

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II-Semester V) Examination - July 2022

FIN 3229/ BEC 3232– Business Ethics and Corporate Governance

Instructions.

- Time allowed is Two (02) Hours
 - This paper comprises six (06) questions on the four (04) pages.
 - Answer any five (05) questions.
 - This is an online and open book examination.
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01. Colombo Water Company (CWC) is a water treatment specialist providing solutions for water purification and waste water treatment systems. It mainly provides services for the Western province in Sri Lanka. It was listed in Colombo Stock Exchange (CSE) in 2011. The CWC's main revenues come from two more businesses which are water purification and waste water treatment. Key characteristic of CWC's business model is the requirement of sizeable upfront capital commitments for most of their projects. Further, most of the CWC's projects are capital intensive. However, CWC's chief financial officer, Akila Perera funded these long-term capital requirements from short term financing mechanisms such as bank overdrafts. After several months Akila understood that this is not a sustainable financial strategy. Therefore, he decided to announce a corporate debenture issue with a three-year maturity period. This debenture issue had two tranches and CWC couldn't pay the 1st interest payment to debenture holders in June, 2019 due to poor operational cash flows. As a result of it, second tranche of debentures was cancelled.

In January 2020, Modern Water Distributors (MWD), a competitor of CWC offers to subscribe 1.80 billion new shares at Rs. 2.50 per share. At that time, CWC share was trading at Rs. 0.50 per share. However, Board of Directors of CWC rejected MWD's offer based on the strong belief that CWC can overcome the financial difficulties in the next quarter. But majority of investors were against the stance of CWC Board and requested an Extraordinary General Meeting (EGM). In EGM, resolution to remove existing board of directors is passed and new board is appointed.

i. Akila Perera, Chief Financial Officer of CWC followed a flawed financial strategy which deteriorates the shareholder's wealth as well as breached the duty of an agent towards the principals. Do you recommend Akila Perera's strategy? Justify your answer.

(12 Marks)

ii. By the rejection of MWD's offer, CWC directors have shown a too much optimism and overconfidence on their ability to recover CWC from difficult financial conditions. What should be the priorities for new Board of Directors of CWC?

(08 Marks)

(Total 20 Marks)

02.

i. "Good public governance in a country sets an example as well as guidance for a better corporate governance system". Do you agree or disagree with the above statement?

Discuss with reasons.

(10 Marks)

ii. Review similarities and differences between corporate governance systems of Germany and Japan.

(10 Marks)

(Total 20 Marks)

03.

i. Sarbanes Oxley (SOX) Act (2002) was enforced by the US government as a response to the corporate collapses happened in 2001 such as Enron, Worldcom and Arthur Anderson. US and global society perceived that SOX is a strict regulation which will ensure better governance among corporates. However, there were many corporate collapses in the 2007-08 global financial crisis. Few examples are Lehman Brothers, Bear Stearns and Washington Mutual etc... Some economists argued that if SOX is an effective corporate governance mechanism, why it was failed to minimize the corporate collapses and bankruptcies in the period of financial crisis. Critically discuss your answer.

(12 Marks)

- ii. The Corporate Governance Code (2017) is jointly prepared by the Institute of Chartered Accountants in Sri Lanka (ICASL) and Securities and Exchange Commission of Sri Lanka (SECSL). It is a voluntary code which replaced the 2013 code. However, there is a mandatory requirement for banks and finance companies to follow the corporate governance rules set by the Central Bank of Sri Lanka (CBSL).

Explain the reasons for imposing more strict rules for the institutions in the financial sector than in other sectors.

(08 Marks)

(Total 20 Marks)

04.

Tharaka Dissanayake is the sales and marketing director of the investment bank, First Fund (FF) PLC. He manages the team of investment advisors who deal with third party mutual funds. Tharaka holds a meeting for his team members each quarter. Tharaka prepares a one page fact sheet by himself on different industries and distribute among participants of the meeting. Sales agents of third-party mutual funds are also participating to this meeting.

However, Tharaka haven't updated quarterly financial information which includes in the fact sheet. Even though many companies restate their earnings in the next quarter, Tharaka unchanged the original figures in his fact sheets. Further he extensively refers unaudited financial statements to prepare his fact sheets. Sales agents of third-party mutual funds usually redistribute these fact sheets among their clients too.

However, Varuna Silva, a junior executive of Tharaka's team noticed these errors and omissions. He questioned this from Tharaka and his reply was "Don't worry Varuna. It will be alright". Tharaka continues to distribute his fact sheets among sales agents of third-party mutual funds.

- i. Is Tharaka misrepresenting his team members as well as clients? Explain your opinion with reasons.

(12 Marks)

- ii. What are your recommendations to Varuna in this ethical dilemma? Discuss.

(08 Marks)

(Total 20 Marks)

05.

- i. *“From here that looks like a bucket of water, but from an ant’s point of view, it is a vast ocean; from an elephant’s point of view, it is just a cool drink; and to a fish, of course, it is a home”.*

Critically review the above statement in the context of social roles, responsibilities and ethical decision making.

(10 Marks)

- ii. Child labour is not an accepted practice under religious or ethical grounds. However, some argue that child labour is ethically permissible since it produces better overall consequences than alternatives. Do you agree with this view? Explain your opinion on the grounds of utilitarianism.

(10 Marks)

(Total 20 Marks)

06.

- i. United Chocolates and Biscuits (UCB) PLC and National Milk Products (NMP) PLC are two competing firms which produce chocolates and biscuits for many European markets. Sameera Perera is the marketing director for UCB and Samantha Fernando is the chief operating officer of NMP. Both of them are directors of Southern Collectors (SC) PLC which produces canned fish products. Does this situation create a conflict of interest? Explain your opinion.

(10 Marks)

- ii. Customers of financial service providers such as banks and insurance companies don’t have the ability of “try before you buy”.

Explain why the reputation build-up through fair customer treatments is comparatively more important in the financial services industry.

(10 Marks)

(Total 20 Marks)
