Enrolment No._____

AHMEDABAD UNIVERSITY
AMRUT MODY SCHOOL OF MANAGEMENT
GRADUATE PROGRAMMES
2023-2024 WINTER SEMESTER
MGT-562 BUSINESS ETHICS
END SEMESTER EXAM

Date: 22nd April 2024 | Total Marks: 40
Time: 11:00 a.m. to 1:00 p.m. | No. of printed pages: 04

Figures in the bracket indicate marks.
Answer all questions

1. Few falls in business history have been as sudden and steep as that of Michael Pearson, the CEO of the drugmaker Valeant. Not long ago, he was heading a company whose stock price had risen more than four thousand per cent during his tenure. A former McKinsey consultant, he had developed a strategy based on acquisitions, cost-cutting, and price hikes. The influential hedge-fund manager Bill Ackman, one of Valeant's largest shareholders, compared Pearson to Warren Buffett, citing his genius at capital allocation. No one is calling Pearson a genius anymore. In the past six months, Valeant's stock price has fallen almost ninety per cent, thanks to a toxic combination of sketchy accounting, political blowback, and slowing growth. Two weeks ago, the company announced terrible fourth-quarter earnings and said it could not file its annual report on time, driving the stock down fifty per cent in a day. Investors who once saw Pearson as a saviour now consider him an albatross: when, last week, Valeant announced that he would step down, the stock price rose. (20)

   Valeant used to be a small drugmaker, struggling to stay afloat by doing what pharmaceutical companies typically do: invest heavily in R&D to discover new drugs. However, Pearson, who took over in 2008, scrapped that approach. He argued that returns on R. & D. were too low and uncertain; buying companies that already had products on the market made more sense, then slashed costs and raised prices. So Valeant became a serial acquirer, doing over a hundred transactions between 2008 and 2015. It invested almost nothing in its core business; R. & D. spending fell to just three per cent of sales. It was ruthless about bringing down costs, sometimes laying off more than half the workforce of a company it acquired. Moreover, though Martin Shkreli may be the public face of drug price gouging, Valeant was the real pioneer. A 2015 analysis looked at drugs whose prices had risen between three hundred and twelve hundred per cent in the previous two years; of the nineteen whose prices had risen fastest, half belonged to Valeant.

   The company also pulled every trick in the financial-engineering handbook. In 2010, it merged with a Canadian company to bring down its tax rate and sheltered its intellectual property in tax havens like Luxembourg. It used opaque accounting methods, making it hard for investors to judge how well-acquired companies were doing. Valeant entered into a complicated relationship with a mail-order pharmacy called Philidor to ward off competition from generic drugs. Meanwhile, it paid its

executives exceedingly well and tied their compensation to shareholder returns, thus encouraging a single-minded focus on the stock price. Valeant embodied practically everything that people hate about business today. So, it is no surprise that much of Wall Street saw it as a profit-making machine.

If Wall Street was happy, what went wrong? There were a couple of contingent problems: the dubious relationship with Philidor made people wary of Valeant's accounting (the company just announced that it would have to re-state earnings for 2014 and part of 2015), while the political backlash provoked by Shkreli limited Valeant's ability to raise prices. However, the bigger problem was that Pearson's buy-and-slash approach hit its inevitable limits. Valeant had become what is known as a roll-up: a company that buys many other companies, trusting that they will be much more profitable together than they were apart. The challenge for roll-ups is that they must keep feeding the beast: if you grow by buying, you must keep buying to thrive. However, the bigger you get, the fewer deals that boost profit.

Moreover, because your grim reputation precedes you, you pay significant premiums, which may mean you must start borrowing heavily. (Valeant's debt is almost three times its annual sales.) Not surprisingly, roll-ups have a terrible track record. A Booz Allen study of the performance of eighty-one roll-ups between 1993 and 2000 found that only eleven did better than the market as a whole. Another study found that over two-thirds of roll-ups created no value for investors. The only roll-ups that succeed are those which find, as one study put it, "a fundamentally superior way to make money." Valeant's collapse has shown that it had no such ability.

Valeant now says its roll-up days are over and will focus on expanding its business "organically." Nevertheless, it is far from clear that this will be possible. For years, Valeant has been less like a drug company than like a super-aggressive hedge fund that just happened to specialise in pharmaceuticals. It made money not by providing economic value to customers but by financial engineering and gaming the system. It exemplified a corporate era in which financialisation too often eclipsed production. In the process, it forgot an essential truth about markets: that there are few free lunches. Pearson's promise to investors was, in effect, that other companies would research and develop new drugs, after which Valeant could swoop in and reap the enormous rewards without taking any risk. However, this was a fantasy. The attempt to evade risk was the riskiest strategy of all.

(Source:www.newyorker.com/magazine/2016/04/04/inside-the-Valeant-scandal)

Questions:-

a) Identify and critically evaluate the ethical failures involved in this case.

b) Identify the stakeholders affected in this case. Assuming you are the new CEO of Valeant, how do you prioritise the different stakeholders?

c) Assuming you are the new CEO of Valeant, what steps would you take to build an ethical organisation?

2. Microsoft (MS) is a global computer software leader and is well known worldwide as the most valuable company. MS has revolutionised Operating Systems (OS) for (10)

Personal Computers (PCs). The products of MS include OS software, Personal Computers, software applications, interactive media programmes, internet platforms, applications for client environments and special tools in the operating software.

MS has made a name for itself in the last two decades, and its market capitalisation exceeds 500 billion dollars. MS became prominent in 1995 for its "MS Office" software and monopolised by capturing more than 90% market share. It also had a large share of markets in internet browser and server OS.

Department of Justice (DOJ), USA started investigating the monopoly practices alleged to have been followed by MS, compelling PC makers to incorporate its internet browser, which is provided free with "Windows 95". Assistant Attorney General for antitrust remarked that "this kind of product-forcing is an abuse of monopoly power, and we seek to put an end to it." The legal battle between MS and DOJ started in 1997. DOJ alleged that MS is arm-twisting to include an Internet Explorer web browser with its Windows 95 OS. During the investigation, DOJ collected relevant documents from MS in one of the exchanges of e-mails an employee had written: "Strategic objective was to kill cross-platform Java."

One more engineer had noted, "Screw Sun .... steel the Java language." It was found that MS had created its version of Java, which was fitted on the Windows platform. DOJ collected evidence and witnesses and built its case on how MS used its financial strength and monopoly position.

The Judgement of the US District Court came in June 2000. The judgement was that MS violated US antitrust laws and abused its monopoly power in computer OS. The judge based his judgement on MS's share in OS, which was very high, with high entry barriers created by MS and hence, the customer had no alternative but to follow what MS gave. The judge ordered that MS be split into two smaller companies, one for Windows OS and the other for Internet business. The judge also insisted that MS should not violate antitrust laws.

Antitrust Laws of the USA: The USA encourages free and fair business with healthy competition and vigorous rivalry in the marketplace so that the consumer gets the best value for their money. No company should have monopolistic powers.

Antitrust policies have two approaches: (i) The price and other market dealings that restrain the market's competitive forces should be prohibited. (ii) The monopoly market structure be avoided. US legislations like the Sherman Act (1890), the Clayton Act (1914) and the Federal Trade Commission Act (1914) constitute the backbone of antitrust laws. Supreme Court, in its judgement in September 2000, did not agree with the government's proposal to break up the MS to stop monopoly practices. MS will likely prolong the legal battle and introduce new products to keep its monopoly. DOJ advised MS in September 2001 to restrict MS on their monopolistic tactics. The legal battle between the MS and the US governments will likely involve more legal battles with more parties.

Questions:

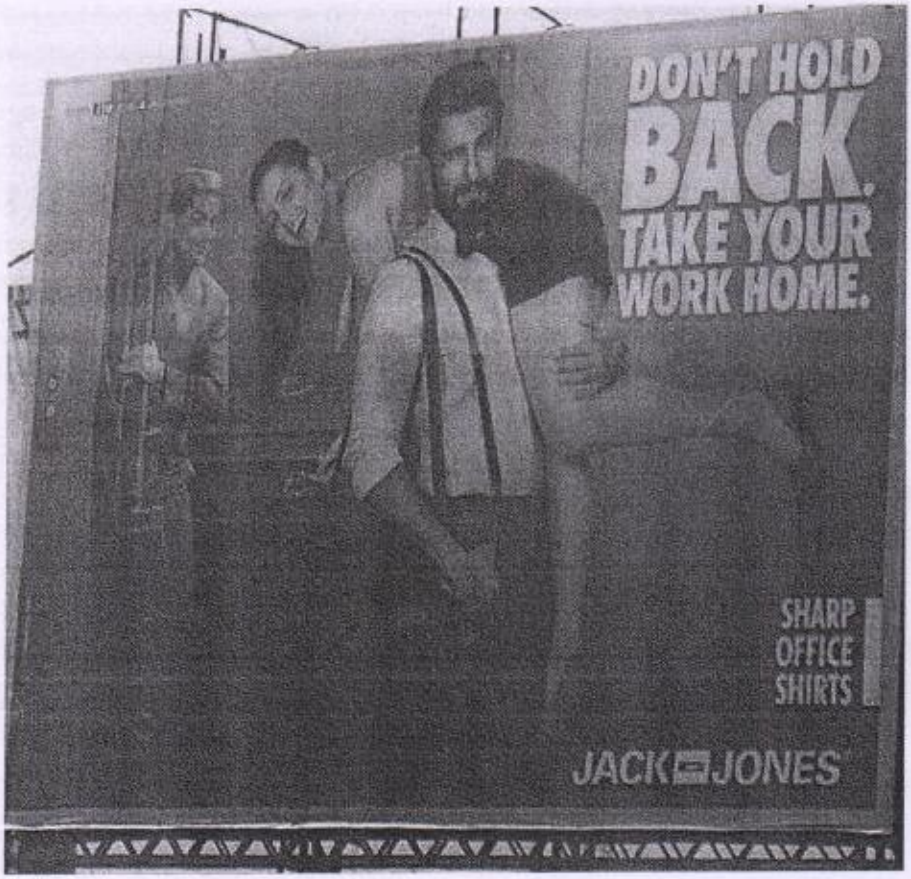
a) Do you believe that creating monopolies is unethical? Evaluate Microsoft's behaviour from the Utilitarian and Kantian perspectives.

b) Assuming you are the CEO of Microsoft, how would you justify the company's actions?

3. Answer the following:- (10)

a) An NGO which works towards women's empowerment has launched a campaign against fairness creams. The NGO is demanding that the production of fairness creams should be banned as they reinforce body shaming and stereotypical behaviour. Please discuss, with relevant arguments, whether you would support such a ban.

b) Please examine the ethical relevance or otherwise of the following advertisement:-



*****