



The speedy resolution of the Satyam imbroglio, with Tech Mahindra acquiring the IT services firm, has reassured investors around the globe about the soundness of the Indian business framework, says **Annamma Oommen.**

RESOLVING SATYAM A QUICK AND EFFECTIVE SOLUTION

CORPORATE malfeasance involving unscrupulous bosses, rogue traders, operators of Ponzi schemes and other scamsters surface often in the world of business, stunning investors, business executives, regulators and government officials.

Economies like the US and Europe have witnessed such incidents in recent years, where culprits have managed to hoodwink not just the investing public, but even auditors, regulators, bankers, tax departments and their own colleagues in board rooms.

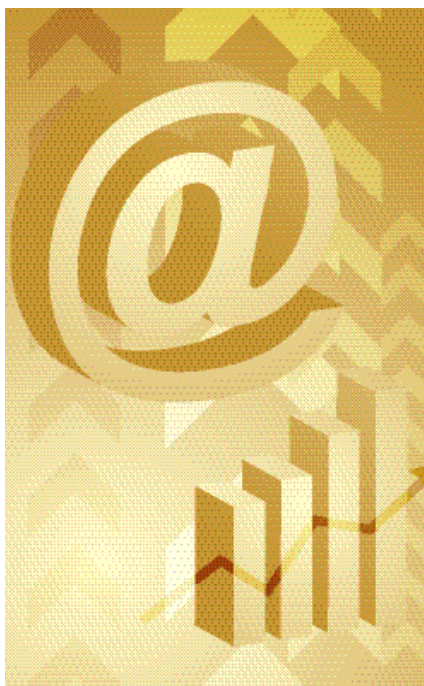
But every episode that unfolds helps regulators and others to cement the breaches in the framework, fill the loopholes and make it more difficult for future offenders to get away with such white-collar crimes.

The institutional ability of a nation to swiftly deal with such incidents, limit its impact on the markets, protect various stakeholders from the downside and bring to book the culprits, reflect the maturity of an economy. India's handling of the Satyam Computers saga and the swift manner in which the entire episode was dealt with, thanks to the coordinated efforts of the government, regulators, business leaders and even the employees of the company, are indeed a credible achievement.

The Satyam episode surfaced as a sordid tale of cheating and forgery, an incident that could have had serious ramifications on the stock markets and in the world of business. But within days of the confession made by B. Ramalinga Raju,

An effective partnership that was forged between industry and government worked well.

Anurag Goel,
secretary, Ministry of Corporate Affairs



the founder of Hyderabad-based Satyam Computer Services Ltd, regulators, investigators, government departments and bureaucrats swung into action, initiating steps against the offenders and trying to limit the damage the incident could have caused.

Working in unison, they not only put the perpetrators behind bars and initiated the trial, but also ensured that the 50,000-odd employees and the thousands of shareholders of the company – besides numerous other stakeholders – did not suffer for long.

Within days of Raju's confession hitting

'WE WILL HANDLE THE ACQUISITION FAIRLY WELL'

An interview with **Anand Mahindra**, chairman, Tech Mahindra (and vice-chairman and managing director, Mahindra & Mahindra):

Could you tell us about the acquisition process?

The going was not smooth for Tech Mahindra. While we officially threw our hat into the ring for Satyam by mid-March, the liability worries had started to ring home. One of my biggest concerns was Satyam's legal liabilities and the class-action lawsuits against the firm.

These are tasks that our due diligence experts estimated. We considered a lot of different scenarios and took a calculated risk in making this bid. We decided to go in there and look at what it means for Tech Mahindra strategically and bid rationally.

Any specific risks associated with this deal that Tech Mahindra needs to look out for in the coming months? How should the company proceed?

To me there are two challenges on the integration side. One is the process of



Anand Mahindra

integrating the various assets, processes and people. And the other is the uncertainty that customers may be leaving. The very source of competence is in the people and Tech Mahindra is being very careful.

We do not have any issues with the lower- and mid-level employees. It's the top-level management that we have to be sensitive about. We are doing our

own audits on who to retain. It's not going to be easy. It will take time, but I think Tech Mahindra will handle it fairly well.

Would you consider merging Satyam with Tech Mahindra? What about lay-offs in Satyam?

Satyam would remain a stand-alone unit for the foreseeable future and its leadership would continue with marginal changes. It is also too early to comment on whether there will be job losses but retaining key staff is a priority.

the headlines, the government moved swiftly. Within two hours of Raju tendering his resignation to market regulator Securities and Exchange Board of India (SEBI), it forwarded the same to the Ministry of Corporate Affairs.

The ministry then asked the Institute of Chartered Accounts of India (ICAI) and the Institute of Company Secretaries of India (ICSI) to probe the role of auditors and company secretaries in the entire scandal. An emergency inter-ministerial meeting was called on a Sunday, and the Company Law Board dissolved the board of the company.

Two days after Raju came out with his mea culpa (on January 7, 2009), he was arrested along with his brother on charges of cheating and forgery. A couple of days later the Satyam board was reconstituted and eminent personalities, including Deepak Parekh, chairman, HDFC Ltd, and Kiran Karnik, the former head of the National Association of Software and Services Companies (NASSCOM), were brought on the board.

The new board's job was to prevent the unravelling of the company, even as key clients and employees threatened to jump ship. "Satyam was in deep trouble

'IT'S A MOVE IN THE RIGHT DIRECTION'

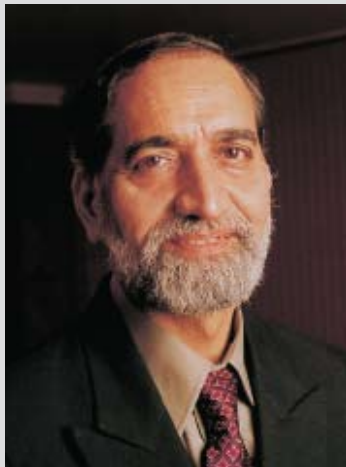
Kiran Karnik, the former head of NASSCOM, was a key player in the post-scam scenario, helping restore confidence in the beleaguered IT major. An interview with Karnik:

What are your comments on the government's role in finding a resolution for the Satyam crisis?

I truly believe that the government recognised the gravity of the problem and its quick decision also minimised the uncertainty that prevailed. If this was not sorted out swiftly, I am sure our outsourcing industry would have suffered. We also wanted a company with a clean image and we got it.

Do you see foreign investment getting affected in anyway?

Foreign investors will be cautious. But this is definitely going to bring about some amount of transparency in companies. While the larger firms will not be affected to a large extent, its the small- and medium-sized companies that will have problems of credibility. There might be delays or setback in some investments, but overall, I think it's a move in the right direction.



Kiran Karnik

How are Satyam clients reacting now?

I spoke to the top clients of Satyam and for sure the uncertainty is over. All clients are happy that Mahindra is a stable and well-known brand. I get the feeling that clients who walked away, when the scandal surfaced, will surely come back.

What are your future plans?

I am not going to disappear. I will take time out for myself, read, travel, spend some time with family. I intend to work and spend more time with non-government organisations.

SATYAM TIMELINE:

- 1987: The company was established on June 24
- 1991: IPO oversubscribed by 17 times
- 1993: Awarded ISO certification
- 1999: Satyam Infoway (Sify) becomes the first Indian Internet company to be listed on the Nasdaq
- 2001: Satyam Computers listed on the NYSE
- 2006: Revenue exceeds US\$1 billion
- 2008: Revenue tops US\$2 billion

2009:

- January 7: Then chairman B. Ramalinga Raju confesses to falsification of accounts and submits his resignation
- January 9: Raju arrested along with his brother, B. Rama Raju, on charges of cheating and forgery
- January 11: Satyam board reconstituted; Deepak Parekh, chairman, HDFC Ltd, and Kiran Karnik, the former chief of the National Association of Software and Services Companies (NASSCOM), appointed on the board
- January 27: Board appoints Goldman Sachs and Avendus to identify strategic investors
- February 6: Karnik appointed chairman of Satyam
- February 13: Capital market regulator Securities and Exchange Board of India (SEBI) relaxes takeover norms in Satyam case, giving the new board the power to lower the target price for open offers
- March 6: SEBI gives permission to Satyam to sell 51 per cent majority stake
- March 13: Tech Mahindra, Larsen & Toubro and a few others registered as potential bidders
- March 20: The board receives bids
- April 7: The Central Bureau of Investigation files charge-sheet against Raju
- April 13: Tech Mahindra emerges as the highest bidder, selected as strategic investor

and we doused the fire and brought it back on course," recalls Karnik

Ultimately, while some of the customers cancelled their contracts, two big clients, Cisco and General Electric, along with a host of smaller ones remained, on the assurances of the board.

Towards the end of the month, the reconstituted board appointed Goldman Sachs and Avendus, an Indian investment bank, to identify possible strategic investors in the beleaguered company.

Within days, SEBI, the capital markets regulator, relaxed the takeover norms in the Satyam case, allowing the board to lower the target price for open offers. In the absence of such a move, there would have been virtually no response from potential investors.

In the first week of March – just two months after the episode surfaced – SEBI allowed the Satyam board to sell a majority stake in the company to a strategic investor. And a month later, Tech



Mahindra emerged as the highest bidder and strategic investor in Satyam.

BT Group Plc, the UK-based telecommunications major that has a 31 per cent stake in Tech Mahindra, backed the Indian firm's plan to acquire a stake in Satyam. Tech Mahindra is paying more than US\$550 million for controlling stake in the Hyderabad company.

The acquisition pushes Tech Mahindra into the league of global technology companies. "Satyam's and our profiles complement each other," says Vineet Nayar, ceo, Tech Mahindra.

Anand Mahindra, chairman, Tech Mahindra, and vice-chairman and managing director of automobile major Mahindra & Mahindra, notes the deal was a 'game-changer' for the company, which has until now been a player in the telecoms outsourcing niche.

"We've taken on a challenge and

we are going to make it work," explains Mahindra, whose Tech Mahindra is actually substantially smaller than Satyam; the former has 23,000 employees, compared to 48,000 on Satyam's rolls.

Thanks to the urgency shown by the government, the regulator and others, the Satyam episode has been brought to a quick end. "I would say an effective partnership that was forged between the industry and the government worked well and made this happen," says Anurag Goel, secretary, Ministry of Corporate Affairs. "The government at various levels – both the political leadership and the bureaucracy – acted in tandem with a remarkable degree of decisiveness and swiftness. As far as this ministry is concerned, we had previously set in place the structures and processes that were necessary to perform such huge tasks with a higher level of effectiveness and in the spirit of

partnership. This has helped the whole process enormously."

In fact, buoyed by its success in dealing with the Satyam case and to pre-empt any such future incidents, the ministry is setting up an independent think tank, the Indian Institute of Corporate Governance (IICG), "to holistically look at various aspects of corporate affairs, including corporate social responsibility," says Goel.

The IICG will be a capacity-building and service-delivery institute whose objective will be to help corporate growth, reforms and regulation through synergised knowledge management, global partnerships and real-time solutions.

The quick and effective resolution of the Satyam incident is a remarkable achievement for India, restoring international investor confidence in the ability of the existing machinery to deal with such exigencies. 🌈