CHAPTER - TWO
TRANSPARENCY IN CORPORATE GOVERNANCE.

PROLOGUE

The second chapter of the study deals with transparency aspect of corporate governance which is the central theme of the present study. It looks at the concept of transparency and important issues of modern business connected with business ethics, value system and corporate social obligations. All these are non-economic issues but moral issues but having great impact on the business. In the present day business, corporate values have been given added importance because of globalisation of business, growth of multi-cultural corporates, environmental laws, social audit and the increasing importance of stakeholders of business. As such, this sector of study vividly throws light on all these aspects comprehensively.

The researcher has examined all these issues analytically in the following paragraphs:
2.1 THE CONCEPT OF TRANSPARENCY.

Today all the countries, specially the developed ones, are engaged in the rat race of economic and industrial growth. Perhaps, they are ignorant of its negative effects or they want to neglect deliberately. This is inferred from the fact that today all the countries are worried at the decline of moral values and regard it as a burning problem. In practice also, ethical standards have become a subject of imagination and fanciful. Although, ethics is a dynamic subject and keeps on changing according to country, time and circumstances, still noticing a great decline everywhere in our moral values. All pervading economic inequality and exploitation of man by man have been experienced by all the nations at all the levels.

Here, it has been our aim to show that the issue of ethics is very important in business as well as in human-life, and in both, its absence may be a cause of extinction. However, in the present time it is being felt that although ethics may not be there in human life, it must occupy the pride of place in business.

For human and business society, it is difficult to lay down a universal code of ethical standards, because they primarily depend on time, circumstances and culture. For example, our ethical
standards cannot be identical with those of United States, because we have been differences with them. However, there are certain ethical values which are equally important in business as well as in human life. In the index below, an attempt has been made to show this similarity:

### GENERAL ETHICAL STANDARDS: BUSINESS Vs. HUMAN LIFE

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Chapter – Two: Transparency in Corporate Governance

| Fair selection to the extent of looking into the personal problems of employees | Truth, respect for other and nobility of character |

It has always been noticed that the businessmen should follow this ethical code of conduct, while the other aspect of values in human life has always been neglected. In fact, when all life is devoid of ethics, why we expect from the businessmen to be ethical. The reason is obvious. The businessman is a main part of the society and first and foremost he is an individual. It will be out of context of expect a businessmen to be honest. A businessman cannot be honest in a void.

In fine, businessmen would adopt a code of conduct only when it pervades throughout the society. The following may be the reasons for this:

- So long as, the desire for honesty does not originate in the heart, one cannot be sincere in his profession.
- The businessmen can be inspired to be ethical when stress on these values is laid in the whole of the society.
- A businessman will take of integrity only when everyone around him is capable of developing human values.
Ethics is related with common weal and for this, the Govt.,
the society and the businessmen should combine forces.
Dutifulness in a man is a proof of his being ethical.

We can thus conclude that there is close relationship
between business and human ethics. It has to be underlined here
that ethical values are slowly vanishing from the face of the earth.
It is specially so in India, where ethics is regarded as a subject of
imagination and fancy. It is preached on all platforms without
any practical application in life. In developing countries, the
impact of western civilisation and materialism have led all section
of society to give up ethics and morality. This shows that ethics is
such a wide subject that it applies with equal force on human as
well as business society.¹

2.2 BUSINESS VALUES AND ETHICS.

Consciously or unconsciously, ethical codes have been
prepared along with the development of human civilization. It
appears that in the unknown past people might have found some
of their actions wrong and others right, simply on the basis of
mental and spiritual dissatisfaction or satisfaction, pleasure or
pain, caused by such actions or dealings. Besides, these measures


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of satisfaction, dissatisfaction, pain or pleasure the ancient civilization and social orders must have thought of evolving a code of conduct necessary for the self-regulation of human conduct for the mutual goods, “What is wrong and what is right”, or “What is true and what is false”. These questions eventually led the religious philosophers of the past to ponder over these questions and later gave birth to “What is ethical and what is unethical”.

On the basis of their inference ethics today, as the Bible says, simply means, “Do unto others as you would have them do unto you”. Ethics as a matter of fact, deals with certain standards of conduct and morals. Since business does not operate in a vacuum and it is one of the functional units of a legal social matrix, it is also required to follow a certain code of conduct, which is however not enforced by any government or public authority.

Ethics is an indirect governing force behind every human conduct may it be that of an individual or that of an organization. It directs the human behaviour and differentiates between proper / improper, right / wrong or fair / unfair human actions. Philip Wheelwright defines “Ethics is that branch of philosophy which is
the systematic study of reflective choice, of the standards of right and wrong by which it may ultimately be directed.\textsuperscript{2}

In this definition, one can detect three key elements: (i) that ethics involves questions requiring reflective choice (i.e., decisions problem), (ii) that ethics involves guides of right and wrong (i.e., moral principles) and (iii) that ethics is concerned with consequences (i.e., goods) of decisions.

Business Ethics is concerned with the 'right' and 'wrong' or 'good' and 'evil' dimensions of business decision-making. There are many definitions of business ethics. Here are quoted some important definitions for having a clear understanding of the term.

To Wheeler, "Business ethics is an art or science of maintaining harmonious relationship with society, its various groups and institutions as well as reorganising the moral responsibility for the rightness or wrongness of business conduct."

Thomas M Garrett defines. "Business ethics is primarily concerned with the relationship of business goals and techniques to specifically human ends."\textsuperscript{3}

\textsuperscript{3} Thomas M. Garrett: Business Ethics, New York, p. 3.
Business ethics, scholar Raymond Baumhart noted that analysis of ethical conduct in business involves “The study of the object, intention, circumstances and outcomes of ... businessmen’s actions in business situation.”

George A Steiner defines, “Business ethics of course, relate to the behaviour of a businessman in a business situation. They are concerned primarily with the impacts of decisions on people, within and without the firm, individually and collectively in communities or other groups. They are concerned with actions measured by ethical rules, as contrasted with, say strictly economic or financial rules.”

On the basis of the above definitions, we may conclude that business ethics examines carefully the business activities and conducts in the context of moral responsibility and then postulates them in the sense of being proper / improper, right / wrong or fair / unfair. It expresses the moral responsibilities and duties of business and then emphasises the need for executing them. To put it another way, business ethical behaviour is conduct that is fair and just over and above obedience to constitutional laws and valid government regulations. The expectations and motivation of

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parties to a decision are important determinants of ethical behaviour.

It is always ethical for a businessman to obey the laws even though he may personally believe them to be unjust or immoral. If he feels that the laws are unfair, the proper remedy is to seek change by argument and persuasion rather than by civil disobedience. The distinction between legality and ethical behaviour is important, because the boundaries of each do not coincide.

It should be noted that all business decisions have not an ethical component. For instance, the decision to increase inventory levels in most cases would be ethically neutral. All business decisions which have a current, or potential, impact on the lives of human beings, are properly considered in business ethics.

**ASSUMPTIONS OF BUSINESS ETHICS**

Business ethics is based on some assumptions. On the basis of the definitions given above, the basic assumptions are:
Firstly, business ethics is not parallel to morality, religious morality, approval or law. It includes the ethical standards of a business. These standards are based on careful examination of honesty, truth, character, compassion, trust, fairness and faithfulness.

Secondly, it is not based on feelings but on the careful examination of the reality around us.

Thirdly, business ethics is concerned with the relationship of business goal and techniques to specifically human needs. It is the science of judging specifically human ends and the relationship of means to these ends. In someway, it is also the art of controlling means, so that they will serve specific human ends. Business ethics emphasises making a businessman courageous, honest, just, thrifty and responsible citizen. It assumes that business may get goodwill and long life only through following these principles.

Fourthly, there is no legal provision behind business ethics. The area of ethics is much wider which includes both legal provisions and moral duties. In another words, law enshrines many of the ethical judgements of society, yet it is not co-extensive with ethics. Business ethics is concerned with the careful examination of social laws that have grown in business world.
Fifthly, business ethics is a dynamic philosophy of socio-economic adjustments whose field is widening day-by-day. In it, all business decisions, which have a current or potential, impact on the lives of human beings, are properly considered.

Finally, the question of social responsibility and business ethics is the difference between "manipulating" and "assisting" the customer in the purchase decision.

**APPROACHES OF ETHICS**

According to the researcher, there are four basic approaches of ethics – Empirical, Rational, Initiative and Revelation.

The empirical theory takes the stand that ethics are derived through human experience and are conceived by general agreement, much like the reference made earlier to the banning of certain weapons. The rational theory says that through reason we determine what is good or bad. These determinations of logic are more or less independent of experience. The intuitive theory suggests that ethics is not necessarily derived from experience of logic. Rather, human just automatically process an understanding of what is right and what is wrong. The revelation theory places the determination of right and wrong above man. It
says that god tells man the principles by which life can rise to its greatest potential.

2.3 GREEN BUSINESS PRACTICES.

In the present times, due to environmental issues green marketing and green business practices and green ideology are being given due recognition by the vast majority of business houses.

"Today, instead of being pawns moved around by corporate might, managers are increasingly encouraged to examine their own strengths and weaknesses to develop skills necessary for the future. Rather than having their development mapped out for them, managers are managing it for themselves."

The quote suggests growing awareness of the significance and potential of self-managed development. Self-managed development is a concept easy to appreciate but hard to implement. Inertia arising from established habits and traditions, lack of motivation, self-sensitivity and self-consciousness, lack of reinforcement, fear of failure or lack of knowledge as to where or

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how to begin stand in the way of realisation or translation of this concept in practice.

Nevertheless, this is the ultimate in management education and development for its association with novel, exciting, revelational and evolitional experience. Self-managed education and development entails a subjective methodology rather than, an objective one. The goal, content and technique of this subjective process of management education and development are self-designed and self-structured. External support, resources and reinforcement may be necessary but not sufficient. However, the very willingness to invite self-managed development upon oneself and the readiness to initiate the process are themselves part of a self-managed development.

By any criterion or empirical evidence, the culture of Indian management education and development is not native but exotic (e.g., Western or Japanese). Reported or presumed economic success, globalisation and the quick mushroom growth of management education and development centres are at the root of the adoption of alien management education and development technologies. Professional management is the buzzword of the day. What is imported is professional. In the dazzle and demand
for these exotic management traditions, we are prone to ignore or not belittle their weaknesses and limitations.

The first fundamental question that should address this uncritical diffusion of outlandish management education and development systems is whether management is a science or an art. Beginning from Taylor’s scientific management school, there is a line of persuasion that treats management more as a science. Taylorism has reincarnated itself in the modern forms of job design, computerisation and Business Process Reengineering etc. If management is considered a science in the true positivist-epistemological sense, generalisability and universality of the application of its tools must be taken for granted. The opposite anti-positivistic school holds management as contingent, culture-specific, organization-specific, market-specific and even technology-specific. The science of management is rational, universal and deterministic only when it ignores or abandons concern with “human factor”.

Management is contingent and artistic merely because of the centrality of the human factor. A scathing critique of management thought in the book “With Doctors Management Snake Oil” by John Mitchlethwait and Adrain Woodbridge lists out four major charges against it: (a) that it lacks sustained and
rigorous self-criticism; (b) that it is full of faddisms and contradictions; (c) that it seeks to attain distinctiveness by an obfuscating jargon and (d) that it rarely rises above the common sense.\(^7\) Much management literature coming to us is normative in nature; it is neither empiricism nor value-neutral and neither abstract nor objective. Empirical and testing have not informed management as much as medicine, another practitioner area.

A more devastating criticism of the Western education system is that it has failed to make value addition to their products. Ian Brown states that value addition comes from such personal traits as creative intelligence and moral reasoning which, in turn depends upon the growth and expansion, of human consciousness. Modern education systems have not contributed to those value-adding resources drawn human consciousness. Ian Brown warns us: “India, the land of the Veda, turned its back on its own traditions and turned to the West to import its failures of educational, health, business and administrative systems.”\(^8\)

He says that consciousness-based education, in contrast to the intellect-based education, involves the use and development of total brain, not its individual parts or faculties or functions, and the evolution of intelligence, creativity, and moral reasoning, etc.,

springs from this total brain development and deployment. In a related article, Ian Brown observes that business as a value generating activity acknowledges that its most valuable asset is in the creativity of its employees. Creativity which translates itself into value-addition, is a scarce resource that is subjective in nature.

"Several current management concepts notably intellectual capital, learning organizations and empowerment have gained credence from this shift from an objective to a more subjective focus on business activities."\(^9\)

The Hindu Yogic management model is the "ultimate" in management education and development. The best-managed organization is managed the least from outside. It is self-managed both individually and collectively. In it, Fayol’s concept of esprit de-crops finds its highest expression. Transparency, accountability, creativity, empowerment, quality and entrepreneurship flourishes uniformly in the ultimate Yogic model of management. Here, the dualisms of individual and organization, manager and worker; and self and other get dissolved in a vast expanse of collective psyche and identity. The

Yogic management is ultimate in the sense that it is culturally universalist in time and space across the globe.

Since it is ultimate and universalist, it is also the most positivistic, although its attainment is the hardest. It nevertheless is not impossible of attainment. What is impossible ceases to be desirable. Once attained, it can be applied to all situations and cultures. Its resort does not require expensive hardware and infrastructure. Anyone can possess and use its software. The ripple effects of Yogic self-managed management development and education endure and out-radiate throughout the organization and beyond. It represents the ultimate in human achievement and service.

2.4 TRANSPARENCY AND DISCLOSURE.

In the opinion of the researcher, transparency and disclosure are interwoven and inter-linked. Our corporate disclosure norms are inadequate. With the growth of the financial press and equity researchers, the day of having opaque accounting standards and disclosures are rapidly coming to an end. As a country which wishes to be a global player, we can not hope to tap the GDR market with inadequate financial disclosures; it will not be credible to present one set of accounts to investors in New York.
and Washington DC and a completely different one to the shareholders in Mumbai and Chennai. So, what is the minimum level of disclosure that Indian companies ought to be aiming for?

The working group of the Companies Act has recommended many financial as well as non-financial disclosure. It is worth recapitulating the more important ones. Non-financial disclosures recommended by the working group on the Companies Act.

✦ Comprehensive report on the relatives of directors – either as employees or Board members – to be an integral part of the Directors’ Report of all public limited – companies.
✦ Companies have to maintain a register which discloses interests of directors in any contract or arrangement of company. The existence of such a register and the fact that it is open for inspection by any shareholders of the company should be explicitly stated in the notice of the AGM of all public limited companies.
✦ Similarly, the existence of the directors’ shareholding register and the fact that it can be inspected by members in any AGM should be explicitly stated in the notice of the AGM of all public limited companies.
✦ Details of loans to directors should be disclosed as an annex to be Directors’ Report in addition to being a part of the
schedules of the financial statements. Moreover, such loans should be limited to only three – categories – housing, medical assistance and education for family members and be available only to full-time directors. The loans should not exceed five times the annual remuneration of the whole-time director and would need shareholders approval in a general meeting.

Appointment of sole-selling agents for India will require prior approval of a special resolution in a general meeting of shareholders. The board may approve the appointment of sole-selling agents in foreign markets, but the information must be divulged to shareholders as part of the Directors' Report accompanying the annual audited accounts. In either case, if the sole-selling agent is related to any director or director having interest, this fact has to not only be stated in the special resolution but also divulged as a separated item in the Directors' Report.

Subject to certain exceptions, there should be a Secretarial Compliance Certificate forming a part of the Annual Returns that is filed with the Registrar of Companies which would certify, in prescribed formal, that the secretarial requirements under the Companies Act have been adhered to.
Financial disclosure recommended by the working group on the Companies Act

- A tabular form containing details of each directors' remuneration and commission should form a part of the Directors' Report, in addition to the usual practice of having it in a note to the profit and loss account.
- Costs incurred, if any, in using the services of a Group Resources Company must be clearly and separately disclosed in the financial statement of the user company.
- A listed public limited company must give certain key information on its divisions of business segments as a part of the Directors' Report in the Annual Report. This should encompass (i) the share in total turnover (ii) review of operations during the year in question (iii) market conditions and (iv) future prospects. For the present, the cut-off may be 10% of total turnover.
- Where a company has raised funds from the public by issuing shares, debentures or other securities, it would have to give a separate statement showing the end-use of such funds namely: how much was raised versus the stated and actual project cost; how much has been utilized in the project up to the end of the financial year; and where are the residual funds, if any, invested and in what form. This
disclosure would be in the balance sheet of the company as a separate not forming a part of accounts.

✦ The disclosure on debt exposure of the company should be strengthened.

✦ In addition to the present level of disclosure on foreign exchange earnings and outflow, there should also be a note containing separate data on / of foreign currency transactions that are germane in today’s context: (i) foreign holding in the share capital of the company and (ii) loans, debentures or other securities raised by the company in foreign exchange.

✦ There are often difference in assets and liabilities between the end of the financial year and the date on which the board approves the balance sheet and profit and loss account. These disclosures appear in the Directors’ Report. In addition, such differences should be clearly stated under the relevant subheads and presented as a note forming a part of the accounts.

✦ If any fixed assets acquired through or given out on lease not reported under appropriate sub-heads, then full disclosure would need to be made as a note to the balance sheet. This should give details of the type of asset, its total value and the future of obligations of the company under the lease agreement.
Any inappropriate treatment of an item in the balance sheet or profit and loss account should not be allowed to be explained away either through disclosure of accounting policies or via notes forming a part of accounts.

The threshold remuneration of those employees whose details have to be divulged under section 217 (2A) should be raised to Rs. 5 lakh per year and this disclosure of Companies may not form a part of the Directors' Report. The statement should be made available for inspection of shareholders at the AGM. However, if there are any director's relatives who receive remuneration, full details of such cases should be given.¹⁰

2.5 GAAP AND ACCOUNTING STANDARDS.

Generally accepted accounting principles (GAAP) manifest themselves through Basic Accounting Concepts and Principles and Fundamental Accounting Assumptions. Certain modifying principles or accounting conventions are also included in the GAAP. In fact, the distinction between a concept and a convention is more of academic interest than practice. They are, therefore, inter-dependent and the demarcation line between the two is very thin. A convention is

sometimes referred to as modifying principles. We can group them into three areas: basic assumptions, basic principles and basic modifiers.

**BASIC ASSUMPTIONS**

✦ The Business Entity Concept
✦ The Accounting Period Concept
✦ The Going Concern Concept
✦ The Money Measurement or Stable-rupee Concept

**BASIC MODIFIERS**

✦ Materiality
✦ Conservatism
✦ Industry Practice

**BASIC PRINCIPLES**

✦ The Cost Principle
✦ The Accrual or Matching Principle
✦ The Realisation or Revenue Recognition Principle
✦ The Expense Recognition Principle
The Full Disclosure Principle and
✦ The Consistency Principle

The Accounting Standards Board of The Institute of Chartered Accountants of India, has so far issued 30 Accounting Standards. All the Accounting Standards are mandatory. Some of them were recommendatory earlier but now, all are obligatory for every business corporate and the practising professional accountants have to observe them compulsorily and have to impress upon the corporates to follow them. We have International Accounting Standards also. When companies deal with foreign countries and conduct international accounting business and indulge in foreign exchange business, they are also to be complied with.

The Accounting Standards issued by ASB, are as follows:

✦ AS-1: Disclosure of Accounting Policies
✦ AS-2: Valuation of Inventories
✦ AS-3: Cash Flow Statement
✦ AS-4: Contingencies and Events Occurring after the Balance Sheet date
✦ AS-5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS-6: Depreciation Accounting
AS-7: Accounting for Construction Contracts
AS-8: Accounting for Research and Development
AS-9: Revenue Recognition
AS-10: Accounting for Fixed Assets
AS-11: Accounting for effects of changes in Foreign Exchange Rates
AS-12: Accounting for Government Grants
AS-13: Accounting for Investments
AS-14: Accounting for Amalgamation
AS-15: Accounting for Retirement Benefits in the Financial Statements of Employers
AS-16: Borrowing Costs
AS-17: Segment Reporting
AS-18: Related Party Disclosures
AS-19: Leases
AS-20: Earning Per Share
AS-21: Consolidated Financial Statements
AS-22: Accounting for Taxes on Income
AS-23: Accounting for Investments in Associates in Consolidated Financial Statements
AS-24: Discontinuing Operations
AS-25: Interim Financial Reporting
AS-26: Intangible Assets
2.6 GOOD MANAGEMENT PRACTICES.

The ethical standards and issues of a business are dynamic. It is so because these standards and issues are basically based on the existing socio-political and economic system, which are dynamic in nature and are changing fastly.

There was a time when the ethical standards of business were set by the state or law but since the beginning of 20th century, religious institutions and government found it difficult to understand the changing complexities of business. Therefore, business itself has started developing its moral philosophy, keeping in view the state policies, rules, regulations and social needs.

In other words, the development of business ethics may be called the result of interpenetrated activities of collective forces. The ethical quandary in business today stems partly from the fact that a company is in a sense of social system and as such reflects
social values. Furthermore, the expectations of society, for instance with respect to the social responsibilities are placing a heavier responsibility on businessmen to meet ethical standards. Finally, businessmen are human being with ethical values that cannot be separated from their business lives. As a result, the scope of business ethics is widening day-by-day and more and more ethical issues are being added to it.

According to Bowen, the ethical standards and issue of business ethics are as follows:

- The question regarding distribution of income:
  - (a) Problem of income distribution
  - (b) Long run cost
  - (c) Distribution of net profit
- Other ethical issues:
  - (a) Honest and legal provisions
  - (b) Working conditions and labour profit
  - (c) Social costs and values
  - (d) Advertisement and sources of public relations
  - (e) Economic stability
  - (f) Relation with Government
  - (g) Others
The main ethical issues of business can be summarized as under:

- **Issues regarding honesty and legal provisions:** It is a moral responsibility of business to act honestly and with legality. To keep honesty in selling, not making false claims in advertisement, execution of contracts, to present right information, full payment of taxes and equal measurement about which business must be always honest and alert.

- **Issues regarding price policies:** Price policies involve more problems regarding price-cutting, resale price maintenance and discriminatory price schedules. Grading and classification of customers and trade discount etc., also give birth to some questions.

- **Issues regarding healthy economic policy:** Mainly, fairly kept cost accounts, adequate and screened business information, healthy credit systems may be included in it. Good wishes towards competitors and not making any efforts to oust them from the market, may also be included in moral standards.

- **Issues regarding labour:** Working conditions and fringe benefits may be included in moral issues regarding labour. Physical working conditions are concerned to air, water, temperature, air-conditioning, health, safety, monopoly,
working hours, motion and speed of the work etc. Psychological working conditions include promotion, job satisfaction, participative management, job security, acceptance of social importance of the work, human relations and human respect. Fringe benefits include pension, entertainment, leisure time, insurance etc.

**Issues regarding economic stability:** Business must contribute to economic stability and development of the nation. Much of the total employment is in the private sector. Therefore, business and industry of the private sector must be run with the object of maintaining the employment level and to refrain the economic fluctuations.

**Issues regarding social costs and values:** Business activities influence the society at large. Society greatly suffers from noise vibration, dust, over urbanisation, air pollutions, etc. These are the social costs. Business should not overlook the moral issue involved therein.

**Issues regarding distribution of income:** The profit earned by a business is the result of collective endeavour. Therefore, profit must be distributed equitably among all its claimants, e.g., customers, employee, managers, suppliers, investors, community, government and business itself. This is an ethical issue.
 Issues regarding legal provisions: The extension, development and running of a business also depends upon social stability and internal peace. Therefore, business is also related to governmental rules, regulations and policies. It is why, moral issues regarding legal provisions are included in the scope of business ethics. Labour legislations, price control, taxes, excise, customs are some examples of the issues regarding legal provisions.

 Other ethical issues: Moral issues regarding human behaviour towards employees, equal opportunity of employment, fair selections, the policy of 'live and let others live' towards competitors, aids for research and investing aids to educational and medical institutions are also being included as part and parcel of business ethics.

 Shapiro has suggested four general ethical problems that typically concern executives:

  What is the limit of our job responsibility?
  Do we make the decisions or must we involve our clients?
  Shall we manipulate the people for their own good?
  Which is more important the system or the individual?

  11 Samuel B. Shapiro: Ethical Problems of the Organisation Executives, Linen Supply Association of USA.
The researcher concludes this part of the study with the comments that modern management and all those who are associated with corporates, should observe ethical code of conduct for the betterment of the corporates, for healthy business practices, for public welfare, for social and national interest and safeguarding and protecting the interest of stakeholders and various parties directly or indirectly connected with the business.