MUEO

# MOI UNIVERSITY

## OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC AFFAIRS, RESEARCH & EXTENSION

# UNIVERSITY EXAMINATIONS

# 2014/2015 ACADEMIC YEAR

***FOURTH YEAR END OF SEMESTER EXAMINATIONS***

## FOR THE DEGREE OF
## BACHELOR OF BUSINESS MANAGEMENT

**EXAM CODE:-** **BBM 406**

**COURSE TITLE:-** **BUSINESS ETHICS**

**DATE:- 3RD DECEMBER, 2015** **TIME:-9.00A.M. – 12.00NOON**

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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**BBM 406: BUSINESS ETHICS**
**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE**

**QUESTION ONE**
**FRAUD CASE ANALYSIS: ENRON CORPORATION**

*Enron is known as the one of the largest fraud scandals in the United States history. As a result of the investigations, the company was forced to file for bankruptcy in December 2001. In May 2006, Enron's former chief executive, Jeffrey Skilling was sentenced to 24 years in jail while the ex-chairman Kenneth Lay died of heart-attack in July 2006. The article gives an insight about the scandal and why it emerged, discussing the schemes and financial highlights of Enron Corp. as well as its fall.*

**Enron Corporation – History**

Enron Corporation represented one of the largest fraud scandals in history. As a result of the fraud investigations, the company was forced to file for bankruptcy in December 2001. Enron was "a provider of products and services related to natural gas, electricity and communications to wholesale and retail costumers" (*Chary, 112*).

Enron Corp. has its roots in Omaha, Nebraska (US). In 1985, Houston Natural Gas merged with InterNorth to form an energy company based in Huston, Texas (US). The company integrated several pipeline systems and hence created the first nationwide natural gas pipeline system. In 1986 Ken Lay, former chief executive officer of Houston Natural Gas, was named chairman and chief executive officer at the young energy company. It's then that the company chose the name Enron Corp. In 1987, after discovering the oil traders in New York had overextended the company's accounts by almost $1 billion, the company worked its loss down to $142 million. The loss immediately led to Enron Corp. developing different services in order to reduce the risk of prices wings.

A year later, Enron Corp. opened its first overseas office in England. In a gathering known as the "Come to Jesus" meeting, the company's new strategy was revealed to the executives: pursue unregulated markets in addition to its regulated pipeline business.

Jeffrey Skilling joined Enron Corp. in 1989 and launched Gas Bank, a program under which buyers of natural gas could lock in long-term supplies at fixed prices. At the same time, the corporation started to offer financing for oil and gas producers.

In 1992, Enron Corp. expended to South America by acquiring Transportadora de Gas del Sur. In the same year, the company started to push to extend on the continent. A year later in England Enron's Teesside power plant began operations. It would prove to be one of the first successes for Enron's international strategy.
In 1994 the corporation made its first electricity trade which would turn into one of Enron's biggest profit centers in the next few years. With the establishment of a trading center in London, part of Enron Europe, in 1995, Enron entered the European wholesalers market.

In 1996, construction began on the Dabhol power plant in India. However, the project would be plagued by political problems and eventually Enron put the project up for sale in 2001.

A year later, Enron bought Portland General Electric Corp., the utility serving the Portland, Oregon (US), which would be sold in 2001 to Northwest Natural Gas Co. for about $1.9 billion. The same year, Enron Energy Services was formed to provide energy management services to commercial and industrial customers. Enron continued its policy of acquiring companies and in 1998 acquired Wessex Water in the United Kingdom which formed the basis for its water subsidiary Azurix. But a year later, when one-third of Azurix was sold to the public in a public offer, the company's problems became apparent as the shares fell sharply after an early rise. The same year (1999), Enron Online, the company's commodity trading Internet site, started to operate. In the last quarter of the year, Enron Energy Services turned its first profit.

In 2000, Enron's annual revenues reached $100 billion, more than double the year before, reflecting the growing importance of trading. However, the problems with Azurix continued and Rebecca Mark resigned from her position of chairwoman while Enron announced the intention to take the subsidiary private. The same year, The Energy Financial Group ranked Enron the sixth-largest energy company in the world, based on market capitalization.

In April 2001 Enron disclosed it was owned $570 million by bankrupt California utility Pacific Gas & Electric Co. While the top executives were likely aware of the debt and the illegal practices, the fraud was not revealed to the public until October 2001 when Enron announced that the company was actually worth $1.2 billion less than previously reported. This problem prompted an investigation by the Securities and Exchange Commission (SEC), which revealed many levels of deception and illegal practices committed by high-ranking Enron executives, investment banking partners, and the company's accounting firm, Arthur Anderson.

At the end of the year, Enron's shares closed at $8.63 per share, an 89 percent drop since the beginning of the year.

The critical dates in the scandal are October 16, 2001 and November 8, 2001. On October 16, Enron disclosed that it had made a loss of $618 million that quarter, while on the second date it disclosed that it had overstated its earnings since 1997 by $586 million. In other words, Enron's accounts for the previous four years had not shown the true state of its huge indebtedness.

The Enron Corp. case was the biggest in a series of scandals that damaged the reputations of corporations As a direct result, the Congress passed a law, called the Sarbanes auditors and made corporate executives criminally liable for lying about their accounts. The Enron scandal moved the balance of power away from the company boards towards the investors.

After the scandal there was more caution among corporate executives about spinning off accounts that might be inaccurate, as now they face criminal liability. However, the temptation to boost stock prices has been a feature booming markets mostly when the rewards for executives are high.

a) Discuss any ethical issues involved in this Enron scandal (10 marks)

b) What do you think are the most important lessons to be learned from this scandal? (10 marks)

c) Using relevant examples, discuss cases where firms in Kenya exercised unethical conduct? Highlight ethical issues involved in such scandals. (5 marks)

**QUESTION TWO**

a. You are coordinating all arrangements for a three-day corporate executive off-site meeting at a resort conference center in another county. You want to visit your preferred conference center to evaluate first-hand the accommodations, meeting rooms, food service, recreational activities, etc. The conference center sales manager offers you a complimentary overnight inspection visit that includes your hotel room and use of the facilities cost-free as an inducement to get your business, which she says is standard industry marketing practice. When you momentarily hesitate in accepting her offer, she says that the conference center will also reimburse you directly for your airline ticket, but that you have to keep quiet about the airline tickets because "it's just between you and me." Discuss any ethical issues involved in this situation. (15 marks)

b. You are part of the team looking for a new CEO for your company. You are down to three candidates and, given the importance of the job, you have the candidates' backgrounds investigated by a private investigator to see whether there is any "dirt" on them.
   i. You have had the candidates investigated and found that: The first candidate used marijuana during his days as a student at the university, drinks excessive amounts of beer every day, usually sleeps until noon, and is known to have had two mistresses. The second candidate has been linked to crooked characters; chain smokes, drinks 10 martinis a day, has also had two mistresses, and regularly consults with astrologers. Now what do you do? (5 marks)
   ii. Is it ethical to probe the backgrounds of candidates like this? Discuss (5 marks)

**QUESTION THREE**

a. Define the term stakeholder and briefly discuss issues the stakeholder theory addresses. Also, list the primary stakeholders of a business and explain through examples their relations with an organization. (10 marks)
b. What is meant by this statement, "Today, the failure to balance stakeholder interests can result in failure to maximize stakeholder' wealth."? (5 marks)

**QUESTION FOUR**

a) What is sexual harassment? Briefly discuss ethical issues arising from sexual harassment cases.(7marks)
b) Job discrimination can subject a worker to a hostile work environment or adverse working conditions. What is job discrimination and what forms can it take? (8 marks)

**QUESTION FIVE**

a. Define "business ethics" and discuss any benefits in the study and application of business ethics. (10 marks)
b. Differentiate between instrumental and intrinsic values. Additionally, explain the types of values that might affect how we think about ethical issues. (5 marks)

**QUESTION SIX**

a) What are the arguments for and against corporate social responsibility (CSR)? (5 marks)
b) Write short notes on the following terms:
   i. Consumer protection (5 marks)
   ii. Insider trading (5 marks)