School of Business and Law, Navrachana University
BBA 2014-17, Semester VI, End-sem Exam
Ethics for Business: MG 315

13th May 2017 | 1.00 pm to 3.00 pm | 40 marks

This is an open book exam

Q: Please read and analyse the case given below and answer questions given at the end.

Ultrapar
Reconcile the future of the business with family uncertainties and potentially divergent interests—this was the challenge facing Peri Igel, son of the founder of Brazil-based chemicals conglomerate Ultrapar. To accomplish it, he implemented an unparalleled set of corporate governance initiatives beginning in the mid-1980s, when the expression "corporate governance" was not even in common age.

In 1984, Mr. Igel issued restricted stock to company managers as part of a 20-year employment contract in order to align their interests with shareholders' and ensure that they would, in their new position as long-term owners/managers, help build a solid company over time. This start of a new governance process was followed in the next decade by an international initial public offering (IPO), and was reinforced when, one year after that, Ultrapar granted tag-along rights to all shareholders.

The Long Path to Good Governance
In the first 15 years after Mr. Igel launched his initiative, the company consciously implemented a new share capital structure aimed at protecting the business from any future conflicts in the owners' family. Minority shareholders were brought in, and they helped maintain the momentum for the new structure. The fact that the organization operated in many insulated businesses had created a perfect environment for Ultrapar to duplicate structures and increase costs. Recognizing this, management began selling non-core assets. Businesses that were not performing were sold, and the company was consolidated. The next step was to go public, which the firm did in 1999. The IPO was considered very important step in the company's success, because it brought discipline to the firm and helped it focus on value creation. In addition, the plan to become a publicly- traded company was designed to ultimately provide family and management access to liquidity in a way that would not adversely affect the company's business.

Listening to Investors
One year after the IPO, the company granted tag-along rights to all shareholders, guaranteeing equal treatment to minority shareholders in the event of a change in corporate control. The decision was based on the understanding that to become a truly publicly-held company, it was necessary to align external investors' interests with those of controlling shareholders. This initiative set Ultrapar apart from most companies in the country. It was only in the following year that the new Corporate Law made tag-along rights mandatory. Even so, the Law limited mandatory tag-along rights to 80%, and this treatment was only required for common (voting) shares. Ultrapar's tag-along rights guaranteed 100% of the offer price to holders of all classes of shares, voting and non-voting. It took some time for the market to recognize that Ultrapar was seriously reforming its corporate governance. Ultrapar's stock price struggled in its first years as a publicly-traded company. However, in the first follow-on offering six years later, the market's reaction completely changed, and the firm was valued in line with Brazilian market indicators.

Corporate Governance Process
Ultrapar's governance structure and processes seek to align the interests of executives and all shareholders. It is guided by the belief that an effective corporate governance system supports the confidence that

underlies proper functioning of a market economy. For example, the company equalized dividend treatment among both common and preferred shareholders as part of its governance reform.
The alignment principle also drove the firm to establish an executive compensation system linked to creation of shareholder value. Since 2002, executives' bonuses have been linked to the EVA (Economic Value Added) performance of each business unit. In addition, to ensure that newly-hired key managers act as partners in the firm as well, a long-term share compensation plan was introduced utilizing preferred shares held in the company's treasury.

The Board of Directors is a critical corporate governance mechanism at Ultrapar. It is composed of seven members including four independent non-executive directors and two senior executives. In 2002, the company granted minority shareholders the right to elect Board members, a requirement that Brazilian companies are not required to comply with until 2006. From the next General Meeting on, minority shareholders will not be limited to selecting a Board member from a short list of three names nominated by controlling shareholders; instead, they will be able to choose without any restrictions. The initiative is rare in Brazil and is a demonstration of commitment to protecting non-controlling shareholders' interests.

A Code of Ethics was drawn up to be followed by all the company's structures and professionals. The Code aims to: reduce the level of subjectivity in interpretation of ethical principles; formalize a guide for professional conduct, including management of conflicts of interest; and guarantee that concerns about efficiency, competitiveness, and profitability include due attention to ethical conduct.

Results

Today, Ultrapar Participações S.A. is one of Brazil's most successful conglomerates. It unites three different companies, each with a prominent position in its own segment: Ultragaz, the leader in Brazil's distribution market for Liquid Petroleum Gas (LPG), boasts a 24% market share; Oxiteno, the largest producer of specialty chemicals in Brazil, is the only manufacturer of ethylene oxide and its main derivatives in the Mercosur area (comprising Brazil, Argentina, Paraguay, and Uruguay); and Ultracargo is a leading provider of integrated road transport, storage and handling services for chemicals and fuels.
The combined net revenues of these three businesses in 2004 amounted to R$ 4.8 billion, with EBITDA of R$ 737 million and net income of R$ 414 million. Since 1998 (the base year for the company's IPO), Ultrapar has reported an annual average compound growth of 27% in EBITDA terms and 45% in net income terms.

The Future

The time has come to start thinking about corporate governance in a broader way. Ultrapar is currently working to comply with applicable Sarbanes-Oxley requirements within the required time frame. The company has already incorporated material contractual obligations and off-balance sheet transactions into its financial statements. The firm has adopted a Fiscal Board, which will also act as an Audit Committee under the Sarbanes-Oxley Act. The Fiscal Board has five members, two of them being representatives of the minority shareholders. By implementing the standards of good governance, Peri Igel has paved the way for continued strong performance for Ultrapar. The processes now in place at the company will maintain the firm on the path of ever-improving governance practices and continued profitability.

Questions:

1. What were the challenges faced by Peri Igel? How did he face these challenges?
2. Describe the Corporate Governance process adopted by Ultrapar.
3. Write a note on Code of Ethics followed at Ultrapar.
4. How would you use Corporate Governance as a Business tool in an Indian organization? Please explain with an example.
