

Question Paper
Business Ethics and Corporate Governance (MB312): January 2009
Section A : Basic Concepts (30 Marks)

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

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

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

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

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

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

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

END OF SECTION A

Business Ethics & Corporate Governance (MB312): January 2009

Section B : Caselets (50 Marks)

- 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.

Suggested Answers

Business Ethics and Corporate Governance (MB312): January 2009

Section A: Basic Concepts

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

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

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

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