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MAIN EXAMINATION

AUGUST - DECEMBER 2016 TRIMESTER

FACULTY OF COMMERCE

MBA PROGRAMME

CMM 511: MANAGERIAL ETHICS

Date: DECEMBER 2016	**Duration: 3 Hours**
INSTRUCTIONS: Answer ANY FOUR Questions	

Q1. A number of accounting frauds have hit the headlines in the 21st century. As a result many countries have passed legislation to clamp down on such scandals with little success. As an ethical CEO demonstrate five relevant strategies that you would use to minimize the risk of accounting fraud in your firm. Indicate your rationale for each strategy. **(15 marks)**

Q2. Read the case below and attempt the questions at the end of it

The Enron Case

On December 2, 2001, Enron Corporation, once listed as the seventh largest corporation among the Fortune 500, declared bankruptcy. In the months and years that followed, numerous other major corporations were found to have been guilty of similar accounting and financial frauds. A wave of scandals swept through the corporate world as fraudulent and dishonest practices were uncovered at such firms as WorldCom, Tyco, Aldelphia, Global, Crossing, Qwest, Merry Lynch, Citigroup Salomon Smith Barney, Marsh and McClennen, Credit Suisse First Boston, and even the New York Stock Exchange itself. But none of these captured the public attention as did the Enron.

Enron's collapse followed public disclosure of significant debts that had been concealed by complicated and fraudulent accounting practices. Not only were Enron's top executives deeply involved in this scheme, they personally received tens of millions of dollars from it. This massive ethical fraud was perpetrated with the support of Enron's accounting and auditing firm, Arthur Andersen, at the time one of the top five international accounting firms. Andersen played both ends of a conflict of interest by earning both as Enron's auditors and as consultants in concealing these debts. To make matters worse, while the stock price was collapsing, senior executives sold hundreds of millions of dollars worth of stock to unwary investors, making personal fortunes from the collapse. During this same period, employees were prevented from selling their own stock that was held in their 401(k) retirement plans. Arthur Andersen's accountants, meanwhile were busy shredding hundreds of documents that could have been used in criminal and civil legal cases. Enron's board of directors and particularly their audit committee, twice waived internal rules of ethical conduct that prohibited the conflict of interest practices that enabled Enron executives to profit at the expense of shareholders.

Required

Identify and comment critically on any ethical issue in the Enron case in terms of three theoretical perspectives. **(15 marks)**

Q3. The notion that business has a responsibility only to stockholders was succeeded towards the end of the 20^{th} century by a much broader and richer view entailing CSR. Critically assess in view of underpinning theoretical perspectives.

(15arks)

Q4. Read the case below and answer both questions

Sales at Kanyarati Electronics

Sales personnel at Kanyarati electronics are given a financial incentive to sell overstocked cameras, each week, the management identifies a particular camera that sales people should try to sell over other brands. When such cameras are sold, the sales person receives a 20 percent commission instead of the usual 10 percent.

Susan Mati, a college student from CUEA, wishes to purchase a camera. After carefully researching different styles, she decides to buy a digital camera that she believes is ideal for student photographers. She finds the exact model that she desires at Kanyarati Electronics. The salesperson agrees that this model would be a fine purchase.

However, rather than simply sell this camera, the salesperson shows Susan another camera. This one is far more expensive and a bit less practical for her needs. The salesperson has a financial incentive to sell this camera and convinces Susan that it is indeed a better buy. While this model is widely recognized as having numerous advanced features, Susan does not require these additions and is not likely in the future to need such sophisticated options. In the end, Susan buys the more expensive camera believing that the salesperson's expertise is valuable in finding the "perfect fit" for his needs.

Required

a) Identify the ethical issue in this passage and critically examine it relative to four ethical values in marketing. **(12 marks)**

b) Comment on the ethical permissibility of the principle *caveat emptor* in connection with this case. **(3 marks)**

Q5. Critically asses two aspects of financial ethics in terms of a recent relevant case of your choice. **(15 marks)**

Q6. Critically examine three responsibilities of employees to third parties. **(15 marks)**

END