming up with any other competing company. Greenmail is considered unethical because the target company may be forced to incur debts to raise funds to finance the buyback of the shares at a premium price. Generally, the management resorts to unethical practice of sending greenmails financed by owners' money without their knowledge. The acts of the potential bidder are also considered unethical as they increase his stake in anticipation of getting a greenmail from the company. The use of greenmail is unethical because instead of using a company's money productively, it uses the money to avert a takeover. However greenmail is not inherently unethical as it is not a form of extortion where a business is forced to pay a price.

Golden Parachute, when a company is taken over, many top executives are likely to lose their jobs. So to discourage an unwanted takeover attempt, a company gives lucrative benefits to its top executives- benefits that are awarded to those executives who lose their jobs after a takeover. Benefits include stock options, bonuses, and severance pay, etc. Such golden parachutes can run into millions of dollars and can cost the firm a lot of money. Golden parachutes also act as a deterrent to anti-takeover tactics. The presence of a parachute allows management to evaluate a takeover bid more objectively. Without a golden parachute provision in place, executives might selfishly implement costly defensive tactics to save their jobs, regardless of what is in the best interest of shareholders. Whether a golden parachute dissuades a takeover or not, it can benefit a corporation by attracting top executives, thwarting costs associated with takeovers, and promoting stability.

People pill is a defensive strategy for warding off a hostile takeover. In this case, the entire management team threatens to resign in the event of a takeover. This is a very effective method if the management team is good and its loss would harm the company. But if the managers act in their own interest instead of the company's interest, then actions would be unethical.

Sand bag is another method used by management to stop a takeover attempt. The company stalls the attempt in the hope that another more favorable company will try to take them over. Management should not waste too much time trying to find a more favorable company.

Answer 2

An operations manager encounters many ethical dilemmas when performing his job. An operations manager at a construction company may be asked to bribe the managers of other companies to obtain the tender for laying roads in a village. The manager of a new IT company may be required to attract professionals from other well-established companies by paying them higher salaries. These activities are required by the job, but to a neutral observer they may appear unethical.

Six factors that help operations managers to resolve ethical dilemmas that arise in their day-to-day work are:

- Magnitude of consequence
- Probability of the effect
- Social agreement
- Time interval
- Proximity
- Concentration of effect

Magnitude of consequence: The magnitude of consequence enables a manager to resolve the problem by taking into consideration the impact of a decision on the employees of the organization. Ethical dilemmas are resolved by comparing the degree of harm done and by choosing the alternative that causes less harm than the other alternatives.

Probability of the effect: Managers, while taking ethical decisions, take into account the probability of effect of a decision. The probability of effect refers to the probability that a product being manufactured may cause harm to the prospective consumers of that product.

Social agreement: When considering social agreement, a manager considers the degree of acceptance of a decision as good or bad by society. Social acceptance depends mainly on the culture of the place the organization is located in.

Time interval: This factor refers to the time elapsed between the implementation and its impact on the parties concerned. For example, reducing retirement pensions for existing pensioners has greater temporal immediacy than announcing changes that will affect employees with considerable years of service.

Proximity: When dealing with an ethical dilemma, the manager should favor that decision which would be beneficial to him as well as those who have close proximity (in terms of social, cultural, psychological or physical proximity) with the consequences of that decision.

Concentration of effect: When taking decisions, the manager has to take into consideration the number of people affected by the decision. For example, the effect of delaying payment of Rs.1 lakh to an individual has a more concentrated effect than not paying the same sum to government tax inspectors.

Model Question Paper III

Part A: Basic Concepts

Suggested Answers

1. a	2. c	3. b	4. c	5. c	6. b	7. c	8. b	9. b	10. c
11. c	12. b	13. c	14. b	15. a	16. b	17. d	18. a	19. a	20. b
21. a	22. c	23. b	24. c	25. b	26. a	27. a	28. c	29. b	30. b

Part B: Caselets (Suggested Answers)

Caselet 1

1. The biggest dilemma faced by George is that "is it ethical to fire employees who have not formally been appraised for the past few years."

Employees who have not been formally evaluated and are not performing well should be given the chance to be evaluated formally. Each employee should have an opportunity to discuss his/her evaluation face to face with managers. George should also inform the senior employees about their poor performance and ask them to decide whether they would prefer to take voluntary retirement or work towards improving their performance to meet the new standards.

2. As per the employment contract, an employer is bound to compensate the employee for the services he provides and hence, the statement is correct. But, it does not mean that a company should only take care of the employee as long as he is fit to render his services to the company. In this case, when the company has found that some of its senior employees are not performing well, it should part off with these senior employees by paying decent severance.

Caselet 2

1. Shaswati may be unhappy with the number of executive directors on the board. After her divorce from Swamy, she presumed that Swamy might try to dilute her stake in the company. However, she was aware that as a minority stakeholder, her voice may not be heard on the board which is dominated by Swamy and his friends. Therefore, she wanted to have more number of independent directors who could question the decisions taken by Swamy.

2. Initially, Swamy Electronics started as a fully owned company where Swamy and his wife held 100 percent stock in the company. The board was constituted to fulfill statutory requirements and simply served as a stamp that ratified the decisions of its owners. Thus, Swamy Electronics initially had a All-executive board and then it shifted to a majority executive board with the induction of Kumar into the board. On the other hand, Frasier Inc., had a majority outside board, it also had members of its subsidiaries working on the board. It is also clear that every decision taken by Frasier was questioned by the board, which never happened at Swamy Electronics.

Yes, the composition of the board will definitely enhance its performance. If a board has non-executive directors, who are experts in different fields they can evaluate the performance of the management from various angles and advice them appropriately.

Part C: Applied Theory (Answers)

Answer 1

In India, the concept of corporate governance is still in its nascent stage. SEBI has taken various steps to strengthen corporate governance in India. Some of these steps are as follows:

- Strengthening of disclosure norms for Initial Public Offers following the recommendations of the Committee set up by SEBI under the Chairmanship of Shri Y H Malegam;
- Providing information in directors' reports for utilization of funds and variation between projected and actual use of funds according to the requirements of the Companies Act; inclusion of cash flow and funds flow statement in annual reports;
- Declaration of quarterly results;
- Mandatory appointment of compliance officer for monitoring the share transfer process and ensuring compliance with various rules and regulations;
- Timely disclosure of material and price sensitive information including details of all material events having a bearing on the performance of the company;
- Dispatch of one copy of complete balance sheet to every household and abridged balance sheet to all shareholders;
- Issue of guidelines for preferential allotment at market related prices; and
- Issue of regulations providing for a fair and transparent framework for takeovers and substantial acquisitions.

Answer 2

An ethical decision-making model helps managers identify business problems and work out solutions to the problem.

The ethical decision-making process consists of four steps:

- Evaluating the decision
- Judging the decision
- Establishing the moral intent
- Engaging in ethical behavior

When the general manager of an organization faces an ethical dilemma, he must identify the stakeholders who are affected by the decision. He must determine whether the proposed decision violates the fundamental rights of the organization's shareholders.

Then he must judge the decision on the basis of certain moral principles of the organization.

After that, he must establish moral intent of the decision. This involves prioritizing those activities that are aimed at resolving moral concerns. The mangers should involve both top and middle level management to resolve the moral concerns of the stakeholders. If only top-level mangers were involved, the economic interests of shareholders would receive more attention than their moral concerns.

Finally, the manager must ensure that all the employees are engaged in ethical behavior. If an organization wants to be ethical in its dealings, it should have some mechanism in place for ensuring that its employees behave ethically. The corporate code guides employees to behave in an ethical manner.