THE GEORGE WASHINGTON UNIVERSITY

SATYAM: BROTHERLY DEMISE

THE RISE AND FALL OF RAMALINGA RAJU

SUBMITTED TO

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EXECUTIVE SUMMARY

The Satyam Computer Services' scandal brought to light the importance of ethics and its relevance to corporate culture. The fraud committed by the founders of Satyam is a testament to the fact that "the science of conduct" is swayed in large by human greed, ambition, and hunger for power, money, fame and glory. Scandals from Enron to the recent financial crisis have time and time again proven that there is a need for good conduct based on strong ethics. In this research paper, we examine in detail the gross negligence of stakeholder concerns and over indulgence of key management on a personal and organizational level in immoral practices for personal benefit. We also assess the implications of ethics in the business environment. We then delve into the ethical dilemmas faced by the executives at Satyam, apply Hosmer's framework to moral decision-making, and suggest alternatives to handle such moral uncertainties. Finally, we conclude by providing recommendations for ethical code of conduct in organizations and the need to foster a culture of integrity and trust.

1. BACKGROUND

In order to evaluate and understand the severity of Saytam's fraud, it is important to understand factors that contributed to the decisions made by the company's executives. First, it is important to understand India's economic growth within the context of the global economy. Second, it is necessary to detail the rise of Satyam as a competitor within the global IT services marketplace. . And, finally, it is helpful to evaluate the driving force behind Satyam's decisions: Ramalinga Raju.

1.1 INDIA IN THE GLOBAL ECONOMY, 2003-PRESENT

Brazil, Russia, India and China have solidified their place in the global economy. Posited by Goldman Sachs chief economist, Jim O'Neil, these nations, commonly referred to as the *BRIC Nations*, were believed to emerge as the four dominant emerging economies of the twenty-first century.[i] In 2003, they possessed one-quarter of the world's land coverage; approximately 45% of the world's population; and a collective gross domestic product of $3.3 trillion.[ii] By 2009, these nations nearly tripled their gross domestic product.[iii] Together, the *BRIC Nations* are now the largest bloc of emerging national economies within the global economy, outperforming other emerging markets worldwide. By 2025, economists have predicted these four economies would be half the size of the combined G6 (USA, Japan, Britain, German, France and Italy) and, by 2039, could overtake the G6.[iv] They are fixtures in today's global economy.

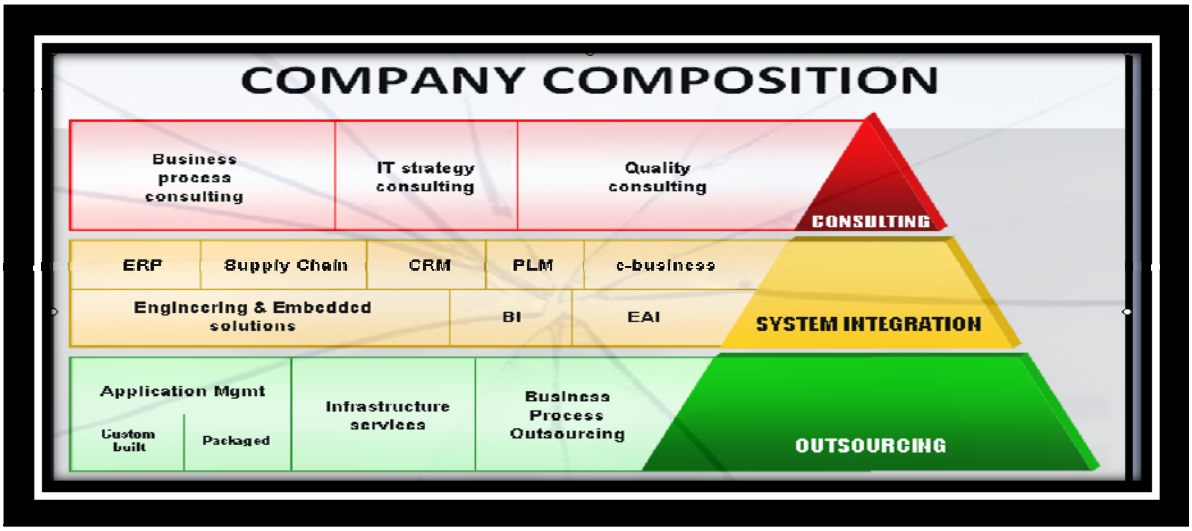
Geo-political risks, increasing income inequality, and structural constraints in these four economies notwithstanding, globalization has contributed significantly to their economic growth. India has benefited immensely. Its gross domestic product (current dollars) has grown at a compound annual growth rate of 14% since 2003.[v] Today, its population stands at 1.2

billion people, a 2% compound annual growth rate over the last six years.[vi] Given its ability to sustain productivity as its population grows in size and skill, India's attractiveness as an emerging market is evident. Deregulation policies adopted by the Government of India have led to substantial domestic investment and inflow of foreign capital to this industry. It has drawn nearly $90 billion in foreign direct investment[vii], and of that amount, approximately 28% was achieved between April 2009 and Feb 2010.[viii] In the last ten years the Information Technology industry in India has grown at an average annual rate of 30%. Exports contribute to around 75% of the total revenue of the IT industry in India. India's growth is attributable to its surge in productivity. And, given its favorable demographic trends and further rise in capital formation (accumulation)[ix], India's influence on the world economy is immediate and widely felt.

1.2 EMERGENCE OF SATYAM COMPUTER SERVICES.

Satyam Computer Services, Ltd. was a rising star in the Indian outsourced IT services industry. The company was formed in 1987 in Hyderbad, India by B. Ramalinga Raju. The firm began with twenty employees and grew rapidly as a global business. It offers information technology (IT) and business process outsourcing (BPO) services spanning various sectors[x], including: aerospace and defense, banking and financial services, energy and utilities, life sciences and healthcare, manufacturing and diversified industrials, public services and education, retail, telecommunications and travel.

By 2003, Satyam's IT services businesses included 13,120 technical associates servicing over 300 customers worldwide.[xi] At that time, the worldwide IT services market was estimated at nearly $400 billion, with an estimated annual compound growth rate of 6.4%.[xii] The markets major drivers at that point in time were the increased importance of IT services to businesses worldwide; the impact of the internet on eBusiness; the emergence of a high-quality IT services industry in India and their methodologies; and, the growing need of IT services providers who could provide a range of services.[xiii] The following chart shows Satyam's composition in relation to consulting, systems integration, and outsourcing:



The Indian IT services industry had its risks: geopolitical conflict in South Asia and terrorist attacks in the United States; Indian political instability; restrictions on foreign investment decisions; the impact of exchange rate and tax regimes; and, finally, laws associated with intellectual property.[xiv]

To compete against Accenture, BearingPoint, Capgemini, Deloitte, Hewlett-Packard and IBM, CSC, Electronic Data Systems, Infosys Technologies, Tata Consultancy, and Wipro, the company embarked on a multi-pronged business growth strategy. First, the company would build upon its customer relationships to cross-sell its array of services while maintaining a continued focus on enterprise-wide business solutions and high-quality IT services[xv]. Second, the company would expand its markets by penetrating new geographic markets throughout North America, Europe, Latin America, and the Asian-Pacific regions.[xvi] Third, the company would further develop its industry expertise to access new customer groups, such as manufacturing, financial services, etc[xvii]. Fourth, Satyam wanted to attract and retain technical associates and augment employee training to improve retention and services-offerings[xviii]. And, finally, the company wanted to enhance capabilities through technical alliances and strategic acquisitions, e.g. the proposed strategic acquisition of Citisoft plc, a niche-oriented business consultancy in the United Kingdom.[xix] This multi-pronged business growth strategy would be the stated means to grow Satyam and boost shareholder value.

From 2003 to 2008, in nearly all financial metrics of interest to investors, the company grew measurably. Satyam generated USD $467 million in total sales.[xx] By March 2008, the company had grown to USD $2.1 billion.[xxi] The company demonstrated an annual compound growth rate of 35% over that period.[xxii] Operating profits averaged 21%. Earnings per share similarly grew, from $0.12 to $0.62, at a compound annual growth rate of 40%.[xxiii] Over the same period (2003-2009), the company was trading at an average trailing EBITDA multiple of 15.36x.[xxiv] Finally, beginning in January 2003, at a share price of 138.08 INR, Satyam's stock would peak at 526.25 INR – a 300% improvement in share price after nearly five years.[xxv] Satyam clearly generated significant corporate growth and shareholder value.

The company was a leading star – and a recognizable name – in a global IT marketplace. The external environment in which Satyam operated was indeed beneficial to the company's growth. But, the numbers didn't represent the full picture.

2. B. RAMALINGA RAJU AND THE SAYTAM SCANDAL

The Satyam scandal is a classic case of negligence of fiduciary duties, total collapse of ethical standards, and a lack of corporate social responsibility. It is human greed and desire that led to fraud. This type of behavior can be traced to: greed overshadowing the responsibility to meet fiduciary duties; fierce competition and the need to impress stakeholders especially investors, analysts, shareholders, and the stock market; low ethical and moral standards by top management; and, greater emphasis on short-term performance.

Greed for money, power, competition, success and prestige compelled Mr. Raju to "ride the tiger," which led to violation of all duties imposed on them as fiduciaries – the duty of care, the duty of negligence, the duty of loyalty, the duty of disclosure towards the stakeholders.[xxvi] According to CBI, the Indian crime investigation agency, the fraud activity dates back from April 1999, when the company embarked on a road to double-digit annual growth. As of December 2008, Satyam had a total market capitalization of $3.2 billion dollars.

Satyam planned to acquire a fifty-one percent stake in Maytas Infrastructure, a leading Infrastructure Development, Construction and Project Management Company, for $300 million. The Rajus's had a 37% stake. The total turnover was $350 million and a net profit of$20 million. Raju's also had a 35% share in Maytas Properties, another real estate investment firm. Satyam revenues exceeded $1 billion in 2006.

In April, 2008 Satyam became the first Indian company to publish IFRS audited financials.[xxvii] On December 16, 2008, the Satyam board, including its five independent directors had approved the founder's proposal to buy the stake in Maytas Infrastructure and all of Maytas Properties, which were owned by family members of Satyam's Chairman, B Ramalinga Raju, as fully owned subsidiary for $1.6B.

Without shareholder approval, the directors went ahead with the management's decision. The decision of acquisition was, however, reversed twelve hours after investors sold Satyam's stock and threatened action against the management.[xxviii] This was followed by the lawsuits filed in the US contesting Maytas deal. The World Bank banned Satyam from conducting business for 8 years due to inappropriate payments to staff and inability to provide information sought on invoices.[xxix] Four independent directors quit the Satyam board and SEBI ordered promoters to disclose pledged shares to stock exchange.

Investment bank DSP Merrill Lynch, which was appointed by Satyam to look for a partner or buyer for the company, ultimately blew the whistle and terminated its engagement with the

company soon after it found financial irregularities.[xxx] On 7 January 2009, Saytam's previous Chairman, Ramalinga Raju , resigned after notifying board members and the Securities and Exchange Board of India (SEBI) that Satyam's accounts had been falsified.[xxxi]

Raju confessed that Satyam's balance sheet of September 30, 2008, contained the following irregularies:

- Inflated figures for cash and bank balances of US$1.04 billion vs. US$1.1 billion reflected in the books;
- An accrued interest of US$77.46 million which was non-existent;
- An understated liability of US$253.38 million on account of funds was arranged by himself;
- An overstated debtors' position of US$100.94 million vs. US$546.11 million in the books.

Raju claimed in the same letter that neither he nor the managing director had benefited financially from the inflated revenues.[xxxii] He claimed that none of the board members had any knowledge of the situation in which the company was placed.[xxxiii] The fraud took place to divert company funds into real estate investment, keep high earnings per share, raise executive compensation and make huge profits by selling stake at inflated price.

The gap in the balance sheet had arisen purely on account of inflated profits over a period that lasted several years starting in April 1999. "What accounted as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years," Ragu explained in his letter to the board and shareholders. He went on to explain, "This gap reached unmanageable proportions as company operations grew significantly." Every attempt to eliminate the gap failed, and the aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. But the investors thought it was a brazen attempt to siphon cash out of Satyam, in which the Raju family held a small stake, into firms the family held tightly.[xxxiv] The following chart depicts the Satyam's fabricated income statement. It shows the difference between actual and reported finances:

Fabricated Income Statements of Satyam

Fudging Numbers - As of Sept 30 2008

(Rs Cr)

	Actual	Reported	Difference
Cash and Bank Balances	321	5,361	5,040
Accrued Interest on bank FDs	Nil	376.5	376
Understated Liability	1,230	None	1230
Overstated Debtors	2,161	2,651	490
Total	-	-	7,136
Revenues(Q2FY09)	2,112	2,700	588
Operating Profits	61	649	588

The Satyam deal with Matyas was salvageable. It could have been saved only if "the deal had been allowed to go through, as Satyam would have been able to use Maytas' assets to shore up its own books."[xxxv] Raju, who showed artificial cash on his books, had planned to use this non-existent cash to acquire the two Maytas companies.[xxxvi] Given the stake the Rajus held in Matyas, pursuing the deal would not have been terribly difficult from the perspective of the Raju family.

The auditors, bankers, and SEBI, the market watchdog, were all blamed for their role in the accounting fraud. To what extent did the fraud take place – and who else was involved? It is likely the fraud extended beyond Raju to other top mananagers. The fraud itself, however, was enough.

2.1 FACTORS CONTRIBUTING TO FRAUD

Numerous factored contributed to the Satyam fraud. "The independent board members of Satyam (including the dean of the Indian School of Business, a Harvard Business School professor, and an erstwhile star at Intel), the institutional investor community, the SEBI, retail investors, and the external auditor -- none of them, including professional investors with detailed information and models available to them, detected the malfeasance."[xxxvii] The following is a list of factors that contributed to the fraud:

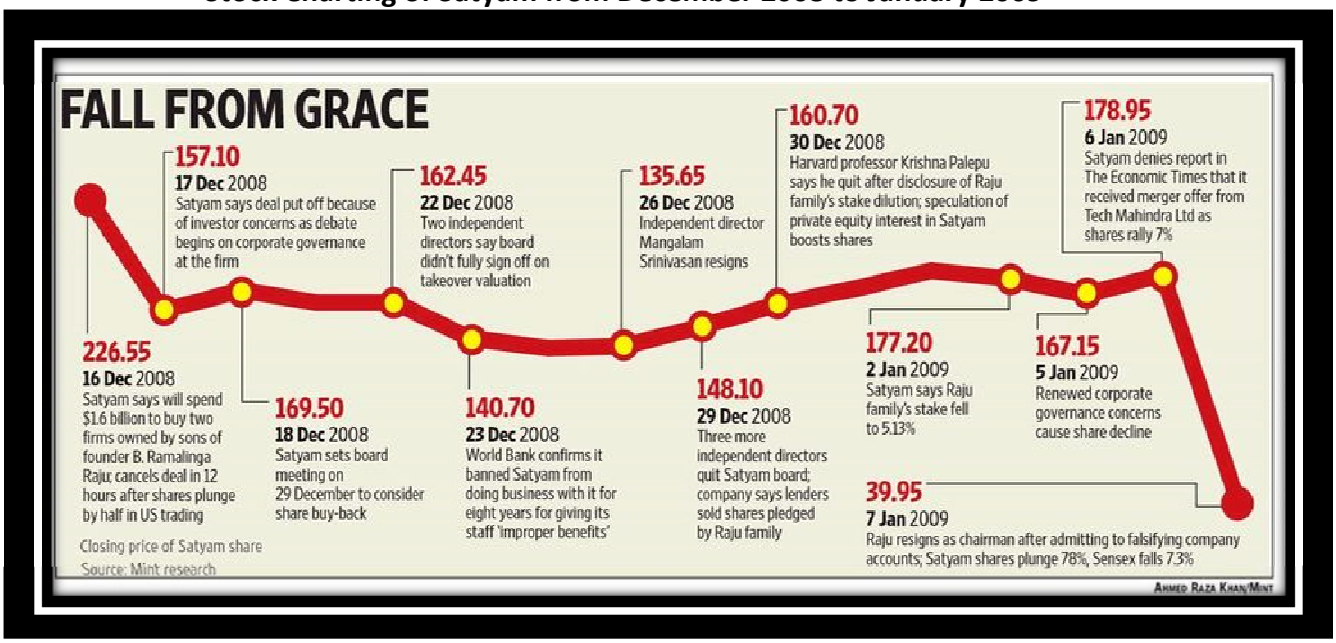
- Greed
- Ambitious corporate growth
- Deceptive reporting practices—lack of transparency
- Excessive interest in maintaining stock prices
- Executive incentives
- Stock market expectations
- Nature of accounting rules
- ESOPs issued to those who prepared fake bills
- High risk deals that went sour
- Audit failures- Internal & External
- Aggressiveness of investment banks, commercial banks,
- Rating agencies & investors
- Weak Independent directors and Audit committee
- Whistle blower policy not being effective

2.2 AFTERMATH OF SATYAM SCANDAL

Immediately following the news of the fraud, Merrill Lynch terminated its engagement with Saytam, Credit Suisse suspended its coverage of Satyam, and PricewaterhouseCoopers came under intense scrutiny and its license to operate may be revoked. Coveted awards won by

Satyam and its executive management, such as Golden Peacock Award for Corporate Governance under Risk Management and Compliance Issues, SAP Pinnacle Award, E & Y Entrepreneur Award etc, were stripped from the company. Satyam's shares fell to 11.50 rupees on January 10, 2009, their lowest level since March 1998,[xxxviii] compared to a high of 544 rupees in 2008.[xxxix] In the New York Stock Exchange, Satyam shares peaked in 2008 at US$ 29.10[xl]; by March 2009 they were trading around US $1.80. Investors lost $2.82 billion in Satyam. Criminal charges were brought against Mr. Raju, including: criminal conspiracy, breach of trust, and forgery. After the Satyam fiasco and the role played by PwC, investors became wary of those companies who are clients of PwC, which resulted in fall in share prices of around 100 companies varying between 5-15%. The following chart shows Satyam's stock decline between December 2008 and January 2009:

Stock Charting of Satyam from December 2008 to January 2009



2.3 VICTIMS OF FRAUD

Employees of Satyam spent anxious moments and sleepless nights as they faced non-payment of salaries, project cancellations, layoffs and equally bleak prospects of outside employment. "They were stranded in many ways – morally, financially, legally, and socially."[xli]

Clients of Satyam expressed loss of trust and reviewed their contracts preferring to go with other competitors. Cisco, Telstra and World Bank cancelled contracts with Satyam. "Customers were shocked and worried about the project continuity, confidentiality, and cost overrun."[xlii]

Shareholders lost their valuable investments and there was doubt about revival of India as a preferred investment destination. The VC and MD of Mahindra, in a statement, said that the development had "resulted in incalculable and unjustifiable damage to Brand India and Brand It in particular."

Bankers were concerned about recovery of financial and nonfinancial exposure and recalled facilities.[xliii]

Indian Government was worried about its image of the Nation & IT Sector affecting faith to invest or to do business in the county. [xliv]

2.4 CORPORATE GOVERNANCE ISSUES AT SATYAM

Jagdish Sheth, executive director of the India, China and American Institute and Professor of Marketing at Emroy University, stated: "Indian business culture puts a premium on favors, friendship, and clanship.[xlv] The Western concept of conflict of interest does not always mesh well with the Indian value of loyalty. People believe that they have to cheat to win. They believe that nice guys finish last."[xlvi]

On a quarterly basis, Satyam's earnings grew. Mr. Raju admitted that the fraud which he committed amounted to nearly $276 million. In the process, Satyam grossly violated all rules of corporate governance. The Satyam scam had been the example for following poor governance practices.[xlvii] It had failed to show good relation with the shareholders and employees.[xlviii] Governance issue at Satyam arose because of non fulfillment of obligation of the company towards the various stakeholders.[xlix] Of specific interest are the following: distinguishing the roles of board and management; separation of the roles of the CEO and chairman; appointment to the board; directors and executive compensation; protection of shareholders rights and their executives.

Shareholders never had the opportunity to give their consent prior to the announcement of the Matyas deal. Falsified documents with grossly inflated financial reports were delivered to them. Ultimately, shareholders were at a loss – and, cheated. Surely, questions about management's credibility were raised in addition to the non-payment of advance taxes to the government. Together, these raise questions about Satyam's financial health.

2.5 ETHICAL DILEMMAS FACED BY RAMALINGA RAJU

An ethical problem cannot be resolved unless it is first recognized as a dilemma. "Reward or punishment to ethical integrity and moral courage decide the act of an individual."[l] The existence of rules, policies, job descriptions and cultural norms will discourage individuals from unethical behavior even if they have a feeble moral sense. But, in the presence of unethical

organizational culture and structure, even highly moral individuals may become corrupt. The culture at Satyam, especially dominated by the board, symbolized such an unethical culture. In the case of Mr. Raju, Satyam, as the smallest of the big four players, was under pressure to show extraordinary results in order to survive. Apart from that there was greed, perhaps reckless greed, causing the brothers to indulge in illegal and unethical activities.

On one hand, his rise to stardom in the corporate world coupled with immense pressure to impress investors made Mr. Raju a compelled leader to deliver outstanding results. On the contrary, Mr. Raju had to suppress his own morals and values in favor of the greater good of the company. The board connived with his actions and stood as a blind spectator. The lure of big compensation to members further encouraged such behavior. But, in the end, truth is sought and those violating the legal, ethical, and societal norms are taken to task. The fraud finally had to end and the implications were far reaching. The public confession of fraud by Ramalinga Raju speaks of integrity still left in the individual. His acceptance of guilt and blame for the whole fiasco shows a bright spot of an otherwise tampered character.

After quitting as Satyam's Chairman, Raju said, "I am now prepared to subject myself to the laws of land and face consequences thereof." Mr. Raju had many ethical dilemmas to face, but his persistent immoral reasoning brought his own demise.

3. HOSMER'S SIX STEP PROCESS

Hosmer's six-step process for moral reasoning is an excellent way to evaluate ethical behaviors or lack of ethical behaviors in business situations. Utilizing Hosmer's six-step process in relations to this case helps to understand and evaluate Ramalinga Raju unethical behavior. The following depicts the six-step process in relation to the Satyam case.

Step 1 - Define moral issue

In order to define the moral issue, it is important to address who has been hurt by Raju's action. In this case, Satyam's stakeholders, shareholders, and employees have been affected, as well as, India as a whole. The shareholders have been deceived because of the lack of transparency in Raju's reporting of Satyam's finances. Raju understated the liability, overstated debtors' positions, and claimed false revenue and operation margins. Satyam's employees have lost money due to vested interests in the company and lost wages due to the cancellation of many of Satyam's projects. The employees also have a permanent stigma attached to them for their connection to Satyam, even if they were not involved in scandal. This will make it difficult for them to seek employment elsewhere. This scandal put the Indian government in a bad position and made them look unreliable to the rest of the world causing Indian companies to lose international credibility, experience a decline in stock prices, and cause outsiders to question investing in Indian companies. The Satyam scandal forced the world economy to question the moral ethics of Indian corporations and the SECI's ability to manage firms. The World Bank's decision to ban Satyam for 8 years brought even more attention of the depths of this scandal to

the world economy, which hurt Indian as well. The credibility of Satyam's auditor, Price Waterhouse, was also hurt by this scandal, and other companies connected to Price Waterhouse were put under scrutiny.

Step 2 – What else can we learn?

Hosmer recommends not passing moral judgment before considering all of the facts. First, it is important to consider what does not make sense in the case. In this case, Raju is aware of falsified accounting. It appears as if Raju realizes that he needs to pay back the company and balance Satyam's books. Due to the rapid growth of the company, Raju seems to have gotten in over his head. He tried to correct his mistakes by acquiring Maytas, which was owned by his own family member. This action was a desperate attempt to fix Satyam's accounting, and puts Raju's ethics into more question. Second, it is important to consider what is on the Raju's mind. It is hard to say for sure what a person thinks, but Raju seems to want to "fix" Satyam's accounting. He did not personally benefit from the accounting fraud. Third, it is beneficial to consider what facts would be important to those affected by Raju's actions. In this case, actual revenue and operating margins, actual debtor's position, and actual liability would be important information. Forth, it is important to consider what facts are readily accessible. In this case, the accessible facts to consider include Raju's relation to Maytas and Saytam's Directors approval of merging with Maytas. Finally, it is important to consider if Raju has a legitimate secret. In this case, Raju's deception is not justified because he was lying about financial standings.

Step 3 – If possible, avoid rocks and hard places

In this case, Raju most likely did not mean to get himself in so deep. India's fast growing economy and Satyam's extraordinary growth rate made it hard for Raju to live up to expectations. Satyam helped Indian become a major player in the world economy, and Satyam's stockholder's expected high returns on their investments. Raju reacted to these pressures by falsifying Satyam's accounting until it got out of control.

Step 4 – What about me?

To answer this question, Hosmer recommends asking what the consequences are of taking on a moral fight, and what the consequences are of not taking on a moral fight. According to Hosmer, the consequences of taking on a moral fight can often have negative personal and professional consequences. Raju's actions were first questioned with his decision to acquire Maytas. Satyam's shareholders questioned this decision and threatened management. This action leads Raju to admit his actions. Raju resigned after ultimately blowing the whistle on his own company and himself, but it is important to note that this was a direct response to shareholders objections and suspicions regarding Raju's decision to acquire his family's company. If Raju did not admit to falsifying Satyam's accounts, he would have draw out the process of uncovering his actions. There was no way to dig Satyam out of this situation. At this point, the Indian government could still salvage the company before it was completely

destroyed. Raju had expensed all of his options, and there was nothing to do except admit his actions.

Step 5 – Apply ethical frameworks

In this step, it is important to apply ethical frameworks by assessing ethical theories. The Utilitarian Theory, the Television Test, and the Ethical Relativism Theory can be used to assess this case. The Utilitarian Theory states that "moral actions are those that produce the greatest net pleasure compared with net pain."[li] One aspect of the Utilitarian Theory is the Cost-Benefit Analysis which quantifies the benefits and the costs of the alternative in a given situation. In Raju's situations, the benefit of falsifying Satyam's accounting was increasing Satyam's stock price and the appearance of continued rapid growth. The alternative would be to report the company's correct finances. This would lower stock value, reduce profits for Satyam and its shareholders, and lead to less buy-ins from investors. The Television Test asks if an individual would want his/her actions broadcasted on television. Raju would most likely not want his actions broadcasted. He did not admit his accounting fraud until he was cornered. Ethical Relativism says that "actions must be judged by what individuals subjectively feel is right or wrong for themselves." Situational Ethics is an aspect of the Ethical Relativism Theory that says "one must judge a person's actions by first putting oneself in the actor's situation."[lii] Raju chose to act in his best interest. He may have believed that he was protecting Satyam's market shares, but this was short sighted. Raju received a lot of prestigious awards that were based on Satyam's success. Raju was arrogant and believed he could fudge Satyam's accounting and make up for it in the long-run. This was a vain and unethical decision that was driven by Raju's greed and desire to be at the top.

Step 6 – Reach a conclusion

In order to reach a conclusion, Hosmer recommends considering the various ethical frameworks to make a decision and implementing that decision. In this case Raju decided to falsify Satyam's accounting despite the fact that it was a fraudulent act. He lied to Satyam's employees, shareholders, stakeholders, and the Indian government. This behavior should not be tolerated. When Raju decided to falsify Satyam's accounting, he acted unethically. When Satyam's investors questioned his actions, Raju finally decided to take an ethical approach by admitting to fraudulent accounting. However, this was not enough to counter his unethical behavior. Raju should have admitted to financial lose when they occurred and figured out a way to grow honestly.

4. LESSONS LEARNED

Satyam's fraud spurred the government of India to tighten corporate norms to prevent recurrence of similar frauds in future. The government took action to protect the interest of the investors and safeguard the credibility of India and the nation's image across the world. It has forced the government to re-write corporate governance rules and tighten the norms for

chartered accountants. Some of the regulations include promotion of shareholders' democracy with protection of rights of minority shareholders, responsible self-regulation with adequate disclosure and accountability and lesser government control over internal corporate processes, voluntary corporate governance code, certificate of independence for independent directors, an institution of mechanism for whistle blowers, and a cap at 10 percent on the revenues coming from a single client to an audit firm. Promoters should be prohibited from interfering in the recruitment of independent directors. Independent directors should have challenging, skilled ID's, who have time to devote to the business, rather than well known faces. Additional lessons include having an effective 'whistle blower policy' in place, education on ethical values, criteria for remuneration to key personnel, and strengthening of quality review.

5. RECOMMENDATIONS

Lasting solutions can only be found by transforming human consciousness through an inner discipline and higher moral reasoning. A company can build sustainable competitive advantage through ethics, values, excellence, quality, social responsibility and human development. An integrated, value based vision of leadership and governance will go along in creating corporate governance. A transformed organizational culture which pays highest attention to ethical conduct and moral values will strengthen sustainable roots of the company. Transparency and effective auditing and regulatory checks through internal and external auditors and monitoring agencies will help establish long lasting credibility for any company. Companies should gather feedback, measure effectiveness, and continually improve their code of conduct. They always distinguish between opportunities and temptations. No matter what heights a person may reach, character must be maintained at any cost. Companies must take a step back when presented with challenging decisions and individuals must listen to "the little voice in their head" in complying with law and to their heart in dealing with people. When making corporate decisions, it is important to not lose sight of the individual's ethical reasoning.

Personal ethics, self-discipline, and high moral reasoning are critical to avoiding unethical behavior. Some of the advantages of these elements include avoiding unethical behavior, performing fiduciary duties, and resolving ethical dilemmas. But such personal ethics may put a person in direct conflict with existing corrupt bureaucratic systems, increased ethical dilemmas, and exposure to stress and intense emotional pressure.

Transparency in financial reporting as a moral duty and ethical conduct is also very important for companies to adhere to in order to uphold ethical standards. Benefits from such engagement include higher trust and loyalty from stakeholders, increased goodwill, and higher investor confidence. Absolute transparency may lead to revelation of favorable and unfavorable performance which in turn may result in loss of investor confidence and inability to attract new capital.

It is also important for companies to establish an organizational culture which supports ethical conduct through a code of conduct and properly laid out corporate governance policies and procedures. Advantages of this approach include fostering ethical behavior from employees, increased inner discipline, and providing value based corporate vision. However, such a culture will add new conflicts of interest, strict compliance with rules and regulations and extra supervision.

6. CONCLUSION

Corporate governance framework needs to be implemented in letter as well as spirit. The increasing rates of white collar crimes demands stiff penalties and punishment. The small distortions created by few immoral executives lad far reaching negative consequences. Hopefully, creating an awareness of the large consequences of small lies may help some to avoid this trap.

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