

BECG 04

Business Ethics & Corporate Governance

20-03-2014

Roll No.

Total No. of Printed Pages: 3

Total No. of Questions : 7

Maximum Marks : 60

Duration (hrs.) : 3 Hours

Note : The Case Study is compulsory. Answer any four out of the remaining questions.

A woman called Sandra, pulled onto a Minneapolis highway in her new Ford Pinto car. Riding with her was a young boy, whom we'll call Robbie Carlton. As she entered a narrow lane, Sandra's car stopped. Another car hit her car from behind hers at an impact speed of 28 miles per hour. The Pinto's gas tank was damaged. Vapours from it mixed quickly with the air in the passenger compartment. A spark ignited the mixture and the car exploded in a ball of fire. Sandra died in pain a few hours later in an emergency hospital. Her passenger, 13-year-old Robbie Carlton, is still alive; he has come home from another unsuccessful operation aimed at grafting a new ear and nose from skin on the few unburnt portions of his badly burned body.

Why did Sandra's Ford Pinto catch fire so easily, seven years after Ford's President Miller made his sincere announcements about safety—the same seven years that brought more safety improvements to cars than any other period in automotive history?

An extensive investigation has found these answers:

- Fighting strong competition from Volkswagen for the lucrative small-car market, the Ford Motor Company rushed the Pinto into production in much less than the usual time.
- Ford engineers discovered in pre-production crash tests that rear-end collisions would damage the Pinto's fuel system extremely easily.
- Because assembly-line machinery was already tooled when engineers found this defect, top Ford officials decided to manufacture the car anyway - along with the exploding gas tank —*even though Ford owned the patent on a much safer gas tank.*
- For more than eight years afterwards, Ford successfully lobbied, with extraordinary enthusiasm and some obvious lies, against a key government safety standard that would have forced the company to change the Pinto's fire-prone gas tank.

By conservative estimates Pinto crashes have caused 500 burn deaths to people who would not have been seriously injured if the car had not burst into flames. The figure could be as high as 900. Ford knew the Pinto is a firetrap, yet it paid out millions to settle damage law suits out of court, and was prepared to spend millions more lobbying against safety standards.

With a half million cars rolling off the assembly lines each year, Pinto was the biggest-selling subcompact car in America, and the company's operating profit on the car is fantastic. Finally, in 1977, new Pinto models incorporated a few minor changes

necessary to meet that federal safety standard that Ford managed to avoid for eight years. Why did the company delay so long in making these minimal, inexpensive improvements?

- Ford waited eight years because its internal "cost-benefit analysis," which places a monetary value on human life, said it wasn't profitable to make the changes sooner.

Although this particular story is about the Pinto, the way in which Ford made its decision is typical of the U.S. auto industry generally. There are plenty of similar stories about other cars made by other companies. But this case is the worst of them all.

Lee Iacocca was an energetic young employee who had risen fast within the company to the top management. He argued forcefully that Volkswagen and the Japanese were going to capture the entire American subcompact market unless Ford put out its own alternative. Lee Iacocca wanted Pinto in the showrooms of America at the earliest. So he ordered his engineering vice president, to supervise what was probably the shortest production planning period in modern automotive history. The normal time span from conception to production of a new car model is about 43 months. The Pinto schedule was set at less than 25 months. So design, styling, product planning, advance engineering and quality assurance all had flexible time frames, and engineers could carry these on at the same time. Iacocca's speed-up meant Pinto's tooling went on at the same time as product development. So when crash tests revealed a serious defect in the gas tank, it was too late

When it was discovered the gas tank was unsafe, did anyone go to Iacocca and tell him? "Hell no," replied a senior engineer who worked on the Pinto. "That person would have been fired. Safety was not a popular subject around Ford in those days. With Lee it was taboo. Whenever a problem was raised that meant a delay on the Pinto, Lee would chomp on his cigar, look out the window and say 'Read the product objectives and get back to work.'"

The product objectives are clearly stated in the Pinto "green book." This is a thick, top-secret manual in green covers containing a step-by-step production plan for the model. The product objectives for the Pinto are repeated in an article by Ford executive F.G. Olsen published by the Society of Automotive Engineers. He lists these product objectives as follows:

1. TRUE SUBCOMPACT: Size, Weight
2. LOW COST OF OWNERSHIP: Initial price, Fuel consumption, Reliability, Serviceability
3. CLEAR PRODUCT SUPERIORITY: Appearance, Comfort, Features. Ride and Handling, Performance

Safety, you will notice, is not there. It is not mentioned at all in the entire article. As Lee Iacocca was fond of saying, "Safety doesn't sell."

Q1) Analyse the above case with reference to the following areas: (20 marks)

- A) Evaluate Ford's decision to continue production of the Pinto using an ethical framework or theory on ethics? (10 marks)
- B) Explain the role of leadership in ethical decision-making? (10 marks)

Attempt any Four from the six questions given below:

- Q. 2 (a) Distinguish between values, morals, law and ethics. (5 marks)
(b) What do you mean by an ethical dilemma? Give an example. (5 marks)
(c) What do you mean by ethical decision making frameworks? Explain any two such frameworks. (5 marks)

Answer any Two from (a) or (b) or (c) (5x2) = 10 marks

- Q. 3 (a) Explain how the given philosopher has contributed to the evolution of ethics and business ethics in particular? (Any one) (5 marks)
i) Aristotle ii) Immanuel Kant iv) J. S. Mill
(b) Explain how the given economist's ideas have contributed to business ethics? (Any one) (5 marks)
i) Amartya Sen ii) Adam Smith iii) Joseph Stiglitz
(c) Explain how the given philosophy / religion has contributed to business ethics? (Any one) (5 marks)
i) Hinduism ii) Islam iii) Japanese religion and culture

Answer any Two from (a) or (b) or (c) (5x2) = 10 marks

- Q. 4 (a) Explain the theory of moral development with regards to ethics. (5 marks)
(b) Explain the difference between a legal compliance approach versus an integrity based approach to ethical decision making. (5 marks)
(c) What do you mean by an ethical code of conduct? Give examples of items that would be included in such a code of conduct. (5 marks)

Answer any Two from (a) or (b) or (c) (5x2) = 10 marks

- Q. 5 (a) Explain various ethical issues seen in the marketing function. (5 marks)
(b) What do you mean by corporate social responsibility? (5 marks)
(c) What do you mean by sustainable business? What are the various regulations present to ensure sustainability? (5 marks)

Answer any Two from (a) or (b) or (c) (5x2) = 10 marks

- Q. 6 (a) What do you mean by a corporation? What is the purpose of a corporation? (5 marks)
(b) Define corporate governance. What are the key issues that it deals with? (5 marks)
(c) Explain any one of the following theories of corporate governance. (5 marks)
i) Douglas McGregor's Theory ii) Stewardship theory iii) Agency Theory

Answer any Two from (a) or (b) or (c) (5x2) = 10 marks

- Q. 7 (a) Define the role and responsibilities of the board of directors to maintain good corporate governance. (5 marks)
(b) Explain the rights of shareholders with regards to corporate governance. (5 marks)
(c) State the key recommendations of ANY ONE of the following landmarks in shaping corporate governance norms. (5 marks)
i) Kumar Managalam Birla Report ii) Narayan Murthy Report

Answer any Two from (a) or (b) or (c) (5x2) = 10 marks