

**QUESTION BOOKLET NUMBER****1010**

Subject Code

MB312**PROGRAM : MBA****SUBJECT : Business Ethics and Corporate Governance****DATE : October 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**

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. Corporations operating at which of the following levels of ethical consciousness, seek to achieve social objectives like promotion of community health programs, participation in job creation and giving employment to handicapped people along with the financial success of the company?
 - (a) Anything for profit
 - (b) Stakeholder concept
 - ☒ (c) Corporate citizenship
 - (d) Profit-maximization in the short-term
 - (e) Profit-maximization in the long-term.
2. One of the statements holds **true**, since ethics, is classified as a normative science. Identify it.
 - (a) It tells a person what he/she is compelled to do ~
 - (b) It tells a person what law requires him/her to do ~
 - ☒ (c) It tells a person what he/she is ought to do ~
 - (d) It tells a person what everybody does ~
 - (e) It tells a person what he/she should be obliged to do. ~
3. Which of the following ethical situations arises, in cases like corporate acquisitions, marketing, personnel policies, capital investments etc?
 - (a) Overt
 - ☒ (b) Covert
 - (c) Separatist
 - (d) Hedonist
 - (e) Explicit.
4. A legal company conducts its business with the help of representatives selected by shareholders who are referred to as 'directors'. A person with which of the following disqualification(s) cannot be appointed as a director?
 - I. If he is insolvent.
 - II. If he does not have good interpersonal skills.
 - III. If he has been convicted by court for moral turpitude.
 - (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - ☒ (d) Both (I) and (III) above
 - (e) Both (II) and (III) above.

5. With a focus on better environment, companies nowadays adopt several green initiatives. Which of the following aims at encouraging employees to express their concern about environmental issues?
- (a) Green community ✗
 - (b) Green counseling ✗
 - (c) Environmental campaigning ✓
 - (d) Green tourism ✗
 - (e) Green society ✗
6. Which of the following theories judge the ethical nature of an organization based on the 'espoused values' and 'values in practice'?
- I. Theory of corporate moral excellence.
 - II. Ethics and stakeholders theory.
 - III. Ethics and corporate governance.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - (d) Both (I) and (II) above
 - (e) Both (II) and (III) above. ✓
7. According to the enlightenment matrix, a company that reflects low self-interest and low philanthropy is involved in
- (a) Pure philanthropy ✗
 - (b) Social responsibility ✗
 - (c) Cause-related marketing ✗
 - (d) Enlightened self-interest ✓
 - (e) Utilitarianism. ✗
8. Which of the following financial frauds, committed while preparing financial statements, can be detected by comparing financial statements over a period of time, examining unusual journal entries, verifying supporting sales documents and unusual sales transactions?
- (a) Fictitious revenues
 - (b) Fraudulent timing differences
 - (c) Concealed liabilities and expenses
 - (d) Fraudulent asset evaluations
 - (e) Fraudulent disclosures or omissions.
9. At the workplace, the 'Believe' approach is used to
- (a) Establish moral intent
 - (b) Train employees to deal with ethical dilemmas
 - (c) Judge the decision based on certain moral principles
 - (d) Analyze the facts to determine the most appropriate moral values
 - (e) Identify the stakeholders who will be affected by the decision.

10. Which of the following is a consistent set of universal rules that are widely published, generally accepted and usually enforced?
- (a) Moral standards
 - (b) Business ethics
 - (c) Corporate credos
 - (d) Law
 - (e) Compliance codes.
11. Which of the following statements is **true** with regard to 'coercion', an act exhibiting unethical behavior in business?
- ✓ (a) ✗ Application of coercion leads to customers choosing goods, which they would not have chosen, had they got an access to accurate information
 - ✗ (b) ✗ Application of coercion decreases the level of effective competition and results in fewer resources being allocated to the production of goods
 - (c) ✗ Application of coercion can never take the form of force
 - ✓ (d) ✓ Application of coercion induces the decision maker to choose an alternative that may bring him some personal gain but which may not be the best alternative
 - ✓ (e) ✗ Application of coercion distorts the market system as its cost will be built in the project cost.
12. Organizations perform a number of tasks or functions in a society. The tasks which help in ensuring the normal flow of communication in society are referred to as
- (a) Financial tasks
 - (b) Economic and production tasks
 - ✓ (c) Maintenance tasks
 - (d) Political tasks
 - (e) Adaptive tasks.
13. Which of the following unethical practice(s) can be resorted to when a 'management buyout' is attempted?
- I. ✗ Management may leak confidential information for its benefit during the buyout.
 - II. ✓ Management may stall the buyout attempt in the hope that another more favorable company will try to take them over.
 - III. Management may attempt to bring down the share price and buyout the company at a cheaper price.
 - ✓ IV. Management may promote its own interests at the time of bidding.
- (a) Only (II) above
 - (b) Both (I) and (II) above
 - (c) Both (I) and (III) above
 - ✓ (d) Both (III) and (IV) above
 - (e) (I), (III) and (IV) above.
14. Which of the following is **not** a pre-requisite for a moral principle to be accepted?
- (a) It should be prescriptive
 - (b) It should be applicable universally
 - (c) It should presuppose social interaction
 - (d) It should possess practicability
 - (e) It should be legally implementable.

15. Which of the following is a characteristic of a nominee director?
- (a) Performing a dual role as a member of the board of directors and as an executive in the organization
 - (b) Not holding an executive position in the organization
 - (c) Being appointed by major shareholders or financial institutions
 - (d) Acting as a substitute in the absence of an original director
 - (e) Influencing the decisions of the board without being formally present on the board.
16. One of the following is a common factor among the concepts of TQM Technique, ISO-9000 Certifications and Six Sigma Measure. Identify it.
- (a) All the three come under cost optimizing measures of the organization
 - (b) All the three are quality improvement initiatives of the organization
 - (c) All the three generate returns in a very short period of time
 - (d) All the three are graded measures
 - (e) All the three cannot be measured quantitatively.
17. A fireworks factory at Sivakasi in Tamil Nadu is a major employer in that area and also an earner of foreign exchange in the country. However, the factory is being accused of adopting an unethical practice of employing underage children. This has led to a ban being imposed on the products produced by the factory, in many countries. The operations manager of the factory has taken a decision to avoid employing children below 14 years of age. In this regard, application of which of the following factors does help in terming the decision of the operations manager ethical?
- (a) Probability of effect
 - (b) Magnitude of consequence
 - (c) Social agreement
 - (d) Concentration of effect
 - (e) Proximity.
18. Which of the following is/are **not true** regarding the characteristics of ethical decisions in businesses?
- I. Ethical decisions do not have a unique solution.
 - II. Consequences of most unethical decisions are always obvious in nature.
 - III. Ethical decisions result from situations that are beyond one's control.
 - IV. Ethical/unethical decisions have wide ramifications.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (IV) above
 - (d) Both (II) and (III) above
 - (e) (II), (III) and (IV) above.

19. SM Infrastructure Consortium India Limited has started its activities in Dubai recently. All the executives who were sent from the Indian branches to Dubai were given special culture training. The executives were told that being on time for the meeting is considered bad manners in Dubai and that it would imply over eagerness, thereby creating a bad impression. This type of training given to the employees of SM Infrastructure Consortium India Limited, so that they can get adapted to the norms of a place easily, can be classified under which of the following principles of ethical approach to strategic management?
- (a) Consequentialism
 - ☒ (b) Cultural relativism
 - (c) Cultural change
 - (d) Ethical subjectivism
 - (e) Virtue ethics.
20. By going global, companies reduce their sourcing and distribution costs besides availing several other benefits. Which of the following does **not** constitute a valid reason for the companies to go global?
- (a) Lower wage rates
 - (b) Reduced transportation costs
 - (c) Saturation of local market
 - ☒ (d) Independent governance by foreign administrators
 - (e) Recession in domestic market.
21. Samyukta Mills adopts the practice of buying raw materials beforehand in order to meet future requirements with the objective of producing goods and marketing them at a higher price when there is a shortage of raw materials. This practice adopted by Samyukta Mills can be termed unethical on the grounds of
- (a) Expensive procurement
 - (b) Discrimination and favoritism
 - ☒ (c) Forward buying
 - (d) Backward buying
 - (e) Deceiving suppliers.
22. Merck, one of the biggest pharma companies, suffered losses as it was forced to withdraw from the market its famous arthritis drug, Vioxx. Soon, the company faced a number of suits in the court of law, stock had gone down by 40% and to worsen the situation, it started receiving takeover threats. To counter the threats of takeovers, Merck declared bonuses, stock payments and additional payments worth three times their annual salaries to its 230 senior executives. This strategy adopted by the management of Merck can be termed as
- (a) Poison pills
 - (b) Greenmail
 - ☒ (c) Golden parachute
 - (d) People pill
 - (e) Sandbag.

23. In PMCC Investments Limited, the members of the board have been appointed by the shareholders and banks. The president, Mr. Kingsley was also appointed through a consensus between shareholders and banks. The management personnel have also been nominated by the banks. Which of the following corporate governance models is being adopted by PMCC Investments Limited?
- (a) Anglo-American model
 - (b) German model
 - (c) Japanese model
 - (d) Indian model
 - (e) Russian model.
24. Which of the following is **not** a rational assumption that managers make to justify their behavior in resolving ethical dilemmas?
- (a) Their actions are within reasonable ethical and legal limits and hence are not illegal or unethical
 - (b) Their actions are aimed at the individuals or corporation's best interest
 - (c) Their actions will not be disclosed or published and hence there is no danger to them or their company
 - (d) They will be protected by their company
 - (e) They will be protected by their community.
25. Under which of the following board structures is high importance given to both interpersonal relations among directors and effective decision-making?
- (a) Rubber stamp board
 - (b) Representative board
 - (c) Country club board
 - (d) Professional board
 - (e) Two-tier board.
26. The board of directors of Tata Tea and its management had a series of discussions, before the board proposed the leveraged buyout of Tetley Tea, UK. Discussions were to decide about the changes, if any, to be brought about in the structure of Tata to achieve the growth aspirations of the company. The board, in this case is said to be discharging its role at which of the following levels of strategy development?
- (a) Systematic level strategy
 - (b) Structural and portfolio strategy
 - (c) Implementation strategy
 - (d) Policy making strategy
 - (e) Supervisory strategy.
27. M/S Fair Ltd., is engaged in the trading of wholesale groceries and 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 the 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 affected its quality. Good Ltd., can call such an act of Fair Ltd., as
- (a) Moral
 - (b) Immoral
 - (c) Amoral
 - (d) Unprincipled
 - (e) Dishonorable.

28. "We should treat others the same way as 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.
29. 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 gives no recognition to the communication of the acceptance of a contract in the electronic mode.
30. Growing scale of corporations and their style of functioning have raised many new issues that must be addressed to, by corporate governance. Which of the following issue(s) would come under the category of efficiency issues?
- 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.

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. Gap Inc's management felt that it was not enough to just have guidelines; the company felt that for the guidelines to be effective, it was necessary to ensure that they were implemented. Discuss the steps taken by Gap to ensure supplier's compliance with the guidelines. (8 marks)
2. Gap Inc's efforts towards ethical and sustainable procurement and being socially responsible received several accolades, like getting placed fourth among apparel retailers in Canadian market for its labor standards reporting, appearing for three consecutive years on Fortune Magazine's column, 'America's Most Admired Companies' etc. To support the given statement, elaborate on:
 - a. Social Responsibility Report released by Gap Inc, and the importance of its revelations. (5 marks)
 - b. Gap Inc's proposal for a global code of ethics in procurement - its need. (4 marks)

Gap was founded in 1969 by Donald G Fisher and his wife Doris Fisher as a store selling Levis jeans in all available sizes and colors, in San Francisco. At the stores, jeans were stacked according to size and not style. To attract customers to the store, The second store was opened in 1970. In 1972, Gap added its own brand of clothing. By 1973, Gap was operating through 25 stores in the US. In 1983, The Gap brand had been transformed from just a store to a line of clothing. At around the same time, a design team also started working at Gap to design casual and appealing clothes.

As Gap's business grew rapidly in the mid-1980s, it started procuring products from various countries in the world, especially in Asia and South America. Gap's procurement processes were designed to distribute sourcing across several countries and the company did not depend excessively on any one supplier. As of 2008, garments were being manufactured at 1,500 production sites in more than 50 countries. None of the suppliers accounted for more than 5% of the total procurement amount. The suppliers were instructed on manufacturing clothes according to Gap's specifications.

Gap usually built a long-term relationship with 10 to 20 manufacturers. It looked for companies that were also textile manufacturers in order to reduce costs and production time. In case the companies did not have textile manufacturing capabilities, the cloth was sourced from textile mills and sent to the manufacturers. Gap had entered into contracts with several manufacturers around the world, to produce garments. The company was of the view that it was its duty to see to it that these manufacturers followed stringent labor practices. In 1992, Gap came out with sourcing guidelines (code of vendor conduct) which listed the company's expectations from the suppliers. The guidelines covered under different sections

rules relating to compliance with laws, environment, labor, wages and benefits, health, and safety standards, working hours and working conditions. The manufacturer was made responsible for implementing the guidelines. All the suppliers were required to sign a contract to meet the expectations. According to Dan Henkle (Henkle), Senior Vice President, Social Responsibility, Gap, “We were talking about: You must pay the minimum wage, you must pay overtime premiums, you must not have people work more than 60 hours a week - pretty basic things”. In 1995, a New York-based worker’ rights group, the National Labor Committee, reported abuses in a factory in El Salvador, Mandarin International factory, from where Gap was procuring garments. Gap then sent a few of its employees to El Salvador to check. They found instances of low pay, excessive overtime, preventing employees from forming a union, and other offenses at the factory. Other companies which sourced from the facility stopped doing business with that factory but Gap chose to continue doing business with it and to improve conditions there. Gap worked with three NGOs and formed an Independent Monitoring Working Group (IMWG), which partnered with a few civilians in the country who wanted to help the factory workers. Gap’s management felt that it was not enough to just have guidelines as for a majority of the manufacturers, the guidelines were just a piece of paper and meant very little. The company felt that for the guidelines to be effective, it was necessary to ensure that they were implemented. For this to happen, the factory managers needed to assume ownership for compliance with the guidelines in their facilities.

To address this issue, in 1996, Gap formed a Global Compliance Team that reported to the sourcing department. In 1996, Gap established the Code of Vendor Conduct and the Global Compliance Team was made responsible for managing the inspection and enforcement of the code at suppliers’ factories. The Global Compliance Team’s consent was necessary for the approval of new suppliers. The compliance team consisted of Vendor Compliance Officers (VCOs), who were responsible for visiting factories, conducting inspections, reviewing documentation, and interviewing workers to determine compliance with the CVC. Gap decided to recruit VCOs locally as they could interact with the factory authorities and suppliers better. In 2001, under Henkle’s guidance, a vision of the future was created for social and environmental responsibility at Gap. The vision envisaged that all parties, including vendors, factory workers and business partners play a role in ensuring that the company behaved in a socially and environmentally responsible way.

In 2002, a rating system was established to assess the overall level of compliance of a particular factory through quantifiable measures. The rating system rated the factories based on the number and type of violations to the CVC. Violations in core areas like forced labor and child labor were taken seriously. Violations that occurred frequently in the areas of health and safety were also a matter of consideration for the auditors. The system was further improved in 2003, by revising the metrics, and expanding the scale. All the violations that were noticed were given ratings – one star signified the lowest rating and five stars, the best. For example, if a factory was rated at Level 1, it meant that there were several violations of the non core issues, that were repetitive, and that it took a long time for the management to address them. Another factory where there were not many non-core violations but one or two core violations were seen was also given a Level 1 rating. All the garment manufacturers and sub-contractors were required to go through an approval process to be able to supply garments to Gap. After receiving a request from the factories, the international sourcing office at Miami contacted the Compliance Team to evaluate the factory for approval. Then the required documents pertaining to the environment, labor, social, and general practices followed in factories were sent by the Compliance Team to the factory that was seeking approval. The factory needed to sign documents to abide by the

CVC. It also had to provide details of each facility to be used to produce Gap products, the number of workers, and the details of their living and working facilities. Besides, it had to agree to unrestricted access for Gap's employees and to its facilities.

In 2003, Gap released its first Social Responsibility Report. In the report, Gap admitted that it had also contributed to the problems by making last minute demands on the suppliers. This, according to Gap, had led the suppliers to extend working hours and exploit their workers. In the report, Gap said it would improve its sourcing practices and ensure that such incidents did not recur. In the Social Responsibility report, Gap listed all the violations it had found throughout the world in the factories of its suppliers. The report also specified the frequency of these violations and how it addressed them. In the report, the company mentioned that it had stopped doing business with 136 factories which had breached Gap's CVC and due to issues like child labor, inadequate safety measures, insufficient access to drinking water, verbal and physical abuse of workers, etc. This report was given an award for unprecedented honesty in reporting on factory conditions by Business Ethics.

Gap also looked at other issues that were significant to its business and realized that apart from the working conditions at the suppliers' factories, environmental and climate change also required its attention. In 2006, the social community investment team was formed. The team looked at communities from where the products were sourced and their life outside the factories. When Gap probed into the lives of workers at the suppliers' factories in Sri Lanka, it found that the women working there had to spend a lot of time procuring clean potable water for their families. Gap launched a Water & Women program, in association with the supplier in Sri Lanka. Under the program, tube wells were dug and devices to pump and filter water were deployed in the villages from where the workers hailed.

Gap's efforts towards ethical and sustainable procurement and being socially responsible received several accolades. In 2007, Gap was placed fourth among apparel retailers in the Canadian market by the Ethical Trading Action Group in its Transparency Report Card, for its labor standards reporting. For three consecutive years between 2007 and 2009, Gap featured on Fortune Magazine's column, 'America's Most Admired Companies'. Gap was also among the 25 companies and individuals recognized by Time Magazine as Responsibility Pioneers in 2009.

Gap realized that some of the factories were being subjected to several audits as they supplied products to several international companies. Henkle cited a case of a supplier in China who had to undergo around 98 audits in a year. In order to address this issue, Gap proposed to have a global regulatory system to set and enforce rules for responsible procurement and supply chains, as the supply chains of several major companies had gone global.

END OF CASELET 1

Caselet 2

Answer the following questions based on the given Caselet:

3. Traditional view that prevails about CSR is that it is all about improving the general living standards of the community, raising educational standards and creating a positive impact on society. The discussion presented in the caselet represents a huge transition from this traditional myopic view and adds altogether a new dimension to CSR. Identify this new dimension of CSR and also discuss the utility of the same. (8 marks)

4. Many organizations like Tata, Infosys, Ambuja Cements,, NTPC Aviva Life Insurance etc., are involved in several initiatives that help to protect the environment including greenhouse gas reduction, renewable energy and noise reduction as a part of their corporate social responsibility exercise. Discuss in general the activities that corporates take up to be socially responsible. (8 marks)

In the current globalized business world, there exist large multinational as well as small local business organizations. Irrespective of the nature of business organizations, they should be ethically bound to their stakeholders, such as customers, owners/investors, government, suppliers and competitors in order to ensure goodwill, which in turn assures maximum business growth rates. Organizations follow different strategies to ensure their ethics in order to achieve goodwill among their stakeholders. One of such strategies used is Corporate Social Responsibility (CSR). CSR is the voluntary role and contribution of the business community towards a better social and environmental development, apart from their investment to organizational development. CSR is generally seen as the business contribution to sustainable development which has been defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, and is generally understood as focusing on how to achieve the integration of economic, environmental and social imperatives.

Nowadays, business firms have started realizing the importance of CSR as a tool for dominating the competitive scenario prevailing in the national as well as international market, for customer retention, and sustainable growth. Such firms also focus on customer-driven excellence in terms of high quality products and services, at the same time providing value for money, treating employees and partners as valuable assets, agility, innovation in products and services, social responsibility, and to develop environmental friendly techniques of production, design, recycle industrial waste-products and conserve natural resources, forest conservation, and customer solutions for Sustainable Business Practices. Business organizations affect the employees, customers, suppliers, shareholders, the local community and the environment in various ways.

Corporate sector has a major role to play in a developing country like ours. However, majority of the companies have a limited or myopic approach to CSR. CSR is about improving the general living standards of the community, raising educational standards and creating a positive impact on society. Usually CSR concentrates on the activities that typically address the aspects of a firm's behavior (including its policies and practices) with respect to such key elements as; health and safety, environmental protection, human rights, human resource management practices, corporate governance, community development, consumer protection, labor protection, supplier relations, business ethics, and stakeholder rights. Firms have started using CSR as a strategy to focus on new opportunities and respond to interrelated economic, societal and environmental demands in the marketplace. Many firms believe that this focus provides a clear competitive advantage and stimulates corporate innovation and creativity.

Stakeholders are also increasingly aware of the importance and impact of corporate decisions upon society and the environment and hence most of the corporations are involving their stakeholders in their decision-making and addressing societal challenges. The stakeholders are given the opportunity to reward or punish the corporations. Hence corporations can be motivated to change their corporate behavior in response to the business situations, where they can follow CSR approach in order to satisfy their stakeholders.

Many organizations have started realizing the importance of environmental protection, and they are directly or indirectly contributing towards environmental protection. There are many issues regarding the environmental protection and particularly the issues which require immediate attention involve: climate change, water conservation, air emission and e-waste.

Agriculture in our country had significantly faced its downturn due to the climate changes which were primarily caused by burning of coal, oil and other fossil fuels. The world produces more carbon dioxide and other gases which are responsible for man-made global warming. Hence, it becomes very important to identify new fuels which may cause comparatively less pollution. Many companies are on their way to identify new non-renewable resources to ensure energy conservation as well a step to control the global warming.

Businesses across the world are so obsessed with the immediacy of results that they cannot sight the vast opportunity that discharging of social responsibility holds for the long-term sustainability of the organizations. As a result, based on the maturity of strategic thinking in the company, CSR is being implemented in different ways. Generally, many companies use CSR as a reactive strategy for recovering from lost fortunes of the company by gaining the confidence of the communities in which they operate. But now companies have started adopting a “proactive approach” in case of CSR by estimating and analyzing the cost of not discharging the social responsibility and as a result they practice the minimum to pull on and thus minimizing their spending on this account. CSR is viewed by these companies as a cost and compulsion. This approach only obscures a business from identifying the real potential CSR holds with respect to their core business.

Today, many companies view CSR as an opportunity for building their corporate image. Companies announce their plans for various kinds of social philanthropic activities in order to draw the attention of media and general public. In case a company develops a systematic and deliberate approach for maintaining the focus on social welfare activities, this will not only enhance its image in the immediate future but also help the company in building a positive reputation of societal concern. This will definitely help the company in its future business forays in the region.

Some companies take care of environment and society for the reason that it not only helps in operating within the environmental norms set by statutory authorities but also reducing their costs by improving operating efficiency. If the companies are operating barely within the norms set by statutory authorities then they are said to be in compliance mode. When companies deliberately plan and move beyond the compliance mode, the organization needs to integrate CSR and its business goals, which results in improved productivity or operational efficiency and better environmental conditions that fosters better living conditions for future generations.

The major challenge for any type of industry today is to identify the social issues that drive its competitiveness both now and in the future. Hence, the business managers must first believe that social concern or CSR will be a source for business opportunities and competitive advantage. This integration then would pave way for all-round sustainability and growth. In the due course of time, the issues relating to climate change and social responsibility in the area of operations will be critical factors for survival of businesses. Thus, CSR has the potential to change the way business is conducted throughout the world.

END OF CASELET 2

Caselet 3

Answer the following questions based on the given Caselet:

5. Basing the discussion on the instance of the corporate governance lapse at Waste Management Inc., discuss the failure on the part of Dean L. Buntrock, the Chairman and CEO of Waste Management Company, in maintaining the integrity of the company. (8 marks)
6. Waste Management's financial statements were reinstated more than once to rectify the inflated revenue figures presented in the financial statements. In light of the given statement,
 - a. Analyze Arthur Andersen's, responsibility of projecting the true financial position as an auditor of the company. (5 marks)
 - b. Comment on the level of confidence Investors' bestow on such reinstated financial statements. (4 marks)

In 1968, Wayne Huizenga, Dean Buntrock, and Larry Beck founded Waste Management, Inc. Waste Management is the premier waste services provider in North America. They claim that they are committed to customer satisfaction and long-term relationships; and employ processes, techniques and technologies that safeguard the environment. As a company engaged in waste management services, they serve all types of clients like municipalities, industrial, commercial and residential clients. Presently the company's network of operations include, 302 landfill disposal sites, 16 waste energy plants, 190 recycling plants and 69 landfill gas to energy facilities. Their services include trash collection services, disposal services and recycling services. The company enjoyed tremendous average growth rate of 36% during 1971 to 1991 in revenue and in net income under the stewardship of Dean L. Buntrock.

Dean L. Buntrock, was the founder, Chairman of the Board of Directors and Chief Executive Officer of the company. He founded the company in 1968 and took the company to public in 1971. During the two decades of 70s and 80s, Buntrock built a vast waste disposal empire by acquiring and consolidating local waste hauling companies and landfill operators. Buntrock also served on boards of other large public companies including a company engaged in the fast food chicken, from which, he resigned amidst an accounting scandal, which ultimately led to the company's bankruptcy.

By the year 1991, the economy was undergoing a recession. Buntrock and others were still setting the aggressive goals of revenue and net income at 26.19% and 16.5% respectively for themselves, but the company was able to show only a modest growth in the first quarter of 1991 and that too through non-GAAP accounting practices and unbudgeted top level adjustments. All the Buntrock's plans started failing one after the other. In enthusiasm for acquisitions, he had over paid for the acquisitions, which in turn needed revenues to remove the excess. The organization had over grown its size with over 70,000 employees. And management of this trash business became a challenge for the management. It was the time and opportunity for the company to set things right. But Buntrock took the suicidal path to handle the problem. He tried to project the company as a growth company only and tried to defend every failure of the company.

Waste Management fraudulently manipulated the company's financial results to meet predetermined earnings targets. The company's revenues were not growing fast enough to meet these targets, so the company resorted to improperly eliminating and deferring current period expenses to inflate earnings. They employed a multitude of improper accounting

practices to achieve this objective. Some of them being they avoided depreciation expenses on their garbage trucks by both assigning unsupported and inflated salvage values and extending their useful lives, assigned arbitrary salvage values to other assets that previously had no salvage value, failed to record expenses for decreases in the value of landfills as they were filled with waste, refused to record expenses necessary to write off the costs of unsuccessful and abandoned landfill development projects, established inflated environmental reserves (liabilities) in connection with acquisitions so that the excess reserves could be used to avoid recording unrelated operating expenses, improperly capitalized a variety of expenses, and failed to establish sufficient reserves (liabilities) to pay for income taxes and other expenses.

Improper accounting practices were centralized at corporate headquarters. Each year, Buntrock, Rooney, and others prepared an annual budget in which they set earnings targets for the upcoming year. During the year, they monitored the company's actual operating results and compared them to the quarterly targets set in the budget. To reduce expenses and inflate earnings artificially, the company primarily used "top-level adjustments" to conform the company's actual results to the predetermined earnings targets. The inflated earnings of prior periods then became the floor for future manipulations. The consequences, however, created what Hau referred to as a "one-off" problem. To sustain the scheme, earnings fraudulently achieved in one period had to be replaced in the next.

Waste Management was allegedly aided in their fraud by the company's long-time auditor, Arthur Andersen LLP, which repeatedly issued unqualified audit reports on the company's materially false and misleading annual financial statements. At the outset of the fraud, management capped Andersen's audit fees and advised the Andersen engagement partner that the firm could earn additional fees through "special work." Andersen nevertheless identified the company's improper accounting practices and quantified much of the impact of those practices on the company's financial statements. Andersen annually presented company management with what it called Proposed Adjusting Journal Entries ("PAJEs") to correct errors that understated expenses and overstated earnings in the company's financial statements.

Management consistently refused to make the adjustments called for by the PAJEs. Instead, it secretly entered into an agreement with Andersen fraudulently to write off the accumulated errors over periods of up to ten years and to change the underlying accounting practices.

On October 10, 1997, there was press release from the Waste Management Inc. declaring that their reported earnings from their operations for the quarter three of 1996 had been materially inflated by 20% due to inclusion of certain non-recurring items. During first week of February 1998, the company once again announced that they were reinstating their financial statements for the period commencing from 1992 to the third quarter of 1997.

END OF CASELET 3

END OF SECTION B

Section C : Applied Theory (20 Marks)

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

7. The world has become a global village with the increase in cross border trade and business. As a result, India has also seen a large influx of MNCs in various business sectors. On one hand, the opening of the economy to MNCs is beneficial for India, but on the other hand these MNCs are known to have adopted several unethical practices. In this regard, discuss the unethical practices, in the areas of technology and personnel management, that MNCs have been accused of engaging in. (10 marks)

8. A private security agency released an advertisement for the recruitment of personnel manager, in one of the leading newspapers. The advertisement read as

- a. The post is open for male candidates only.
- b. The ideal applicant should be under 35 years of age.
- c. The candidate should possess a PG diploma in personnel management.
- d. The candidate will have to take a written test, group discussion and a final interview.

Comment on the ethical aspects of this advertisement for recruitment based on the criteria for recruitment mentioned in it. (10 marks)

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

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INSTRUCTIONS FOR MARKING ANSWERS ON THE OMR SHEET

1. Section - I

Use **Ball Point Pen** only.

Fill in all the particulars in the space provided.

2. Section - II

Use **HB Pencil** only.

Fill in one character/digit per cell and darken the corresponding circle below that cell.

Details to be filled include enrolment no., question booklet no., test centre code & OMR answer sheet number.

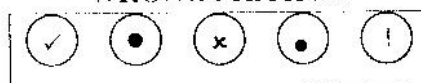
In case you want to change any of the information in this section, erase completely the pencil marking in the already darkened circle before darkening a new cell.

3. Section - III

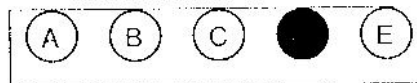
(i) Marking the answer

- ☞ Mark your **answers** in this section using **HB Pencil** only.
- ☞ For answering each question five circles marked with options A, B, C, D and E are provided corresponding to the five options given in the question.
- ☞ Mark your answer by darkening completely the circle consisting of the option you think is the right answer.
- ☞ Do not darken more than one circle for any answer.
- ☞ Do not fill the circle by darkening partly or putting a tick mark, cross mark or any other kind of mark.

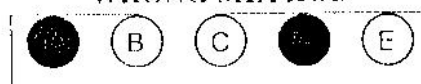
WRONG METHOD



CORRECT METHOD



WRONG METHOD



CORRECT METHOD



(ii) Changing the answer

- ☞ To change your response, erase completely the pencil marking in the circle before darkening a new circle.

For Example assume that you have marked option (e) as the answer to a question as follows:

1. (a) (b) (c) (d) (e)

If you want to change this answer to option (c), erase completely the circle marked earlier i.e., (e) and darken the circle with option (c) as follows:

1. (a) (b) (c) (d) (e)

4. **DO NOT** fold, tear or crumple the OMR answer sheet.

5. **DO NOT** use the OMR answer sheet for any rough work or scribbling.