

# Question Paper

## Business Ethics and Corporate Governance (MB312): January 2009

### Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. The most important task of an operations manager is making efficient use of materials, capacity and knowledge available to achieve an output of the desired quality and quantity. To understand the various roles of an operations manager, they are classified into two models. Which of the following job responsibilities is/are **common** with both model 1 and model 2 managers? [<Answer>](#)
- I. Receiving incoming calls and mails.  
II. Ensuring the health and safety of the workers.  
III. Packaging the product.  
IV. Negotiating with suppliers.
- (a) Only (IV) above  
(b) Both (I) and (III) above  
(c) Both (II) and (IV) above  
(d) (I), (II) and (III) above  
(e) All (I), (II), (III) and (IV) above.
2. The effectiveness of an organization nowadays depends on its ability to develop itself into a social organization. As a result, organizations have evolved overtime to perform a number of functions or tasks in society. Which of the following tasks of organizations is related to creation and maintenance of wealth? [<Answer>](#)
- (a) Financial tasks  
(b) Economic and production tasks  
(c) Maintenance tasks  
(d) Adaptive tasks  
(e) Social tasks.
3. Carbon intensity levels are high in India when compared to other Asian countries. Which of the following is/are the reason(s) for increase in carbon intensity level? [<Answer>](#)
- I. Increase in industrial activity.  
II. Absence of energy and conservation measures.  
III. Indian economic policies like low import tariffs on high-quality coal.  
IV. Subsidies on low-quality coal.
- (a) Only (II) above  
(b) Only (III) above  
(c) Both (I) and (IV) above  
(d) (I), (II) and (IV) above  
(e) All (I), (II), (III) and (IV) above.
4. Hostile takeovers are those that elicit opposition from the boards or employees of the target company. Management uses many techniques to protect themselves from the unruly predator. In this regard, which of the following is **true** regarding sandbag technique? [<Answer>](#)
- (a) Management may promote its own interests at the time of bidding  
(b) The company gives lucrative benefits to its top executives  
(c) A potential takeover agent purchases stock in a company  
(d) The company under target, changes the articles of association so that a group of shareholders have special rights, which are evoked by a takeover  
(e) Management may stall the buyout attempt in the hope that another more favorable company will try to take them over.

5. The board relies on independent outside directors to monitor management performance. In order to do so the board sets up various committees such as audit committee. Which of the following is **not** a function of the audit committee? [<Answer>](#)
- (a) Make recommendations regarding the audit fee, selection and replacement of auditors
  - (b) Select the new non-executive directors
  - (c) Review the interim and final accounts
  - (d) Inform the board about the effectiveness of internal control and the quality of financial reporting as pointed out by the independent auditors
  - (e) Discuss with independent auditors about the problems they experience in completing the audit.
6. Talcott Parsons proposed a view called the integration view of ethics. In this context, which of the following statements is/are **false**? [<Answer>](#)
- I. It expresses that business being an economic entity has the right to make profits, but at the same time, it should discharge the social obligations.
  - II. It implies that if businesses want to exist, survive and flourish, morality and ethics cannot be separated from the operation of the business in the long run.
  - III. It endorses that the only aim of business is to generate profits.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Only (III) above
  - (d) Both (I) and (III) above
  - (e) Both (II) and (III) above.
7. Accounting is defined as, “the process by which any business keeps track of its financial activities by recording its debits and credits and balancing its accounts.” Which of the following is/are **true** regarding accounting? [<Answer>](#)
- I. It provides a system of rules and principles, which govern the format, and content of financial statements.
  - II. By adhering to the principles and practices in the system of an organization, it can provide fair and accurate reporting of the financial position of a business.
  - III. The ethical issues surrounding accounting practices are under reporting income, falsifying documents, illegally evading income taxes and engaging in fraud.
- (a) Only (I) above
  - (b) Only (III) above
  - (c) Both (I) and (III) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
8. Different social laws of states and nations that govern occupational safety and environmental standards is an example of [<Answer>](#)
- (a) Law of economies
  - (b) Company law
  - (c) Law of the jungle
  - (d) Law of conservation of energy
  - (e) Industrial law.
9. Which of the following implies, adopting the norms of the country, in which an organization operates its business? [<Answer>](#)
- (a) Stakeholder theory, strategy and ethics
  - (b) Loyalty contract
  - (c) Psychological contract
  - (d) Cultural relativism
  - (e) Leveraged buy-outs.

10. The enhanced competition in the global economy has compelled corporations to perform better by going in for cost-cutting, corporate restructuring, mergers and acquisitions and downsizing. All these activities can be carried out successfully only if there is proper [<Answer>](#)
- (a) Social responsibility
  - (b) Business ethics
  - (c) Corporate governance
  - (d) Corporate management
  - (e) Ethical audit.
11. Thomas Donaldson and Thomas Dunfee proposed the Integrative Social Contract Theory. Which of the following are **not true** regarding 'social contract theory'? [<Answer>](#)
- I. A social agreement is formal agreement concerning behavioral norms that are developed from shared goals, beliefs and attitudes of groups of people or communities.
  - II. Business organizations gain legitimacy through a social contract with society.
  - III. Social contract can be used as a tool to measure the performance of society.
  - IV. If the organization fulfills the terms of the social contract, the society can be morally justified for condemning it.
- (a) Both (I) and (IV) above
  - (b) Both (II) and (III) above
  - (c) (I), (II) and (IV) above
  - (d) (I), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
12. Organizations, after they identify and are able to clearly state its values, will be in a position to train its employees to deal with ethical dilemmas. The step-by-step process that will help employees resolve ethical dilemma is known as [<Answer>](#)
- (a) Altruism
  - (b) Believe
  - (c) Credos
  - (d) Deontology
  - (e) Espoused values.
13. Ferrell and Gresham have identified various factors that determine the code of ethics framed by marketer. Which of the following factors refer to the extent to which reference groups, top management and peers influence the marketer? [<Answer>](#)
- (a) Individual factors
  - (b) Consumers factors
  - (c) Significant factors
  - (d) Organizational factors
  - (e) Opportunity factors.
14. Boards are categorized depending on the way they function, their commitment to effective decision-making and concern for interpersonal relations. Rubber stamp board [<Answer>](#)
- I. Lays emphasis on maintaining cordial interpersonal relations.
  - II. Accords to high priority to effective decision-making.
  - III. Gives little importance to either good interpersonal relation.
  - IV. Ratifies whatever decisions the CEO takes.
- (a) Only (III) above
  - (b) Both (II) and (III) above
  - (c) Both (III) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.

15. Mr. Ramachandran, the new CEO of Spa group of companies takes the initiative for developing the corporate code. Which of the following is **not** a guideline that he should follow when developing the corporate code? [<Answer>](#)
- (a) He should identify the key behaviors that maximize the long-term owner value
  - (b) The human resource department must review the code
  - (c) A copy of the code should be sent each and every employee
  - (d) Codes should be updated atleast once a year
  - (e) Codes should ensure that they are in accordance with both company and government laws.
16. Fair economic competition is one of the basic requirements for increasing the wealth of nations. Therefore, the responsibilities of the organization towards the competitors should **not** be which of the following? [<Answer>](#)
- (a) Foster closed markets for trade and investment
  - (b) Promote competitive behavior that is socially and environmentally beneficial
  - (c) Refrain from either seeking or participating in questionable payments
  - (d) Respect both tangible and intellectual property rights
  - (e) Refuse to acquire commercial information by dishonesty.
17. According to the Companies Act, an individual holding the position of a director of a firm should act as a trustee, agent and managing partner. Fiduciary duties of a director include(s) [<Answer>](#)
- I. To act with best of skill and expertise.
  - II. Not to exceed their authority and powers.
  - III. Not to use unpublished and confidential information belonging to the company for their own purpose.
- (a) Only (I) above
  - (b) Only (III) above
  - (c) Both (I) and (III) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
18. Moral standards deal with right and wrong behavior and law compels individuals to act in the “right” or desired manner. Considering the relationship between moral standards and legal requirements, which of the following are the requirements laid down to develop a fair law? [<Answer>](#)
- I. Laws and moral standards overlap to a certain extent.
  - II. The law always represents collective moral judgment.
  - III. The requirement of law tends to be positive while moral standards tend to be negative.
  - IV. Law represents a minimum set of standards for generating human behavior in society.
- (a) Both (I) and (IV) above
  - (b) Both (II) and (III) above
  - (c) Both (III) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
19. Business organizations are considered to be social institutions, apart from being economic entities, due to which of the following reasons? [<Answer>](#)
- I. Business organizations exist and operate within a social structure.
  - II. Businesses need to win social acceptance, for their survival.
  - III. Business organizations need to be socially responsible as they exercise a wide influence on the society’s lifestyle.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Only (III) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.

20. In order to ensure the availability of raw material buyers often resort to forward buying. Therefore, Tandon committee has laid down certain norms for the inventory requirements. Which of the following is **not** a reason for organizations to deviate from these norms? [<Answer>](#)
- (a) Irregularities in the import of raw material
  - (b) Unavoidable interruptions in production due to strikes, power cuts etc.
  - (c) Transport delays
  - (d) Piling up of stock of finished goods due to some special circumstances
  - (e) It's the role of the purchase department.
21. Multinational companies (MNCs) are companies that have significant investments in several countries, which derive a substantial part of their income from foreign operations. Which of the following is **not** a reason for companies going global? [<Answer>](#)
- (a) Lower wage rates
  - (b) The opportunity to be closer to the suppliers
  - (c) Saturation of global markets
  - (d) To exploit opportunities in new markets
  - (e) Recession or domestic completion.
22. The manner in which a business deals with its employees is a clear indication of its ethical character. Ethics in personnel function deals with all the issues in the relationship between the employee and the business. Which of the following is **not** an ethical issue in human resource management? [<Answer>](#)
- (a) Retrenchment
  - (b) Employment contract
  - (c) Equality of opportunity
  - (d) Remuneration
  - (e) Hiring.
23. As businesses expand the issues concerned with environment started gaining importance. Most western European countries have faced problems due to environmental degradation. Which of the following did West Germany prepare to show the extent of damage caused to the environment? [<Answer>](#)
- (a) Ecological balance sheet
  - (b) Anxiological balance sheet
  - (c) Eco-centric balance sheet
  - (d) Deontological balance sheet
  - (e) Psychological balance sheet.
24. The problem with normative theories' fundamental principle is that there is no agreement among ethicists on which moral principles are the right ones. For a moral principle to be accepted by most of the ethicists, it must be all of the following, **except** [<Answer>](#)
- (a) Descriptive
  - (b) Universal
  - (c) Overriding
  - (d) Public
  - (e) Practical.
25. Six factors are involved in ethical decision-making. Among these six factors if more than one-factor affects an ethical dilemma then the ethical intensity increases. Ethical intensity is described as the [<Answer>](#)
- (a) Degree of minimum conduct expected by persons and businesses in society
  - (b) Degree of importance given to an ethical issue
  - (c) Degree of social acceptance that exists in defining something as good or bad
  - (d) Degree of high innovation and progress
  - (e) Degree of high legal protection.

26. The stakeholders of an organization are all those who participate in some way in the activities of the organization. According to Freeman and Reed, stakeholders may be [<Answer>](#)
- I. Any group of people who have a stake in the business.
  - II. Those who are vital to the survival and success of the organization.
  - III. Any group that is affected by the activities of the organization.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (III) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
27. Corporations perform a wide array of activities, ranging from production of various types of goods and services that are essential for leading a normal life. Which of the following is/are **true** regarding the purpose of a corporation? [<Answer>](#)
- I. Business corporations help human beings satisfy their basic needs of security, success and fulfillment.
  - II. A well-designed corporation enables individuals to create more wealth.
  - III. Corporations provide rigidity to individuals enabling them to perform better.
  - IV. Corporations are living entities exercising different rights and powers compared to any normal citizen.
- (a) Only (III) above
  - (b) Only (IV) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
28. Which of the following is a characteristic of the Anglo-American model of corporate governance? [<Answer>](#)
- (a) The labor relations officer finds a place on the management board
  - (b) The board ratifies whatever decisions the president takes
  - (c) The president is appointed on the basis of a consensus between the shareholders and the banks
  - (d) The supervisory board appoints and monitors the management board
  - (e) The creditors have a lien on the assets of the corporation.
29. The ethical decision-making model recommends a step wise process. Which of the following is **not** a step in the ethical decision making process? [<Answer>](#)
- (a) Judging the decision
  - (b) Establishing a moral intent
  - (c) Evaluating the decision
  - (d) Engaging in ethical behavior
  - (e) Problem recognition.
30. The first cyber law passed in India in order to curb growing unethical practices in the field of information technology is [<Answer>](#)
- (a) Information Technology Act, 2000
  - (b) Cyber law
  - (c) E-commerce law
  - (d) The ITR Act
  - (e) Anti hacking law.

**END OF SECTION A**

## **Business Ethics & Corporate Governance (MB312): January 2009**

### **Section B : Caselets (50 Marks)**

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| <ul style="list-style-type: none"><li>• This section consists of questions with serial number 1 – 6.</li><li>• Answer all questions.</li><li>• Marks are indicated against each question.</li><li>• Detailed explanations should form part of your answer.</li><li>• Do not spend more than 110 - 120 minutes on Section B.</li></ul> |
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## Caselet 1

Read the caselet carefully and answer the following questions:

1. DotOrg is part of a new mode of philanthropy that is very similar to venture capitalism, holding those they fund responsible in ways never seen before. In this light, analyze why Google wanted to adopt a new mode of philanthropy to “make the world a better place” and also explain the initiatives taken by DotOrg. [<Answer>](#)  
(8 marks)
2. Explain the stages of ethical consciousness in business. Also, discuss in which stage Google can be placed and why. [<Answer>](#)  
(9 marks)

Google announced a plan that begins to fulfill the pledge it made to investors when it went public to reserve 1% of its profit and equity to “make the world a better place.” The beneficiaries of Google’s money range from groups that are fighting disease to those developing a commercial plug-in car.

The company’s philanthropy — Google.org, or DotOrg as Googlers call it — will spend up to \$175 million in its first round of grants and investments over the next three years, Google officials said. While it is like other companies’ foundations in making grants, but it will be untraditional in making for-profit investments, encouraging Google employees to participate directly and lobbying public officials for changes in policies, company officials said.

Google may be one of America’s 10 richest corporations as measured by market value, but its budget for philanthropy is minuscule compared with the \$70 billion of the Bill and Melinda Gates Foundation.

Still, Google’s founders, Sergey Brin and Larry Page, expressed a hope back in 2004 that “someday this institution may eclipse Google itself in terms of overall world impact.” What it lacks in size, though, Google.org may make up in cachet.

Larry Brilliant, a medical doctor who took on the role of director of Google.org 18 months ago, said he could not even begin to count how many spending proposals he had seen. “There are 6.5 billion people in the world,” Dr. Brilliant said in a recent interview, “and in the last 18 months I’ve met 6.4 billion, all of whom want, if not some of our money, then some of the Google pixie dust.”

Dr. Brilliant, who moved to an ashram in northern India in the 1970s and went on to play a major role in eradicating smallpox in the country, likened his moral quandary in figuring out how to spend Google.org’s money to that faced by a saint wandering the streets of Benares.

“There are 500 steps between the road and the Ganges,” he said. “On every step are beggars, lepers, people who have no arms or legs, people literally starving. The saint has a couple of rupees; how does a good and honorable person make a resource allocation decision? Do you weigh a hand that’s missing more than a leg? Someone who’s starving versus a sick child? In a much less dramatic way, that’s what the last 18 months have been for us.”

DotOrg has focused on what it can do “uniquely,” said Sheryl Sandberg, vice president for global online sales and operations at Google, who, like all employees, is permitted to spend 20 percent of her time at the foundation or in other charitable ventures. “If you do things other people could do, you’re not adding value.”

The only urgency imposed on the foundation is how soon it can live up to the expectations. “Building a new ecosystem is not an overnight phenomenon,” Dr. Brilliant said. “Here at Google if you have a project, you press Send. We won’t work that quickly.”

But for all the enthusiasm for the new organization, there are critics. “It’s wonderful that this company is devoting massive resources to fixing big world problems, but they are taking an engineer’s perspective to them,” said Siva Vaidhyanathan, a cultural historian and media scholar at the University of Virginia. “Machines and software are not always the answer. Global problems arise from how humans have

undervalued each other and miscommunicated with each other.”

He pointed to Google.org’s decision not to take a step like financing scholarships for girls in India who have not had access to education. “That’s what is so naïve about Google.org’s approach,” he said. “If you can educate a thousand girls in one state in India, you’ve already made a bigger difference than 99 percent of the human beings on earth because every one of those of girls can make a difference.”

The process of determining what to finance was not easy, said Jacquelline Fuller, the head of advocacy at Google.org. Beginning in the spring of 2007, “the 20 team members had 20 ideas.” Team members, she said, “debated, cried and held hands as we tried to determine what kind of difference we could make.” It took them almost a year to winnow down the list.

Although it was just announcing its initiatives, Google.org has already begun to give away some of its money. That is the case with grants for the first of its initiatives — what the philanthropy calls “predict and prevent.” This effort focuses on strengthening early warning systems in countries around the world to detect a disease before it becomes pandemic, or a drought before it becomes a famine.

To attain that, DotOrg has made a grant of \$5 million to a nonprofit group that Dr. Brilliant helped to set up, though it is independent from DotOrg. Called INSTEDD, for Innovative Support to Emergencies, Diseases and Disasters, the group seeks to improve data and communication networks. An additional \$2.5 million has been awarded to the Global Health and Security Initiative to respond to biological threats in Thailand, Vietnam, Cambodia, Laos, Myanmar and China’s Yunnan Province.

“In recent years,” Dr. Brilliant said, “39 new communicable diseases with a potential to become pandemic have jumped species,” including SARS, or severe acute respiratory syndrome; monkey pox and bird flu.

“What if we could have been there when the H.I.V. moved from animal to chimp to human and could have averted that risk?” he asked. “To prevent or abort or slow a pandemic saves tens of millions of lives.”

The second initiative, called “the missing middle,” refers to the missing middle class in Africa and South Asia and the missing middle level of financing between microcredits and hedge funds.

Microcredit funds currently provide families with three or four or five days of livelihood, Dr. Brilliant said. “No country,” he said, “has ever emerged from poverty because of microcredit. Jobs make that possible. China did it with manufacturing, India did it with outsourced call centers.”

To that end, DotOrg has awarded \$3 million to TechnoServe to find worthy entrepreneurs and help them build credit records and get access to larger markets.

The third initiative, “information for all,” is aimed at helping developing countries provide better government services by making information available on their efforts to improve health care, roads and electrification. “India has promised health care, work, and transparency throughout,” Dr. Brilliant said. “Yet it’s hard to do something like this on the scale that India is trying to do, to let people know what their entitlement is.”

DotOrg has awarded \$2 million to support the Annual Status of Education report in India to assess the quality of education; \$765,000 to create a Budget Information Service to improve district-level planning, and \$660,000 to build communities of researchers and policy makers to deliver information.

DotOrg decided to finance literacy information because, said Lant Pritchett, a DotOrg adviser who teaches economic development at the Kennedy School of Government at Harvard, “We’re looking for things where Google could have a transformative impact. Ideas, flexibility, entrepreneurship are better than just cash on the table.”

Google.org’s fourth initiative supports the development of renewable energy sources

that are cleaner and cheaper than coal. DotOrg has invested \$10 million in eSolar, a company in Pasadena, Calif., that specializes in solar thermal power.

The philanthropy is also working to accelerate the commercialization of plug-in vehicles. Google, whose own computers and customers use plenty of energy, “does not want to be part of the problem; we want to be part of the solution,” Dr. Brilliant said.

“We’re not trying to bring returns to Google,” Dr. Brilliant said. “Profits are vital to businesses that will support the missions.”

Mark Dowie, author of the book “American Foundations,” said DotOrg is part of “a new mode of philanthropy that is very similar to venture capitalism, holding those they fund responsible in ways never seen before.” The danger, he said, “is that a lot of philanthropic work is not quantifiable. How do you qualify arts grant making, for example.”

Still, he added, “what would be worse is for Google not to give away its money, but to hoard it.”

**END OF  
CASELET 1**

## Caselet 2

**Read the caselet carefully and answer the following questions:**

3. Felipe Montez as a Purchasing Director and Product Designer for a Spanish electronics company was uncomfortable about continuing to source the majority of his company’s products from the factory with bad working conditions. In this regard, discuss the purchasing code of ethics with examples. Also analyze how SHAPE inspection can help Felipe to take decision regarding outsourcing to companies in South China. [<Answer>](#)  
**( 9 marks)**
4. Felipe knows that the factory that his company is outsourcing from was prized for the speed and quality of its work and that his job was to maintain the quality of his company’s goods. In this context, discuss the role and responsibility of a purchasing manager and purchasing department. [<Answer>](#)  
**( 9 marks)**

In 2003 Felipe Montez was hired to be a Purchasing Director and Product Designer for a Spanish electronics company. This company focused on supplying fashion-forward personal electronics (such as cell phones or MP3 players) and had built their reputation by quickly responding to trends in electronics while still maintaining a reasonable price point. In order to keep prices low and produce products quickly, the company outsourced certain elements of their production, most recently to factories in South China.

Until Felipe was hired, the company had a 27 year history of working with a distributor in Hong Kong, during which time no one from the Spanish headquarters had ever visited the actual Chinese factories where their goods were manufactured. Felipe had previous experience working in Asia, and decided to cut out the middle-man by working directly with the factories in China that supplied his company’s goods. Working directly with their factories eliminated the distributor’s mark-up (which was sometimes as high as 30%) and allowed for faster communication and delivery from the factory.

On Felipe’s first trip to China he visited several factories. Conditions varied from one factory to another. A few of them were clean and very organized, but some facilities seemed more chaotic. Felipe was particularly concerned about the conditions in the factory that produced the majority of his company’s goods.

Many of the employees at this factory appeared to be very young (Felipe guessed they were 12- 16 years old). In response to questions about the youth of the workers, the factory manager told Felipe that younger girls were valued for their precision work: they had small hands and could mount chips on motherboards very carefully.

Although younger girls were slower than an assembly machine, the factory manager told Felipe they were cheaper to “run” and “maintain”.

The young factory workers had to work for what the foreman claimed to be an 8-hour work day, 6 days a week. In general, the factory manager seemed to regard the workers less as human beings and more as part of a mechanical process. Felipe was shocked to discover that during their shifts the workers were not allowed to look up, because the factory manager did not want them to lose one second of concentration. In spite of these long hours of concentrated work, the young girls installing chips into motherboards did not have magnifying glasses to ease the strain on their eyes.

Felipe was also concerned that working conditions in the factory were unhealthy. He noticed that, in spite of high temperatures in the region (often above 100° Fahrenheit), the only employees working in an air-conditioned space were the ones working with the assembly machines, because the machines needed a constant room temperature. Felipe was especially troubled by the fact that some factory employees worked in the immediate vicinity of melted lead, while others painted plastic cases with only paper masks for respiratory protection from resulting gasses. (In fact, on a later visit Felipe discovered that these workers were paid more, as it was well-known in the community that these workers would often get seriously ill, and perhaps even die.) The workers’ lives outside of the factory also concerned Felipe: all of the workers lived next door in a factory-owned building that did not have windows or running water.

After his visit, Felipe could not stop thinking about what he had seen at this factory. He had visited a number of factories in China, and while there were certainly factories with worse conditions, there were many where conditions were far better. He was uncomfortable about continuing to source the majority of his company’s products from the factory with conditions as they were. On the other hand, Felipe knew that this particular factory was prized for the speed and quality of its work and that his job was to maintain the quality of his company’s goods.

Felipe was unsure if he had the expertise to find a suitable replacement factory, and he reasoned that even if he took his company’s business elsewhere, it would do nothing to change the lives of the young people working in the factory.

Felipe knew some representatives for the other companies that sent work to this factory, and he talked to them about his concerns. On the whole, they seemed far less concerned. In fact, many of his colleagues pointed out that without a job in the factory, the young people who worked there would likely be doing more difficult work in the fields, or in the case of the young girls, might be pressured into prostitution. They suggested that working in the factory was a way out of poverty for these young people, even if conditions were a little rough.

He knew that many of these other company representatives were far more senior than he was and had been visiting this factory for years. Faced with their responses to his concerns, Felipe wondered, “If it is okay for them to do nothing about the conditions, maybe it is alright for me to do nothing as well? After all, they seem to know more about the situation than I do.” But with more thought Felipe realized he wasn’t comfortable with this mentality—while working in a factory may have been better than the alternative for these young people, that did not mean that conditions could not still be improved.

When he returned to Spain, Felipe discussed what he had seen with his manager and detailed his concerns about certain conditions in the factory. His manager encouraged Felipe to follow up on specific issues he had identified, such as the need for magnifying glasses for the young girls doing precision work. However, he was discouraged from raising the larger issues, such as long hours and lack of breaks for the workers, since his manager reasoned that any changes in the factory’s policies would increase costs and therefore increases the purchase price of the goods they were sourcing from the factory.

Felipe knew that some larger public companies had more stringent requirements for their factories. He had also heard that some electronics companies were talking about creating an industry group to enforce better labor standards in their factories in Asia.

However, most of these companies were placing orders on a much larger scale than his company (often working as the exclusive client of large factories, unlike his company, which worked with factories that were serving a variety of different clients), and he suspected his management wouldn't want to get involved in issues that might ultimately raise prices. He did find out, however, that his company had a small charitable fund that focused on providing micro-finance loans to women in India.

Still, as a junior member of the staff, Felipe was concerned about pressing this issue. He could tell that his manager considered the discussion over, and going above his head seemed like a bad idea. Felipe was also concerned that he could undermine his credibility in the company or be branded as too naïve. However, when he thought about things he had seen in China, he felt guilty and sad, even when he tried to tell himself that this was just the reality of the world. He wants to act prudent and effective.

**END OF  
CASELET 2**

### Caselet 3

**Read the caselet carefully and answer the following questions:**

5. The genesis of Corporate Social responsibility (CSR) at Eicher Motors Ltd. (EML), began with the growth of business. Discuss. [<Answer>](#)  
**(9 marks)**
6. The CSR at Eicher Motors is more than philanthropy. It takes care of all its stakeholders, which can be very well understood by their corporate initiative. In this context, discuss the responsibilities of corporate towards their consumers and justify whether EML is fulfilling its responsibility towards its consumers. [<Answer>](#)  
**(6 marks)**

Eicher Motors Ltd. (EML), belonging to the Eicher group, is a leading Commercial Vehicle (CV) manufacturer, with a significant presence in the 6 to 9 ton segment. It has a market share of 33% in this segment. Recently, the company has decided to enter the medium/ heavy commercial vehicle segment. Recognizing the need for an "environment friendly vehicle", EML has developed a new engine compliant with Bharat 2001 norms in collaboration with AVL of Austria.

Eicher Motors has acquired formidable expertise in designing and developing commercial vehicles. It has a world-class R&D centre manned by a team of engineers and equipped with latest Computer Aided Design (CAD) and Computer Aided Engineering facilities like NASTRAN, FEM analysis packages. Leveraging its in-house expertise, this unit has successfully developed a wide range of commercial vehicles to meet varying customer needs.

The inception of Eicher goes back to the year 1948, when the Goodearth Company was set-up to sell and service imported tractors in India. Slowly and steadily the company started gaining a strong hold in the Indian market. The Eicher Tractor Corporation of India Private Ltd. was incorporated on April 24, 1959. It was a company formed in technical collaboration with the reputed Gebr. Eicher of Germany. This was a very critical phase in the company's history, since the idea was not only to come out with Eicher's first tractor, but India's very first tractor. The consistent efforts of Eicher towards indigenous manufacture of tractors were rewarded on September 3, 1960, when Eicher rolled out India's first indigenously built tractor from its Faridabad factory.

The genesis of Corporate Social responsibility (CSR) at EML began with the growth of business. The company has undergone numerous changes since its inception, based on mergers and acquisitions and a growing realization of the environmental impacts of a large automotive company.

The management communicates and demonstrates support for CSR at Eicher Motors. Business units and managers are required to incorporate economic, social and environmental objectives into their business plans. The understanding of CSR is very well articulated under "**corporate Values**" and thereby the actions are guided accordingly from those values of the company. The core values are being secular,

apolitical, fair, trusting, empowering of employees and adopting ethical practices. The CSR at Eicher Motors is more than philanthropy. It takes care of all its stakeholders, which can be very well understood by a corporate initiative under emotion.

The CSR principles of the company are found mostly in the areas of environment, employer-employee relationship, ethics and community investments. Eicher Motors is committed to be environmental leader and puts a great deal of emphasis on environment as a priority CSR program. Company environmental commitments are reflected in its EHS policy and its environmental management system. EMP (Environmental management plan) at Eicher Motors is a logical conclusion of EIA (Environment Impact Assessment). The company is very conscious of the environmental impacts and pollution hazards. The EMP was integrated into the business plan to guide the business operations, which mitigate the environmental risks and concerns.

The EMP is prepared for formulation, implementation and monitoring of all local processes, development and environment protection measures during plant operation. EMP includes the following four stages:

- Conceptualization: Existing environmental scenario;
- Planning: detailed study of environmental impact and identifying the necessary control/ mitigation measures;
- Implementation: Implementation of environmental control measures;
- Operation: Monitoring the effectiveness of existing measures and those proposed in the EMP.

The mitigation measures of the company include the management and maintenance of air quality, water quality, land, noise levels, ecology, solid waste, socio-economic and health aspects of the community.

Over the year the consumption of water in the region has gone up and the water table and the level of water in dams and reservoir has gone down. The worst was seen in 2002 when it rained the lowest ever, about 20 inches against the average of about 35 inches in the previous years. It was around that time Eicher Motors took initiatives towards water conservation and Rainwater harvesting. Under this rain water from the hill slopes was channelized through specially constructed trenches and was dropped in 20 percolation pits made at pre-defined locations. Stored rainwater was filtered and used for the industrial purposes and rest was allowed to percolate down to the ground. Rain water even from the roof slopes was collected through pipelines and was discharged into the percolation pits through the same channel.

During 2003-04 the following energy conservation measures were adopted at Eicher Motors.

- Promoting non-conventional and green energy by harvesting additional windmill power resulting in lower costs;
- Installation of new natural draft cooling towers, Air booster for coordinates and measuring machine;
- Energy Efficient motors and pumps for water supply in the plant;
- High luminous low wattage lamps for boundary and plant lighting etc;
- Usage of energy saving air blow guns and optimization of compressors;
- Cold washing of components and eliminating electrical heating;
- Automatic switch off of Press motor during idle conditions.

New initiatives are being taken with regard to modified piping system of engine shop cooling tower and installing automatic cut off for pumps and blower of engine washing machines. Use of CNG as green energy for internal use of paint shop and washing machine chemicals was another effort in this direction. In order to reduce the power consumptions, the company has replaced the corrugated sheets with transparent sheets in the entire assembly and store area. During the day hours the area is naturally lighted and does not require electrical energy for lighting purpose. Another innovative idea to conserve the energy is through enhancing the efficiency

of the systems installed in pneumatic lines where the pressure and flow of air is controlled. This saves the power requirement significantly.

Eicher Motors has also taken a proactive step in developing superior fuel-efficient and environmental friendly vehicles. The heavy commercial vehicle project, which started in 1997, in the beginning was planned for introduction with BS-I (Euro-I) compliant engine. However, considering the concern for environment, a pro-active step to introduce BS-II (Euro-II) compliant engine was developed. With a view to conserve the precious fuel, the engines have been designed to improve fuel consumption by reducing the emissions of various pollutants as well as CO<sub>2</sub>, again a green house gas. The vehicles have demonstrated improved fuel economy up to 8-10%. Investing in employee programs is a very important focus area for Eicher Motors. The company as manufacturer knows that people are its strongest asset and has thus developed many progressive employee programs to retain and attract skilled, quality employees. Eicher has around 5000 employees located in 5 manufacturing facilities and 56 marketing & area offices all around India.

The company provides a wide range of employees' welfare programs, which ensures the social security of the employees and their families. The welfare scheme includes the provident fund, health care, education & scholarships support, interest free loans for marriage, death benefits, leave, maternity benefit and uniforms etc. There is a canteen at the work place for all employees where food is made available to employees at a subsidized rate.

Eicher as a company is committed to the community in its broadest sense. This commitment takes many forms, with special attention to enhancing education and quality of healthcare facilities throughout the country. Eicher's commitment to the cause of education saw the birth of the three Eicher Schools at different locations in the country. These schools are recognized co-educational, English medium and are affiliated to the Central Board of Secondary Education, Delhi. A Foundation was also set up by the Eicher Group of companies to strengthen the educational system and provide quality education to the children in rural India. This program currently runs in Rai Bareilly, Alwar and Solan districts. In the field of healthcare, Eicher's contribution is in the management and funding of the Dr. Shroff Charitable Eye Hospital, located in Delhi. Eicher has been managing the operations of this hospital since the year 1996. Located in the heart of Delhi, this hospital is a non-commercial, non-profit trust set up to enable people from all walks of life and all sections of society to receive quality eye care. A School Screening Programme is also in place for identification and treatment of kids who are visually impaired. To combat the blindness problem a satellite clinic has also been set up in the Alwar district of Rajasthan. In the city of Indore in Madhya Pradesh the company has taken the responsibility of road safety. The company has provided traffic light equipments at all the crossroads and is also responsible for its maintenance.

**END OF CASELET 3**

**END OF SECTION B**

### **Section C : Applied Theory (20 Marks)**

- This section consists of questions with serial number 7 - 8.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on Section C.

7. Lily Textiles incorporate corporate governance committee that spends a lot of time discussing corporate governance matters, including business ethics and best practices. In one such meeting they decided that they should follow the principles recommended by OECD Report. Discuss the broad areas OECD principles fall into.

[<Answer>](#)

**( 10 marks)**

8. Arun Motors is ready to takeover Vishnu Motors. Mr. Feroz, the manager of Vishnu Motors is worried about the impact this is going to create. Therefore Mr. Feroz and a group of employees are looking for ways in which to protect themselves from the unruly predator. Explain the various techniques Mr. Feroz can use to protect the company.

[<Answer>](#)

**( 10 marks)**

**END OF SECTION C**

**END OF QUESTION PAPER**

# Suggested Answers

## Business Ethics and Corporate Governance (MB312): January 2009

### Section A: Basic Concepts

Answer	Reason
1. C	<p>To understand the roles of an operations manager, they are classified into two models. <a href="#">&lt; TOP &gt;</a></p> <p>The job responsibilities that are <b>common</b> with both model 1 and model 2 managers are:</p> <ul style="list-style-type: none"><li>• Ensuring the health and safety of the workers.</li><li>• Negotiating with suppliers.</li></ul> <p>Packaging the product is the job responsibility of the production manager (model I) and receiving incoming calls and mails is the job responsibility of the service manager (model II).</p>
2. B	<p>All the tasks that are related to the creation and maintenance of wealth are referred to <a href="#">&lt; TOP &gt;</a> as economic and production task.</p>
3. D	<p>Carbon intensity levels are high in India when compared to other Asian countries. The <a href="#">&lt; TOP &gt;</a> reasons for increase in carbon intensity level are:</p> <ul style="list-style-type: none"><li>• Increase in industrial activity.</li><li>• Absence of energy and conservation measures.</li><li>• Indian economic policies like high import tariffs on high-quality coal.</li><li>• Subsidies on low-quality coal.</li></ul>
4. E	<p>In the sandbag technique management may stall the buyout attempt in the hope that <a href="#">&lt; TOP &gt;</a> another more favorable company will try to take them over. The other options are explained below:</p> <ul style="list-style-type: none"><li>• In management buyout technique management may promote its own interests at the time of bidding.</li><li>• The company gives lucrative benefits to its top executives in golden parachute technique.</li><li>• Green mail. A potential takeover agent purchases stock in a company.</li><li>• Poison pills: The company under target, changes the articles of association so that a group of shareholders have special rights, which are evoked by a takeover.</li></ul>
5. B	<p>The functions of the audit committee are: <a href="#">&lt; TOP &gt;</a></p> <ul style="list-style-type: none"><li>• To discuss with independent auditors about the problems they experience in completing the audit</li><li>• To review the interim and final accounts</li><li>• To inform the board about the effectiveness of internal control and the quality of financial reporting as pointed out by the independent auditors</li><li>• To make recommendations regarding the audit fee, selection and replacement of auditors</li></ul>
6. E	<p>The integration view expresses that business being an economic entity has the right to <a href="#">&lt; TOP &gt;</a> make profits, but at the same time, it should discharge the social obligations.</p> <ul style="list-style-type: none"><li>• The separatist view endorses that the only aim of business is to generate profits.</li></ul> <p>The Unitarian view of ethics implies that if businesses want to exist, survive and flourish, morality and ethics cannot be separated from the operation of the business in the long run. Therefore, business should concentrate on society and it has a major role to play in serving the society and ushering in society welfare.</p>

7. E Accounting provides a system of rules and principles, which govern the format, and [< TOP >](#) content of financial statements. By adhering to the principles and practices in the system of an organization, accounting can provide fair and accurate reporting of the financial position of a business. The ethical issues surrounding accounting practices are: under reporting income, falsifying documents, allowing or taking questionable deductions, illegally evading income taxes and engaging in fraud.
8. A Different social laws of states and nations that govern occupational safety and environmental standards is an example of law of economies. [< TOP >](#)
9. D Cultural relativism implies adopting the norms of the country in which an organization operates its business. [< TOP >](#)
10. C The enhanced competition in the global economy has compelled corporations to perform better by going in for cost-cutting, corporate restructuring, mergers and acquisitions and downsizing. All these activities can be carried out successfully only if there is proper corporate governance. [< TOP >](#)
11. D Thomas Donaldson and Thomas Dunfee proposed the Integrative Social Contract Theory. A social contract is an informal agreement concerning behavioral norms that are developed from shared goals, beliefs and attitudes of groups of people or communities. Donaldson held that 'business organizations gain legitimacy through a social contract with society. [< TOP >](#)
- According to Donaldson, a productive organization is one, which ensures customer satisfaction and protects the interests of its workers, and thereby enhances the welfare of the society of which it is a part. He argues that social contract can be used as a tool to measure the performance of productive organizations. If the organization fulfills the terms of the contract, it has performed well. If it does not, then society is morally justified in condemning it.
12. B The step-by-step process that will help employees resolve ethical dilemma is known as believe. [< TOP >](#)
13. C Ferrell and Gresham have identified various factors that determine the code of ethics framed by marketer. Significant factors refer to the extent to which reference groups, top management and peers influence the marketer. [< TOP >](#)
14. C Boards are categorized depending on the way they function, their commitment to effective decision-making and concern for interpersonal relations. Rubber stamp board [< TOP >](#)
- Gives little importance to either good interpersonal relation.
  - Ratifies whatever decisions the CEO takes.
- The country club board lays emphasis on maintaining cordial interpersonal relations and the representative board accords high priority to effective decision-making.
15. B Guidelines that should follow when developing the corporate code: [< TOP >](#)
- He should identify the key behaviors that maximize the long-term owner value
  - The legal department must review the code
  - A copy of the code should be sent each and every employee
  - Codes should be updated atleast once a year
  - Codes should ensure that they are in accordance with both company and government laws.
16. A The responsibilities of the organization towards the competitors: [< TOP >](#)
- Foster open markets for trade and investment
  - Promote competitive behavior that is socially and environmentally beneficial
  - Refrain from either seeking or participating in questionable payments
  - Refuse to acquire commercial information by dishonest
  - Respect both tangible and intellectual property rights.

17. D Fiduciary duties of a director include [< TOP >](#)
- Not to exceed their authority and powers.
  - Not to use unpublished and confidential information belonging to the company for their own purpose.
- To act with best of skill and expertise is a duty of care.
18. A Moral standards deal with right and wrong behavior, and law compels individuals to act in the “right” or desired manner. Considering the relationship between moral standards and legal requirements, the following are the requirements laid down to develop a fair law: [< TOP >](#)
- Laws and moral standards overlap to a certain extent.
  - The law does not always represent collective moral judgment.
  - The requirement of law tends to be negative while moral standards tend to be positive.
  - Law represents a minimum set of standards for generating human behavior in society.
19. E All the statements are true. [< TOP >](#)
20. E In order to ensure the availability of raw material buyers often resort to forward buying. Therefore, tendon committee has laid down certain norms for the inventory requirements. Reasons for organizations to deviate from these norms are: [< TOP >](#)
- Irregularities in the import of raw material
  - Unavoidable interruptions in production due to strikes, power cuts etc.
  - Transport delays
  - Piling up of stock of finished goods due to some special circumstances
- The role of the purchase department is not to deviate from the norms.
21. C Multinational companies (MNCs) are companies that have significant investments in several countries, which derive a substantial part of their income from foreign operations. The reasons for companies going global are: [< TOP >](#)
- Lower wage rates
  - The opportunity to be closer to the suppliers
  - Saturation of local markets
  - To exploit opportunities in new markets
  - Recession or domestic completion
22. B The employment contract is a legal document that governs the relationship between a business and an employee. It spells out the tasks and responsibilities of an employee, remuneration, hours of work, remuneration, location, travel requirements, etc., therefore it is not a legal issue. [< TOP >](#)
23. A West Germany prepared an ecological balance sheet showing the extent of damage caused to the environment. [< TOP >](#)
24. A For a moral principle to be accepted by most of the ethicists, it must be prescriptive, universal, overriding, public and practical. [< TOP >](#)
25. B Six factors are involved in ethical decision-making. Among these six factors if more than one-factor affects an ethical dilemma then the ethical intensity increases. Ethical intensity is described as the degree of importance given to an ethical issue. [< TOP >](#)
26. E The stakeholders of an organization are all those who participate in some way in the activities of the organization. According to Freeman and Reed, stakeholders may be [< TOP >](#)
- Any group of people who have a stake in the business.
  - Those who are vital to the survival and success of the organization.
  - Any group that is affected by the activities of the organization.

27. C The following statements are true regarding the purpose of a corporation: [< TOP >](#)
- Business corporations help human beings satisfy their basic needs of security, success and fulfillment.
  - A well-designed corporation enables individuals to create more wealth.
  - Corporations provide flexibility to individuals enabling them to perform better.
  - Corporations are living entities exercising rights and powers like normal citizen.
28. E In the Anglo-American model of corporate governance, the creditors have a lien on [the assets of the corporation](#). Options (a) and (d) are characteristics of the German model. Options (b) and (c) are characteristics of the Japanese model.
29. E Problem recognition is not part of the ethical decision making process. [< TOP >](#)
30. A The first cyber law passed in India in order to curb growing unethical practices in the [field of IT](#) is the Information Technology Act, 2000.

## Section B : Caselets

1. Google announced a plan that begins to fulfill the pledge it made to investors when it went [<TOP>](#) public to reserve 1% of its profit and equity to “make the world a better place.” The beneficiaries of Google’s money range from groups that are fighting disease to those developing a commercial plug-in car. Google has to keep up its promise to its shareholders. Yet the same time they did not want to do like others did. They wanted to something different and argued in the following way:
  - Larry Brilliant, a medical doctor who took on the role of director of Google.org 18 months ago, said he could not even begin to count how many spending proposals he had seen. Dr. Brilliant felt that out of 6.5 billion people in the world, 6.4 billion want some money.
  - Dr. Brilliant, who moved to an ashram in northern India in the 1970s and went on to play a major role in eradicating smallpox in the country, likened his moral quandary in figuring out how to spend Google.org’s money to that faced by a saint wandering the streets of Benares. During his experience in India he was the 500 steps between the road and the Ganges with beggars, lepers, people who have no arms or legs, people literally starving on every step are. The saint has a couple of rupees; how does a good and honorable person make a resource allocation decision?
  - That’s way DotOrg has focused on what it can do “uniquely”. If you do things other people could do, you’re not adding value. The only urgency imposed on the foundation is how soon it can live up to the expectations. “Building a new ecosystem is not an overnight phenomenon.
  - Though it is like other companies’ foundations in making grants, it wants to be untraditional in making for-profit investments like encouraging Google employees to participate directly and lobbying public officials for changes in policies.
  - Google’s employees felt that if you do things other people could do, they’re not adding value.

But for all the enthusiasm for the new organization, there are critics. The critics also argued saying:

- Siva Vaidhyanathan, a cultural historian and media scholar at the University of Virginia. Criticized that they are taking an engineer’s perspective and said that machines and software are not always the answer to the global problems that arise from how humans have undervalued each other and miscommunicated with each other.
- He pointed to Google.org’s decision not to take a step like financing scholarships for girls in India who have not had access to education. He said that’s what is so naïve about Google.org’s approach and argued saying you can educate a thousand girls in one state in India, you’ve already made a bigger difference than 99 percent of the human beings on earth because every one of those of girls can make a difference.

The process of determining what to finance was not easy for Google, the 20 team members had 20 ideas. Team members debated, cried and held hands as they tried to determine what kind of difference they could make. It took them almost a year to winnow down the list.

### **Following are the initiative taken by Google:**

**Predict and prevent:** This effort focuses on strengthening early warning systems in countries around the world to detect a disease before it becomes pandemic, or a drought before it becomes a famine. To attain that, DotOrg has made a grant of \$5 million to a nonprofit group that Dr. Brilliant helped to set up, though it is independent from DotOrg. Called Instedd, for Innovative Support to Emergencies, Diseases and Disasters, the group seeks to improve data and communication networks. An additional \$2.5 million has been awarded to the Global Health and Security Initiative to respond to biological threats in Thailand, Vietnam, Cambodia, Laos, Myanmar and China’s Yunnan Province.

In recent years 39 new communicable diseases with a potential to become pandemic have jumped species, including SARS, or severe acute respiratory syndrome; monkey pox and bird flu.

**The missing middle:** This refers to the missing middle class in Africa and South Asia and the missing middle level of financing between microcredits and hedge funds. Microcredit funds currently provide families with three or four or five days of livelihood. No country has ever

emerged from poverty because of microcredit. Jobs make that possible. China did it with manufacturing, India did it with outsourced call centers.

To that end, DotOrg has awarded \$3 million to TechnoServe to find worthy entrepreneurs and help them build credit records and get access to larger markets.

**Information for all:** This is aimed at helping developing countries provide better government services by making information available on their efforts to improve health care, roads and electrification. India has promised health care, work, and transparency throughout and yet it's hard to do something like this on the scale that India is trying to do, to let people know what their entitlement is.

DotOrg has awarded \$2 million to support the Annual Status of Education report in India to assess the quality of education; \$765,000 to create a Budget Information Service to improve district-level planning, and \$660,000 to build communities of researchers and policy makers to deliver information.

DotOrg decided to finance literacy information because, they're looking for things where Google could have a transformative impact. Ideas, flexibility, entrepreneurship are better than just cash on the table.

**Development of renewable energy:** Development of renewable energy supports the sources that are cleaner and cheaper than coal.

DotOrg has invested \$10 million in eSolar, a company in Pasadena, Calif., that specializes in solar thermal power.

Mark Dowie, author of the book "American Foundations," said DotOrg is part of "a new mode of philanthropy that is very similar to venture capitalism, holding those they fund responsible in ways never seen before." The danger, he said, "is that a lot of philanthropic work is not quantifiable. How do you qualify arts grant making, for example."

2. Ethical standards vary between cultures and countries. These variations are more evident [<TOP >](#) among entrepreneurs or corporations in a given nation. One can better understand these variations if the different levels of ethical consciousness in business are well-defined. It has been found that moral (ethical) development follows a specific sequence of stages, irrespective of cultures and countries. In the business context, the 'stages of ethical consciousness are as follows:

- Law of the jungle
- Anything for profit
- Profit maximizing in (he short-term
- Profit maximizing in the long-term
- Stakeholder concept
- Corporate citizenship

In the first stage, businesses were run on brute strength: business decisions were driven by the philosophy of "**might makes right.**" Business ills like price fixing etc are common in this stage.

In the second stage of "**Anything for profit**" business was ready to do any thing to make a profit. Businesses at this stage had only one goal i.e. profit. To generate profits, businesses resort to false representation of products, bribery of government officials, tax evasion etc. Business in this stage of ethical consciousness strongly believe that anything goes as long as one does not get caught by the law or by the customer.

In the third stage, **maximizing profits in the short-term**, businesses operated on the socially and generally accepted business practices. In this stage, business believed that "good business is good ethics". The performance of businesses was measured based on short-term growth in sales and profits. The main aim of business in this stage was to maximize profits within the constraints of the law.

The fourth stage, **maximizing profits in the long-term**, saw a shift in focus from business to ethics. In this level of ethical consciousness, businesses acknowledge that "sound ethics is good business in the long run. Although the interest of the shareholders remain primary concern of businesses, there was equal concern for conducting business in a manner that is both 'right' and which will also prove to be profitable over the longer term, even if other alternatives might produce greater short-term profits. At this stage of consciousness", firms created the post of an "ethics officers" to supervise the ethical aspect of the business.

In the fifth stage, "**stakeholders concept**" companies concentrated on profits to have a social as well as economic mission. In this stage business objectives included profit sharing, development of community service projects, and philanthropy. The driving assumption of this concept is, business wanted to strike a balance between providing service to stakeholders and working towards the good of society. The focus at this stage is on building and maintaining mutually enabling relationships, which in turn create value for others and justified the firms' profit. Success was measured not just in financial terms but also in terms of contribution to society. Some companies have gone so far as to publish regular annual social reports similar to their annual financial reports.

The sixth stage, "**Corporate Citizenship**", proposes a higher level of ethical consciousness and redefines the mission of business in society. The World Business Academy and Business for Social Responsibility, both associations and networks of business leaders, are among the principal proponents of this higher level of ethical consciousness. This "social responsibility" school of thought also present in Stage Five, but to a lesser degree, maintains that business has a major responsibility to contribute to the necessary transformation of what they consider to be a very unhealthy society today. Their belief is based on the premise that a business can be healthy, only if society around it is healthy and that no other institution in society, including governments and religious institutions, has the resources or the credibility to bring about this transformation/Entrepreneurs operating on this level would seek to achieve certain social objectives such as promoting community health, participating in job creation, employing handicapped people, and self-realization of employees as well as financial success of the company.

As per the caselet Google belongs to the fifth stage or the stakeholder concept.

- In this stage the companies concentrate on profits to have a social as well as economic mission. In this stage business objectives included profit sharing, development of community service projects, and philanthropy. Google announced a plan that begins to fulfill the pledge it made to investors when it went public to reserve 1% of its profit and equity to "make the world a better place." Therefore, Google is sharing its profits to be socially responsible.
- The focus at this stage is on building and maintaining mutually enabling relationships, which in turn create value for others and justified the firms' profit. This is exactly what Google is trying to do. It is trying to justify its profits by giving a part of it the public activities thus keeping good relation with its stakeholders.
- Success was measured not just in financial terms but also in terms of contribution to society. Some companies have gone so far as to publish regular annual social reports similar to their annual financial reports. Google aims that its success is measured by both finances that it is earning and the finances that it is sharing.

### 3. **Purchasing: code of ethics:**

[< TOP >](#)

Most companies establish formal ethics policies or codes. In a study conducted by Browning and Zabriskie (1980) on the purchase managers in UK and US on the code of ethics,) it was reported that 90% of the respondents had a policy on ethics. Professional bodies in UK and USA have formal codes of ethics. In the US most of the respondents were familiar with the work of National Association of purchasing management. It is a body that lays out code of ethics for the proper functioning of the purchase managers. In a study conducted by Rudelius and Buchholz (1979), on the code of ethics for purchasing managers it was found that employees desired getting help of the top management in laying down policy guidelines for purchasing.

Companies both private and public are attempting to tackle problems of unethical practices by following their policy of ethics in purchasing. In the case of Nike's approach to product manufacturing the company helps to maintain control over labor standard compliance in its geographically spread supply chain. Nike does not use wholesalers or agents for the vast majority of its business. The company employs production staff - local Nike people - on a regional basis throughout the world to oversee and monitor production. Nike developed and implemented a system for approving potential suppliers.

#### **SHAPE Inspection in decision-making:**

The first stage in the decision to work with a supplier is for the production people to undertake a SHAPE inspection (Safety, Health, Attitudes of management, People investment, Environment). It is a preliminary inspection of the factories to determine

whether they meet basic parameters for a clean healthy workplace.

It is primarily focused on safety and health, but also includes a first assessment of whether the management is in fact providing workers with a good work place. Although this assessment is neither sophisticated nor deeply analytical, it aims to ascertain whether the factory is using workers of the proper age and the level of overall satisfaction among the workers.

- **Safety:** Felipe was especially troubled by the fact that some factory employees worked in the immediate vicinity of melted lead, while others painted plastic cases with only paper masks for respiratory protection from resulting gasses. It was well-known in the community that these workers would often get seriously ill, and perhaps even die. In spite of long hours of concentrated work, the young girls installing chips into motherboards did not have magnifying glasses to ease the strain on their eyes.
- **Health:** Felipe was also concerned that working conditions in the factory were unhealthy. He noticed that, in spite of high temperatures in the region (often above 100° Fahrenheit), the only employees working in an air-conditioned space were the ones working with the assembly machines, because the machines needed a constant room temperature.
- **Attitudes of Management:** The factory manager did not want the employees to lose one second of concentration and therefore did not allow them to look up even during their shifts. In Spain, when Felipe discussed what he had seen with his manager and detailed his concerns about certain conditions in the factory. His manager encouraged Felipe to follow up on specific issues he had identified, such as the need for magnifying glasses for the young girls doing precision work. However, he was discouraged from raising the larger issues, such as long hours and lack of breaks for the workers, since his manager reasoned that any changes in the factory's policies would increase costs and therefore increases the purchase price of the goods they were sourcing from the factory.
- **People Investment:** Employees at this factory were 12- 16 years old. In response to questions about the youth of the workers, the factory manager told Felipe that younger girls were valued for their precision work: they had small hands and could mount chips on motherboards very carefully. Although younger girls were slower than an assembly machine, the factory manager told Felipe they were cheaper to “run” and “maintain”. The young factory workers had to work for what the foreman claimed to be an 8-hour work day, 6 days a week. In general, the factory manager seemed to regard the workers less as human beings and more as part of a mechanical process.
- **Environment:**
  - **Outside the factory:** The workers' lives outside of the factory also concerned Felipe as all of the workers lived next door in a factory-owned building that did not have windows or running water.
  - **In the factory:** Did not maintain good temperature in the factory, it was always high temperature.
  - **Work related environment:** Not friendly and very strict.

#### 4. **Role of Purchase Manager**

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The purchase manager has a strategic business function to perform. Purchasing is a window to the outside world and hence the prime function of purchasing is remaining sensitive to the external market situation and also of giving feedback to the other functional areas of the organization. The purchase manager plays a major role in getting the right quality of material, in the right quantity at the right time. The purchasing department is in direct contact with the suppliers. A long-term relationship with these suppliers is possible only if there is an open communication and trust between the suppliers or buyers. By behaving ethically, the purchasing department can build up a good image of the company and prove the profitability of the firm. Till recently, the purchasing function has been somewhat undervalued. But with greater importance being given to just-in-time purchasing and total quality management in product manufacturing, the importance of purchase manager has increased considerably. Some of the ethical issues that are associated with the purchasing function are deception, bribery, price rigging, and the sale of unsafe products. To clearly understand the role of a

purchase manager, and the ethical concerns he faces at work it is necessary to first understand the role of the purchasing department in an organization.

Another area of importance for a purchase manager is purchase research. This involves studying the present trends regarding the cost of various input materials and also that of the general economic conditions, industrial conditions and national and international developments that may be of importance to the organization. Purchase research includes short and long-range studies of the internal requirements of the company and the external supply market.

**The role of purchasing departments:**

- To ensure the availability of proper quantity and quality of materials for smooth functioning of the production department
- To procure materials at reasonably low costs (without compromising on quality) for the company
- To ensure supply of quality materials
- To be aware of various substitute materials available in the market, their prices and utility to the organization
- To pass on information regarding purchasing to other departments of the company such as design, production, sales, finance etc.
- To study possible substitute for raw materials
- To ensure the continuity of suppliers of raw materials
- To identify and develop new vendors and maintain a good relationship with existing vendors. Vendor relations, vendor monitoring or vendor evaluation and development of new vendors is an integral part of the purchasing executives job
- To develop good procedures and systems for the purchasing department
- To co-ordinate with other functional departments, to achieve continuity of information flow and integration between different departments to the extent possible

5. The genesis of Corporate Social responsibility (CSR) at EML began with the growth of business. The management communicates and demonstrates support for corporate social responsibility at Eicher Motors. Business units and managers are required to incorporate economic, social and environmental objectives into their business plans. The understanding of CSR is very well articulated under “**corporate Values**” and thereby the actions are guided accordingly from those values of the company: The core values are being secular, apolitical, fair, trusting, empowering of employees and adopting ethical practices. The CSR at Eicher Motors is more than philanthropy. It takes care of all its stakeholders, which can be very well understood by a corporate initiative under e-motion. [< TOP >](#)

The CSR principles of the company are found mostly in the areas of environment, employer-employee relationship, ethics and community investments. Eicher Motors is committed to be environmental leader and puts a great deal of emphasis on environment as a priority CSR program. Company environmental commitments are reflected in its EHS policy and its environmental management system. EMP (Environmental management plan) at Eicher Motors is a logical conclusion of EIA (Environment Impact Assessment). The company is very conscious of the environmental impacts and pollution hazards. The EMP was integrated into the business plan to guide the business operations, which mitigate the environmental risks and concerns.

The EMP is prepared for formulation, implementation and monitoring of all local processes, development and environment protection measures during plant operation. EMP includes the following four stages:

- Conceptualization: Existing environmental scenario;
- Planning: detailed study of environmental impact and identifying the necessary control/mitigation measures;
- Implementation: Implementation of environmental control measures;
- Operation: Monitoring the effectiveness of existing measures and those proposed in the EMP.

The mitigation measures of the company include the management and maintenance of air quality, water quality, land, noise levels, ecology, solid waste, socio-economic and health aspects of the community.

**Rain Water Harvesting:**

Over the year the consumption of water in the region has gone up and the water table and the level of water in dams and reservoir has gone down. The worst was seen in 2002 when it rained the lowest ever, about 20 inches against the average of about 35 inches in the previous years. It was around that time Eicher Motors took initiatives towards water conservation and Rainwater harvesting. Under this rain water from the hill slopes was channelized through specially constructed trenches and was dropped in 20 percolation pits made at pre-defined locations. Stored rainwater was filtered and used for the industrial purposes and rest was allowed to percolate down to the ground. Rain water even from the roof slopes was collected through pipelines and was discharged into the percolation pits through the same channel.

#### **Energy Conservation:**

During 2003-04 the following energy conservation measures were adopted at Eicher Motors.

- Promoting non-conventional and green energy by harvesting additional windmill power resulting in lower costs;
- Installation of new natural draft cooling towers, Air booster for coordinates and measuring machine;
- Energy Efficient motors and pumps for water supply in the plant;
- High luminous low wattage lamps for boundary and plant lighting etc;
- Usage of energy saving air blow guns and optimization of compressors;
- Cold washing of components and eliminating electrical heating;
- Automatic switch off of Press motor during idle conditions.

New initiatives are being taken with regard to modified piping system of engine shop cooling tower and installing automatic cut off for pumps and blower of engine washing machines. Use of CNG as green energy for internal use of paint shop and washing machine chemicals was another effort in this direction. In order to reduce the power consumptions, the company has replaced the corrugated sheets with transparent sheets in the entire assembly and store area. During the day hours the area is naturally lighted and does not require electrical energy for lighting purpose. Another innovative idea to conserve the energy is through enhancing the efficiency of the systems installed in pneumatic lines where the pressure and flow of air is controlled. This saves the power requirement significantly.

Eicher Motors has also taken a proactive step in developing superior fuel-efficient and environmental friendly vehicles. The heavy commercial vehicle project, which started in 1997, in the beginning was planned for introduction with BS-I (Euro-I) compliant engine. However, considering the concern for environment, a pro-active step to introduce BS-II (Euro-II) compliant engine was developed. With a view to conserve the precious fuel, the engines have been designed to improve fuel consumption by reducing the emissions of various pollutants as well as CO<sub>2</sub>, again a green house gas. The vehicles have demonstrated improved fuel economy up to 8-10%. Investing in employee programs is a very important focus area for Eicher Motors. The company as manufacturer knows that people are its strongest asset and has thus developed many progressive employee programs to retain and attract skilled, quality employees. Eicher has around 5000 employees located in 5 manufacturing facilities and 56 marketing & area offices all around India.

The company provides a wide range of employees' welfare programs, which ensures the social security of the employees and their families. The welfare scheme includes the provident fund, health care, education & scholarships support, interest free loans for marriage, death benefits, leave, maternity benefit and uniforms etc. There is a canteen at the work place for all employees where food is made available to employees at a subsidized rate.

#### **The efforts beyond the plant site:**

**Healthcare facilities:** Eicher as a company is committed to the community in its broadest sense. This commitment takes many forms, with special attention to enhancing education and quality of healthcare facilities throughout the country. In the field of healthcare, Eicher's contribution is in the management and funding of the Dr. Shroff Charitable Eye Hospital, located in Delhi. Eicher has been managing the operations of this hospital since the year 1996. Located in the heart of Delhi, this hospital is a non-commercial, non-profit trust set up to enable people from all walks of life and all sections of society to receive quality eye care. A School Screening Programme is also in place for identification and treatment of kids who are visually impaired. To combat the blindness problem a satellite clinic has also been set up in the Alwar district of Rajasthan. In the city of Indore in Madhya Pradesh the company has

taken the responsibility of road safety. The company has provided traffic light equipments at all the crossroads and is also responsible for its maintenance.

**Education:** Eicher's commitment to the cause of education saw the birth of the three Eicher Schools at different locations in the country. These schools are recognized co-educational, English medium and are affiliated to the Central Board of Secondary Education, Delhi. A Foundation was also set up by the Eicher Group of companies to strengthen the educational system and provide quality education to the children in rural India. This program currently runs in Rai Bareilly, Alwar and Solan districts.

6. **Consumers** – Consumers/customers exchange resources for the products of the firms and thus provide the firm with revenues. Since corporations reinvest these earnings, customers can be said to be paying indirectly for the development of new products and services. The responsibilities of business corporations towards consumers are summed up by the five Rs': [< TOP >](#)

- Right quantity - Producing goods according to the specific needs of consumers, their purchasing power etc.
- Right price - Offering quality goods at reasonable prices.
- Right time - Providing prompt and adequate service to consumers.
- Right quality - Improving the standard of living by producing goods and services of high quality. Ensuring the health and safety of customers. Treating customers fairly in all aspects of business transactions.
- Right place -

**EML's Efforts:**

- Eicher Motors has acquired formidable expertise in designing and developing commercial vehicles. It has a world-class R&D centre manned by a team of engineers and equipped with latest Computer Aided Design (CAD) and Computer Aided Engineering facilities like NASTRAN, FEM analysis packages. Leveraging its in-house expertise, this unit has successfully developed a wide range of commercial vehicles to meet varying customer needs.
- Introduced India's very first tractor. Eicher rolled out India's first indigenously built tractor from its Faridabad factory.
- Eicher Motors has also taken a proactive step in developing superior fuel-efficient and environmental friendly vehicles.

EML's efforts to provide environmental friendly vehicles and their effort in R&D reveal that they are concerned about their consumers.

## Section C: Applied Theory

7. The Principles recommended by OECD fall into five broad areas: [< TOP >](#)

**The rights of shareholders:** The corporate governance framework should protect shareholders' rights. The protection of the rights of shareholders and the ability of shareholders to influence the behaviour of the corporation are the key for effective corporate governance. Shareholders have the right to secure ownership and registration of shares, as well as the right to share in the residual profits of the company. The ability to participate in basic decisions concerning the company, chiefly by participation in general shareholder meetings is forth as an important right. The Principles call for disclosure of corporate structures and devices that redistribute 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 not be used to shield management from accountability

**The equitable treatment of shareholders:** The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

In many cases, controlling shareholders, boards and management use their control over the corporation and over information to the detriment of non-controlling and foreign investors. The principles stipulate that board members, management and controlling shareholders should deal fairly with all shareholders. It also states that insider trading and self-dealing should be prohibited. The principles call for maximum transparency regarding the distribution of voting

rights among all categories of shareholders and the ways in which voting rights are exercised.

**The role of stakeholders:** The corporate governance framework should recognize the rights of stakeholders (as established by law) and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and financially sound enterprises.

This principle states that the corporate governance framework should recognize the legal rights of stakeholders and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. However, a good corporate governance structure also has to be concerned with finding ways to encourage the various stakeholders in the firm to make the much-needed investment in human and physical capital.

Teamwork draws contributions from a range of different sources: investors, employees, creditors, and suppliers. It is ultimately in the long-term self-interest of firms to recognize that their employees and other stakeholders constitute a valuable resource for building competitive and profitable companies, whether or not those employees or other stakeholders have a legal place in the corporate governance structure.

**Disclosure and transparency:** The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Transparency is widely recognized as a central and indispensable element of an effective corporate governance system. The principles require the timely and accurate disclosure of information on all material matters regarding the financial situation, performance, ownership, and governance of the company. This information should be prepared in accordance with high quality standards. The principles also requires for an annual independent audit so as to impose an external, objective control on the preparation and presentation of financial statements.

**The role and responsibilities of the board:** The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders

The board is the main mechanism for monitoring management and providing strategic guidance to the company. Some boards emphasize the monitoring of management conduct while other boards are more concerned with providing a strategic vision for the corporations. The accountability of the board to the company and its shareholders is a basic tenet of sound corporate governance everywhere. The principles make it clear that it is the duty of the board to act fairly with respect to all groups of shareholders, to deal fairly with stakeholders and to assure compliance with applicable laws. The responsibilities of the board include: reviewing corporate strategy and planning; overseeing management (including remuneration); managing potential conflicts of interest; and assuring the integrity of accounting, reporting and communication systems. The Principles also stress the need for objective judgment on corporate affairs by board members, independent of the opinion of management.

8. Hostile Takeovers are those that elicit opposition from the boards or employees of the target [< TOP >](#) company. Some of the popular ways in which companies can use to protect themselves from unruly 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 target changes the ‘Articles of Association’ so that a group of shareholders has special rights, which are evoked by a takeover. These rights include, special voting rights, and the right to buy and sell preferred stock at highly favorable prices (at times below market price). 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 or shield the company from the threat of takeovers. ‘Poison pills’ are prohibited in Britain by the Takeover code because they prevent open competition between the bidders for shares and the bidders who are favored by the management of the target company succeed in their takeover attempt. But devising Poison pills is considered legal in the United States of America. When companies face hostile takeovers, the shareholders have the right to buy or sell shares to their own company or

potential acquirer at a non-market price. The use of poison pills is ethical if they are designed to protect the shareholders against unwanted takeover bids.

**Greenmail** occurs where a potential takeover agent purchases stock in a company. After the purchases have totaled five percent, the agent must announce his intention to takeover the company, if that is the intent. The stock price goes up in anticipation of the takeover battle. The takeover agent ends up selling the shares back to the company for this increased price or somewhat higher negotiated price, when the attacked company struggles to thwart the takeover. Management of the target company sends greenmails to prevent a shareholder from taking over the company by himself or by teaming up with any other competing company. Greenmails are 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 is responsible for this unethical practice as they usually send greenmails financed by owners' money without their knowledge. The acts of the potential bidder are also considered unethical if he increases 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 the 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 parachutes:** 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. Another quality of golden parachutes is that they 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 management threatens that, in the event of a takeover, the entire management team will resign. This is a very effective method if they are a good management team, in place, the loss of which would harm the company. But if the managers act in their own interest rather than the company's long-term value, then they are acting unethically.

**Sand bag** is another tactic used by management to stop a takeover attempt. The company stalls the attempts in the hope that another more favorable company will try to take them over. Management should not waste too much of time in trying to find a more favorable company.

[< TOP OF THE DOCUMENT >](#)