PGDM (Retail Management), 2013-2015
Corporate Social Responsibility
RM-602
Trimester – VI, End-Term Examination: February 2015

Time allowed: 2 Hrs 30 Min Max Marks: 50

Roll No: ________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Section A

Answer any 3 Questions **15 Marks**

Q. 1 Why is it in the Business world of today, there is so much talk of Business Ethics, superceded by Corporate Governance and then by Corporate Social Responsibility, while the reality is of variable business performance and deeply unethical behaviour? Provide a brief explanation and suggest an approach that will resolve this unacceptable contradiction between preaching and practice.

Q. 2 Briefly describe the Stakeholder concept and discuss the stakeholder framework that has been discussed during the course on business ethics. Give two examples of "nominal" stakeholders who cannot be accepted as true stakeholders in their respective categories.

Q.3 Discuss the various approaches to Personal Ethics with their respective originator champions. In your view which of these approaches are usually followed in Business today. Which in your view would be the ideal one to follow to ensure long term business success. Illustrate with one example to substantiate your submission.

Q.4 If a priority list is developed for the stakeholder groups, which one should be the first among equals. What would be the rightful expectations of this group? Who in your view should be the last and why? Substantiate your submission.

Q.5 Discuss the difference between Law and Ethics. What is that gives prescriptive disciplines like Law the power Ensure compliance? What is it that Ethics lacks in terms of motivating and driving people in general and Business organizations in particular towards compliance? What would progressively ensure compliance in the Long run?

Section B

Answer any 2 Questions **20 Marks**

Q.1 How did the concept of Co-operative Capitalism develop in Industry? In which country did it really flower? Provide some details of the various agencies involved and how co operation evolved. In which country has Business Ethics become prescriptive rather than normative? Where does India stand in real implementation of the principles of Co operative Capitalism?

Q.2 Recently a Standing Committee comprised by several parliamentarians has recommended that companies who have a net worth of Rs. 500 crores or a turnover of Rs. 2000 Crores or earn a profit of Rs. 5 Crores per year should be made to spend 2% of their profits on Corporate Social Responsibility measures of their choice. What Do you think of this? Has the corporate world and the regulatory bodies understood the real meaning of CSR? Where should firms prioritize their ethical duties and what should come first?

Q.3 Usually Government and other regulatory bodies are perceived by Business and business organizations as restrictive and unreasonable. Do you agree with this view? How should firms view regulatory bodies in an non adversarial way and work towards compliance? Can you give examples of firms who have used a positive approach to these bodies and can such an approach support long term profit maximization?

<u>Section C</u> - Read the enclosed case carefully. 15 Marks
Answer both Questions

The Indian Fertilizer Industry- Predator or Victim?

The Indian Fertilizer Industry is a half century old. From being identified by Pandit Nehru as one of the Temples of Modern India it has acquired the reputation in the minds of many as an avaricious panda tenaciously protecting its turf and fleecing the exchequer through ever growing subsidies. When the first Fertilizer units were set up, the consideration was distributing industrial development equitably throughout the country. This resulted in many units being set up in locations which were not cost effective in terms of raw material access as well as transportation costs. The result of this ideological prioritization was several units progressively becoming technologically backward as well as cost heavy. To compensate these units, the pricing was strictly cost plus pricing with wide variation in individual unit prices. Thus a unit located in the centre of Bihar and using Naphtha as a feedstock would have a price which would be twice as high as a unit located on, or close to the HBJ gas pipeline and using Natural gas as a feedstock.

On the other hand it has been a committed policy of the Indian Govt. irrespective of party ideologies and affiliations to provide fertilizers to farmers at subsidized prices. Thus fertilizer prices to the consumers have been kept artificially low irrespective of the inexorable rise in prices of oil which constitutes the basis of all nitrogenous fertilizers which are the primary plant and crop nutrient. This then requires compensation to the fertilizer units which get end price remuneration at below cost. It is this compensation/remuneration which constitutes the infamous fertilizer subsidy which had grown from a few hundred Crores of Rupees during the 1960's to a staggering figure of Rs 32000 Crores budgeted for the current financial year 2006-2007. A huge amount of noise and recrimination has been generated. Several influential economists and scholars have called for a total end to the Fertilizer subsidy and a freeing up of Fertilizer purchase including purchase from low price International Players located in the oil rich gulf region. A special study was conducted in the year 2000 by a group of economists and members of the planning commission, which formed a committee- Expenditure Reforms Commission-(ERC), studied the industry thoroughly and came up with the recommendation that the Industry should be categorized into broad groups based on feedstock used viz. Naphtha, Natural Gas etc. The average costs of companies in each group should form the basis of remuneration. For example if in the Natural Gas group four companies were involved, had Costs per tonne of Rs, 10000, 12000, 9000 and 11000 respectively the remuneration would be Rs. 10,500 for each company. When the study was published its recommendations were welcomed by those companies in each group whose costs were below the average as they would receive windfall compensation over and above their costs. On the other hand those companies whose costs were above the average howled in protest that they would be unfairly penalized on factors beyond their control.

One enlightened group comprising the Director General of the Fertilizer Association and some officials from the planning commission and the Ministry of Fertilizers made the following proposal: For each category a viable benchmark cost should be fixed based on technological feasibility and competitive prices available internationally. All Indian units would be asked to work to, reaching or beating these figures over a three year period. Units which required technological updating would be funded from a special fund created from the fertilizer subsidies planned over the next five years. These units would be funded on a loan basis. They would return the loaned amounts over a reasonable period through revenues over the same period and would commit to and achieve the targeted cost levels over the planned period of three years. Those units who achieved lower costs than the targeted levels would benefit and those who did not reach the targeted cost figures would suffer the consequences in terms of unremunerated costs

Six years have passed. Nothing has changed in the industry. Subsidies continue to rise. Rising Oil prices have added to the burden on the exchequer. They have also given an alibi to the industry to justify the increasing subsidies. Economists and other well meaning reformers continue to denounce the industry for its callousness and its inefficiencies. The arguments and proclamations only get louder day by day.

Question a).

Analyze this situation from the perspective of the main stakeholders, the farming community the fertilizer industry, the Government and the Tax payer and enumerate the omissions and commissions of each of these groups. **7 Marks**

Question b)

If you were at at the highest level of Decision Making(Council of Ministers, Senior Bureaucrats) what would be your recommendations for addressing this burning national issue keeping the best long term interests of the major stakeholders? **8 Marks**

*As an example if two firms had costs of Rs. 10,000 and Rs 12000 per tonne are given a target of Rs 9000 per tonne to be achieved in three years. Loan to the first firm could be Rs. 500 Crores and to the second firm Rs. 700 Crores(higher cost units would require higher capital costs to upgrade and meet the targets). At the end of three years if the first firm reached Rs. 8500 per tonne, it would gain at the rate of Rs. 500 per tonne for beating the targeted cost. The second firm achieves a cost of Rs. 9700 per tonne. It would thus have unrecovered costs of Rs 700 per tonne.