

# Question Paper

## Business Ethics & Corporate Governance (MB3I2): October 2008

### 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. Mr. Anand Desai is in an ethical dilemma regarding purchase of a machine. If he buys the machine from Best Electronics, who are ready to give 5 years warranty, he will not get any monetary benefit for himself. Therefore he decides to buy the machinery from GL Electronics, who is giving only 1 year warranty, in order to gain the personal monetary benefit. Which of the following factors involved in decision-making affects the ethical dilemma of Mr. Anand Desai? [<Answer>](#)
- (a) Concentration of effect
  - (b) Time interval
  - (c) Proximity
  - (d) Social agreement
  - (e) Magnitude of consequence.
2. When the implications and consequences of managers' decisions become more evident, managers are faced with the challenge of ethical dilemma. To avoid ethical dilemmas managers can follow the approaches by Clutterbuck and Drummond and Carmichael's. Which of the following **does not** belong to Clutterbuck's approach? [<Answer>](#)
- (a) It includes ethics in recruitment criteria
  - (b) It uses reward and punishment mechanisms
  - (c) It establishes openness and transparency into decision-making processes
  - (d) It provides mechanism for negotiating concerns
  - (e) It draws up personal and corporate ethics checklist.
3. When a company adopts an anti-pollution environment policy, it is said to be 'going green'. Organizations adopt green initiative due to which of the following reasons? [<Answer>](#)
- I. Economic benefits from increased efficiency.
  - II. Competitive advantage through innovation.
  - III. Set a standard or code for moral behavior.
  - IV. Public image.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (II) and (III) above
  - (d) (I), (II) and (IV) above
  - (e) (I), (III) and (IV) above.
4. If Vijay Motors is taken over by Vishnu Motors, Mr. Feroz and many other top executives are going to lose their jobs. Therefore in order to discourage the unwanted takeover attempt, the management of Vijay Motors gave stock options, bonuses and severance pay to all the top executives. By adopting which of the following techniques, was the management of Vijay Motors able to protect themselves from hostile takeover? [<Answer>](#)
- (a) Golden parachute
  - (b) Sandbag
  - (c) Greenmail
  - (d) People pill
  - (e) Poison pill.

5. The primary role of the board is to supervise the quality of strategic thinking of the executive committee and performs its role in strategy development at various levels. Structural and portfolio level of strategic thinking involves discussions among the board of directors and the management, relating to which of the following? [<Answer>](#)
- I. External environment.
  - II. Mergers and acquisitions.
  - III. Potential market trends.
  - IV. Strategic alliance.
- (a) Only (IV) above
  - (b) Both (I) and (III) above
  - (c) Both (II) and (IV) above
  - (d) (I), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
6. Prakash Industries Ltd. concentrates on profits so that they can continue to sponsor the blind school and the other social activities they have undertaken. They measure their success not only in financial terms but also in terms of contribution to society. In which of the following stages of ethical consciousness Prakash Industries Ltd., can be placed? [<Answer>](#)
- (a) Law of the jungle
  - (b) Corporate citizenship
  - (c) Profit maximizing in the long-term
  - (d) Stakeholder concept
  - (e) Anything for profit.
7. The accountants who look into the operations of internal accounts of various departments and make a record of the financial activities are management accountants and financial accountants. Which of the following is/are **true** regarding management accountants? [<Answer>](#)
- I. The role of management accountant is to provide information that the management needs for formulating policies.
  - II. The management accountant provides economic information to the investors.
  - III. The role of management accountant also involves advising directors on the items that have to be included in the financial statement.
  - IV. The task of management accountant is to provide trustworthy and credible information on which management can base its decisions.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) Both (I) and (IV) above
  - (d) (I), (II) and (III) above
  - (e) All (I), (II), (III) and (IV) above.
8. Global Tech Ltd., as a corporation enjoys the right to make donations to the leading political parties to push an agenda in favor of it. Which of the following characteristics of a corporation, is Global Tech Ltd. enjoying? [<Answer>](#)
- (a) Transferability
  - (b) Limited liability
  - (c) Liability for investors
  - (d) Centralized management
  - (e) Legal personality.
9. Apart from taking strategic decisions and carrying moral risks of the business, a leader even has to maintain a healthy relationship with stakeholders through 'contracts'. Psychological contract is one among the various Cannon contracts. Psychological contract [<Answer>](#)
- I. Aims at motivating employees and giving recognition to stakeholders and also offers some security.
  - II. Enables managers to use their competence and skills for the benefit of the enterprise.
  - III. Helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Only (III) above
  - (d) Both (I) and (II) above
  - (e) Both (II) and (III) above.

[<Answer>](#)

10. Governance is concerned with the intrinsic nature, purpose, integrity and identity of the institution. Corporate management is more of hands on activity. Which of the following is/are **true** regarding corporate management?

- I. External focus.
- II. Management assumes an open system.
- III. Task oriented.
- IV. Concerned with where the company is going.

- (a) Only (I) above
- (b) Only (III) above
- (c) Both (I) and (IV) above
- (d) (I), (II) and (III) above
- (e) All (I), (II), (III) and (IV) above.

[<Answer>](#)

11. When relationships among peers, superiors and subordinates are based on trust, there is less friction among employees and a reduction in employee turnover. Jitendra Mishra and Molly Morrissey have identified which of the following factor(s) that promote trust in an organization?

- I. Open communication.
- II. Sharing of critical or important information.
- III. Encouraging employee participation in decision-making.
- IV. Sharing of perceptions and feelings.

- (a) Only (I) above
- (b) Both (I) and (III) above
- (c) Both (II) and (IV) above
- (d) (I), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

[<Answer>](#)

12. Managers generally adopt different ethical standards when carrying different tasks. They justify their behavior in resolving the dilemma rationalization. According to Gelleraman, a manager uses which of the following rationalizations?

- I. They will be protected by their family.
- II. Their actions are aimed at the individuals or corporations best interest.
- III. Their actions are within reasonable ethical and legal limits.
- IV. Their actions will be disclosed and published.

- (a) Only (I) above
- (b) Both (I) and (IV) above
- (c) Both (II) and (III) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

[<Answer>](#)

13. Marketing mix which includes 4P's is crucial for the marketing decision making process. Assembling and managing these 4P's is an important task for any marketer. Marketing mix also includes the service aspects of

- I. People.
- II. Action.
- III. Process.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (III) above
- (e) All (I), (II) and (III) above.

[<Answer>](#)

14. The decisions taken at Fashions Ltd. were always influenced by Mr. Pratap, uncle of Mr. Rahul who owns the company. Mr. Pratap was held responsible along with the board directors for the acts of the company. Mr. Pratap is playing the role of which of the following types of directors?

- (a) Non-executive director
- (b) Alternate director
- (c) Shadow director
- (d) Associate director
- (e) Representative director.

15. Corporate codes are voluntary to organizations and enhance the freedom to address any issue such as employees' safety and health, workers rights, etc. A corporate code can be developed in various formats. Which of the following formats reflects the company's policies on certain issues concerning suppliers, contractors and buying agents? [<Answer>](#)
- (a) Circulated letters
  - (b) Special documents
  - (c) Management philosophy statements
  - (d) Purchase orders
  - (e) Compliance codes.
16. The stakeholders of an organization are all those who participate in some way in the activities of the organization. A company's relationship with which of the following stakeholders must be based on mutual respect to foster long-term stability in return for value, quality, competitiveness and reliability? [<Answer>](#)
- (a) Creditors
  - (b) Suppliers
  - (c) Community
  - (d) Employees
  - (e) Competitors.
17. The board of directors can exercise some powers on behalf of the company. Which of the following powers can be exercised only with the consent of the company at the general meeting? [<Answer>](#)
- I. The power to invest funds of the company.
  - II. Power to remit debt due by a director.
  - III. Power to appoint sole selling agents.
  - IV. Power to borrow in excess of capital and reserves for the company.
- (a) Both (I) and (II) above
  - (b) Both (III) and (IV) above
  - (c) (I), (III) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
18. Law can be defined as a consistent set of universal rules that are widely published, generally accepted and usually enforced. Which of the following is **not true** regarding the characteristics of law? [<Answer>](#)
- (a) Laws are enforced when people disobey them
  - (b) If a minority of members do not obey the law, it becomes difficult to enforce it
  - (c) The requirement how to act or not to act in a particular situation has to be published in written form
  - (d) Law is applicable to everyone who faces similar circumstances
  - (e) There should be any contradiction between two requirements of the act.
19. Focus on corporate responsibility was highlighted through the industrial revolution and the years thereafter. Which of the following happenings pertain to the industrial revolution during 'nonconformist challenge' in Britain? [<Answer>](#)
- I. Wealth and industry were approached in different ways from the perspective of the religion that people heading big businesses followed.
  - II. Quakers played an important role in shaping values of new entrepreneurial groups.
  - III. It reflected the needs of people who failed to prosper from the industrial revolution.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.

20. A research was conducted by the Center for Advanced Purchasing Studies to find out the relationships of the American buyers with the foreign suppliers. Which of the following is **not** a result of this study? [<Answer>](#)
- (a) Buyers who were least satisfied with the supplier relationship were those who perceived their suppliers to be most involved in unethical activities
  - (b) Significant differences did exist between buyers' and suppliers' perceptions regarding how each believed the other to be involved in these activities
  - (c) Buyers believed that suppliers are involved in unethical practices and felt that suppliers are performing less effectively
  - (d) It appeared that American buyers realized that employing unethical practices will result in short-term success, but the foreign suppliers did not give hear to this aspect
  - (e) There is no relationship between the supplier's nationality and the level of unethical activity in the buyer-supplier relationship.
21. Which of the following is/are **not true** regarding the study conducted to examine ethical practices in the US, France and Germany? [<Answer>](#)
- I. The American managers said that bribery was unethical and illegal under the Foreign Corrupt Practices Act.
  - II. Only one third of the French managers felt signing a purchase order with the cost price more than the current market price, would be dishonest.
  - III. It was concluded that the US and German executives were more concerned with ethical and legal questions.
- (a) Only (I) above
  - (b) Only (III) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
22. At times of recession it has become common for businesses to reduce their size and overhead costs by discharging some of the employees, and creating which of the following styles of management? [<Answer>](#)
- (a) Autocratic
  - (b) Bureaucratic
  - (c) Lean and mean
  - (d) Hire and fire
  - (e) At-will.
23. Laws can be enforced only if they are unduly accepted. Which of the following is **not** a process involved in the formulation of law? [<Answer>](#)
- (a) Society process
  - (b) Political process
  - (c) Group process
  - (d) Individual process
  - (e) Economic process.
24. Money laundering can be defined with reference to situations such as [<Answer>](#)
- I. Acquisition, ownership, possession or transfer of any proceeds of crime.
  - II. Knowingly entering into a transaction related to the proceeds of crime, directly or indirectly.
  - III. Concealment or aiding in the concealment of the proceeds of crime.
  - IV. Those that violate equality of opportunity.
- (a) Both (I) and (II) above
  - (b) Both (III) and (IV) above
  - (c) (I), (II) and (III) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
25. Which of the following financial frauds can be detected by comparing financial statements over a period of time, examining unusual journal entries, verifying supporting sales documents and unusual sales transactions? [<Answer>](#)
- (a) Fraudulent asset evaluations
  - (b) Concealed liabilities and expenses
  - (c) Fictitious revenues
  - (d) Fraudulent timing differences
  - (e) Fraudulent disclosures or omissions.

26. Which of the following is known as an assessment of the social impact of a corporation on society? [<Answer>](#)
- Social audit
  - Venture philanthropy
  - Social initiative
  - Ethical audit
  - Cause-related marketing.
27. The enlightenment matrix is used to measure corporate giving. As per the matrix, a company that is high in philanthropy and high in self-interest is involved in which of the following activities? [<Answer>](#)
- Social responsibility
  - Pure philanthropy
  - Cause-related marketing
  - Enlightened self-interest
  - Community involvement.
28. Which of the following is the main purpose of corporate governance? [<Answer>](#)
- Disbursement of organizational resources to individuals based on positive contributions made to the organization
  - To adopt new technology
  - To maximize shareholder value
  - To separate ownership and management control of organizations
  - To ensure that regulatory frameworks are adhered to.
29. In which of the following corporate governance models, do financial institutions have a major say in governance mechanism? [<Answer>](#)
- Anglo-American model
  - German model
  - Japanese model
  - Indian model
  - Russian model.
30. Which of the following pertains to the 'conformance role' of a director? [<Answer>](#)
- It is a tricky role as it involves the director monitoring and evaluating his own performance
  - The director acting as a source of know-how expertise and external information
  - Outside directors act as the eye of the board to the external world
  - The outside directors representing the company on public forums or committees
  - The director catering to the needs of the corporation for networking, representing and adding status.

**END OF SECTION A**

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

- This section consists of questions with serial number 1 – 6 .
- Answer all questions.
- Marks are indicated against each question.
- Detailed explanations should form part of your answer.
- Do not spend more than 110 - 120 minutes on Section B.

**Caselet 1**

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

- On July 31, 2006, Murthy said that Infosys was started with a vision of global delivery. Analyze Infosys vision statement in terms of ethical issues involved while developing the vision statement? [<Answer>](#)  
( 8 marks)
- Infosys has majority of the board structure and compensation, nomination, investor grievance and audit committees, which are comprised of independent directors. [<Answer>](#)  
( 9 marks)

Discuss. Also discuss the other corporate governance initiatives taken by Infosys where it sought to be a global leader.

Chief Mentor N.R. Narayana Murthy is as well known as a promoter of corporate governance reform and excellent corporate workplace ethical practices, as he is as the co-founder of Infosys Technologies Ltd., the Mysore-based company that is one of India's new technology leaders. Murthy, who turned 60, is relinquishing key executive positions in the company he co-founded in 1982 to become the enterprise's Chief Mentor. Much like Bill Gates at Microsoft, Murthy has pioneered a technology revolution and as his corporation has become firmly established and very successful, so he has distanced himself from day-to-day operations.

Infosys, which employs over 58,000 people worldwide, provides consulting and IT services. It is one of the pioneers in strategic offshore outsourcing of software services. Murthy is a fervent believer in globalization, a major influence on the thinking of author Tom Friedman (*The World Is Flat: A Brief History of the Twenty-first Century*) and a leader of India's technology revolution. His approach to corporate governance and workplace values has been no less influential on the most dynamic and successful technology companies in India. Infosys highlights its perspectives at [www.infosys.com](http://www.infosys.com).

On July 31, 2006, Murthy opened the NASDAQ market from his corporate headquarters in Mysore. He said, "Twenty-five years ago, we founded Infosys with a vision of the global delivery model. That vision has been validated as the tide of globalization has swept across the world and businesses are dramatically changing how they run their organizations. Opening the NASDAQ market from India is not only a great honor for Infosys, but also illustrative of the emerging new world."

The Company's Vision is: "To be a globally respected corporation that provides best-of breed business solutions, leveraging technology, delivered by best-in-class people." And, its Mission is: "To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large."

Infosys has built a state of the art office complex in Bangalore with all modern facilities which helps in giving its employees a sense of belonging. While offering stock options to its employees, it ensures that the workforce has a stake in its overall growth. Actions speak louder than words and leaders must speak in a way that inspires integrity and a vision for the company.

Corporate Governance is an area of critical importance to Infosys and one where it has sought to be a global leader. It is seeking to use its model example to promote far higher standards in India and Murthy has been one of the most vocal and influential advocates of corporate governance reform in his country.

The company states: "We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures always seek to attain the best practices in international corporate governance. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions."

The Infosys corporate governance philosophy is based on the following principles:

- Satisfy the spirit of the law and not just the letter of the law.
- Corporate governance standards should go beyond the law.
- Be transparent and maintain a high degree of disclosure levels. When in doubt, disclose.
- Make a clear distinction between personal conveniences and corporate resources.
- Communicate externally, in a truthful manner, about how the company is run internally.
- Comply with the laws in all the countries in which the company operates.
- Have a simple and transparent corporate structure driven solely by business needs.

- Management is the trustee of the shareholders' capital and not the owner.

Infosys stresses that at the core of its corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the company. It states: "We believe that an active, well-informed and independent Board is necessary to ensure the highest standards of corporate governance."

Majority of the Board, 9 out of 16, are independent members. Further, Infosys has compensation, nomination, investor grievance and audit committees, which are comprised of independent directors."

"As a part of our commitment to follow global best practices, we comply with the Euroshareholders Corporate Governance Guidelines 2000, and the recommendations of the Conference Board Commission on Public Trusts and Private Enterprises in the U.S."

We also adhere to the UN Global Compact Programme." To promote corporate social responsibility the company established a philanthropic foundation in 1996, which is mostly engaged in social, health and education programs in India.

Murthy is the chairman of the governing body of the Indian Institute of Information Technology, Bangalore and the Indian Institute of Management, Ahmedabad. He was the Chairman of the Committee on Corporate Governance appointed by the Securities and Exchange Board of India (SEBI) in 2003. He is a member of the Board of Overseers of the University of Pennsylvania's Wharton School; Cornell University Board of Trustees; Singapore Management University Board of Trustees; INSEAD's Board of Directors and the Asian Institute of Management's Board of Governors. He is also a member of the Advisory Boards and Councils of the William F. Achtmeyer Center for Global Leadership at the Tuck School of Business, the Corporate Governance initiative at the Harvard Business School, and the Yale University President's Council on International Infosys Foundation, the philanthropic arm of Infosys Technologies Ltd., came into existence on 4th December 1996 with the objective of fulfilling the social responsibility of the company by supporting and encouraging the underprivileged sections of society. In a short span of time, the Foundation has implemented numerous projects in its chosen areas. The Foundation has undertaken various initiatives in providing medical facilities to remote rural areas, organizing novel pension schemes and in aiding orphans and street children. It has undertaken a large rural education program titled "A library for every school" under which 5500 libraries have been set up in government schools spread across many villages. Other activities include the reconstruction of old school buildings, setting up of rural Science Centers and schemes to provide support to dying traditional art and culture forms.

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<p align="center"><b>END OF CASELET 1</b></p>
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### **Caselet 2**

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

3. Bribery, of course, is the most widespread form of corruption, and corporate strategies for dealing with bribe requests vary. With respect to the caselet, discuss the strategies for saying no to bribe and explain risks and costs abound for companies that succumb to the bribery game. [<Answer>](#)
4. There's no doubt that corruption, endemic in emerging economies around the world. Discuss the various unethical behaviors that constitute in business and their impact of corruption on market system. [<Answer>](#)

**( 7 marks)**

**( 8 marks)**

In Turkey, the apartment buildings that collapse during earthquakes are known as "bribe buildings." In Africa, bridges dot the landscape with no roads to connect them. There's no doubt that corruption, endemic in emerging economies around the world, throws economic development into chaos. It affects decisions made by bureaucrats, degrades the quality of those in power, and discourages foreign



investment. It's also an increasingly hot business topic, with a growing number of influential business and political leaders from around the globe regularly pinpointing corruption as one of the greatest threats to global economic development.

"Corruption and bribery have moved to the forefront in discussions about business," says Wharton legal studies professor Philip M. Nichols. "The list of countries that have been politically or economically crippled by corruption continues to grow, and businesses with long-term interests abroad will ultimately be harmed by any plans that include bribery."

Bribery, of course, is the most widespread form of corruption, and corporate strategies for dealing with bribe requests vary. According to Nichols, some companies opt to pay, sometimes damaging their public images and making it more difficult to refuse future requests. Others have the sheer bulk and revenues to successfully and consistently say "no." Oil giant Texaco, for example, has such a formidable reputation for refusing to pay bribes that its jeeps are often waved through even remote African border crossings without paying a penny.

A key, Nichols suggests, is wiring this no-bribe ideal into a corporation's culture, starting with a corporate code for managers and employees, affiliates and potential business partners. But coming to grips with what appears to be an international groundswell of corruption is far from a simple matter. Nichols believes that unraveling and explaining the mechanics of corruption is critical to helping the growing body of government and corporate organizations trying to fight it.

On a practical level, what does the upswing in international corruption mean to a company? "The fact that a great number of government officials in a great number of countries, including some potentially large markets, seem to demand bribes is critical to any business that has a cross-border presence," says Nichols. "Then there's the reality that more than 20 nations, including the wealthiest and most-active trading nations, have made bribe paying illegal, and the fact that despite this there are still competitors who will pay bribes.

"These facts combined make for some extremely difficult terrain. Officials expect you to pay bribes, some of your competitors will pay them, but you might go to jail if you do."

Corporations, Nichols believes, must create a corporate culture that doggedly refuses bribe requests and establish clear corporate codes that employees unwaveringly adhere to. They must also assure managers that the company will back them when they refuse to pay. "A company would be foolish not to develop two general strategies, one for dealing with bribe demands and another for dealing with competitors who offer bribes," he says. "The potential, in terms of criminal liability, skewed relationships, lost contracts, disqualification from government contracts, loss of reputation and so on is simply too great to ignore.

"Perhaps the most useful action a business can take is to really understand corruption, and to create and articulate a general response to corruption before it encounters difficult situations," Nichols says. "It's also useful for businesses to work together to create assurances that each will adhere to some agreed level of behavior."

Other risks and costs abound for companies that succumb to the bribery game, Nichols says. Because bribery is illegal, it is conducted behind closed doors, with those involved expending time and resources to keep their secret. "For obvious reasons, we have not really been able to study the quality of corrupt relationships," he says. "But those who have endured them often describe them as unhealthy, unstable and unenforceable." He adds that firms' reputations suffer when word ultimately leaks, as happened with those who conducted business with the family of former Indonesian President Suharto. Prior to and just following Suharto's 1998 resignation, the former leader, his children and associates were widely accused of taking advantage of benefits such as monopolies and tariff breaks to amass enormous personal wealth.

Companies also face the very real possibility of being pushed to pay more and more bribes as their reputation as a bribe-payer spreads. "One European businessman told me that after his company made its first few payments, bribery became a part of the normal course of business because bureaucrats worldwide expected similar

treatment,” Nichols says. “This is far from uncommon.”

Lastly, there are international trade implications surrounding bribery. Bribery degrades markets. Economist Paolo Mauro, in the article “Corruption and Growth,” finds a direct link between high levels of corruption and low levels of foreign direct investment. Though Mauro’s work does not explain this finding, Nichols offers three likely reasons. “First, corruption actually increases the amount of time a company must spend with a bureaucracy; second, corruption makes it more difficult to obtain information, which increases transaction costs, and third, corrupt relationships are less predictable and less enforceable. There’s probably a fourth reason too, which is that most business people are good people and have a distaste for endemically corrupt environments,” he says.

“Corruption also drastically affects economic development by causing a misallocation of resources. Yes, Africa is littered with bridges instead of hospitals. But more damaging is the fact that in endemically corrupt systems, regular people are not getting served by the government; they don’t trust the government so they don’t interact with the government,” Nichols says. “But people have to get things done. So they create their own systems to do things, such as resolve disputes or enforce contacts or even police neighborhoods.”

These systems, however, “are not free,” Nichols adds. “They cost money. So money goes to supporting the government system and money goes to supporting the shadow system; twice as much money goes to bureaucracies as it should. That means money is not going to increasing food production, or to health, or to enlarging the economy. And that stinks.”

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<b>END OF CASELET 2</b>
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### **Caselet 3**

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

5. Define environmental ethics and explain the various approaches Fetzer Vineyards used concerning the moral responsibility of environment. [<Answer>](#)  
**( 9 marks)**
6. Fetzer is recognized as a zero waste company by the state of California. Analyze the initiatives adopted by Fetzer to become the zero waste company. [<Answer>](#)  
**( 9 marks)**

Imagine a football field covered in garbage. It’s a foot deep, so when you walk around in it - slogging through office paper, food pulp, old Bic pens - it reaches up past your ankles. Now imagine that someone has cleaned that field. The waste is the same depth, but now it only reaches from the first to the seventh yard line, and 93% of the field is pristine and green again. That’s a major cleanup. And that’s what Fetzer Vineyards, in Hopland, California (Calif), has accomplished with its own waste since 1991. Fetzer has done it during a time when sales more than doubled.

Not being one to rest on its laurels, the Fetzer winery aims to go further - to zero waste by the year 2009. “We are already recognized as a zero waste company by the state of California,” said Patrick Healy, environmental coordinator at Fetzer. What they do with all that non-waste is instructive. They recycle everything from cardboard to antifreeze; compost organic waste and turn it into fertilizer; and work to keep materials out of the waste stream - by restoring oak barrels rather than discarding them, for example.

There’s almost no aspect of the winery that escapes this kind of detailed environmental scrutiny. Take the administration building, for example. This 10,000-square-foot facility, completed in 1996, is one of the world’s first large-scale examples of rammed-earth (underground) construction. It was built almost entirely with recycled wood. Carpets are natural fiber. Lights are on motion sensors, so they go off as you leave the room. Heat comes from waste heat off chillers used in wine making. And instead of air conditioning, the building uses night-air cooling. “Computerized and motorized windows open at night to admit cool air,” Healy explained. Even landscaping is environmentally conscious. It’s “zeroscape,” he said,

because the drought-resistant plants take little water.

And then, of course, there's the photovoltaic array on the roof, which got up and running in June. "It's the largest photovoltaic display in northern California not owned by a utility company," Healy said. It supplies three-quarters of the building's energy needs. All other power used by the winery is from renewable sources, thanks to a unique utility contract signed in May.

Most telling, perhaps, is the vineyard's approach to grape growing itself: an organic approach that relies on natural pest control and soil management. Techniques include the use of "cover crops" grown between the vines, like crimson clover and purple vetch, which attract beneficial insects. "They keep the bad guys in check, so to speak," said President Paul Dolan. Another technique is "canopy management," in which the leaf and cane canopy is opened to bring in sunlight, to reduce the chance of mold and rot, and eliminate the need for fungicides.

The process "brings us closer to the vine," Dolan said. "We don't have the quick fixes of chemicals, so we're in the vineyards more. We find that our farmers are better farmers as a result." And the grapes simply taste better. That's where the financial payoff lies. There's some demand for specially labeled "organic" wine, which Fetzer meets with an organic label, Bonterra. But it doesn't label most of its wine organic. Organic growing "is part of who we are," Dolan said. "It's not something the consumer is aware of."

About 20% to 30% of grapes used now are organic, but Fetzer plans to reach 100% by 2010. Toward that end, it formed "Club Bonterra" to help share ideas on sustainable farming among its outside farmers, who provide more than 90% of the grapes.

Does all of this environmental focus cost more? Yes and no. Organic methods are a little more expensive to begin with, but not in the long run. The solar array really won't pay for itself, but it was built with the help of grants. Renewable power is slightly more expensive, but Fetzer is offsetting that by pursuing efficiencies in usage. And recycling is decidedly less expensive than land filling. It all does make economic sense. "But it's not like we're using it as a competitive edge," Dolan said. It simply fits with how the company does business. Fetzer's vision statement is to enhance the quality of life.

What's remarkable is that Fetzer takes this holistic approach as a publicly held company. This \$160 million firm is owned by the \$2 billion Brown-Forman Corp., based in Louisville, Kentucky (Ky). "They've been great about it," Dolan said. Fetzer runs its own show, as long as the profit is there. And as Dolan says, Fetzer is "very profitable." Over the last six years, profits and revenues have grown at a 15% annual compounded rate.

It's a model worth showcasing for a new century - a thoughtful and deep commitment to the environment, combined with financial excellence. As Dolan said, "it helps other people see it can be done."

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**END OF CASELET 3**

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**END OF SECTION B**

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

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| <ul style="list-style-type: none"><li>• This section consists of questions with serial number 7 - 8.</li><li>• Answer all questions.</li><li>• Marks are indicated against each question.</li><li>• Do not spend more than 25 - 30 minutes on Section C.</li></ul> |
|--|

7. Marian, a top graduate from Loyola in Humanities, has applied to Spin Colors Ltd. for a management position. The CEO was questioned by other panel members after the interview regarding the necessity to hire Marian, as she is a black woman with unpleasant personality. But because of her good academics the CEO wants to appoint her. In this regard, discuss the principle of ethical selection.

[<Answer>](#)

**( 10 marks)**

8. The role of the management involves in balancing the multiple claims of different stakeholders. Knight Restaurants gives preferential treatment to some of its stakeholder groups over the other. Therefore the task of the management to keep the relationships among the stakeholders is not balanced. When these relationships become imbalanced, the survival of Knight Restaurants is in jeopardy. Discuss why it is important for Knight Restaurants' to maintain good relation with external stakeholders.

[<Answer>](#)

**( 10 marks)**

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<b>END OF SECTION C</b>
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<b>END OF QUESTION PAPER</b>
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# Suggested Answers

## Business Ethics & Corporate Governance (MB3I2): October 2008

### Section A: Basic Concepts

Answer	Reason
1. C	Six factors are involved in ethical decision-making. Proximity says while solving <a href="#">&lt; TOP &gt;</a> ethical dilemmas a manager may adopt those decisions that are beneficial to him or those affected socially, culturally, psychologically or physically by the decision.
2. E	<p>Businesses operating with social responsibility should have standard rules and regulations for efficient functioning. To avoid ethical dilemmas managers can follow the approaches by Clutterbuck (institutional and control oriented approach) and Drummond and Carmichael's (personalized development approach). Clutterbuck's approach:</p> <ul style="list-style-type: none"> <li>• It includes ethics in recruitment criteria.</li> <li>• Using reward and punishment mechanisms.</li> <li>• Establish openness and transparency into decision-making processes.</li> <li>• Provide mechanisms for negotiating concerns.</li> </ul> <p>Draw up personal and corporate ethics checklist is among Drummond and Carmichael's (personalized development approach).</p>
3. D	<p>When a company adopts an anti-pollution environment policy, it is said to be 'going <a href="#">&lt; TOP &gt;</a> green'. Organizations adopt green initiative due to the following reasons:</p> <ul style="list-style-type: none"> <li>• Economic benefits from increased efficiency.</li> <li>• Competitive advantage through innovation.</li> <li>• Public image.</li> </ul> <p>To set a standard or code for moral behavior is an objective of ethics.</p>
4. A	When a company is taken over, many top executive are likely to lose their jobs. So to <a href="#">&lt; TOP &gt;</a> discourage an unwanted takeover attempt, a company gives lucrative benefits to its top executive – these benefits 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.
5. C	Structural and portfolio strategy is concerned with decisions regarding the structure of <a href="#">&lt; TOP &gt;</a> the company and the businesses that it should enter into. This level of strategic thinking involves discussions among the board of directors and the management, relating to acquisitions, mergers, strategic alliances or sale of a part of the business.
6. D	In the fifth stage, "stakeholders concept," companies concentrate on profits to have a <a href="#">&lt; TOP &gt;</a> social as well as economic mission. They measure their success not only in financial terms but also in terms of contribution to society.
7. C	<p>The role of management accountant is to provide information that the management <a href="#">&lt; TOP &gt;</a> needs for formulating policies, planning and controlling the activities of the employees, decision-making, disclosures to shareholders and others who are external to the business. The main task of a management accountant is to provide trustworthy and credible information on which the management can base its decisions.</p> <p>The financial accountant provides economic information to the investors. The role of the financial accountant also involves advising directors on the items that have to be selected for inclusion in the financial statement.</p>
8. E	<p>A corporation is a legal person, enjoying the following rights: <a href="#">&lt; TOP &gt;</a></p> <ul style="list-style-type: none"> <li>• Corporations can make donations to political parties and thus can push an agenda in favor of it.</li> <li>• Corporations can give reasonable protection to individuals working for it from penalty or jail, which individuals would not enjoy as outsiders to the corporation.</li> <li>• As a legal person, a corporation can own property, including real estate, copyrights and intellectual property.</li> </ul>

9. A According to Cannon psychological contract aims at motivating employees and [< TOP >](#)  
giving recognition to stakeholders and also offers some security.  
Efficiency contract helps managers to make decisions that minimize wastage and at the same time, maintain a consistent effort in reward standards.  
Knowledge contract enables managers to use their competence and skills for the benefit of the enterprise.
10. B Statement (I), (II) and (IV) are not true regarding corporate governance. Since [< TOP >](#)  
corporate management focuses internally, it assumes a closed system and it is concerned with getting the company there.
11. E Jitendra Mishra and Molly Morrissey have identified the following factors that [< TOP >](#)  
promote trust in an organization:
- Open communication.
  - Sharing of critical or important information.
  - Encouraging employee participation in decision-making.
  - Sharing of perceptions and feelings.
12. C According to Gelleraman, a manager uses the following rationalizations: [< TOP >](#)
- They will be protected by their company.
  - Their actions are aimed at the individuals or corporations best interest.
  - Their actions are within reasonable ethical and legal limits.
  - Their actions will not be disclosed or published.
13. D Marketing mix is crucial for the marketing decision making process. Assembling and [< TOP >](#)  
managing the 4P's is an important task for any marketer. Marketing mix also includes the service aspects of people, physical evidence and process.
14. C Shadow directors are those who influence the decisions of the board without formally [< TOP >](#)  
being present on the board. This type of directorship is seen in some family owned companies. But when there is evidence to prove their influence, they can be held responsible for the acts of the company along with the directors of the board.
15. A Circulated letters reflects the company's policies on certain issues concerning [< TOP >](#)  
suppliers, contractors and buying agents.
16. B The stakeholders of an organization are all those who participate in some way in the [< TOP >](#)  
activities of the organization. A company's relationship with suppliers and subcontractors must be based on mutual respect to foster long-term stability in return for value, quality, competitiveness and reliability.
17. D Powers can be exercised only with the consent of the company at the general meeting [< TOP >](#)  
are
- Power to remit debt due by a director.
  - Power to appoint sole selling agents.
  - Power to borrow in excess of capital and reserves of the company.
18. B The characteristic of Law: [< TOP >](#)
- Laws are enforced when people disobey them
  - If the majority of the members do not obey the law, then it becomes difficult to enforce it
  - The requirement how to act or not to act in a particular situation has to be published in written form
  - Law is applicable to everyone who faces similar circumstances
  - There should be any contradiction between two requirements of the act.

19. C During the Victorian rule there was a variance in the practice of christianity especially [< TOP >](#) between catholicism of the Irish migrants and the determined quakerism. These quakers constituted the nonconformist section of the society. Noncoformism was with respect to religion.
- Therefore, the following happenings pertain to the ‘nonconformist challenge’ in Britain:
- Wealth and industry were approached in different ways from the perspective of the religion that people heading big businesses followed.
  - Quakers played an important role in shaping values of new entrepreneurial groups.
- Statement (III) is not a happening that pertains to conformist challenge. Reflection over the needs of people who failed to prosper from the industrial revolution was a general characteristic of the situation during the early years of the eighteenth century.
20. D It appears that both buyers and suppliers realize that employing unethical practices [< TOP >](#) will result in short-term success at best, but will inevitably culminate in damage to both their careers and the buyer-supplier relationship.
21. D The study conducted to examine ethical practices in the US, France and Germany [< TOP >](#) found out that:
- The American managers said that bribery was unethical and illegal under the Foreign Corrupt Practices Act.
  - Only one third of the German managers felt signing the contract would be dishonest is a situation which showed conflict of interest.
  - It was concluded that the US executives were more concerned with ethical and legal questions.
22. C At times of recession it has become common for businesses to reduce their size and overhead costs by discharging some of the employees, and creating a “lean and mean” styles of management. [< TOP >](#)
23. E Law refers to a set of rules established to govern the behavior of individuals within the society. Laws can be enforced only if they are widely accepted. There are four processes involved in the formulation of the laws, they are Political, social, individual and group processes. [< TOP >](#)
24. C Money laundering can be defined with reference to situations such as: [< TOP >](#)
- Acquisition, ownership, possession or transfer of any proceeds of crime.
  - Knowingly entering into a transaction related to the proceeds of crime, directly or indirectly.
  - Concealment or aiding in the concealment of the proceeds of crime.
- Statement (IV) pertains to insider trading.
25. C Fictitious revenues are those, which are shown in the books but are not actually earned. The method by which this takes place is booking non-existent revenue and simply creating journal entries by debiting accounts receivable and crediting sales. Sometimes false sales are shown to existing customers. Smart accountants select transactions with a few major customers, such as large organizations and governmental agencies that they know will be difficult to confirm. Comparing financial statements over a period of time, examining unusual journal entries and verifying, supporting sales documents and unusual sales transactions, can detect fictitious revenues. [< TOP >](#)

26. A 'Social audit' known as an assessment of the social impact of a corporation on [< TOP >](#) society.
- 'Cause-related marketing assessment' is not referred as assessment of the social impact of a corporation on society.
  - 'Venture philanthropy' is not referred as assessment of the social impact of a corporation on society.
  - 'Social initiative' is not referred as assessment of the social impact of a corporation on society.
  - 'Ethical audit' is not referred as assessment of the social impact of a corporation on society.
27. A As per the enlightenment matrix, a company that is high in philanthropy and high in [< TOP >](#) self-interest is involved in social responsibility.
28. A The main purpose of corporate governance is disbursement of organizational [< TOP >](#) resources to individuals based on positive contributions made to the organization.
29. C In the Japanese model of corporate governance, the financial institutions have a major [< TOP >](#) say in the governance mechanism. The shareholders, along with the banks, appoint the members on the board. In this model even the president is appointed on the basis of a consensus between the shareholders and the banks.
30. A The conformance role is a tricky role as it involves the director monitoring and [< TOP >](#) evaluating his own performance.



## Section B : Caselets

1. **The Company's Vision statement:** "To be a globally respected corporation that provides best-of breed business solutions, leveraging technology, delivered by best-in-class people." And, its Mission is: "To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large." [< TOP >](#)

### **Ethical issues while developing the vision statement:**

The Vision statement plays a major role in influencing the strategy of an organization. It reflects the values and priorities of strategic decision makers. It provides managers with a unity of direction and also projects a sense of worth and intent that can be identified and assimilated by the insider and outsiders of the company i.e., stakeholders.

A company's vision statement reflects company's culture and values. For instance, Infosys vision statement declares that the company seeks to be a globally respected corporation that provides best-of-breed software solutions delivered by best people.

**Infosys global presence:** On July 31, 2006, Murthy opened the NASDAQ market from his corporate headquarters in Mysore. Murthy said that, twenty-five years ago they founded Infosys with a vision of the global delivery model. That vision has been validated as the tide of globalization has swept across the world and businesses are dramatically changing how they run their organizations. Opening the NASDAQ market from India is not only a great honor for Infosys, but also illustrative of the emerging new world. Infosys employs over 58,000 people worldwide.

**Best-of-breed software:** Murthy has pioneered a technology revolution and his corporation has become firmly established and very successful. It provides consulting and IT services. It is one of the pioneers in strategic offshore outsourcing of software services.

**Respected corporation:** Murthy's approach to corporate governance and workplace values has been no less influential on the most dynamic and successful technology companies in India. Corporate Governance is an area of critical importance to Infosys and one where it has sought to be a global leader. It is seeking to use its model example to promote far higher standards in India and Murthy has been one of the most vocal and influential advocates of corporate governance reform in his country.

**Infosys ensured best people:** Infosys has built a state of the art office complex in Bangalore with all modern facilities which helps in giving its employees a sense of belonging. While offering stock options to its employees, it ensures that the workforce has a stake in its overall growth. Actions speak louder than words and leaders must speak in a way that inspires integrity and a vision for the company.

There are no hard and fast rules that vision statement should be written or published. Top management usually has a crucial role in the development of the vision statement. But in some organizations even employees are involved in this task. The ethical question arises that to what extent do stakeholders have a right to be involved in developing and articulating the strategic vision?

In many successful companies the CEO himself frames the vision statement of the organization. However there are instances, where in companies failed due to this one – man approach. The ideal solution would be to involve the CEO and senior managers in the development of the vision statement.

2. Corporate Governance is an area of critical importance to Infosys and one where it has sought to be a global leader. It is seeking to use its model example to promote far higher standards in India and Murthy has been one of the most vocal and influential advocates of corporate governance reform in his country. [< TOP >](#)

The company states that they believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, they always seek to ensure that they attain their performance rules with integrity. Their Board exercises its fiduciary responsibilities in the widest sense of the term. Their disclosures always seek to attain the best practices in international corporate governance. They also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

### **Boards:**

Majority of the Board, 9 out of 16, are independent members. Further, Infosys has compensation, nomination, investor grievance and audit committees, which are comprised of independent directors. Infosys exercises the following boards or committees to oversee how

the management serves and protects the long-term interests of all the stakeholders.

**Majority of the Board:** In the majority of the board structure 9 out of 16, are independent members. In the majority of the board, executive directors have a majority on the board while outside or non-executive directors are in a minority. The non-executive directors are appointed to the board to represent the interests of stakeholder groups like major shareholders employees, customers etc. Sometimes, organizations appoint non-executive directors on the board to bring in the required expertise, knowledge and experience.

The non-executive directors act as a check on the powers of the majority executive directors on the board. Ideally, there should be more than one non-executive director on the board to influence the decisions of the executive directors. It is conventional to have one-third of the seats on the board filled by non-executive directors; they put considerable pressure on board decisions by way of resignation if necessary. Infosys has 9 out of 16, that is it has more than 1/3rds. Infosys follows this so that they are constantly checked and to exercise good corporate governance.

Further, Infosys also has the following committees which are comprised of independent directors:

**Compensation committee:** Shareholders are becoming concerned about the lack of transparency regarding the remuneration of directors and top-level managers. The board sets up the remuneration or compensation committee to objectively review the remuneration packages of the executive directors and other top-level managers. This committee, which is made up of independent directors, chalks out the remuneration policy. Such a policy checks the unreasonable increase of executive remuneration.

**Nomination Committee:** These committees are usually set up to select the new non-executive directors. Usually, it is headed by the Chairman and it shortlists and interviews the final candidates.

**Investor grievance:** These committees are usually conducted for the interest of the investors, so that the company's accounts are transparent and repayments are done on time.

**Audit committees:** The committee usually consists of independent directors who report to the board. These committees act as a link between the board and the external auditors. The audit committee looks into all the matters raised by the external auditors relating to the management systems and tries to resolve any objections that the auditors raise about the published financial accounts. Some of the functions of a corporate audit committee are:

- To discuss with independent auditors any problems that they experience in completing the audit.
- To view the interim and final accounts in toto
- To inform the board about the effectiveness of internal controls and the quality of financial reporting as pointed out by the independent auditors.
- To make recommendations regarding the audit fee, selection and replacement of auditors.

**Other practices:** As a part of their commitment to follow global best practices, we comply with the Euroshareholders Corporate Governance Guidelines 2000, and the recommendations of the Conference Board Commission on Public Trusts and Private Enterprises in the U.S.

They also adhere to the UN Global Compact Programme. To promote corporate social responsibility the company established a philanthropic foundation in 1996, which is mostly engaged in social, health and education programs in India.

Murthy is the chairman the Yale University President's Council on International Infosys Foundation, the philanthropic arm of Infosys Technologies Ltd., came into existence on 4th December 1996 with the objective of fulfilling the social responsibility of the company by supporting and encouraging the underprivileged sections of society. In a short span of time, the Foundation has implemented numerous projects in its chosen areas. The Foundation has undertaken various initiatives in providing medical facilities to remote rural areas, organizing novel pension schemes and in aiding orphans and street children. It has undertaken a large rural education program titled "A library for every school" under which 5500 libraries have been set up in government schools spread across many villages. Other activities include the reconstruction of old school buildings, setting up of rural Science Centers and schemes to provide support to dying traditional art and culture forms.

### 3. Strategies for saying no to bribe:

[< TOP >](#)

- Corporations must create a corporate culture that doggedly refuses bribe requests and establish clear corporate codes that employees unwaveringly adhere to.

- They must also assure managers that the company will back them when they refuse to pay.
- The most useful action a business can take is to understand corruption, and to create and articulate a general response to corruption before it encounters difficult situations.
- It's useful for businesses to work together to create assurances that each will adhere to some agreed level of behavior.

#### **Risks and costs abound for companies that succumb to the bribery game:**

- Because bribery is illegal, it is conducted behind closed doors, with those involved expending time and resources to keep their secret. Those who have endured them often describe them as unhealthy, unstable and unenforceable. Firms' reputations suffer when word ultimately leaks, as happened with those who conducted business with the family of former Indonesian President Suharto. Prior to and just following Suharto's 1998 resignation, the former leader, his children and associates were widely accused of taking advantage of benefits such as monopolies and tariff breaks to amass enormous personal wealth.
  - Companies also face the very real possibility of being pushed to pay more and more bribes as their reputation as a bribe-payer spreads. One European businessman, after his company made its first few payments, said that bribery became a part of the normal course of business because bureaucrats worldwide expected similar treatment.
  - Lastly, there are international trade implications surrounding bribery. Bribery degrades markets. Economist Paolo Mauro, in the article "Corruption and Growth," finds a direct link between high levels of corruption and low levels of foreign direct investment. Though Mauro's work does not explain this finding, Nichols offers three likely reasons. First, corruption actually increases the amount of time a company must spend with a bureaucracy; second, corruption makes it more difficult to obtain information, which increases transaction costs, and third, corrupt relationships are less predictable and less enforceable. There's probably a fourth reason too, which is that most business people are good people and have a distaste for endemically corrupt environments.
  - Corruption also drastically affects economic development by causing a misallocation of resources. Africa is littered with bridges instead of hospitals. But more damaging is the fact that in endemically corrupt systems, regular people are not getting served by the government; they don't trust the government so they don't interact with the government. But people have to get things done. So they create their own systems to do things, such as resolve disputes or enforce contracts or even police neighborhoods.
  - These systems, however, "are not free." They cost money. So money goes to supporting the government system and money goes to supporting the shadow system; twice as much money goes to bureaucracies as it should. That means money is not going to increasing food production, or to health, or to enlarging the economy.
4. There's no doubt that corruption, endemic in emerging economies around the world, throws economic development into chaos. [< TOP >](#)
- It affects decisions made by bureaucrats,
  - Degrades the quality of those in power, and
  - Discourages foreign investment.
  - It's also an increasingly hot business topic, with a growing number of influential business and political leaders from around the globe regularly pinpointing corruption as one of the greatest threats to global economic development.

Various unethical behaviors and their impact on market system are:

#### **Coercion**

The use of threat or force to prevent sellers" from dealing with certain customers, and buyers from purchasing from certain sellers amounts to coercion. Coercion decreases effective competition and results in fewer resources being allocated to producing goods and services than would be the case if free competition had been allowed.

#### **Deceptive information**

Deceptive information about products and services often leads customers to choose goods and services that they would not have chosen if they had access to accurate information. Such misleading information decreases customer satisfaction as the products and services fail to

meet customer expectations.

### **Theft**

Theft compels (the marketer or supplier to increase his product price to make up for his losses due to theft. Many power transmission companies are the major victims of theft. These companies are accumulating losses because of widespread theft of power by corporations and individuals. The scale of theft is now compelling many state run electricity boards to pass on these costs to consumers or to move out of business.

### **Bribery**

Bribery involves offering or receiving something of value for the purpose of influencing the action of an official in the discharge of his or her public or legal duties. A bribe induces the decision maker to choose an alternative that may bring him some personal gain, but may not really be the best one.

Today many businesses are indulging in bribing the decision makers to make decisions in their favor. Bribes may take the form of kickback, expensive sponsorships for travel abroad, parties, etc. Bribery distorts the market system as the cost of the bribe is built into the cost of the project or the final product. A contractor who bags a project to build a dam by bribing the concerned officials may try to make up for this expense by using low quality inputs.

Bribery, of course, is the most widespread form of corruption, and corporate strategies for dealing with bribe requests vary. According to Nichols, some companies opt to pay, sometimes damaging their public images and making it more difficult to refuse future requests. Others have the sheer bulk and revenues to successfully and consistently say “no.”

A key, Nichols suggests, is wiring this no-bribe ideal into a corporation’s culture, starting with a corporate code for managers and employees, affiliates and potential business partners. But coming to grips with what appears to be an international groundswell of corruption is far from a simple matter. Nichols believes that unraveling and explaining the mechanics of corruption is critical to helping the growing body of government and corporate organizations trying to fight it.

On a practical level, what does the upswing in international corruption mean to a company? “The fact that a great number of government officials in a great number of countries, including some potentially large markets, seem to demand bribes is critical to any business that has a cross-border presence,” says Nichols. “Then there’s the reality that more than 20 nations, including the wealthiest and most-active trading nations, have made bribe paying illegal, and the fact that despite this there are still competitors who will pay bribes.

“These facts combined make for some extremely difficult terrain. Officials expect you to pay bribes, some of your competitors will pay them, but you might go to jail if you do.”

Coercion, deceptive information, theft and bribery are all unethical behavior. They lead to a misallocation of resources and a lack of trust between the parties involved in a business transaction. This hampers the effective functioning of the market system.

5. Environmental ethics is a branch of applied ethics, which examines the moral basis of environmental responsibility. Environmental responsibilities have to be weighed against the responsibilities against the responsibilities to stakeholders and societal benefits, as any damage caused to environment has an impact on society as well as on stakeholders. Environmental issues such as toxic waste, contamination of ground water, oil spills destroying the seashores, usage of fluorocarbon that deplete the ozone layer etc can be tackled by espousing environmental ethics. Thus, the goal of environmental ethics does mainly revolve around the concern about the environment and also the moral foundation of environmental responsibility. [< TOP >](#)

There are three approaches concerning the moral responsibility of environment. Although three different approaches have been adopted, but they all in an essence, support environment responsibility. The approaches are:

- Anthropocentrism approach
- Anxiological approach
- Eco-centric approach

The **Anthropocentrism** approach focuses on the utility that human beings can derive by protecting the environment. Since the survival and well being of human beings depends on the environment, it is the moral responsibility of human beings to support and preserve the environment.

According to the **Anxiological** approach it is the moral responsibility to protect animals. It;

implies the responsibility of environment with regard to preservation of animals and animals' rights. This approach states that it is essential for a human being to have a moral standing towards the animals. Since Fetzer did not have any connection with animals they need not use this approach.

**Eco-centric** approach is considered to be a radical approach to the environmental responsibility. The theory states that, environment has to be influenced from *direct moral consideration* but not that one which is derived from human interest. The term direct responsibility means, doing such activities, which aim at preserving the inherent nature and environment. The building of Fetzer is an example of Eco-centric.

Although different approaches have been put forward to support environmental responsibility, but a successful foundation for environmental ethics should fulfill two tasks: *first*, it has to explain how human beings have degraded the environment crisis, *second*, it must explain how human beings can protect the environment.

Environmental degradation can be better understood by examining some of the events that have had a major impact on the environment like the Bhopal disaster and shell oil spill.

6. Fetzer is recognized as a zero waste company by the state of California because of the following initiatives taken by them: [< TOP >](#)

**Recycle:** Fetzer recycles everything from cardboard to antifreeze; compost organic waste and turn it into fertilizer; and work to keep materials out of the waste stream - by restoring oak barrels rather than discarding them.

**Benefits:** Recycling is less expensive than land filling. It all does make economic sense. Though it's not like they're using it as a competitive edge. It simply fits with how the company does business. Fetzer's vision statement is to enhance the quality of life.

**Building construction:** The administration building, 10,000-square-foot facility, completed in 1996, is one of the world's first large-scale examples of rammed-earth (underground) construction. It was built almost entirely with recycled wood. Carpets are natural fiber. Lights are on motion sensors. Heat comes from waste heat off chillers used in wine making. And instead of air conditioning, the building uses night-air cooling. Computerized and motorized windows open at night to admit cool air. Even landscaping is environmentally conscious. It's "zeroscape, because the drought-resistant plants take little water.

**Benefits:** Since the lights are on motion sensors they go off as someone leaves the room, thus saving electricity. The photovoltaic array on the roof, which got up and running in June is the largest photovoltaic display in northern California not owned by a utility company. It supplies three-quarters of the building's energy needs. All other power used by the winery is from renewable sources. The solar array really won't pay for itself, but it was built with the help of grants. Renewable power is slightly more expensive, but Fetzer is off setting that by pursuing efficiencies in usage.

**Vineyard:** An organic approach that relies on natural pest control and soil management is used to grape growing. Techniques include the use of "cover crops" grown between the vines, like crimson clover and purple vetch, which attract beneficial insects. They keep the bad guys in check. Another technique is "canopy management," in which the leaf and cane canopy is opened to bring in sunlight, to reduce the chance of mold and rot, and eliminate the need for fungicides.

**Benefits:** The process that is used in the vineyard "brings the employees closer to the vine because they don't have the quick fixes of chemicals. The farmers are better farmers as a result. And the grapes simply taste better. That's where the financial payoff lies. There's some demand for specially labeled "organic" wine, which Fetzer meets with an organic label, Bonterra. But it doesn't label most of its wine organic. Organic methods are a little more expensive to begin with, but not in the long run.

Fetzer is a model worth showcasing for a new century - a thoughtful and deep commitment to the environment, combined with financial excellence. It helps other people see it can be done.

## Section C: Applied Theory

7. **The principal of ethical selection:** the most important step in hiring is selecting the person who should be hired. Whatever the purpose of the business, the right principle of selection would be to hire that individual who is perceived as having the ability to contribute most to the long-term owner value. This principle of selection applies to other activities of personnel management like promoting able employees and deciding who should be fired. [< TOP >](#)

Ethical selection is all about acting in a way that is honest, fair, non-coercive and legal. An

ethical personnel officer evaluates the candidates for a given post based on the same criteria. He ensures that all the requirements and benefits of a job are clearly conveyed to the applicants. When the principle of ethical selection is not followed, a wrong candidate may be hired for the job. This breeds dissatisfaction among employees. Dissatisfied employees waste the valuable resources of the organization, as their contribution either to the present business or for its future growth is minimal.

In the selecting the right candidate, the recruiter's job is not just to eliminate the unsuitable candidates. It is not always possible for a business to find the best person for a given post. Sometimes it is forced to accept the best among the available applicants/candidates. But a business can continue its search for a suitable candidate if the expected contribution from this candidate is more than the cost of the search.

Some of the unethical practices in hiring are related to:

**Discrimination:** The first step towards ethical selection is to prevent discrimination. What are the relevant criteria for ethical selection? The right answer would be the functional qualities or abilities that are required to do the job: for example, the ability to teach for a teacher, the ability to act for an actor, the ability to paint for a painter, etc. Sometimes the character of a person plays an important role in the process of selection for a job (purchase officer, policemen, etc) that demands a high level of honesty and integrity. Here again, judging a person's functional abilities or qualities on the basis of age, gender, religion, nationality or social background is considered discriminatory. If a business uses such irrelevant criteria for hiring a candidate, it unknowingly limits the pool of talent from which it can select a candidate who can contribute towards maximizing long-term owner value.

A business frequently rejects candidates who are considered over qualified having too much experience or education, even when hiring them would not cost the business anything more than the less qualified candidates. This form of discrimination is unethical as it goes against the very principle of ethical selection, i.e. hiring the right person for maximizing long-term owner value. The primary reason for a business rejecting overqualified applicants is that a candidate with superior qualifications and expectations may not feel comfortable in his job and may end up disrupting the balance of the business/firm. Besides, managers sometimes fear that subordinates with greater experience and expertise pose a threat to their own positions. These arguments do not sound reasonable to maximize long-term owner value.

**Ageism:** Ageism is another basis of discrimination, which restricts certain applicants from applying for a job. Business considers age as a factor to gauge a person's functional abilities. Young employees are perceived to be more capable of adapting to new circumstances, and more willing to learn new skills. On the other hand, older employees are considered for jobs that demand experience and responsibility. This practice of correlating age to functional abilities may sometimes be counter-productive. An applicant rejected for being above a particular age may master a new skill faster than his juniors. Age criterion is a highly unreliable measure of an applicant's ability to contribute towards maximizing owner value. Hence using it as a recruitment criterion is unethical.

An in-depth assessment of every candidate who applies for a job is not always feasible. In these circumstances, businesses often base their appraisal of candidates on their credentials and objective tests. But this is a short-cut employed to screen out the least capable applicants and whether this method aids ethical selection is debatable.

**Credentials:** Credentials are the qualifications and experience a person has. Recruiters generally rely on these credentials to screen out applicants who do not possess the required academic or vocational qualifications. Although this method simplifies the job of a recruiter, it fails to differentiate between academic qualifications and intelligence, and, vocational qualification and expertise in a particular field. These credentials may not always reflect an applicant's functional abilities to do a job. While businesses have every right to look for highly-qualified people, they must also look for characteristics that can help a candidate contribute towards increasing owner value.

**Testing:** Testing is a relatively better method of assessing an applicant than credentials. Objective tests focus on the specific aptitude or psychological characteristics that are required to perform the job most effectively. Though these tests directly test the applicants proficiency in the job,(typing, writing, programming etc.) they are only the next best alternative to good judgment in hiring. The outcome of tests may be deceptive, unless they are well designed and their results interpreted and translated to just hiring decisions. Tests that challenge the applicant's right to privacy are considered unethical. However intrusive they may seem, psychometric tests, which attempt to measure personality traits such as extroversion and



stability, can help businesses to identify traits that help maximize long-term owner value.

8. The importance of external stakeholders of Knight Restaurants are:

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**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’:

- 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 -

**Suppliers** – Suppliers play a pivotal role in the success of any business since raw materials they supply will determine the final product’s quality and price. Good relationships with suppliers can reduce costs, which is the key to profitability. A company’s relationship with suppliers and subcontractors must be based on mutual respect. When dealing with the suppliers, organizations must

- Seek fairness and truthfulness in all activities, including pricing and licensing
- Ensure that business activities are free from coercion and unnecessary litigation.
- Foster long-term stability in the supplier relationship in return for value, quality competitiveness and reliability.
- Share information with suppliers and integrate them in the planning process.
- Pay suppliers on time and in accordance with agreed terms of trade; and
- Seek, encourage and prefer suppliers and subcontractors whose employment practices respect human dignity.

**Creditors** – Usually organizations buy goods on credit from suppliers. Although suppliers have an important stake in a business, they may cease to fill orders if a company is unable to pay the amount due, or takes too long in making the payment. It is the responsibility of organizations to make timely payments to creditors for goods that have already been delivered.

**Competitors** – Business entities are equally obliged to other business firms as they are towards stakeholders. Fair economic competition is one of the basic requirements for increasing the wealth of nations. Therefore, the responsibilities of the organization towards the competitors are:

- Foster open markets for trade and investment
- Promote competitive behavior that is socially and environmentally beneficial and demonstrates mutual respect among competitors
- Refrain from either seeking or participating in questionable payments or favors to secure competitive advantage
- Respect both tangible and intellectual property rights
- Refuse to acquire commercial information by dishonest or unethical means such as industrial espionage.

**Community** – The community gives the business the right to build or rent facilities, benefits from the tax revenues raised in the form of local services, infrastructure etc. In return for their services, the firm should act in a responsible way. The firm cannot expose the community to unreasonable hazards in the form of pollution and toxic waste. A firm’s responsibilities towards the society include:

- Respecting human rights and democratic institutions
- Supporting public policies and practices that promote human development through harmonious relations between business and other segments of society.
- Collaborating with such activities that aim at improving the standards of health, education, workplace safety and economic well being.

- Promoting and stimulating sustainable development and playing a leading role in preserving and enhancing the physical environment and conserving the earth's resources.
- Supporting peace security, diversity and social integration; respecting the integrity of local cultures
- Encouraging charitable donations educational and cultural contributions and employee participation in community and civic affairs.

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