

**QUESTION BOOKLET NUMBER****0409****Subject Code****MB312**Date of Exam: **April 26, 2009**Timings: **14:30 Hrs to 17:30 Hrs****Program : MBA****Subject : Business Ethics and Corporate Governance***To be filled by the Student*

ENROLLMENT NO.		OMR NO.	
TEST CENTER		SEAT NO.	

TOTAL MARKS : 100**MAXIMUM TIME : 3 HOURS***Answering materials to be distributed along with the question booklet are:***★ OMR ANSWER SHEET****● ANSWER BOOKLET***Instructions to Students*

1. Students should write their Question Booklet Number, OMR Answer Sheet Number, Admit Card Number and Enrollment Number at all the relevant/required places specified in Question Booklet, OMR Answer Sheet * and Answer Booklet *. In the absence of such data on OMR Answer Sheet and Answer Booklet, the same will not be evaluated.
2. Students are required to answer Section A and duly mark the answers in OMR Answer Sheet and return the same at the end of the duration allotted for Section A of the Question Booklet i.e. 30 minutes after the commencement of the examination.
3. Students are required to answer Sections B and C in the answer book provided for the same.
4. Student can retain this Question Booklet after the examination.

The instructions on marking your answers in OMR answer sheet are given on the back cover page of this Question Booklet.

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. Companies often adopt standard codes of ethics in purchasing. Sometimes, managers are accused of following unethical practice of disclosure of confidential information. Which of the following activities can be classified as unethical practice of disclosure of confidential information?
 - (a) Accepting free gifts from suppliers
 - (b) Making exaggerated questions about the quality of suppliers
 - (c) Allowing suppliers to bypass the purchase department
 - (d) Leaking of bid amounts just before major bids
 - (e) Forward buying.

2. Environmental ethics is a branch of applied ethics that examine the moral basis of environmental responsibility. The various approaches that have been adopted, support environment responsibility in essence. Which of the following approaches focuses on the utility that human beings can derive by protecting the environment?
 - (a) Anthropocentrism approach
 - (b) Anxiological approach
 - (c) Moral responsibility approach
 - (d) Eco-centric approach
 - (e) Moral consideration approach.

3. Due to the expansion of businesses, the application of ethical practices with all its implications, has created a need for which of the following activities in the modern business world?
 - (a) Producing goods
 - (b) Producing services
 - (c) Generation of profits
 - (d) Practicing business ethics
 - (e) Creating a good reputation.

4. A firm has both internal and external stakeholders. All the following are external stakeholders of a firm, **except**
 - (a) Competitors
 - (b) Employees
 - (c) Consumers
 - (d) Creditors
 - (e) Suppliers.

5. Mr. James has been offered a position by Google Corporation, which he has accepted. He has done so because Google has the reputation of being an organization with ethical remuneration practices. Which of the following are **true** regarding ethical remuneration practices?
- Remuneration is driven by the needs of employees.
 - Remuneration depends solely on results achieved by employees.
 - Employees who work hard to perform a task need not be rewarded more than those who do it effortlessly.
 - A person, who works hard but fails to achieve results, deserves no reward but sympathy.
- Both (I) and (II) above
 - Both (I) and (III) above
 - (I), (II) and (III) above
 - (II), (III) and (IV) above
 - All (I), (II), (III) and (IV) above.
6. An organization that 'goes green' can expect to reap a number of tangible and intangible benefits. Which of the following is **not** a reason for organizations to adopt green initiatives?
- Decreases handling expenses
 - Enhances public image +
 - Increases waste reduction +
 - Decreases process innovation
 - Uses cleaner technologies. +
7. Which of the following views proposes that businesses should concentrate on profit maximization in order to flourish and that morality and ethics have no role in business?
- The Unitarian view
 - The Separatist view
 - The Integration view
 - The Law of the Jungle
 - Anything for profit.
8. The effectiveness of an organization depends on its ability to develop itself onto a social organization. As a result, the organization performs a number of tasks, one of them being the maintenance tasks. Which of the following is/are **true** regarding maintenance tasks taken up by an organization?
- These are the tasks performed by an organization, so that it adapts to the changes in the society.
 - These are the tasks that help in ensuring the normal flow of communication in society.
 - These are the tasks that help shape the society and culture by transmitting knowledge.
- Only (I) above
 - Only (II) above
 - Only (III) above
 - Both (I) and (II) above
 - Both (II) and (III) above.

9. The stock price of Indigo Consultancy Services (ICS) went up after a Multi-National Company (MNC) brought 6% stock and announced its intention to take over ICS. Alarmed by the development, ICS purchased the stock at a higher price after a tough negotiation. To prevent further damage, ICS wanted to thwart any other shareholder from teaming up with any other company and taking over. This unethical strategy adopted by ICS is called as
- Poison pills
 - Greenmail
 - Golden parachute
 - People pills
 - Sandbag.
10. The vision statement plays a major role in influencing the strategy of an organization and also reflects the culture and values of the organization. Ideally, which of the following stakeholders of the organization should be involved in development of the vision statement?
- Chief Executive Officer (CEO).
 - Senior managers.
 - Junior employees.
- Only (I) above
 - Only (II) above
 - Both (I) and (III) above
 - Both (II) and (III) above
 - All (I), (II) and (III) above.
11. Metaethics is defined as the study of origin and the meaning of ethical concepts. Which of the following issues is/are the integral part of metaethics?
- Metaphysical issues that deal with the question whether the moral values exist independently of humans or whether they are simply human conventions.
 - Physiological issues that deal with the physiological basis of moral action.
 - Linguistic issues that deal with the meaning of the key moral terms we use.
- Only (I) above
 - Only (III) above
 - Both (I) and (II) above
 - Both (I) and (III) above
 - All (I), (II) and (III) above.
12. Investors are attracted by certain characteristics possessed by the corporations. Which of the following is not one of the characteristics of corporations?
- Economies of scale
 - Limited liability
 - Transferability
 - Legal personality
 - Centralized management.

13. Software assets are an important corporate resource. With increasing proliferation, many organizations have installed software audits to control the effective use and growth of software assets. Which of the following is/are **true** regarding software audits?
- They are computer programs used by auditors to examine computer files of an enterprise.
 - They result in higher total costs of ownership than necessary.
 - Computer-assisted audit techniques facilitate a continuous review of the system.
 - These audits can be augmented by creating awareness among employees about lawful uses of software.
- Only (IV) above
 - Both (II) and (IV) above
 - (I), (II) and (III) above
 - (I), (III) and (IV) above
 - (II), (III) and (IV) above.
14. The management of SK Bearings Limited is facing heavy losses in the third unit at Madurai. It has to take some hard decisions to make the unit turnaround. To strike a balance between right and wrong decisions and identify the correct course of action, the management has decided to use the ethical decision making model. Which of the following steps is **not** a part of ethical decision making model?
- Engaging in ethical behavior
 - Judging the decision
 - Evaluating the decision
 - Protecting the economic interest of stakeholders
 - Establishing a moral intent.
15. For a business to operate smoothly it should maintain healthy relations with all its stakeholders. Healthy relationships are developed through trust. Which of the following elements of trust eliminates unforeseen actions or risks that are not usually welcome in business?
- Dependability
 - Predictability
 - Faith
 - Assurance
 - Belief.
16. Corporate governance and corporate management are important concepts of managing an organization. Which of the following statements are **false** regarding the two concepts?
- Corporate governance is concerned with internal focus.
 - Corporate management is strategy-oriented.
 - Corporate governance assumes an open system.
 - Corporate management assumes a closed system.
- Both (I) and (II) above
 - Both (I) and (III) above
 - Both (I) and (IV) above
 - Both (II) and (III) above
 - Both (III) and (IV) above.

17. Mr. Joshi, a manager in a multi-national company has to perform multiple roles to complete a task in the organization. He adopts different ethical standards when carrying out different tasks. He justifies his behavior in resolving the dilemma rationalization. According to Gellerman, which of the following major rationalizations do managers use?
- I. Their actions are within reasonable ethical and legal limits and hence are not illegal or unethical.
 - II. Their actions are aimed at the best interest of the individual or corporation.
 - III. Their actions are fully in view of all the members of the corporation and hence there is no danger.
 - IV. They are fully aware that all actions are their own responsibility and their corporation will not protect them.
- (a) Both (I) and (II) above
 - (b) Both (I) and (III) above
 - (c) Both (II) and (III) above
 - (d) (I), (II) and (III) above
 - (e) (II), (III) and (IV) above.
18. Janani Appliances, a leading manufacturer of wet grinders has stiff competition from Shiva Machines Limited. In this regard, which of the following unethical practices should be avoided by Janani Appliances?
- I. When competition is between organizations of equal standing, there is a great chance of pricing practices being unethical.
 - II. Use high-budget advertisements and edge out competitors who cannot afford them.
 - III. The ethical marketing decision involved in price is not always visible.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) Both (II) and (III) above.
19. It is not an easy task to judge whether an organization is ethical or not. To help in this task, many theories or frameworks for judging the ethical nature of an organization have been set up. Which of the following is/are **true** regarding one such theory called the ethics and stakeholders theory?
- I. According to this theory, ethical organization is one that is based on moral values that guide the behavior of employees in their day-to-day activities.
 - II. This theory states that the governance practices adopted by organization to ensure right, fair proper and just decisions and actions plays a major role in building an ethical organization.
 - III. According to this theory, an ethical organization is one whose managers act in a responsible manner by paying attention to the needs and rights of all those who are influenced by the activities of the organization.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) Both (I) and (III) above.

20. Shah and Company is a family-owned enterprise. The patriarch of the family, Krishnakant Shah looks after the agricultural lands owned by the family and is not present on any of the boards of the enterprise. But he often influences the decisions of the board. Krishnakant Shah may be called as
- Non-executive director
 - Nominee director
 - Representative director
 - Alternate director
 - Shadow director.
21. A reputed retailing giant from Europe expressed its interest to enter Indian markets and tried to establish sales centers in some Indian cities. But it faced stiff resistance from local businesses and political leaders. But the retailing giant feels that Multi-National Companies (MNCs) are agents of change and bring many benefits to the host country. Which of the following is **not** a benefit that is caused by entry of MNCs into a country?
- They bring in new skills and technology
 - They bring in plants and equipment that would have otherwise difficult to acquire
 - They bring in new ideas and practices that can improve the present practices in host country
 - They create a worldwide economic order
 - They maintain the growth rate of host country.
22. Marketing research is an important exercise for an organization and requires analyzing and predicting the desired outcomes of the research. Certain ethical standards are laid down to be observed in this process. Which of the following entities is **not** affected by the process of marketing research?
- The society
 - The physical evidence,
 - The client
 - The researcher
 - The research profession.
23. A corporate code reflects the purpose of the company and guides the employees to behave in an ethical manner. Which of the following formats used for developing corporate code in organization, reflects the policy of the company on certain issues concerning suppliers, contractors and buying agents?
- Compliance codes
 - Compliance certificate
 - Purchase orders
 - Management philosophy statements
 - Circulated letters.

24. Mr. Murthy is an independent director of Sanjeevani Ayurvedic Drugs Company. His major duties are concerned with ensuring that the company follows the policies and procedures laid down by the board. Which of the following roles is/are played by Mr. Murthy in the company?
- Supervisory role.
 - Performance role.
 - Conformance role.
- Only (I) above
 - Only (II) above
 - Only (III) above
 - Both (I) and (II) above
 - Both (II) and (III) above.
25. Which of the following, along with the impact of technology was responsible for the migration of people from rural to urban areas in Britain in the late eighteenth and early nineteenth centuries?
- First Industrial Revolution
 - Enclosure movement
 - Quakerism
 - Victorian philanthropy
 - Non-conformist movement.
26. Which of the following is **false** regarding service sectors?
- Poor service can be corrected by backup or supporting inventory
 - Customer involvement is always a part of service
 - Production and consumption take place directly in a service
 - Customer is directly involved in operations in a service
 - Any mistake in the services that are provided will result in loss of trust.
27. TSX Ventures, a stock exchange in Toronto which has 2,244 companies, is set up exclusively for small enterprises. Some experts have asked the government to pass the law to facilitate a similar stock exchange in India. Any law that is framed by the government should possess all the following characteristics, **except**
- Consistency
 - Universality
 - Publicity
 - Acceptability
 - Enforceability.
28. Kumara Mangalam Birla headed the committee appointed by the Securities and Exchange Board of India (SEBI) on May 7, 1999. The committee was formed to promote and raise the standards of corporate governance. Which of the following is **not** one of the recommendations of the committee?
- The board should have an optimum combination of executive and non-executive directors and at least 50% of the board should comprise of non-executive directors
 - A qualified and an independent audit committee should be set up
 - The board meetings should be held at least four times in a year with a maximum time gap of four months
 - The term of a director should not exceed three years
 - No director should be a member in more than 10 committees or act as chairman of more than five committees across all companies in which he is a director.

29. Formulation of laws involves individual, group, social and political processes. Which of the following are **false** regarding the problems that arise during the transformation of individual moral standards to universal legal requirement at each stage of the political and social process?
- I. When moral standards are formulated based on inaccurate information on issues like corporate conduct, it becomes difficult to formulate appropriate laws.
 - II. Moral standards are diluted by the formation of large groups, where beliefs are widely accepted.
 - III. Norms, beliefs and values of large organizations are not shared by all the individuals and groups within the organization.
 - IV. Incomplete and imprecise legal requirements are an impediment to all organizational processes, except product liability cases.
- (a) Both (I) and (II) above
 - (b) Both (II) and (III) above
 - (c) Both (II) and (IV) above
 - (d) Both (III) and (IV) above
 - (e) (I), (II) and (III) above.
30. The fireworks industry at Sivakasi in Tamil Nadu is a major employer of the area and also a major foreign exchange earner in the country. But the industry has been accused of employing unethical practices like employing underage children which has led to a ban of the products in many countries. Operation managers of fireworks factories have taken a decision to avoid employing children below 14 years of age. In this regard, which of the following factors can be attributed to the above decision-making displayed by the operations manager of the factory?
- (a) Probability of effect
 - (b) Magnitude of consequence
 - (c) Social agreement
 - (d) Concentration of effect
 - (e) Proximity.

END OF SECTION A

Section B : Caselets (50 Marks)

- This section consists of questions with serial number 1 – 7.
- 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:

1. The prerequisite for the successful implementation of corporate governance is the commitment from the top management and the assurance by other responsible entities such as independent directors and auditors. In this regard, put forward your views on role of the Audit Committee and what auditors at Satyam could have done for implementation of corporate governance in organization. (9 marks)
2. Corporate Governance, in general, is the responsiveness of the Board of Directors to the shareholders. Discuss the strategic role of the Board in the functioning of an organization. In the light of the case, discuss whether Satyam's Board has fulfilled its responsibilities? (8 marks)

Satyam fiasco has shaken the confidence of not only the owners but all the stakeholders of the company across the globe. The investing community voiced suspicion about the due diligence exercised by all responsible entities like independent directors, auditors and market regulator in fulfilling their respective roles. This ultimately calls for the revision of corporate governance practices in India.

The basis for this has been the episode that took place at the 4th largest Indian IT company, Satyam Computer Services Limited. One interesting thing to be noted here is that it was the company which received 'Golden Peacock Award' twice for practicing 'excellent corporate governance norms'. It all started on December 16, 2008 when the top officials of the company came out with the announcement that the Board had given its approval for the acquisition of 51% stake in Maytas Infra (for US\$ 0.3 billion) and buyout of entire stake in Maytas Properties (for US\$ 1.3 billion) which are controlled by the sons of Mr. Ramlinga Raju, the founder of Satyam. The reaction of investing community by penalizing the share price from Rs.226.5 to Rs.158.05 immediately after the announcement of this unrelated diversification indicated that the investors could sense something which was against their interests, happening at the company.

However, the management tried to defend its decision on the grounds that the very rationale of this unrelated diversification was to hedge the company from possible turmoil in the IT sector through the efficient utilization of its surplus cash reserves. Further the management continued to shield itself by laying emphasis on the necessity of the development of infrastructure in India at par with the international standards. However, it was evident from the continuous offloading of company shares by the investing community including FIIs, that they could not find any rationale behind the various justifications put forward by the Satyam's management. As the proposed acquisition was family related acquisition, it raised innumerable questions among investors.

They alleged the very intention of this acquisition, when there are many comparable real estate suitors such as DLF, Unitech etc., which are available at very attractive values. On the other hand, the analysts also voiced on the impossibility of synergic benefits from such unrelated diversification. After having experienced such a revolt from various stakeholders, the management took its decision back. This reversal of decision further worsened the situation by raising few more questions on the transparency of the top management's role, which can be primarily observed from the performance of its share in the market. However, still the management tried to resolve the issue by coming up with alternative ideas of buyback, opting for other strategic options etc., by claiming that it wanted to make efficient utilization of surplus cash.

But, all these efforts by the company could do nothing in regaining the confidence of its investors. The triggering point for the whole issues was subsequent series of resignations by four out of nine independent directors. It enlightened investors to look into reliability of the role of independent directors. Ultimately on 7th January 2009, Mr. B. Ramalinga Raju, the then chairman of Satyam Computer Services Ltd., had to come out with a confession on the accounting scandal that had been being committed by him for the last 7 years. In the scandalous letter that he sent to the Company Board and the Securities & Exchange Board of India (SEBI), he disclosed how he had been inflating the profitability of the company to create the value for the shareholders.

A close scrutiny of both the versions of the balance sheet of the IT major (i.e., pre confession and post confession) reveals his ability in creative accounting. The analysis of the company finances shows the real financial picture of the company in terms of profitability and liquidity which is pretty contrary to the picture shown by the management earlier as a justification for efficient utilization of surplus cash through unrelated diversification. He further tried to defend his offence by making a declaration that he had to pledge his shares to make payments to his 53,000 employees in order to protect their interests. However, subsequently, there was puzzlement even on the number of headcounts he had mentioned.

This gigantic scam necessitated the review of corporate governance practices in India. However, before looking into insights of the corporate governance issues at Satyam, let us put an effort to understand the basics of it. Corporate Governance in general is the responsiveness of the Board of Directors to the shareholders. This is because, the Board of Directors are elected by the shareholders as their representatives in order to protect their interests through the efficient utilization and management of financial resources contributed by them. The prerequisite for the successful implementation corporate governance is the commitment from the top management and the assurance by other responsible entities such as independent directors and auditors.

Neither the independent directors who were appointed to protect the interests of shareholders nor the auditors who were supposed to have microscopic scan on every accounting entry, seemed to have fulfilled their responsibility diligently. The very principles of corporate governance such as openness, transparency, integrity and accountability which can be achieved only by the commitment of the top management appeared to have been deliberately neglected in the case of the IT major, as the primary culprit for this is top management.

END OF CASELET 1

Caselet 2

Read the caselet carefully and answer the following questions:

3. The Department of Justice (DOJ) attempted to build the case around how Microsoft had used its formidable financial muscle to gain an unfair advantage over its competitors. In this regard, discuss the responsibilities of an organization towards its competitors. (6 marks)
4. In October 1997, the Department of Justice (DOJ) began antitrust investigations to determine whether Microsoft was violating a 1994 consent decree by compelling Personal Computer (PC) makers to ship its Internet browser free with Windows 95. In light of the case, elaborate the charges leveled against Microsoft. (7 marks)
5. 'Among the examples cited were Microsoft's aggressive pricing of products'. Explain the ethical issues regarding one of the P's of the marketing mix, namely 'price'. (6 marks)

In October 1997, the DOJ (Department of Justice) began antitrust investigations to determine whether Microsoft was violating a 1994 consent decree by compelling Personal computer (PC) makers to ship its Internet browser free with Windows 95. Joel I. Klein, Assistant Attorney General for the antitrust division, remarked, "This kind of product-forcing is an abuse of monopoly power--and we will seek to put an end to it." Justice Thomas Penfield Jackson of the US District Court heard the case and, in May 1998, gave both the parties five months to gather 12 witnesses each, and to fight the suit.

The DOJ collected strong evidence, which included a number of internal documents and e-mails written by Microsoft employees. In one such document, Microsoft had written that its "strategic objective was to kill cross-platform Java." The DOJ summoned 12 witnesses from different backgrounds to prove its point. Its main contention was that Microsoft was a monopoly, which had used its monopoly power to suppress competition and gain an unfair advantage.

During the trial, which started in October 1998, the 24 witnesses testified over a period of 62 days. At the end of the initial hearing, Microsoft's defense proved to be weak and in disarray. Bill Gates, (Gates) the then CEO of Microsoft himself testified and the videotapes of his deposition received wide publicity. There was a general opinion that Gates had bungled the opportunity by feigning ignorance of many of the major developments and events that had led to Microsoft's leadership. Gates' testimony seemed to have fallen far short of expectations and was totally out of line with his image as a brilliant strategist.

Though the proceedings had started with Microsoft's actions in the browser market, the government also dealt with Microsoft's attempts to undermine the Java language (of Sun Microsystems) by creating its own version of Java—the only version that could run comfortably on Windows. The Government felt that Microsoft should publicize the source code for Windows operating systems. Microsoft had bluntly refused to do so in the past.

The DOJ attempted to build the case around how Microsoft had used its formidable financial muscle to gain an unfair advantage over its competitors. Among the examples cited were Microsoft's aggressive pricing of products, its offers of free software to grab market share and its attempts to inflate bills of some corporate customers. Bundling of the Internet Explorer (IE) with Windows 95 threatened companies like Netscape that sold stand-alone software. The DOJ argued that Microsoft had resorted to unfair practices to deal with the combined threat of Netscape's Internet browser and Sun's Java. Java enabled software developers to write applications that could run on any platform. The 'cross-platform' Java could make the Operating System (OS) less important and severely cut into

Windows' market share. DOJ argued that Microsoft licensed Java from Sun, developed its own Windows-only version of Java, and coerced software developers to use it. Netscape also used Java. By eliminating the rival browser, the growth of Java could be curbed.

Another charge against Microsoft was that it apparently made misleading statements and claims. The company often announced its products before they were launched in order to freeze buyers' decisions. Microsoft had succeeded in the PC software industry by using this strategy and it seemed to be using this strategy in the non-PC businesses also. For instance, in late 1998, Microsoft told the press that its electronic billing system was the world's first "end-to-end billing service." However, CheckFree, Atlanta, had been offering such a service for almost a year before Microsoft made its claim. Microsoft, however, argued that CheckFree also issued some paper checks and so it was not totally electronic. CheckFree CEO Peter Knight complained, "We're out ahead, but they try to get people to stop and wait for them." → ②

Many industry observers felt that Microsoft's marketing strategies were unfair. According to consultants, Gartner Group, Microsoft 'hooked' customers with an initial low bid and made it up subsequently by an overall rise in costs in the name of 'policy shifts.' Gartner issued a warning to Microsoft customers to expect around 50% increase in payments through a period of four years due to 'changes in terms and conditions.' Microsoft's 'Enterprise licensing' enabled clients to get unlimited use of Windows NT, Office and BackOffice, as well as its upgrades for a single price. This tied down the customer to other Microsoft products. Microsoft strongly denied that it had used 'malicious pricing.' The company maintained that price changes were a consequence of the simplification of licensing agreements and were finalized after negotiation with customers. As for 'Enterprise licensing,' Microsoft explained that the "one-price-for-all" enterprise agreements were common in the software industry. Even Microsoft-bashers admitted that many of the company's acts could not be termed strictly illegal.

Both the DOJ and Microsoft produced professors of economics to argue their case in the debate over whether the software giant should be viewed as a monopoly or not. DOJ's witness was Franklin M. Fisher, a 64-year old economics professor from MIT. Fisher strongly argued that monopoly in the OS market might seem to make life easy for the consumers, "but this case is not about being easy. If Henry Ford had a monopoly, we'd all be driving black cars. That's not what competition is about. That's not what helping a consumer is about. We're going to live in a Microsoft world. It may be a nice world. But it is not a competitive world," he commented.

Microsoft's witness was Richard Schmalensee, another MIT professor, who was considered by many as one of the leading authorities on industrial economics (Schmalensee did his doctoral thesis under Fisher). He argued that Microsoft was not a monopoly, that it had not taken advantage of its dominance of the OS market, and that it had no power to do so. Schmalensee held that Microsoft's competition included its own existing products. An OS did not wear out like any other commodity and the installed OS was an obvious competitor to a newly launched OS. As a result, Microsoft had no alternative but to price upgrades very reasonably.

Microsoft countered the allegation of 'polluting' Java by stating that its licence agreement with Sun allowed it to modify Java. Microsoft explained that the modification was necessary to improve upon the technology. As for the war-like language used in the internal e-mails, James E. Allchin, Microsoft's Senior VP of Windows division, offered a spirited defense: "Yes, we're a competitive company. We don't apologize for that."

Gates argued that his rivals should spend less time being obsessed with Microsoft and more time on their own businesses. He also maintained that Microsoft's aggressive pursuit of new businesses could not possibly mean doom for its competitors. There was no assurance that Microsoft would succeed in any new market, much less dominate it. The emergence of Netscape's popular Navigator browser and Sun Microsystems's Java programming language, both of which Gates saw as threats to Windows, showed that the industry was highly competitive. He remarked, "No one has a guaranteed position."

In June 2000, the US District Court gave its ruling that Microsoft had violated the US antitrust laws by abusing its monopoly power in computer operating systems. Judge Jackson ruled that Microsoft was a monopoly, basing his conclusion on three factors: Microsoft's share of the market for operating systems was extremely large and stable; a high entry barrier protected Microsoft's dominant market share and; because of the high entry barrier, Microsoft's customers lacked a commercially viable alternative to Windows. Jackson ordered that the company be split into two smaller companies, one for the Windows operating system, and another for its Internet and other businesses, to prevent it from violating state and federal antitrust laws in the future.

END OF CASELET 2

Caselet 3

Read the caselet carefully and answer the following questions:

6. Members of organizations constantly face the challenges of ethical issues in the workplace. They can be resolved either by the employer or the employee. Imagine that you are Ms. Roehm's manager. In this light, explain how you would have adopted the 'believe' approach and resolved the ethical issue involved. (7 marks)
7. Firing Ms. Roehm has presented yet another distraction for Wal-Mart. Do you think that Wal-Mart was hasty in firing her? Why/why not? Also, discuss the ethics of firing of employees. (7 marks)

A marketing executive fired by Wal-Mart Stores Inc. for violating company ethics rules mounted a scathing counterattack on Chief Executive H. Lee Scott Jr. and other top brass, claiming they accepted sweetheart deals, travel and concert tickets from suppliers and engaged in improper relationships. Claiming in a court filing that Wal-Mart applies its conduct rules arbitrarily, Julie Roehm accuses Mr. Scott of, among other things, accepting "preferential prices" on boats and jewelry from financier Irwin Jacobs, whose companies do everything from sell boats to Wal-Mart to buy unsold goods from the retailer. She contends that Mr. Scott's relationship with Mr. Jacobs goes "beyond a business relationship" and violates the corporation's conflicts-of-interest guidelines.

Wal-Mart dismissed the assertions, made in a filing in U.S. District Court in Michigan, as did Mr. Jacobs. While it remains to be seen whether any of Ms. Roehm's accusations will stick, they represent yet another distraction for the world's biggest retailer and its CEO, Mr. Scott. Wal-Mart has seen sales growth at its U.S. stores bog down amid increasing competition from other retailers and growing resistance to locating stores in urban areas. Wal-Mart also has stumbled in its efforts to attract upscale shoppers like those flocking to competitor Target Corp. at a time when Wal-Mart's traditional blue-collar customers are being hurt by high gasoline prices and other economic pressures.

The filing is the latest salvo in a nasty battle that began after Wal-Mart fired Ms. Roehm in December. In its own court filing in March, Wal-Mart accused Ms. Roehm of accepting gifts from suppliers and misusing her company expense account. Now, Ms. Roehm is turning the tables. It isn't clear how Wal-Mart's ethics rules might apply to the activities alleged by Ms. Roehm. Its policy says its employees "must avoid conflicts of interest in supplier selection, such as directing business to a supplier owned or managed by a relative or a friend." It also warns executives aren't allowed to "have social or other relationships with suppliers, if such relationship would create the appearance of impropriety or give the perception that business influence is being exerted." The policy also bars employees from soliciting jobs for relatives or friends.

A Wal-Mart spokesman said, "This lawsuit is about Julie Roehm and her misconduct. Her court filing shows how weak her case is." He also said: "The allegations of impropriety involving our CEO Lee Scott are untrue." Ms. Roehm's filing alleges that Mr. Scott personally benefited from his relationship with Mr. Jacobs, the chairman of boat supplier Genmar Holdings Inc. and owner of Jacobs Trading and FLW Tour, two private companies with Wal-Mart business relationships. The two men's relationship began years before Mr. Scott became CEO. Without identifying any specific instances, Ms. Roehm alleged the CEO obtained travel, "a number of yachts" and "a large pink diamond" at preferential prices due to the relationship. The Wal-Mart spokesman declined to comment on specifics of the allegations.

Mr. Jacobs said he has never sold Mr. Scott a diamond or provided air travel. He said he has suggested boat dealers to Mr. Scott but was never involved in any sales. Ms. Roehm also alleged that Wal-Mart looked the other way and allowed executives who owned retail stores to negotiate with subordinates on leases for those properties. "Many Wal-Mart executives do not abide by Wal-Mart's alleged 'firm' policy forbidding conflicts of interest," she said in the filing. Despite policies prohibiting conflicts of interest and the misuse of company assets, "actions apparently speak louder than words at Wal-Mart," her court filing says.

She cited the role of Mr. Scott's son Eric at Jacobs Trading, the Wal-Mart salvage supplier. Eric Scott has worked for various companies owned by Mr. Jacobs for several years. Several years ago, he worked full-time for a boat-manufacturing unit of Genmar and now works part-time for a salvage company owned by Mr. Jacobs. He shares an office with Jacobs Trading near Wal-Mart's headquarters. Wal-Mart's attorneys reviewed and approved the son's business dealings with Jacobs Trading, Mr. Jacobs said. A Wal-Mart spokesman said he was unfamiliar with the decision.

In an interview earlier this year, Mr. Jacobs insisted there never were any discussions between him and Mr. Scott about hiring Eric Scott at Genmar's Wellcraft unit. "Lee never called me about it," he said in that interview. Mr. Jacobs said he saw an opportunity for "putting Eric to work," noting his past experience as a Wal-Mart employee buying merchandise from overseas manufacturers. Eric Scott said in an earlier interview that he inquired about a job with Mr. Jacobs, who in turn put him in touch with a manager at Genmar. He also said he doesn't recall discussing the matter with his father. "I don't remember there ever being a conversation or an issue," Eric Scott said of his initial hire at Wellcraft. He said that his jobs with Mr. Jacobs didn't involve any dealings with Wal-Mart.

END OF CASELET 3

END OF SECTION B

Section C : Applied Theory (20 Marks)

- This section consists of questions with serial number 8 - 9.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on Section C.

8. Board members of Trupti Rolling Mills have developed serious differences among themselves and the management is contemplating closure of the mill. The trade unions and the local community are against this decision. The Government has appointed a committee to advise the management in this issue. The chairman of the committee has advised the management to apply the Integrative Social Contract Theory. In this regard, outline the various elements and priority rules of this theory. (10 marks)
9. Employees of Tata Consultancy Services (TCS) are governed by the Tata Code of Conduct which is considered to be a very important statement for the corporation. In this regard, discuss the steps involved in development of corporate code by organizations. Also outline the different approaches to implementation of corporate code as suggested by Ferrell & Fraedrich and Mac Donald & Zepp. (10 marks)

END OF SECTION C**END OF QUESTION PAPER**