MBA (FT)

Paper 6301: BUSINESS ETHICS & SUSTAINABILITY

(Admissions of 2020 and onwards)

Time: 3 Hours **Maximum Marks: 70**

(*Write your Roll No. on the top immediately on receipt of this question paper.*)
Attempt *all* questions. All questions carry equal marks. Make suitable assumptions wherever necessary.

Q.1 Answer the following:
I. Read the following case and answer the questions:
The Issue
In November, McDonald's CEO Steve Easterbrook was fired from his position for having a consensual relationship with a colleague that violated company policy. The following day, the company's human resources chief David Fairhurst announced his resignation in an internal memo. Easterbrook became chief executive in March 2015 and has been credited with revitalizing and modernizing McDonald's, charting a course for the company that had its stock at an all-time high in July 2019. When he resigned, Easterbrook wrote an email to employees acknowledging his violation of company policy, which states that "employees who have a direct or indirect reporting relationship to each other are prohibited from dating or having a sexual relationship."
Why Is It News?
This non-fraternization policy and resultant firing comes in the midst of ongoing allegations of a culture of sexual harassment and discrimination within the fast-food company. In November 2019, a class action suit was brought against McDonald's after three years of more than 50 complaints from workers.
Both parties have described the relationship as consensual, and there are no allegations of sexual harassment. However, many have called out the former CEO's judgment, saying that he should have known better.
The Chicago-based company announced that it would launch a training program for its 850,000 U.S. employees to educate workers about harassment, as well as a free, anonymous hotline. Activist groups are demanding more accountability, saying that training is one step towards changing company culture, but that McDonald's should guarantee that workers who report harassment won't face retaliation. Organizations like the American Civil Liberties Union Women's Rights Project are insisting that upper management spend face-to-face time with workers to discuss these issues.
On the heels of Easterbrook's firing, it's important to explore the strategy behind the dismissal of this tide-turning CEO. Is banning employees from consensual relationships indicative of a workplace that also supports workers who've reported sexual harassment? Was Easterbrook's dismissal a PR move that ultimately won't support employees who are reporting these allegations?
Discussion Questions
A. Consider the ongoing struggle with lawsuits and protests alleging that McDonald's maintains a culture of sexual harassment and discrimination. Do you think the firing indicates that McDonald's is working on changes in its overall culture, or do you see it as a savvy PR move?
B. How do you think companies should handle relationships between colleagues? Do you think an outright ban—even for consensual relationships—is the best strategy? [7]
II. What is business ethics? Describe the utilitarian approach to ethical decision making, and the main criticisms of the cost-benefit analysis method. [7]

Q.2 Answer the following:

I. Read the following case and answer the questions:

Steve was a senior executive at PCO, an American construction and civil engineering firm in Dubai with headquarters in Portland, Oregon. This company engaged in projects including residential and business construction (buildings and superstructures), bridge erection, roadway, excavations, and large-scale repair work. The 2008 global financial crisis caused widespread instability in Dubai's economy and contributed to PCO's financial struggles as well as the collapse of many construction firms in the region. In addition, significant numbers of Chinese civil engineering companies manipulated Dubai's construction business by offering low rates and fast-paced performance. This vastly reduced the number of available projects within PCO's domain of operations. In a corporate meeting, a report analyzing the financial status of PCO indicated that a failure to devise an effective survival strategy within the next three months could lead to the branch's closure.

As a highly competent manager, Steve's strategic and tactical success at PCO for over 15 years transformed him into a valuable asset for the company. PCO's strategic sector highly trusted and valued Steve's opinion and incorporated his insights and solutions into the firm's decision-making framework. Influenced by his decentralized and facilitative management style, Steve's relationship with his employees was highly positive and based on care, trust, and mutual respect. As a team leader, Steve placed great emphasis on sustaining and popularizing values, such as integrity, transparency of actions (open agendas), and moral conduct on both individual and collective levels. Accordingly, PCO's executives always used Steve's assistance to develop ethics training programs. In addition, Steve advocated for holistic and fact-based decision making, which led him to engage in actions including gathering information from multiple resources and involving stakeholders in the decision-making process.

Frustrated by PCO's financial situation in Dubai, Steve felt responsible to find a solution to reduce the high costs of engineering, designing, and drafting in order to save the company and his workforce from losing their jobs. While sitting in his office thinking about potential options, Steve received a phone call from Ali, a close and trustworthy friend who owned a startup civil engineering and design company in Iran. Prior to establishing his company, Ali worked as a civil engineer in Dubai for over five years, which helped him become familiar with laws, regulations, key success factors, and nature of construction business in UAE. Ali invested a significant amount of money in his company and hoped to expand his business rapidly. However, Iran's unstable economy, which primarily resulted from political conflicts and issues related to foreign policies, posed many challenges to Ali and his business. From experience, Ali knew that sealing a business deal with a Dubai-based Western construction firm could help his business survive during Iran's economic and political instabilities. More specifically, the successful completion of a business contract with a Western firm could enhance the reputation of Ali's company and stabilize its position locally, which in turn would attract more business to his firm. Considering the unpleasant business conditions, Ali had prioritized the survival of his startup at any price.

In the course of their discussion regarding PCO's challenges, Ali presented a solution that could solve a substantial portion of PCO's financial problems. Ali proposed that his company could assume PCO's engineering, design, and draft work for approximately one fifth of the cost that PCO spent on these sectors. Steve asked, "How is this even possible?" In response, Ali highlighted that each U.S. dollar was being traded for 3,500 Toman (a super unit of Iranian currency), which implied a value difference of over three times. Further, Ali told Steve that his staff salaries were much lower compared to those of PCO employees because of the company's start-up status and the average pay in Iran. By leveraging a favourable exchange rate and lower cost of labour in Iran, Steve determined he could reduce PCO's overall expenditure in three crucial areas of business.

While listening to Ali's appealing proposal, Steve recalled that U.S. companies could not engage in business with Iranian firms because of U.S. economic sanctions on Iran. Steve interrupted Ali and asked, "What about the economic sanctions restricting business between the U.S. and Iran? I can't engage in illegal business." Ali responded, "No worries, I also have a strategy to work around those sanctions. There are no business restrictions between the United Arab Emirates and Iran. If we establish a [middleman] company in Dubai, we can exchange business through this mutual source. I assure you that the quality of my service will exceed your expectations. So, what do you say, Steve?"

Steve was amazed by Ali's proposal and its details. He believed this cost-saving strategy could help PCO survive and buy itself time to devise additional plans to secure business success. Steve realized that if he decided to engage in business with Ali, he would not be able to discuss the Iran-end portion of the contract with his corporate office. This is because, in the eyes of the industry and the U.S. government, working around sanctions is perceived as unethical, and demonized by other U.S. entities. Therefore, one option for Steve was to engage with Ali's company through the Dubai-based intermediary while concealing the fact that PCO would indirectly collaborate with an Iranian firm. Even as a temporary solution until reaching financial stability, this option would pose serious risks to Steve and PCO. For instance, if the corporate found out about the collaboration with Iran, Steve and his staff who helped him conceal the plan could, at a minimum, lose their jobs. In addition, once this alliance became public knowledge, PCO-U.S. could face civil and criminal penalties imposed by the U.S. government and lose its privileges to collaborate with leading firms. On the other hand, disregarding Ali's proposal would most likely push PCO-Dubai towards closure because the corporate office possessed no feasible plans to save this branch within the specified timeframe.

Steve faced a critical decision-making challenge primarily because he was not able to easily determine the rightness of a potential course of action. An additional layer of complexity that contributed significantly to the difficulty of Steve's decision making process related to the presence of two groups of stakeholders (PCO's executives and Steve's employees) with distinct needs and agendas; the firm's executives preferred to comply with the U.S. government's foreign policies while Steve's employees prioritized keeping their jobs. Moreover, Steve's emotions and personal values (e.g., feeling frustrated due to time pressure, caring for employees, and valuing moral conduct) further increased the complexity of his decision making.

Discussion Questions

A. What ethical issues are present in the case?

B. Conduct a utilitarian analysis to obtain an accurate understanding of each primary stakeholder involved in the case. [7]

II. What is the philosophy of Islamic Banking? What is the difference between conventional banking and Islamic banking? [7]

Q.3 Read the case and answer the questions at the end of the case study.

Anna Textiles is a large clothes retailer and exporter in India. Its business strategy is based around vigorous cost leadership and it prides itself on selling fashionable garments for men, women and children at very low prices compared to its main rivals. For many years, it has achieved this cost leadership through carefully sourcing its garments from countries where labour is cheaper and where workplace regulation is less.

As a company with a complex international supply chain, the board of Anna Textiles regularly reviews its risks. It has long understood that three risks are of particular concern to the Anna Textiles shareholders: exchange rate risk, supply risk and international political risk. Each one is carefully monitored, and the board receives regular briefings on each, with the board believing that any of them could be a potential source of substantial loss to the shareholders.

For the past decade or so, Anna Textiles has bought in a substantial proportion of its supplies from Country X, a relatively poor developing country known for its low labour costs and weak regulatory controls. Last year, 65% of Anna Textiles supplies came from this one country alone. Country X has a reputation for corruption, including government officials, although its workforce is known to be hard-working and reliable. Most employees in Country X's garment industry are employed on 'zero hours' contracts, meaning that they are employed by the hour as they are needed and released with no pay when demand from customers like Anna Textiles is lower.

Half of Anna Textiles' purchases from Country X are from Betty Company, a longstanding supplier to Anna Textiles. Owned by the Mali brothers, Betty Co. outgrew its previous factory and wished to build a new manufacturing facility in Country X for which permission from the local government authority was required. In order to gain the best location for the new factory and to hasten the planning process, the Mali brothers paid a substantial bribe to local government officials.

The Mali brothers at Betty Co. felt under great pressure from Anna Textiles to keep their prices low and so they sought to reduce overall expenditure including capital investments. Because the enforcement of building regulations was weak in Country X, the officials responsible for building quality enforcement were bribed to provide a weak level of inspection when construction began, thereby allowing the brothers to avoid the normal Country X building regulations.

In order to save costs, inferior building materials were used which would result in a lower total capital outlay as well as a faster completion time. In order to maximize usable floor space, the brothers were also able to have the new building completed without the necessary number of escape doors or staff facilities. In each case, bribes were paid to officials to achieve the outcomes the Mali brothers wanted. Once manufacturing began in the new building, high demand from Anna Textiles meant that Betty Co. was able to increase employment in the facility. Although, according to Country X building regulations, the floor area could legally accommodate a maximum of 500 employees, over 1,500 were often working in the building in order to fulfil orders from overseas customers including Anna Textiles. After only two years of normal operation, the new Betty Co. building collapsed with the loss of over 1,000 lives. Collapsing slowly at first, the number of people killed or injured was made much worse by the shortage of escape exits and the large number of people in the building. As news of the tragedy was broadcast around the world, commentators reported that the weakness in the building was due to the '*obsession with cheap clothes*'.

Anna Textiles was severely criticized in the local as well as international platform for being part of the cause, with many saying that if retailers pushing too hard for low prices, was one consequence of that. In response, Anna Textiles public relations department said that it entered into legal contracts with Betty Co. in order to provide its customers with exceptional value for money. Anna Textiles said that it was appalled and disgusted that Betty Co. had acted corruptly, and that the Anna Textiles board was completely unaware of the weaknesses and safety breaches in the collapsed building.

Rita, who was also the leader of a national pressure group 'Protect workers' rights' (PWR) lobbying the Country X government for better working conditions and health and safety practices for workers in the country questioned whether multinational companies such as Anna Textiles should be allowed to exert so much economic pressure on companies based in developing countries. Rita also wrote a letter to the board of Anna Textiles, stating that Anna Textiles was an unethical company because it supplied a market in its home country which was obsessed with cheap clothes. As long as its customers bought clothes for a cheap price, she believed that no-one at Anna Textiles cared about how they were produced. She said that large international companies such as Anna Textiles needed to recognize they had accountabilities to many beyond their shareholders and they also had a wider fiduciary duty in the public interest.

The defective Betty Co. factory in Country X, she argued, would not have existed without demand from Anna Textiles, and so Anna Textiles had to recognize that it should account for its actions and recognize its fiduciary duties to its supply chain as well as its shareholders. At the same time as events in Country X unfolded, the business journalists reporting on the events and Anna Textiles alleged complicity in the tragedy also became aware of innovations in business reporting called integrated reporting.

The board of Anna Textiles discussed the issues raised by the well-publicized discussion of Rita's open letter and the comments from business journalists about integrated reporting. The board was, in principle, a supporter of the integrated reporting initiative and thought it would be useful to explain its position on a range of issues in a press release.

Answer the following questions based on case study:
A. How this case has affected reputation of Anna Textiles? Provide some suggestions for reputation risk management to the company.
B. Draft a statement for the board of Anna Textiles explaining the role of Anna Textiles as a 'corporate citizen' given its international supply chain.
C. Explain the concept of sustainable development and corporate sustainability to Anna Textiles.
D. Describe the basic framework of integrated reporting, and the potential benefits to Anna Textiles from reporting on different capital types. [14]

Q.4 Answer the following:
I. Read the case and answer the questions at the end of the case study.

Newmart, a grocery and general merchandise store and the global retailer has more than 5000 retail units in 20 different countries. In 2017, Newmart was caught using child labour in a developing country X-Land. At the end of year, media made public the news that Newmart was using child labour at two factories in X-Land. Children aged 10-14 years old were found to be working in the factories for less than $50 a month making products of the Newmart brand for export. The company had zero tolerance policy for underage workers and ceased business with the two factories immediately and alleged that despite its effort to inspect all factories, it is difficult to enforce its own corporate code of conduct with thousands of subcontractors around the world.

Now, on the basis of advice from an NGO from country X-Land that if Newmart cuts business with these factories, many workers could be laid off for lack of production, suppliers will hide abuses and workers will not tell the truth to auditors in order not to lose their jobs; Newmart resumed operations with two factories after giving warning that if underage workers were found or the company did not make corrections, the factory would be permanently banned from Newmart's production. Newmart has a strict corporate code of conduct in the industry but according to investigations Newmart is not able to enforce its code in developing countries.

Thus, Newmart changed its zero-tolerance child labour policy due to NGO advice. Now, instead of immediately cutting business relationships with suppliers hiring up to two underage workers, they receive a warning and are obliged to take corrective measures for the next audit. Only when the supplier has hired more than two underage workers and has not corrected the situation does Newmart permanently terminate business relationships. This new policy was adopted in order assure that suppliers report the reality of working conditions.

Also, Newmart requires its suppliers who produce toys in China to sign up to the ICTI CARE Process. The ICTI CARE Process was created by the international toy industry to achieve a safe and human working environment for toy factory workers worldwide. In addition, Newmart conducts internal validation audits by Newmart's Ethical Sourcing team. These validation audits ensure that the ICTI CARE process is properly implemented and that it meets Newmart's Standards for Suppliers.

Newmart has updated policies against discrimination. Its GRI Report emphasizes gender equality, a diverse workforce and appointing women to top management positions. The report even dedicates a separate paragraph on '*Empowering women at Newmart*'.

Answer the following questions based on case study:
A. Explain the concept of CSR and why successful companies like Newmart should adopt CSR in its strategy of growth and business sustainability?
B. Explain triple bottom line approach of CSR in context of the global concern on climate change.
C. Highlight the factors which affect CSR with the examples from the above case. [10]
II. Explain the role of renewable energy in enabling businesses achieve the ESG mandate. Give examples. [4]

Q.5 Answer the following:

I. Discuss ethical decision making. What factors influence ethical decision making? What steps an organization should take to facilitate its employees' ethical decision making? [7]

II. Explain the concept and key features of a corporation? Can a corporation have social responsibilities? [7]

OR

Q.5 Answer the following:

I. '*Pick a strategy that fits your resources and capabilities*'. Explain the statement in context of the circular business model. Give 3 examples from real Indian companies from 3 different sectors. [7]

II. '*The purpose of business is to create common good*'. Examine the statement in view of stakeholder's capitalism in the backdrop of UN Sustainable Development Goals and the road ahead to 2030. [7]