

QUESTION BOOKLET NUMBER**0110**

Subject Code

MB312**PROGRAM : MBA****SUBJECT : Business Ethics and Corporate Governance****DATE : January 31, 2010****TIMINGS: 14:30 Hrs to 17:30 Hrs****TOTAL MARKS: 100****DURATION: 3 Hours***To be filled by the Student*

ENROLLMENT NO.		OMR NO.	
TEST CENTER		SEAT NO.	

Instructions to Students

1. Fill in the required particulars in the Question Booklet and the Answer Booklet. In the absence of this data, the Answer Booklet will not be evaluated
2. Use the OMR Answer Sheet to mark answers for section A. Use the Answer Booklet to write responses for sections B and C
3. See the back cover page for instructions on marking answers in the OMR Answer Sheet
4. Section A should be attempted first. Time allotted to answer section A is 30 minutes. Return the OMR Answer Sheet 30 minutes after commencement of the examination. Return the Answer Booklet at the end of the examination.
5. Students can retain this Question Booklet after the examination.

*Answering Materials distributed along with this question booklet:***★ OMR ANSWER SHEET****● ANSWER BOOKLET**

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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. M/S Fair Ltd. is engaged in the trading of wholesale groceries, Good Ltd., is a retailer in the same line of business. In one of the transactions of purchase of whole wheat flour from Fair Ltd., Good Ltd., claimed that quality of the wheat flour supplied was lacking the standard norms and later an inspection proved the fact, wheat flour supplied had 10% of chalk powder mixed as an ingredient, which made it poor in quality. Good Ltd., can call such an act of Fair Ltd., as
- (a) Moral
 - (b) Immoral
 - (c) Amoral
 - (d) Unprincipled
 - (e) Dishonorable.
2. A company manufacturing fertilizers manages its production effectively, showing quarterly profits in its balance sheet. In the production process a gas is released, which causes respiratory diseases in the people residing in the radius of 100 kms of the factory premises. This problem could be dealt with by installing an effluent treatment plant, which is being constantly postponed by the management. Which of the following statements is **true** with reference to the above situation?
- (a) Management is discharging all of its responsibilities
 - (b) Management is not discharging its corporate responsibilities
 - (c) Management is not discharging its social responsibilities
 - (d) Management is not maximizing the value of shareholders wealth
 - (e) Management is not trying to maximize the profits of the company.
3. "We should treat others the same way that we want others to treat us" is the statement laid down by which of the following theories of ethics?
- (a) Metaethics
 - (b) Normative ethics
 - (c) Applied ethics
 - (d) Metaphysical ethics
 - (e) Psychological ethics.

4. The field of metaethics deals with three issues, the metaphysical, psychological and linguistic. Metaphysical issues deal with the question(s) relating to

- I. Psychological basis of the moral action.
 - II. Moral values, whether they can exist independently of humans or are they simply human conventions.
 - III. The meaning of the key moral terms commonly used.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) Both (II) and (III) above.

5. Culture is based on the values of an organization. Corporate values can be classified as 'espoused values' and 'values in practice'. Which of the following statements is **not true** regarding the concept of espoused values?

- (a) They refer to a company's statements, credos and code of ethics
- (b) They are intended to communicate to employees, customers, competitors etc. the type of behavior that is acceptable to the organization
- (c) They cannot differ from 'values in practice' in any situation
- (d) They describe the organization's purpose and ethical perspective
- (e) They improve employee morale when they are in congruence with values in practice.

6. Law can be defined as a consistent set of universal rules that are widely published, generally accepted and usually enforced. Which of the following describe the word 'consistent' in the given definition?

- (a) Degree of firmness
- (b) Applicability to all
- (c) Acceptance by same set of people
- (d) Imposed uniformly
- (e) Communicated to the same set of people.

7. When a company adopts an anti pollution environment policy, it is said to be 'going green'. Which of the following is **not** an objective for companies to 'go green'?

- (a) Decrease in handling expenses of wastage
- (b) Decrease in the costs of inputs and quantum of fines
- (c) Efficiency in production ensures process innovation and waste reduction
- (d) Positive response from the consumers, investors and employees towards the companies which exhibit good environmental performance
- (e) Promoting a balanced development of the regions in the vicinity of the company to facilitate overall economic development.

8. Which of the following contracts become the basis of a healthy relationship between the manager and the stakeholders to facilitate the smooth functioning of a business?
- I. Knowledge contract.
 - II. Efficiency contract.
 - III. Psychological contract.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) All (I), (II) and (III) above.
9. The role of operations manager is classified based on production sector and service sector. Which of the following is **true** with regard to the provision of services?
- I. There is no back up or supporting inventory for poor services.
 - II. There is a time gap between production of services and their consumption.
 - III. There is no customer involvement in the provision of services.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) Both (II) and (III) above.
10. The Just-In-Time (JIT) purchasing concept has changed the traditional relationship between the buyers and sellers. Which of the following is **not true** regarding the features of JIT purchasing?
- (a) Frequent shipment of small lots
 - (b) Reliable transportation system
 - (c) Commitment to minimum errors
 - (d) Stable production schedule
 - (e) Close buyer-seller relationship.
11. Which of the following actions of a purchase manager would be termed ethical in his capacity?
- (a) Accepting free gifts
 - (b) Forward buying of stocks with the intention of making profits against inventory
 - (c) Display of favoritism to some suppliers
 - (d) Negotiating for trade discounts from suppliers
 - (e) Revealing confidential information.
12. Which of the following statements is **true** with respect to ethical firing of the employees?
- (a) Employers cannot include an 'at-will' clause in the employment contract of the employee
 - (b) Organizations which follow arbitrary firing practices will have a good reputation in the market
 - (c) Firing is considered ethical when it is a result of a particular cause
 - (d) Firing 'at-will' serves as a factor which increases the long term owner value
 - (e) Decision to fire the employees mainly depends on their age and number of years of service.
- Handwritten notes:*
1) Production
2) Service

13. Which of the following essential principles of 'hiring' is being violated, when a practice designed to function on the basis of quotas or reservations is implemented?
- (a) Principle of non-discrimination
 - (b) Principle of equality of opportunity
 - (c) Principle of equality in remuneration
 - (d) Principle of non-favoritism
 - (e) Principle of reverse discrimination.
14. In some situations, the target company is forced to buyback its shares at a premium, incurring a debt, to thwart a takeover bid. Such an unethical practice can be termed as
- (a) Poison pill
 - (b) Greenmail
 - (c) Goldenparachute
 - (d) People pill
 - (e) Sandbag.
15. The success of organized crime is based on the ability to launder money. Which of the following statements holds good in the context of money laundering?
- I. It involves disguising assets.
 - II. It involves hiding, moving and investing the proceeds of criminal transactions.
 - III. The first step in the process of laundering money is conversions or movement of funds to distance them from their source.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (I) and (III) above
 - (e) All (I), (II) and (III) above.
16. Which of the following is an example of a fraud committed in the financial statements of an enterprise?
- (a) Changing the method of depreciation charged on assets
 - (b) Adoption of the concept of business entity in the preparation of financial statements
 - (c) Recording assets at book value in the balance sheet
 - (d) Non-disclosure of liabilities and expenses in the financial statements
 - (e) Non-disclosure of revenue expenditure and revenue incomes in the balance sheet.
17. The objective of ethical audit is to check the actions of a firm, which are directed at maximizing which of the following variables?
- (a) Percentage of profits distributed
 - (b) Long term owner's value
 - (c) Creditors turnover period
 - (d) Working capital allocated
 - (e) Employee's income.
- Handwritten notes:*
27. Question
3
N/A 54
12
m 41 44
2.5 31 2/3
2 (Please Turn Page)

18. In the acronym 'BELIEVE', a process used for resolving ethical dilemmas, the letter 'V' stands for which of the following words?
- ☒ (a) Values
 - (b) Valid
 - (c) Valuation
 - (d) Value Addition
 - (e) Variable.
19. Misleading and deceitful advertising, provision of goods unsuitable to local needs, environmental degradation and marketing methods that undermine the ancient cultures and traditions are some of the allegations made against which of the following categories of the companies?
- (a) Closely held companies
 - (b) Charter companies
 - (c) Companies of Indian origin
 - ☒ (d) Unlisted companies
 - (e) Multinational companies.
20. In the past, corporate responsibility has taken the form of codes of conduct framed by which of the following departments?
- (a) Accounts department
 - (b) Human resource department
 - ☒ (c) Public relations department
 - (d) Purchases department
 - (e) Legal department.
21. Who among the following is **not** an 'external stakeholder' for a company?
- (a) Consumer
 - (b) Supplier
 - (c) Creditor
 - (d) Competitor
 - ☒ (e) Employee.
22. Practices such as financial irregularities, tax-evasion, provision of poor quality products and services and non-compliance with environmental issues can be categorized as
- ☒ (a) Restrictive practices
 - (b) Monopolistic practices
 - (c) Unethical practices
 - (d) Insider trading practices
 - (e) Regular business practices.
- Share holder
Employee
Management*
- 9/13/27/26*

23. An organization is engaged in the manufacture of incense sticks. The average productivity per worker should be 1,500 sticks per day. If the worker is made to roll more than 1,500 sticks in a day, there is an increase in fatigue and threat of infection in fingers of the workers, due to increased exposure of skin to the material used in the making of incense sticks. Contrary to that when a worker produces even 1,600 sticks per day, the cost per unit reduces by Re.0.06. The company instructs the workers to produce a minimum 1,600 sticks per day as against the standard norm of 1,500. Based on the given situation, choose the correct statement(s) from the following.
- I. According to the theory of ethical egoism, the company's decision is morally correct.
 - ~~II. According to the theory of utilitarianism, the company's decision is morally correct.~~
 - III. According to the theory of ethical altruism the company's decision is morally correct.
- (a) Only (I) above
 - ~~(b) Only (II) above~~
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) All (I), (II) and (III) above.
24. Which of the following statements is **not true** in the context of the Information Technology Act, 2000?
- (a) It provides for the legal infrastructure for electronic commerce in India
 - (b) It recognizes digital signatures
 - (c) It provides for the legal framework for the authentication of electronic records
 - (d) It provides legal sanctity to all the activities carried on in electronic mode
 - ~~(e) It does not recognize the communication of the acceptance of a contract in the electronic mode.~~
25. According to the UK Institutional Shareholders Committee (ISC), the shareholders are the true proprietors of a company; therefore organizations must honor the trust of the shareholders. Which of the following is **not** a responsibility of a company towards its shareholders?
- ~~(a) Managing the company efficiently in order to secure a fair and competitive return on the owners' investment~~
 - (b) Disclosing relevant information to shareholders, subject only to legal requirements and competitive constraints
 - (c) Assuring the shareholders of a guaranteed return on their investment
 - (d) Conserving, protecting and increasing the shareholders assets
 - (e) Respecting the shareholders requests, suggestions, complaints and forward resolution.
26. Models of corporate governance such as Anglo-American, German, Japanese and Indian, try to involve various stakeholders in the governance of the company. Which of the following statements is/are **true** with respect to the models of corporate governance?
- I. ~~In the Anglo-American model, shareholders have no role to play in the election of the board of directors.~~
 - ~~II. In the German model, half of the members on the supervisory board are elected by the labor unions while the remaining by shareholders.~~
 - III. Indian model of corporate governance is a mix of Anglo-American model and the German model.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - ~~(e) Both (II) and (III) above.~~

27. Growing scale of corporations and their style of functioning have raised many new issues that must be addressed by corporate governance. Which of the following issues would come under the category of efficiency issues addressed to by corporate governance practices?
- I. Ensuring reasonable returns to the shareholders.
 - II. Giving bribes.
 - III. Giving gifts to potential customers and lobbying.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) Both (II) and (III) above.
28. According to Kumaramangalam Birla Report, which of the following categories of directors do not have any other material pecuniary relationship or transactions with the company, its promoters or the management apart from receiving director's remuneration, which in the judgment of the board may affect their independence of judgment?
- (a) Executive director
 - (b) Non-executive director
 - (c) Nominee director
 - (d) Representative director
 - (e) Alternate director.
29. Which of the following statements is **not true** in the context of audit committee constituted by the Board of Directors of a company?
- I. It usually consists of independent directors.
 - II. It acts as a link between the board and the shareholders of the company.
 - III. It attempts to resolve any objections that the auditors raise about the published financial accounts.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (III) above
 - (e) Both (II) and (III) above.
30. Cadbury Committee Report on corporate governance recommended all of the following, **except**
- (a) Majority of the directors should be independent non-executive directors
 - (b) The term of a director should not exceed three years
 - (c) Professional and objective relationship should exist between the board and the executives
 - (d) Board meetings should be held at least four times in a year
 - (e) Interim company report should give the balance sheet information and should be reviewed by auditor.

END OF SECTION A

Sections B&C

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

Answer the following questions based on the given Caselet:

1. Corporate responsibility and accountability are considered the building blocks for any organization. As a result organizations have evolved overtime to perform a number of functions or tasks in the society. Critically analyze the tasks that Colour Fast Ltd., has to perform in discharge of its role towards the society. (8 marks)
2. Chairman of Colour Fast Ltd., knew it very well that charity may cause smaller losses but the gain was phenomenal. In the light of the given statement,
 - (i) Enlist the corporate social initiatives taken up by chairman for the development of the village.
 - (ii) Discuss the phenomenal gains that could accrue to the chairman on account of those initiatives. (9 marks)

Corporate Social Responsibility (CSR) is a strategic activity for giant corporations, while for the organizations to address the not so literate enough to understand CSR termed it philanthropy. Nevertheless, whatever the underlying motives, such contributions have the capability to influence businesses manifolds. The patriarch and chairman of Colour Fast Ltd., a company engaged in dyeing clothes, believed that the industries must contribute to the society as both industry and society are the source of existence for each other. Since inception this medium sized enterprise has confined its social initiatives to the village operations.

Promotion of education has been a major focus area of chairman's socioeconomic development plans and he has been lending a helping hand whenever necessary and possible. Within two years of presence in the village he has helped building complete infrastructure for primary schools. But there were no students in the classrooms and the fact being earning and learning could not take place side by side.

In parlance to the Government literacy campaigns, he introduced mid-day meals in the school. The simple idea of mid-day meal changed everything and converted schools into a favorite place for many. This little gesture changed lives for those, who don't even know what one square meal a day looks like. Chairman's initiatives were highly appreciated by the local authorities as they believed that it is the will that matters not the balance sheet. Interestingly this gave him a wide publicity which has been only improving.

Within few years of Colour Fast Ltd's., operations it was observed that the adjoining areas of the factory had started losing vegetation and several acres of land had stopped producing crops. The underground water level had reduced drastically. Villagers could well predict the future and felt that sustaining agriculture in this stage means sponsoring losses because the cost of overhead will be higher than what could be earned from selling the farm products. The farmers perceived it as an effect of global environmental changes.

Those affected felt it was more appropriate to sell their land because it could not only earn them interest incomes while the principle amount will remain secure in the banks. To them the industrial jobs emerged as a lucrative profession as it guaranteed continuous income and immunity from the regular harassment of nature. The villagers wanted to sell their lands as early as possible because the prices would fall down once the news about the sale of land by the farmers spreads. They narrated the whole incident to the chairman and requested for job in his factory. Chairman showed total sympathy and asked the head of land looser families to join his factory, purchasing their lands at throw away prices.

During the Factory Welfare Meet, held quarterly, chairman expressed his deep concern towards the economic development for family of workers and poor villagers. Chairman distributed sewing machines to twenty families. The order and materials were supplied from the factory for stitching trendy clothes and were paid on piece rate. The initiative was highly welcomed by the villagers and they believed that whatever prosperity they have seen is due to the noble vision of the chairman.

Dyeing factory needs a lot of water and releases toxins which are to be neutralized before they are discharged back in the natural cycle. Recycling being expensive and time consuming process, this small factory still established a waste treatment plant to recycle wastes in order to take care of environment. But the darker side of the operation which was left unobserved was the discharge of toxic substances through underground pipelines either in the nearby canal or in the backyard within the factory premises was being done in a very neatly covered preplanned manner. Recycling and waste treatment plant was a mere proxy to fool various authorities and people as well. Innocent people had never seen anything suspicious turning their fertile land into arid zone.

Through his contacts chairman gradually started bringing in more industries and sold those lands at a premium to the entrepreneurs. With the coming of new opportunity the villagers envisaged plenty of jobs. Chairman knew it very well that charity may cause smaller losses but the gain was phenomenal.

END OF CASELET 1

Caselet 2

Answer the following questions based on the given Caselet:

3. Quoting the context of the Satyam saga, in the words of Mr. Ashok Kumar Bhattacharaya, National Managing Editor of Business Standard, "It's a wake-up call for the Indian corporate sector," added to the statement is his approach to tackle such a fiasco, stating "companies have to stick to the rule-book". Do you think Satyam stuck to the rule-book? Justify. yes (9 marks)
4. Golden Peacock Award for global excellence on corporate governance practices to Satyam Computer Services has been withdrawn citing the inadequacies of the board to be one of the main reasons for the same. Discuss whether Satyam's board was complying with the recommendations made by the Kumaramangalam Birla committee report. Substantiate. (8 marks)

Companies ride high on market perception and cooking the books can burnish that perception to breathtaking highs. Until someone cries foul.

Enron was once billed America's most innovative company. Then a massive accounting fraud, exposed in 2001, blew up the US energy giant. In 2009, the script has been revisited in India. Boasting Fortune 500 firms among its clients, Satyam Computers won a top award

for corporate governance in 2002 and 2008. Its fall began with chairman B Ramalinga Raju's aborted buyout of two Maytas firms founded by his sons, confessing to an Rs 7,136 crore frauds Raju said Satyam's books had been cooked for years to inflate profit and revenue figures. These disclosures had a punishing aftermath. The software giant's stocks crashed 91 per cent, the sensex tumbled and the rupee fell. The New York Stock Exchange put a trading bar on the firm. Satyam's clients were worried, shareholder wealth has been wiped out and 53,000 employees are staring down the precipice. Two class action suits have been filed in the US against the company. All of this couldn't have come at a worse time, India has been hit by global economic turmoil. The Mumbai terror strike has raised its risk profile for tourists and business. And now there's the clear and present danger of domestic and overseas investors seeing India as a place where corporate governance is suspected. The resignation of Satyam's self-confessed figure-fudger is, therefore, small consolation. The credibility of the entire Indian market is at stake. Going by global reactions, mud sticking on Satyam has tainted the corporate big league by association, at least for now.

Corporate credibility is a foundational must for any emerging market economy pursuing high growth. When fictitious cash balances get certified, it shows the need for investigators to go beyond the letter of the corporate conduct rule book. The Satyam scam isn't about one individual's machinations, though Raju deserves exemplary punishment, a fraud of this scale mandates collective responsibility. It is unlikely Satyam can redeem itself under the current management. Any probe must scan the rôle of the board of directors and of the Pricewaterhouse auditors who gave Satyam clean bills of financial and moral health whether through negligence or connivance. Recall that the A-grade accounting firm Arthur Andersen shared Enron's disgrace. In Satyam's case too, institutional checks and balances failed. To restore investor confidence, damage control must involve rapid-fire action against all involved.

The Satyam episode has sparked a big debate on whether India possesses adequate laws and guidelines for corporate governance. Risk managers say that while India has no dearth of such provisions in various enactments, the real issue emanates from the ability to follow these provisions in spirit and the means to monitor and enforce the same.

The Satyam scandal has, ironically, uncovered the second most populated country in the world, of having a problem with numbers in terms of finding the requisite number of directors who can exercise their independence while influencing decisions of the board. The challenge for India Inc, believe industry experts, is to come out of the mindset that only well known personalities can be nominated as independent directors.

On the 7th January 2009, the company chairman Ramalinga Raju resigned after notifying its board members and the SEBI that he had falsified accounts. Ramalingam Raju affirmed in a letter to the board that neither he nor the managing director had benefited financially from the inflated revenues. He confessed that none of the board members had any knowledge of the situation in which the company was placed. He noted that Satyam's balance sheet as on the 30th of September, 2008, carried inflated figures for cash and bank balances of Rs.5,040 crore (as against Rs.5,361 reflected in the books). Furthermore, it carried an accrued interest of Rs.376 crore which was non-existent. An understated liability of Rs.1,230 crore on account of funds was arranged by himself. An overstated debtors' position of Rs.490 crore (as against Rs.2,651 crore in the books).

It speaks volumes on internationally acclaimed auditors and their role, corporate governance in the company and the role of Board of Directors (BoD). If indeed the fraud is as explained by Mr.Raju, the complete BoD and the auditors should be prosecuted for this scam.

A close look at the inadequacies in outsourcer Satyam's corporate governance can instruct companies in how not to be global leaders

In September 2008 the World Council for Corporate Governance honored the now-beleaguered Indian outsourcer Satyam with a "Golden Peacock Award" for global excellence in corporate governance. With its honoree now engulfed in scandal, the Council rushed to distance itself from the troubled company by rescinding the award, issuing a press release through the India-based Institute of Directors stating "the award was obtained as a result of non-disclosure of material facts."

Shocking fraud revelations now coming to light would certainly have been unknown some months back. But a closer look at some of the "material facts" which Golden Peacock judges should have known about at the time of the award reveals a company whose governance standards were far from those of a global leader. In fact, in public filings made several weeks prior to the award show, Satyam demonstrated woeful boardroom inadequacies and significant departures from commonly accepted "best practices" in governance. But Satyam won and painted itself in a self-congratulatory light by using Golden Peacock logos and references.

The lack of financial acumen on the Satyam board is glaring. The company admits in its August 2008 Form 20-F filing with the Securities & Exchange Commission: "We do not have an individual serving on our Audit Committee as an 'Audit Committee Financial Expert' as defined in applicable rules of the Securities & Exchange Commission. This is because our board of directors has determined that no individual audit committee member possesses all the attributes required by the definition 'Audit Committee Financial Expert.'"

Of the six non-management directors serving on the Satyam board, four were from academics, one was a former Cabinet Secretary of the Indian government, and only one (Vinod K. Dham) was a former Chairman/CEO of a tech company (he had previously served as vice-president of Intel's Microprocessing Products Group). Two of the independent directors—Vinod K. Dham and T. R. Prasad—are each noted in the 2008 SEC filing as serving on eight boards in addition to Satyam's.

Satyam had a majority of independent directors—barely. five of the nine directors are listed as "independent of management." Notably, Harvard Business School Professor Krishna Palepu is not among them, likely due to payments of \$2,00,000 a year noted in the filing that he received in professional service fees from the company. Satyam may have divided the roles of chairman and CEO, but the two individuals who served in these roles were brothers and both were members of management. The company had no independent board leadership; the U.K. Combined Code—which the several Britain-based members of the Council should have been patently familiar with—specifies that boards should "appoint one of the independent non-executive directors to be a senior independent director."

Moreover, Satyam's Form 20-F states: "Our non-management directors do not meet periodically without management directors"—contravening a governance best practice mandatory for companies listed on both U.S. exchanges and widely adopted throughout the world.

Satyam's Form 20-F filed in August 2008 also states "We do not have a Nominating/Corporate Governance Committee." This, too, is a glaring departure from "best practices" in global governance. Satyam's board structure instead included one committee you don't see every day—the unfortunately named "Investors' Grievance Committee."

END OF CASELET 2

Caselet 3

Answer the following questions based on the given Caselet:

5. Can the conflict of interest in Bob's case be termed as real or an assumed one? Substantiate your opinion with reasons. What actions should Joe take to reduce or eliminate the said conflict of interest? (7 marks)
6. Why is the marriage between Joe and Sarah, and their employment positions, a cause for concern for both the companies? How can the managers in general avoid risks associated with conflicts of interest arising out of the employment of relatives or friends by suppliers or customers? (9 marks)

Joe, in the position of a manager of a company is responsible for identifying and approving a vendor for carpet cleaning services for their company's worldwide headquarters. Joe has to keep in mind the overall budget constraint of his company and as well get a supplier who will optimize on the cost but maximize on the quality of service. After a careful evaluation of the available suppliers in the market in terms of cost and quality of service, Joe has narrowed the potential vendor list to two carpet cleaning companies: Bob Carpet Cleaning Ltd., and Dan Carpet Cleaning Ltd.

A detailed evaluation of Bob Carpet Cleaning Ltd., revealed that the company recently acquired expensive, state of the art equipment enabling it to provide high quality, industrial, carpet cleaning. In addition, Bob Carpet Cleaning service is both price and time competitive with all alternative cleaning operations available. Joe was excited about Bob Carpet Cleaning Ltd. Joe had the added advantage of a good knowledge of the Bob Carpet cleaning Ltd., since his wife, Sarah was an employee of the said company, working in the capacity of controller of the company.

Bob Carpet Cleaning Ltd., has a bonus incentive plan for its employees which would give them a finder's bonus for finding new customers, and would also pay a bonus to employees based on profit sharing. All these lucrative offerings of Bob Carpet Cleaning Ltd., to its employees motivated Sarah to find a new client for the company, which could be possible if Joe, her husband decides to select Bob Carpet Cleaning Ltd., as the vendor for the carpet cleaning service. If Joe decides in favor of Bob Carpet Cleaning Ltd., Sarah intends to put in for a finder's bonus. Sarah is also excited about the possibility of a larger profit sharing bonus that would result from the increased business which she gets for her company.

The other shortlisted vendor as per Joe's list was Dan Carpet Cleaning Ltd., with whom Joe's company had an association as a vendor but not in the recent past. Dan Carpet Cleaning Ltd., uses outdated, older equipment. Contrary to the quality of service, Dan Carpet Cleaning Ltd's., service is both price and time competitive.

Evaluating the positives and negatives of the both the vendors in detail, Joe decided to hire Bob Carpet Cleaning Ltd., as the sole carpet cleaning vendor for his company because of the anticipated higher quality of work associated with the newer equipment that would be used. Joe has not disclosed any information regarding his wife's employment to his company.

END OF CASELET 3

END OF SECTION B

1. Bob carpet
2. Dan carpet
3

Section C : Applied Theory (20 Marks)

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

7. "Might makes right" was the philosophy with which businesses started operating in their evolutionary stages. The subsequent changes in the environment made the businesses change their philosophy. In this regard discuss in detail the various philosophies adopted by the businesses passing through the various stages of ethical consciousness. (10 marks)
8. Wilhemsen Maritime Company is planning to start its shipping company in India, for the same purpose it wishes to frame a corporate code, which reflects the purpose of the company and guides the employees to behave in an ethical manner. Discuss the different formats under which a corporate code could be developed also listing the directions which should become the guiding factors for Wilhemsen Maritime Company to develop their corporate code. (10 marks)

END OF SECTION C

END OF QUESTION PAPER