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CORPORATE GOVERNANCE FAILURE AT SATYAM

“Why do you want to quit Satyam,”¹ the panel member asked the 30-year-old employee being interviewed. Satyam Computer Services Ltd (“Satyam”) was India’s fourth-largest computer services company; however, many employees had left and applied for new jobs after news of a US\$1.4 billion corporate fraud at Satyam became public in December 2008.² Satyam’s governance failure had severely shaken its stakeholders and the global business community, and the business press worldwide referred to Satyam as “India’s Enron”.³

Satyam was listed on the New York Stock Exchange (“NYSE”) in 2001 and on Euronext Amsterdam in 2008.⁴ It boasted a large number of clients, including many Fortune 500 companies.⁵ The founder of Satyam Computer Services, B. Ramalinga Raju (“Raju”), was a highly regarded entrepreneur and an eminent fixture at prestigious corporate events in India.⁶ In 2007, he was honoured with the Ernst & Young Entrepreneur of the Year award, yet a mere two years later, on 7 January 2009, Raju made the calamitous confession that he had falsified accounts on a grand scale over a long period of time. His shocking announcement sparked a big debate over whether India possessed adequate guidelines for corporate governance.⁷ How did Raju commit a fraud of such magnitude? How could a successful company, twice awarded the Golden Peacock award for corporate governance excellence collapse in such a manner?⁸ Where did the internal and external agents responsible for

¹ Subramani, H. (17 January 2009) “Satyam Staff Find CVs Losing Sheen”, *Mail Today*.

² Parekh, S. (9 January 2009) “Satyam’s Wake-Up Call for Corporate India”, *Financial Times*.

³ Hughes, J. (8 January 2009) “Accountants Go into Shock at ‘India’s Enron’”, *Financial Times*; Dasgupta, A. (8 January 2009) “Satyam is India’s Enron”, *The Hindu*; Chatterjee, S. (7 January 2009) “Accounting Scandal at Satyam Could Be India’s Enron”, *Reuters*; Economic Times (8 January 2009) “Media Dub Satyam Scandal ‘India’s Enron’”; Sorkin, A.R. (7 January 2009) “Talk of ‘India’s Enron’ as Satyam Shares Plunge”, *New York Times*.

⁴ Fontanella-Khan, J. (7 January 2009) “Business Hero Who Crashed and Burned”, *Financial Times*.

⁵ Mukherjee, A. (19 January 2009) “The Truth Serum Trails”, *Outlook*.

⁶ Fontanella-Khan, J. (7 January 2009) “Business Hero Who Crashed and Burned”, *Financial Times*.

⁷ Dhall, A. (11 January 2009) “Corporate Governance Comes Under Lens”, *Economic Times*.

⁸ Awarded by the UK-based World Council for Corporate Governance. See: Mint (8 January 2009) “Corporate Excellence Award to be Taken Away”.

Professor Vanita Yadav and Professor C.V. Baxi prepared this case for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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overseeing and managing the company go wrong? Could this scam result in a takeover of Satyam?

Rise and Fall of Raju⁹

In Telegu, the Indian regional language of the southern Indian state of Andhra Pradesh, the word *raju* meant “king”. Ramalinga Raju hailed from an influential land-owning caste in Andhra Pradesh. He was born into a farming family on 16 September 1954 in the village of Garagaparru of West Godavari district. Raju separated from his family’s agricultural operations and went to the US, where he earned his MBA from Ohio University in the late 1970s. He returned to India in 1977 and opened a spinning mill, and soon thereafter began working in the real estate and infrastructure sectors.

Creating a Success Story with Satyam

In the late 1980s, India’s information technology (“IT”) sector was in its nascent stage. Raju identified IT as an up-and-coming sunrise sector, and on 27 June 1987, with the help of a brother-in-law, he founded Satyam¹⁰ Computer Services. Accordingly, Raju migrated to Andhra Pradesh’s capital city, Hyderabad. The company began with only 20 employees; however, it quickly established itself as a major player in the Indian IT sector, specialising in software outsourcing services [see **Exhibit 1**].

In 1991, Satyam made a successful debut on the Bombay Stock Exchange (“BSE”). Its initial public offering (“IPO”) was oversubscribed 17 times. In 1995, the group launched Satyam Infoway (“Sify”), which offered back-office outsourcing services to various clients in Europe and the US. Sify’s client list included big names such as GE and the US Department of Defense. By 1999, Sify had a global presence in 30 countries [see **Exhibit 2**] and had become the first Indian internet company to be listed on NASDAQ.

Raju built close relationships with Indian politicians and business leaders. In 2000, he was invited to share the podium with US President Bill Clinton during his visit to Hyderabad. He was instrumental in helping the chief minister of Andhra Pradesh in establishing Hyderabad as one of India’s top IT-services destinations for clients across the globe. In 2001, Satyam was listed on the NYSE with revenues exceeding US\$1 billion. In 2007, Satyam was chosen as the official IT service provider for the Fédération Internationale de Football Association (“FIFA”) World Cup 2010, which was to be held in South Africa, and the FIFA World Cup 2014, to be held in Brazil.

Raju was awarded the Ernst & Young Entrepreneur of the Year award in 2007 for building his IT group into an enterprise employing more than 50,000 people. He was considered one of the pioneers of the Indian IT success story and was acclaimed as a business visionary by many around the world.

In 2008, Satyam’s revenues surpassed US\$2 billion and the company took pride in the many prestigious awards it had won [see **Exhibit 3 and 4**]. In November 2008, Raju co-chaired the

⁹ Adapted from: Bubna, S., Nayar, M., Bhatia, N. and Pushkarna, V. (18 January 2009) “Cover Story: Leader to Pleader”, *The Week*; Fontanella-Khan, J. (7 January 2009) “Business Hero Who Crashed and Burned”, *Financial Times*; Leahy, J. (28 January 2009) “Confessions of a Market Obsessive”, *Financial Times*; Times News Network (8 January 2009) “Satyam: A Rs 7,000 Cr Lie”; Puri, M. (12 January 2009) “Sebi, Naidu Turned Off Satyam Alarm in 2003?”, *Economic Times*; Subbaraman, K. and Sreekala, G. (12 January 2009) “Satyam Scam May Net Politicians Too”, *Economic Times*; Economic Times (18 February 2009) “Government Looks to Boot Out Maytas Firms’ Boards”; Parekh, S. (9 January 2009) “Satyam’s Wake-Up Call for Corporate India”, *Financial Times*; Leahy, J. (13 January 2009) “Calamitous Confessions”, *Financial Times*; Leahy, J. and Sood, V. (22 January 2009) “Details of Alleged Satyam Fraud Emerge”, *Financial Times*.

¹⁰ Satyam meant “truth” in Indian Hindi language.

World Economic Forum summit in New Delhi, India. He proudly proclaimed his company's excellent performance and stated that he would lead Satyam through the global economic crisis successfully.¹¹ Satyam had a global presence in 37 countries and Raju was an established star. His company was the fourth-largest IT company in India, just after Tata Consultancy Services ("TCS"), Infosys and Wipro.

Raju's Downfall with Maytas

In 1988, Raju and his family founded a group of companies called Maytas ("Satyam" spelt backwards). The Maytas group included Maytas Properties and Maytas Infrastructure Limited. The Maytas group was headed by his sons, Tejas Raju and Rama Raju Jr. Using Raju's influential political connections, Maytas Infrastructure acquired Indian government projects that included irrigation, power and transportation projects. Maytas Infrastructure also secured the substantial Hyderabad Metro Rail Project.

Obsessed with billion-dollar targets, Raju inflated cash and bank balances in Satyam's financial records. He also pledged promoter shareholdings and raised funds to buy land and, through Maytas Properties, acquired 6,800 acres. Because of these enormous investments and in spite of seemingly negligible cash flows, Satyam was hundreds of millions of dollars in debt. In the realty sector, Maytas group sold land and property at inflated prices without cash or bank balances.

In 2008, the Indian stock market crashed and real estate prices began to fall. Raju's realty dream turned sour. He had leveraged his stake in Satyam to raise money, but with the stock prices dipping the lenders sold the pledged shares. On 16 December 2008, Raju announced plans to acquire a controlling stake in Maytas Infrastructure and Maytas Properties for US\$1.6 billion. He said: "The two acquisitions pave the way for accelerated growth in our core IT business in additional geographies and market segments such as transportation, energy and several infrastructure sectors."¹² Raju tried to cover up the deceit in Satyam's balance sheets by taking over Maytas. The transfer of cash was to be used as a smokescreen to set the financial books right and to show the world that a huge amount had been paid. Effectively, no exchange of cash would take place.

The Maytas acquisition deal was strongly criticised by shareholders and was seen as a move that would benefit the promoter family because the three firms (Satyam, Maytas Infrastructure and Maytas Properties) were promoted either by Raju or his family members. Satyam's stock prices plunged 50% in US trading. An analyst with a Mumbai-based securities firm said: "If the company did want to enter the infrastructure segment, it should have shortlisted companies and done due diligence rather than just acquiring a company promoted by the same group."¹³

On 19 December 2008, the registrar of Indian companies ordered a probe into Satyam's Maytas acquisition deal. This move was to investigate whether the Maytas acquisition deal was in violation of corporate governance norms or a diversification strategy.

¹¹ Many economists considered the financial crisis of 2007–2010 as the worst since the Great Depression of the 1930s. The crisis was triggered by the collapse of the housing sector, which hit its highest point in the US in 2006. This resulted in crashing values among securities tied to real estate prices and caused vast damage to financial institutions globally. Subsequently, credit tightened and international trade declined, and economies worldwide experienced slowdowns and even recessions. For details, see: International Monetary Fund (2009) "IMF—World Economic Outlook April 2009", <http://www.imf.org/external/pubs/ft/weo/2009/01/pdf/text.pdf> (accessed 9 March 2010).

¹² Mahindra Satyam (16 December 2008) "Satyam to Acquire Maytas Infra and Maytas Properties", <http://www.mahindrasatyam.com/media/pr3Dec08.asp> (accessed 10 March 2010).

¹³ Sukuumar, C.R., Joseph, L. and Raghu, K. (17 December 2008) "Will Matas Help Satyam Turn Around?", *Mint*, www.livemint.com (accessed 9 March 2010).

Appalling Confessions

The Maytas acquisition deal announcement in December 2008 precipitated a rollercoaster of events that called into question the governance procedures and ethical practices at Satyam, as shown in the figure below. On 23 December 2008, the World Bank blacklisted Satyam for eight years on grounds of data theft and bribing bank officials. Next, five independent board directors quit Satyam. New Year's of 2009 witnessed the nosedive of Satyam's shares and both the media and investors raised corporate governance concerns. The Raju family stake in Satyam fell to 5.13% as the lenders sold the shares pledged by the Raju family.

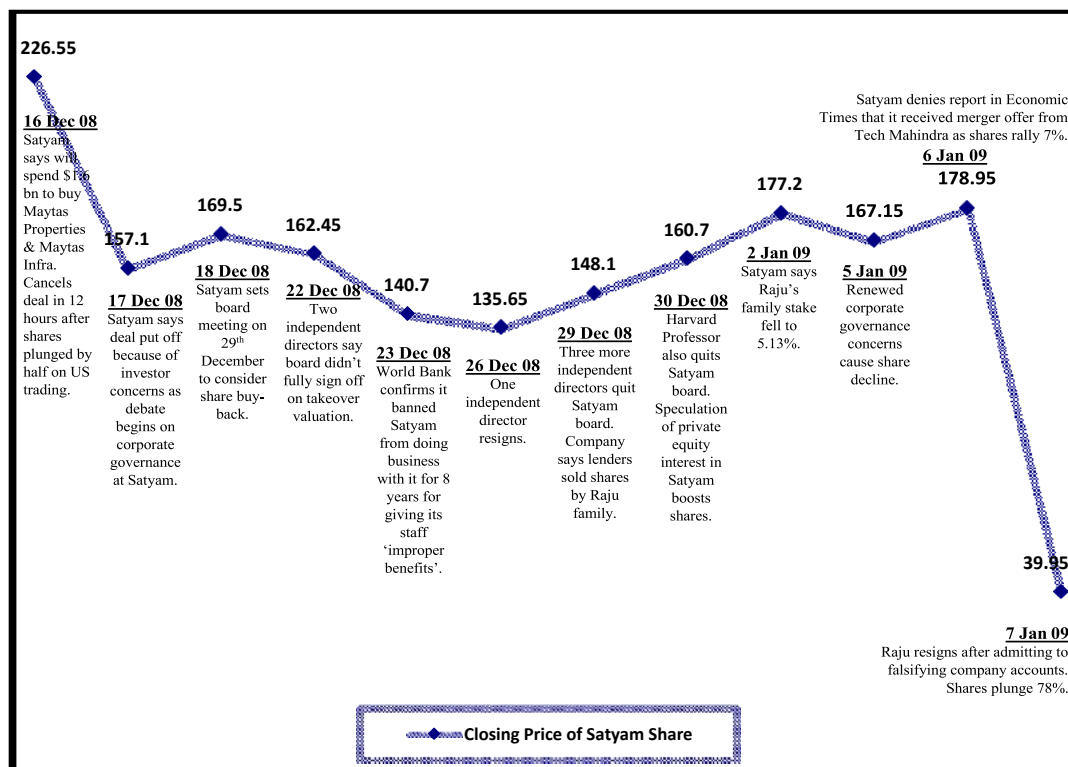


Figure 1: Satyam's Downfall¹⁴

On 7 January 2009, Satyam's founder confessed to several years of manipulation and fraud in the accounting books of India's fourth-largest IT outsourcing services company. Raju sent a letter of resignation and confession to Satyam's board that admitted to US\$1.4 billion worth of fraud [see Raju's confession letter in **Exhibit 5**]. Satyam's balance sheet carried inflated and non-existent cash and bank balances. As a result, US\$7.7 million interest earned on this money was also non-existent, as illustrated in the figure below.

He further admitted to an understatement of liability and overstatement of money owned in the records. For the quarter ending September 2008, Satyam reported false operating margins: 24% of revenue as opposed to the actual 3% of revenue. This portrayed misleading cash and bank balances of US\$1.03 billion, whereas actual cash and bank balances were US\$65 million, as seen in the following figure.

¹⁴ Figure adapted from Raza Khan, A. (8 January 2009) "Fall from Grace", *Mint*, http://epaper.livemint.com/ArticleImage.aspx?article=08_01_2009_024_003&keyword=a (accessed 27 February 2009).

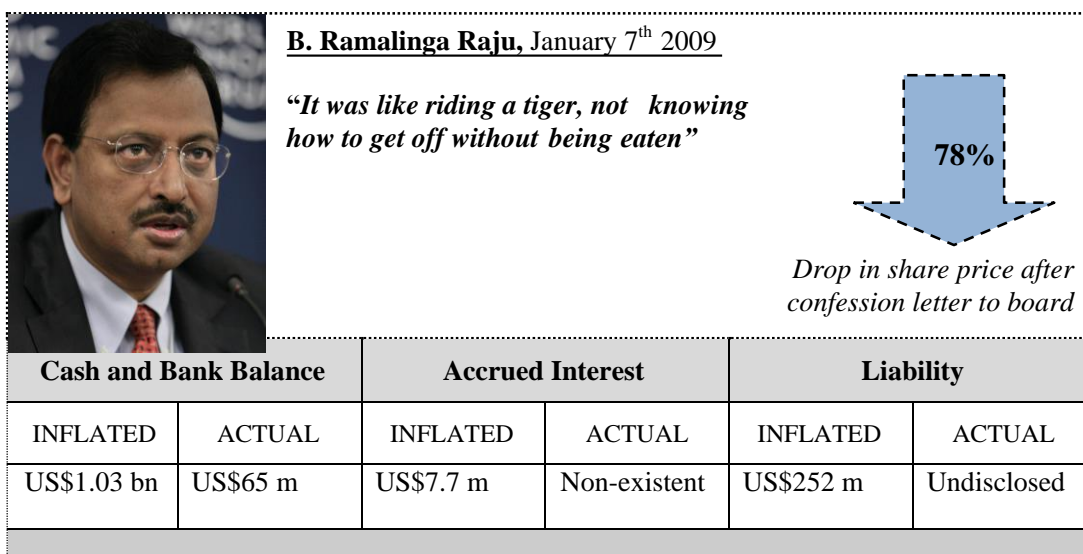


Figure 2: Raju’s Shocking Confessions¹⁵

Criminal court investigations into the company revealed that Raju had also inflated the size of the workforce by more than 25% and had siphoned off wages of non-existent employees. The number of employees in the company was 40,000, not the 50,000 reported by the company. He had used fictitious names to divert US\$4 million every month out of Satyam’s accounts; where this money actually went was never disclosed.

Good Governance Myth¹⁶

Satyam had all the right characteristics associated with good governance, including a distinguished board and a leading international auditor. Satyam had in its basket numerous distinguished corporate awards [see **Exhibit 3**]. Above all, in September 2008, the company was awarded the Golden Peacock award for corporate governance excellence for the second time by the UK-based World Council for Corporate Governance.¹⁷ The first award was bestowed in 2002.

Satyam’s board included such eminent luminaries as:

- A Harvard Business School professor
- A dean of the Indian School of Business, Hyderabad
- A former Indian government cabinet secretary
- The inventor of the Intel Pentium chip
- A former director of the prestigious Indian Institute of Technology, Delhi.

¹⁵ Adapted from: FT Graphic (29 January 2009), <http://www.ft.com/cms/s/0/48888ffc-eda3-11dd-bd60-0000779fd2ac.html> (accessed 22 April 2009), *Financial Times*; Raza Khan, A. (8 January 2009) “Fall from Grace”, *Mint*, http://epaper.livemint.com/ArticleImage.aspx?article=08_01_2009_024_003&kword=a (accessed 27 February 2009). Image Source: Wikipedia (2010) “Byrraju Ramalinga Raju”, http://en.wikipedia.org/wiki/Byrraju_Ramalinga_Raju (accessed 12 March 2010).

¹⁶ Adapted from: Leahy, J. (13 January 2009) “Calamitous Confessions”, *Financial Times*; Parekh, S. (9 January 2009) “Satyam’s Wake-Up Call for Corporate India”, *Financial Times*; Leahy, J. and Fontanella-Khan, J. (22 January 2009) “Outsourcing Clients Look Out for Red Flags”, *Financial Times*; *Mint* (8 January 2009) “Corporate Excellence Award to be Taken Away”.

¹⁷ The Golden Peacock award for corporate governance excellence was taken away from Satyam following Raju’s public confessions.

Raju appointed PricewaterhouseCoopers (“PwC”)—one of the “big four” international accountancy firms—as the company’s auditor, and Merrill Lynch as his deal advisor. All quarterly and annual filings, complied with regulations, were filed on time with the Indian and American regulators. This included financial disclosures per the Indian and US accepted accounting principles. Furthermore, regular filings were done with the Indian stock exchanges, the NYSE and Euronext.

Satyam was believed to have the adequate checks and balances required for fraud prevention; however, Raju’s confession letter shattered the myth of good corporate governance in his company. This greatly undermined the credibility of the Indian corporate sector, specifically that of the Indian outsourcing industry.

Satyam Scam: Fallout

Difficulty Retaining Clients¹⁸

Shortly after Raju’s admission of fraud came the first significant client desertion. In January 2009, US-based State Farm Insurance Company announced termination of its technology outsourcing contract with Satyam. Satyam offered its portfolio of services to around 690 clients, including 185 Fortune 500 companies. The client list included such names as GE, British Petroleum, Nestlé, Nissan Motors, General Motors, Coca-Cola, Cisco, Malaysian Airlines, Bombardier, Tesco, Cigna and many others. Independent research firms such as Forrester Research Inc speculated that it would be easier for smaller clients to move their business than for bigger clients, for which transition would pose a challenge. Many Satyam clients raised concerns over business continuity and, as a result, clients renewing existing agreements¹⁹ began to evaluate other Indian service providers such as TCS, Infosys and Wipro.

Satyam would face immense difficulties in retaining its contracts, worth US\$500 million, which were due for renewal in 2009. TCS had the largest overlap of clients with Satyam, including GE, General Motors and Citigroup. In such cases, it was reported that the relationships could shift in favour of TCS. Following media reports on Satyam’s governance failure, Infosys aggressively reported on maintaining high corporate governance standards. Wipro sent emails to all salespersons instructing them to communicate to Satyam’s clients that Wipro would be able to take on operations running at Satyam. Additionally, other India-based multinational firms offering outsourcing services, including IBM, Accenture and Cognizant, were also predicted to take advantage of Satyam’s tarnished corporate image.

As a desperate move, a core team of Satyam’s employees based in Singapore broke away from the company and serviced existing clients on its own. The core team members were

¹⁸ Adapted from: Leahy, J. (20 January 2009) “Big US Client Deserts Satyam”, *Financial Times*; Raghu, K. (8 January 2009) “Satyam Stands to Lose Half Its Customers”, *Mint*; Bubna, S., Nayar, M., Bhatia, N. and Pushkarna, V. (18 January 2009) “Cover Story: Leader to Pleader”, *The Week*; Shivapriya, N. (13 January 2009) “Infosys, IBM, Accenture Likely to Benefit Most”, *Economic Times*; Monga, D. and Banerjee, S., (26 January 2009) “Wipro Eyes Satyam Clients”, *Economic Times*; Mishra, P. and Monga, D. (8 January 2009) “Retaining Clients Will Be Tough”, *Economic Times*; Economic Times (15 January 2009) “Satyam’s Loss Could Be TCS’ Gain”; Ramsurya, M.V. and Sreekala, G. (21 January 2009) “Satyam Staff May Turn Renegades”, *Economic Times*; Monga, D. and Mishra, G. (12 January 2009) “Big Clients Plan to Exit Satyam”, *ET Bureau*, <http://economictimes.indiatimes.com/infotech/software/Big-clients-plan-to-exit-Satyam/articleshow/3965316.cms> (accessed 10 March 2010); Agarwal, S., Singh, P.K. and Rao, U. (2 February 2009) “Just How Many Clients Does Satyam Have?”, *Indian Express*, <http://www.indianexpress.com/news/just-how-many-clients-does-satyam-have/418094/> (accessed 10 March 2010).

¹⁹ Outsourcing contracts were generally drawn for a period of six months or longer. Largely, contracts were drawn for terms of three, five, seven, or 10 years, and were usually subject to review every year. Typically, contracts were structured keeping adjustments to pricing in mind. The contracts could be renegotiated in response to technological and workforce advances that might permit demand fluctuations in both volume and scope. Outsourcing contracts also explicitly indicated the terms for cancellation or exit, written into the contract as a termination clause. For termination, either party (the client or the service provider) seeking termination would need to notify the other within a specified period of time.

mainly SAP²⁰ consultants, as Satyam was a strong SAP player in Asia. This core team designed and executed enterprise resources solutions for large clients, including financial services companies, banks, manufacturing companies and brokerages.

Implications for Corporate India²¹

Satyam's collapse spread a wave of nervousness across corporate India. Like Satyam, more than half of India's BSE-listed companies were controlled by powerful Indian families. In response to the Satyam scandal, the Securities and Exchange Board of India ("SEBI") made it mandatory for controlling shareholders of companies to disclose pledging of shares as collateral to lenders. This reform would force controlling shareholders of Indian companies to reveal all borrowings made against their own shares.

Satyam's failure also impacted the Indian outsourcing sector. A Gartner analyst in the *New York Times* described it as a "crisis of trust" and said, "it's not really Satyam at stake; it's the India Inc. brand."²² As a part of the fallout, clients planning to outsource their work to India were expected to beef up and review their due diligence processes. Additionally, clients were expected to consider ownership structure as an important factor when choosing a vendor organisation.²³ For example, was the organisation owner-driven like Satyam or run by professionals like TCS or Infosys? Notably, owner-driven companies were more common in India, and thus this factor would rule out most of such companies. Owner-driven companies like Patni Computer Systems responded to this by suggesting that it was more essential to look at factors like internal management practices, structure of the board audit committee and the presence of a strong institutional investor on the board. Surjeet Singh, chief financial officer of Patni Computer Systems, emphasised that "people should put Satyam into perspective and not paint everyone with the same picture".²⁴

Newspapers around the world compared Satyam to other global scams such as Enron [see **Exhibit 6**]. This highlighted the fact that inappropriate business conduct could take place easily in any part of the globe, whether it was Hyderabad (eg, Satyam) or New York (eg, Enron). Such incidents led to the strengthening of regulatory frameworks in the US and UK, with the introduction of the Sarbanes-Oxley Act (2002), and the Higgs (2003) and Smith (2003) Reports, respectively.²⁵ The Indian industry followed mainly self-regulated practices. After Satyam, there was a need to fortify the Indian business regulatory environment.

Credibility of International Audit Firms²⁶

International audit firms were left in a quandary post-Satyam. Not leaving things to chance, many set up special teams in the US and UK to inspect audits done by their Indian offices.

²⁰ SAP was a multinational software development and consulting corporation which was headquartered in Germany. SAP provided enterprise resource planning software. SAP's partners, resellers and independent software vendors implemented, sold, marketed, developed and delivered SAP solutions to a broad range of customers. Thus firms that implemented SAP solutions often used the services of SAP-certified or trained consultants.

²¹ Adapted from: Leahy, J. (21 January 2009) "India to Shake Up Share Rules in Wake of Satyam", *Financial Times*; Agarwal, S. (27 December 2008) "Satyam Row Not to Dent Industry: IT Majors", *Financial Express*; Krishnan, R. (8 January 2009) "Satyam Scandal May Scare Away New Equity Investors from India", *Mint*; Hughes, J. (8 January 2009) "Accountants Go into Shock at 'India's Enron'", *Financial Times*.

²² Lohr, S. (8 January 2009) "Troubles of Satyam Could Benefit Rivals and 2 U.S. Companies", *New York Times*.

²³ Leahy, J. and Fontanella-Khan, J. (22 January 2009) "Outsourcing Clients Look Out for Red Flags", *Financial Times*.

²⁴ Ibid.

²⁵ For details on the Sarbanes-Oxley Act and the Higgs and Smith Reports on Corporate Governance, see: Solomon, J. and Solomon, A. (2007) *Corporate Governance and Accountability*, John Wiley & Sons: UK.

²⁶ Adapted from: Dave, S. (15 January 2009) "Rattled Big 4 Rush Special Teams to India", *Economic Times*; Sanyal, S. (15 January 2009) "US Regulator May Crack Down on PwC", *Economic Times*; Hughes, J. (8 January 2009) "Accountants Go into Shock at 'India's Enron'", *Financial Times*; Fontanella-Khan, J. and Leahy, J. (14 January 2009) "Satyam Picks New Auditors", *Financial Times*; Rukhaiyar, A. (27 February 2009) "Sebi Show-Cause Notice to PwC in Satyam Case", *Economic Times*; Goswami, O. (9 January 2009) "Nuts and Bolts of Satyam Saga", *Mint*.

PwC, Satyam's statutory auditor, had admitted inaccuracies in its audits of Satyam. PwC's Indian practice had 4,500 employees and its Indian revenues had jumped 44% in 2008. PwC faced multiple-agency probes in India and the US. In India, the Serious Fraud Investigation Office began investigating the affairs of PwC, and in the US the Public Company Accounting Oversight Board quizzed PwC officials.

Satyam's scam prompted the age-old question: where were the auditors? Past scams, such as Enron in 2001, had seen the failure of big auditing firms like Arthur Anderson [see **Exhibit 6**]. Fraud could take the form of misappropriation of assets, which could be relatively easy to spot, but could also be due to management collisions, which could be relatively difficult to spot. In such cases, auditors would grudgingly accept that their audits offered "reasonable" but not "absolute" assurance. After Raju's confessions, PwC issued the following statement:

*In view of the contents of the Chairman's letter, we hereby ... state that our audit reports and opinions in relation to financial statements for the Audit Period [June 2000 to September 2008] should no longer be relied upon.*²⁷

- *Financial Times*, 14 January 2009

Experts reported two possibilities that could have led to such a scenario.²⁸ The first possibility was that Satyam's corporate financial officer had created false statements on various bank letterheads and PwC had accepted them without asking questions. Alternatively, the PwC audit team may not have bothered to check and verify accounts. Both cases represented serious neglect of fiduciary duties.

As part of the investigation into the Satyam scam, SEBI issued a show-cause notice to PwC. Two PwC partners were arrested during police investigations in India. Consequently, in January 2009, the Indian government-appointed board of Satyam announced that international auditing firms KPMG and Deloitte would replace PwC.

Role of Independent Directors²⁹

The Satyam scam ignited a debate over whether India possessed adequate laws for corporate governance. Consequently, the role of the independent directors came under close scrutiny of the media and various stakeholders, including shareholders and regulators. Monish Chatrath, national markets leader of Grant Thornton, said: "The entire process through which independent directors are identified, nominated and recruited needs a careful introspection."³⁰ Richard Rekhy, chief operating officer of KPMG India, raised questions about the constituents of corporate governance, which included independent directors, board meetings and code of conduct, business ethics, succession of chief executives, company performance, risk management, and oversight.³¹

Indian lawmakers indicated that there was no dearth of regulations and legal provisions in India, but that the problem lay in the ability to implement and follow these provisions. Clause 49 of the listings agreement of SEBI and various sections of the Indian Companies Act provided guidelines for corporate governance. The BSE's corporate governance initiative

²⁷ Fontanella-Khan, J. and Leahy, J. (14 January 2009) "Satyam Picks New Auditors", *Financial Times*.

²⁸ Goswami, O. (9 January 2009) "Nuts and Bolts of Satyam Saga", *Mint*.

²⁹ Adapted from Dhall, A. (11 January 2009) "Corporate Governance Comes under Lens", *Economic Times*; Iyer, P.V. (11 January 2009) "The World of the Independent Director", *Sunday Express*; Goswami, O. (9 January 2009) "Nuts and Bolts of Satyam Saga", *Mint*; Datta, S. and Malhotra, S. (11 January 2009) "A Few Good Men", *Financial Express*; Mahanta, V. (23 January 2009) "Governing the Corporate", *Economic Times Corporate Dossier*.

³⁰ Dhall, A. (11 January 2009) "Corporate Governance Comes Under Lens", *Economic Times*.

³¹ Dhall, A. (11 January 2009) "Corporate Governance Comes under Lens", *Economic Times*.

provided a free public information service in the form of an online directors database that provided information on the boards of directors of Indian listed companies [see **Exhibit 7**]. Finding independent directors in India was considered both an easy and difficult task. It was considered easy because the Indian Companies Act did not prescribe any qualifications or eligibility criteria for independent directors. As a result, in many companies, retired bureaucrats, chartered accountants, friends of promoters, political figures and others were easily nominated to their boards. On the other hand, the task was considered difficult because companies needed to ensure that the independent directors were well educated, capable of adding value to the company, independent of the promoters' influence despite the fact that they were paid compensation by the promoters and, most importantly, representing the minority shareholders' interests.

Many companies in India did not have a framework for independent directors and followed an arbitrary process that lacked thoroughness.³² In many cases, independent directors were considered "promoters' men". In other words, independent directors were on friendly terms with promoters, and thus family and friends were often nominated and board-level decisions were greatly influenced by promoters. This was compounded by the fact that approximately 90% of companies in India were, like Satyam, promoter-run, and their board members were picked by the promoter himself. Globally, there had been an increase in responsiveness towards the role of independent and non-executive directors. In 2002, Derek Higgs, chairman of the British government panel that reviewed the role and effectiveness of non-executive directors, indicated that they needed to be sound in judgement and have an inquiring mind. The Higgs report suggested that non-executive directors should "question intelligently, debate constructively, challenge rigorously and decide dispassionately".³³ Unfortunately, the Indian Companies Act did not specify the qualities or qualifications of an independent director.

The media and shareholders blamed Satyam's board for agreeing to the Maytas transaction; however, it was also reported that the independent directors could not do much in Satyam's case because they depended upon PwC to present an accurate picture of the company's financial affairs.

Government Intervention³⁴

Satyam's chairman Raju was arrested on 9 January 2009. This was followed by the arrests of his brother, B. Rama Raju, and Satyam's chief financial officer, Srinivas Vadlamani. They were placed under non-bailable arrest under the Indian Penal Code, which put them behind bars for years. Furthermore, to safeguard the interests of all stakeholders, the Indian government sacked Satyam's board and appointed new independent directors on 11 January 2009. Indian Prime Minister Manmohan Singh also intervened to push appointment of new independent directors, as the scandal threatened the image of corporate India.

The Ministry of Corporate Affairs acted as a nodal agency for stabilising Satyam's operations. The government-appointed board included Kiran Karnik, former president of the National Association of Software Companies; Deepak Parekh, chairman of HDFC bank; Tarun Das, former director general of the Confederation of Indian Industries; T.N. Manoharan, former chief of the Institute of Chartered Accountants of India; S. Mainak of the Life Insurance Corporation of India; and C. Achutan, director of the National Stock Exchange. This move by the Indian government distinguished India from the US and European nations, where

³² Mahanta, V. (23 January 2009) "Governing the Corporate", *Economic Times Corporate Dossier*.

³³ Iyer, P.V. (11 January 2009) "The World of the Independent Director", *Sunday Express*.

³⁴ Adapted from: Leahy, J. (11 January 2009) "India Appoints New Satyam Board", *Financial Times*; Iyer, P.V. and Mathew, G. (April 2009) "The Sunday Express—Satyam Roundup", *Indian Express*; Singh, H. (11 January 2009) "Nailing the Truth", *Economic Times*; Dhall, A. (11 January 2009) "Corporate Governance Comes Under Lens", *Economic Times*; *Economic Times* (13 January 2009) "Satyam in Line for Bailout".

companies involved in such scams were more likely to become extinct, as evidenced by the case of Enron.

The new professional board worked out a plan to salvage India's fourth-largest technology company. The action plan covered the entire range of Satyam's operations, including acquiring working capital funds, paying monthly wages, retaining customers and employees, and ensuring transparency of operations. Furthermore, they worked on the bidding process for finding Satyam a new owner. It was a mammoth task because operations were in a mess and bank balances were poor. The entire process took nearly three months and was viewed as somewhat of a record in India, as many public and private-sector Indian companies had spent decades on rehabilitation plans. For example, it was difficult to raise money to pay employee salaries for January 2009. To raise funds from banks, the board identified land that could be used as collateral. After the funds were arranged, advisers and lawyers were appointed to assist the board. Next, a retired justice, S.P. Bharucha, was appointed to monitor the bidding process for identifying a new buyer.

The six government-appointed directors met every week to oversee continuity of business and to finalise the sale process. A two-pronged strategy was adopted: first, constant relations were maintained with Satyam's clients to improve stressed relationships and to restore confidence; and second, relationships with employees and management were maintained. The company board leveraged its personal contacts and talked to the clients regularly, and even asked clients to talk to the Satyam team to build and maintain confidence. On 5 February 2009, A.S. Murthy was appointed from within the company as the new chief executive of Satyam.

For the bidding process a global competitive strategy was adopted, allowing qualified investors with net assets in excess of US\$150 million to bid. The board also stipulated that the acquirer not be allowed to sell any equity shares for three years from the date of the acquisition. On 12 March 2009, the registration for bidders ended and there were eight serious suitors. Potential acquirers submitted their technical and financial bids. By 13 April 2009, three bidders (ie, Larsen & Toubro, Tech Mahindra and Wilbur Ross) made it to the final acquisition race.

Tech Mahindra Takes Over Satyam³⁵

"Satyam had been driven off course and now it will be reborn with a new investor," said Kiran Karnik, the government-appointed board member of Satyam.³⁶ He told the media that the highest bidder in the auction was Tech Mahindra, a medium-sized information technology company that was controlled by Indian industrial conglomerate Mahindra & Mahindra, which operated mainly in the manufacturing sector. Tech Mahindra was partly owned by British Telecom ("BT"), with a 31% stake and contributing more than 60% of its revenue. Satyam's sale was a significant achievement for the government-appointed board and its bankers, Goldman Sachs and Aventus Capital. Tech Mahindra used a mix of debentures, bonds, bank debt and cash to fund its US\$585 million (51% stake) takeover of Satyam Computer Services.

Diversification was one of the main reasons behind the acquisition of Satyam. Tech Mahindra operated in the telecommunications domain and Satyam had its operations in the insurance, automotives and enterprise software sectors. Of Tech Mahindra's overall business, 75% came from Europe and 70% of Satyam's business came from the US. Vineet Nayar, Tech

³⁵ Adapted from: Leahy, J. and Sood, V. (15 April 2009) "Tech Mahindra Moves to Seal Satyam Takeover", *Financial Times*; Leahy, J. and Sood, V. (13 April 2009) "Satyam's Saviour Has a Mountain to Climb", *Financial Times*; Economic Times (14 April 2009) "satyam@techmahindra"; Ramakrishnan, H. and Shivapriya, N. (20 April 2009) "Tech Mahindra to Continue with Satyam's Present Management".

³⁶ Leahy, J. and Sood, V. (13 April 2009) "Satyam's Saviour Has a Mountain to Climb", *Financial Times*.

Mahindra's chief executive officer, estimated US\$2 billion as the combined annual revenue of both the firms.

Integration with the scam-tainted company was a challenging task for the new management, which needed to act quickly to restore stakeholder confidence. Tech Mahindra's chairman, Anand G. Mahindra, said of Satyam's major clients: "I will personally talk to Cisco's chief executive John Chambers and Citigroup's CEO Vikram Pandit."³⁷ He emphasised that their priorities were to stop customer attrition, boost employee morale, leverage Satyam's best practices and accelerate restatement of accounts. The group also planned to act forcefully with the intention of renewing outsourcing contracts through competitive pricing and reassessment of legal liabilities.

The new owner, Tech Mahindra, decided to continue with Satyam's management during the transition period. However, it planned to appoint a new chief financial officer to fill the vacant post previously occupied by S. Vadlamani, who was now facing a prison sentence. Under the sale agreement, Tech Mahindra was bound to retain Satyam's 100 key employees for a year. This was necessary to ensure business continuity, and the list mainly included heads of vertical business units and horizontal competency units. The fate of the remaining Satyam employees was left to Tech Mahindra.

The Road Ahead³⁸

Raju, his two brothers, four Satyam employees and two PwC India auditors were in Indian prison on charges of criminal conspiracy, criminal breach of trust, cheating and fraud. In the US, angry investors in the American Depository Receipts had filed a dozen class-action lawsuits against Satyam. Satyam's true financial state remained unknown and auditors from KPMG and Deloitte were trying to check Satyam's accounts. It was a long process that took months to complete. The road ahead for Tech Mahindra was indeed full of bitter truths, as it needed to take care of Satyam's litigations in India and the US.

The Indian government indicated that the six government-nominated board members of Satyam would step down only after the Company Law Board of India was convinced that the company's operations were stable. This implied that the new owner would have to submit periodic reports of Satyam's operations to the Company Law Board. The decision to hand over full management control to the new owner would be made based upon these updates. However, the Company Law Board allowed Tech Mahindra to nominate its four members for the Satyam board. This implied that Tech Mahindra's nominees would require the support of the government-nominated board in order to make decisions.

The Satyam scam set the tone for tougher action in India because it brought forward definitive action against India's fourth-largest IT company, its directors and its top management. In the future, independent directors would need to be more vigilant and responsible in performing their duties. Satyam's failure offered many important lessons not only for corporate India but also for the global business community. According to Dov Seidman, chief executive of the business ethics firm LRN:

³⁷ Leahy, J. and Sood, V. (13 April 2009) "Satyam's Saviour Has a Mountain to Climb", *Financial Times*.

³⁸ Adapted from: Leahy, J. and Sood, V. (13 April 2009) "Satyam's Saviour Has a Mountain to Climb", *Financial Times*; Prasad, G.C. (20 April 2009) "Tech Mahindra at Satyam Wheel Only after Co is On Its Own, Says Company Law Board", *Economic Times*; Parekh, S. (9 January 2009) "Satyam's Wake-Up Call for Corporate India", *Financial Times*.

The lessons that other companies can learn from Satyam about the importance of choosing between riding a 20th Century tiger that feeds on products, services and quarterly numbers (whats) or a 21st Century strategy that focuses on product or services while stressing conduct (hows) as key to success.³⁹


- Dov Seidman, Economic Times Corporate Dossier

The Satyam fiasco was fraud that occurred in a global company listed in two jurisdictions with presumably great degrees of regulation. How, then, did the fraud occur? There were many concerns regarding the role of Satyam's independent directors. How much time did the independent directors spend on overseeing Satyam's affairs? Were they critical enough? What were their relationships with Raju? Were Satyam's directors and auditors less questioning, less critical and more beholden to Raju? What should have been the role of Satyam's board and auditors?

Satyam's fiasco was, however, nothing new to global business. Similar frauds had occurred in the past; for example, the corporate scandals of Enron and WorldCom had revealed close relationships between chief executives and independent directors. Involvement of international audit firms in corporate fraud was also not new, as demonstrated by Arthur Anderson's role in the Enron case [see **Exhibit 6**]. If such examples already existed, then why had no lessons been learned? Why did history repeat itself? What could have been done to preclude the corporate governance failure at Satyam?

³⁹ Seidman, D. (23 January 2009) "A Choice in Tiger's Clothing", *Economic Times Corporate Dossier*.

EXHIBIT 1: SATYAM FACT SHEET

| | |
|---|---|
| <p>Established on: June 24, 1987</p> <p>Global Headquarters: Hyderabad, India</p> <p>Registered Office: Satyam Computer Services Ltd. 1st Floor, Mayfair Centre, S P Road Secunderabad – 500003 Andhra Pradesh, India Phone: +91-40-30654343 Fax: +91-40-27840058 E-mail: MediaRelations@satyam.com</p> |  |
| <p>Services Offered: Application Services, BI & PM, Business Process Outsourcing, Business Value Enhancement, Consulting and Enterprise Solutions, Infrastructure Management Services, Integrated Engineering Solutions, MES and LIMS, Oracle Solutions, Product and Application Testing, Product Lifecycle Management (PLM), SAP Solutions, Six Sigma Consulting, Supplier Relationship Management, and Supply Chain Management.</p> | |
| <p>Development Centers: Bangalore, Basingstoke, Beijing, Bhubaneswar, Budapest, California, Chennai, Chicago, Dalian, Georgia, Guangzhou, Gurgaon, Hartford, Hyderabad, Kuala Lumpur, Melbourne, Mumbai, Munich, Mississauga, New Jersey, Ontario, Pune, Sao Paulo, Shanghai, Singapore, Sydney, Tokyo, Wiesbaden.</p> | |
| <p>Subsidiaries:</p> <ul style="list-style-type: none"> ◀ Satyam BPO ◀ Citisoft ◀ CA Satyam ◀ STI ◀ China ◀ Bridge Consultancy <p>Joint Ventures: Satyam Venture Engineering Services Pvt. Ltd.</p> | |
| <p>Employee strength:</p> <p>52,865* (Including employees in subsidiaries and joint ventures)</p> | |

* Details as of September 30, 2008.

Source: Adapted from: Satyam “Satyam Fact sheet”, http://www.satyam.com/about/quick_facts.asp (accessed 15 January 2009).

EXHIBIT 2: COUNTRIES HOSTING SATYAM'S GLOBAL OFFICES

| Americas | APAC | Europe | Middle East & Africa |
|----------|-------------|----------------|----------------------|
| Brazil | Australia | Belgium | Bahrain |
| Canada | China | Czech Republic | Egypt |
| USA | Hong Kong | Denmark | Jordan |
| | India | France | Kuwait |
| | Japan | Finland | Mauritius |
| | Malaysia | Germany | Qatar |
| | New Zealand | Hungary | Saudi Arabia |
| | Singapore | Ireland | South Africa |
| | Taiwan | Italy | United Arab Emirates |
| | Thailand | Netherlands | |
| | Korea | Spain | |
| | | Sweden | |
| | | Switzerland | |
| | | United Kingdom | |



Source: Adapted from: Satyam "Global Offices",
<http://www.satyam.com/about/offices.asp> (accessed 15 January 2009).

EXHIBIT 3: SATYAM'S AWARDS AND ACHIEVEMENTS

| AWARD | AWARDED BY |
|--|--|
| 2008 | |
| Asian MAKE (Most Admired Knowledge Enterprise) Award | Teleos, in association with KNOW Network |
| UK Trade & Investment India (UKTI) Business Award for corporate social responsibility | UKTI |
| SAP Pinnacle Award 2008 under "Service – Ecosystem Expansion (Growth)" category | SAP |
| Best IR Website in the Asia Pacific & Africa region for providing complete, accurate and timely investor relations information | MZ Consult |
| Award for Best IT Practices in IT Sector | Amity Business School, Noida, India |
| 2007 | |
| Partner Innovation Award for Anti-Money Laundering (AML) solution | Pegasystems |
| Competitive Strategy Leadership Award for Offshore Testing Market | Frost & Sullivan |
| Asian MAKE (Most Admired Knowledge Enterprise) Award | Teleos, in association with KNOW Network |
| Indian MAKE (Most Admired Knowledge Enterprise) Award | Teleos, in association with KNOW Network |
| Award for "Strengthening Customer Relationships" | ITSMA (IT Services Marketing Association) |
| Winner of the First "Partner Innovation" Award | Software AG/webMethods |
| Ranked # 1 in the ASTD BEST Award | American Society for Training and Development (ASTD) |
| First Asian company to rank in <i>Training Magazine's</i> Top 125 companies for learning | Training Magazine |
| Citizenship Partner of the Year Award, 2007 | Microsoft |
| Vision, Impact, Progress (VIP) Award, 2007 | Computer Associates |
| Second-Best Employer in India | Hewitt India |
| The only IT Services company from India in the list of the TOP 20 Best Employers in Asia | Hewitt Asia |
| BML Munjal Award for Excellence in Learning and Development | Hero Mindmine Institute (part of the Hero group of industries) |
| 2006-07 | |
| TDWD Best Practices Award | TDWI (The Data Warehousing Institute) of North America |
| Top Asian Knowledge Organisation | Most Admired Knowledge Enterprise (MAKE) |
| Third-Best Company to Work for in India | BT-Mercer-TNS |
| Award for most innovative recruitment practices | RASBIC (Recruiting & Staffing Best |

| AWARD | AWARDED BY |
|---|---|
| | in Class) |
| Ranked in the ASTD Fourth BEST awards | American Society for Training & Development (ASTD) |
| Recognition Of Commitment (ROC) Award | The Institute of Internal Auditors, USA (IIA) |
| 2005-06 | |
| Winner, Corporate Citizen I award for Corporate Social Responsibility | <i>Business World</i> , FICCI, and SEDF |
| CMMI Level 5 Company-wide | SEI, CMU authorised Lead Assessor |
| ISO 27001 Global Certification | BVQI , UK |
| <i>Forbes</i> Top Asian Companies under US\$1 billion | <i>Forbes Magazine</i> |
| Top 13 Best-Managed Companies in India | <i>Business Today</i> and AT Kearney |
| AS 9100/EN 9100 (Aerospace Standards Certification) | BVQI , UK |
| People CMM Level 5 Assessment, Pune facility | TUV Rhineland |
| 2003-04 | |
| Ranked Among Top 10 Best Companies to Work for in India | <i>Business Today</i> —Mercer—TNS Survey |
| Ranked Among India's Top 10 Best Employers, 2004 and 2003 | CNBC-Hewitt Best Employers Survey |
| Best Risk Management and Solution Delivery | Gartner |
| Organisation that Creates Fun and Joy at Work | HT Power Jobs Awards |
| 2001-02 | |
| National Award for Bright Ideas for Idea Junction™ | Indian National Suggestion Schemes' Association |
| IT Offshore Service Delivery Program named "Industry Best Practice" | Aberdeen Group |
| Security Standards Certification BS 7799 | International Information Security and Management Standards |
| Best Global Data Warehousing Solution | TDWI |
| First IT Company in the World Certified under ISO9001:2000 | Bureau Veritas Quality International |
| Pre-2001 | |
| SEI CMM® Level 5 Certification | SEI, CMU authorised Lead Assessor |
| "100 Leading Pioneering Technology Companies" | World Economic Forum |

Source: Adapted from: Satyam "Awards and Achievements",
http://www.satyam.com/about/awards_achievements.asp (accessed 15 January 2009).

EXHIBIT 4: SATYAM'S MILESTONES BEFORE THE FALL

Satyam was one of the youngest IT service companies to reach US \$1 billion in annual revenues.

| | |
|------|---|
| 2008 | <ul style="list-style-type: none"> Revenue crosses US \$2-billion mark Adopts new tagline "Business Transformation. Together." Enters agreement to acquire S&V Management Consultants, a Ghent, Belgium-based supply chain management (SCM) consulting firm Becomes the first company to launch a secondary listing on Euronext Amsterdam under NYSE Euronext's new "Fast Path" process for cross listings in New York and Europe Becomes the first company to be invited by the National Stock Exchange (NSE) to ring the opening bell Enters into a definitive agreement to acquire Chicago-based Bridge Strategy Group |
| 2007 | <ul style="list-style-type: none"> Becomes the Official IT Services Provider for the FIFA World Cups, 2010 (South Africa) and 2014 (Brazil) Announces acquisition of UK-based Nitor Global Solutions Limited Opens Global Development Center (GDC) in Malaysia Opens Development Center in Vizag, India Becomes the first Asian company to feature in the Training Magazine's list of Top 125 companies for learning |
| 2006 | <ul style="list-style-type: none"> Revenue exceeds US\$1 billion Sets up the first "Global Innovation Hub" in Singapore Sets up operations in Guangzhou, China |
| 2005 | <ul style="list-style-type: none"> FLC framework launched across the entire organisation Largest global development center outside India (in Melbourne) begins operation Citisoft and Knowledge Dynamics acquired |
| 2002 | <ul style="list-style-type: none"> Satyam BPO launched in Hyderabad First Customer Summit conducted |
| 2001 | <ul style="list-style-type: none"> Satyam becomes world's first ISO 9001:2000 company to be certified by BVQI Listed on the NYSE (SAY) APAC headquarters established in Singapore |
| 2000 | <ul style="list-style-type: none"> Associate count reaches 10,000 Satyam receives National HRD Award from Indian government |
| 1999 | <ul style="list-style-type: none"> Assessed at SEI CMM@ Level 5 Satyam Infoway (Sify) becomes the first Indian Internet company listed on NASDAQ Satyam forms joint venture with TRW Inc. Presence established in 30 countries |
| 1993 | <ul style="list-style-type: none"> Satyam signs joint venture with Dun & Bradstreet for IT Services Awarded ISO 9001 Certification Satyam Technology Center (STC) inaugurated Joint venture with GE announced |

| |
|--|
| 1991 |
| <ul style="list-style-type: none">• Offshore software project with John Deere & Co.—Satyam’s first Fortune 500 customer—announced• Recognised as a public limited company; debuts on the Bombay Stock Exchange (BSE)• IPO oversubscribed by 17 times |
| 1987 |
| <ul style="list-style-type: none">• Incorporated as private limited company |

**Source: Adapted from: Satyam “Milestones”,
<http://www.satyam.com/about/milestones.asp> (accessed 15 January 2009).**

EXHIBIT 5: RAJU'S CONFESSION LETTER

Raju's confession

**To the Board of Directors
Satyam Computer Services Ltd.**

**From B. Ramalinga Raju,
Chairman, Satyam Computer Services Ltd.**

January 7, 2009

Dear Board Members,
It is with deep regret, and tremendous burden than I am carrying on my conscience, that I would like to bring the following facts to your notice:

1. The Balance Sheet carries as of September 30, 2008
 - a. Inflated (non-existent) cash and bank balances of Rs. 5,040 crore (as against Rs. 5361 crore reflected in the books)
 - b. An accrued interest of Rs. 376 crore which is non-existent
 - c. An understated liability of Rs. 1,230 crore on account of funds arranged by me
 - d. An over stated debtors position of Rs. 490 crore (as against Rs. 2,651 reflected in the books)
2. For the September quarter (Q2) we reported a revenue of Rs. 2,700 crore and an operating margin of Rs. 649 crore (24% of revenues) as against the actual revenues of Rs. 2,112 crore and an actual operating margin of Rs. 61 crore (3% of revenues). This has resulted in artificial cash and bank balances going up by Rs. 588 crore in Q2 alone.

The gap in the Balance Sheet has arisen purely on account of inflated profits over a period of last several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance). What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly (annualized revenue run rate of Rs. 11,276 crore in the September quarter, 2008 and official reserves of Rs. 8,392 crore). The differential in the real profits and the one reflected in the books was further accentuated by the fact that the company had to carry additional resources and assets to justify higher level of operations—thereby significantly increasing the costs. Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.

The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. Maytas' investors were convinced that this is a good divestment opportunity and a strategic fit. Once Satyam's problem was solved, it was hoped that Maytas' payments can be delayed. But that was not to be. What followed in the last several days is common knowledge.

I would like the board to know:

1. That neither myself, nor the Managing Director (including our spouses) sold any shares in the last eight years — excepting for a small proportion declared and sold for philanthropic purposes.
2. That in the last two years a net amount of Rs. 1,230 crore was arranged to Satyam (not reflected in the books of Satyam) to keep the operations going by resorting to pledging all the promoter shares and raising funds from known sources by giving all kinds of assurances (Statement enclosed, only to the members of the board). Significant dividend payments, acquisitions, capital expenditure to provide for growth did not help matters. Every attempt was made to keep the wheel moving and to ensure prompt payment of salaries to the associates. The last straw was the selling of most of the pledged share by the lenders on account of margin triggers.
3. That neither me, nor the Managing Director took even one rupee/dollar from the company and have not benefitted in financial terms on account of the inflated results.
4. None of the board members, past or present, had any knowledge of the situation in which the company is placed. Even business leaders and senior executives in the company, such as, Ram Mynampati, Subu D, T.R. Anand, Keshab Panda, Virender Agarwal, A.S. Murthy, Hari T, SV Krishnan, Vijay Prasad, Manish Mehta, Murali V, Sriram Papani, Kiran Kavale, Joe Lagioia, Ravindra Penumetsa, Jayaraman and Prabhakar Gupta are unaware of the real situation as against the books of accounts. None of my or Managing Director's immediate or extended


07 Jan 2009 10:53AM HP L18K2421 118

**To the Board of Directors
Satyam Computer Services Ltd.**

**From B. Ramalinga Raju
Chairman, Satyam Computer Services Ltd.** January 7, 2009

Dear Board Members,
It is with deep regret, and tremendous burden that I am carrying on my conscience, that I would like to bring the following facts to your notice:

1. The Balance Sheet carries as of September 30, 2008
 - a. Inflated (non-existent) cash and bank balances of Rs. 5,040 crore (as against Rs. 5361 crore reflected in the books)
 - b. An accrued interest of Rs. 376 crore which is non-existent
 - c. An understated liability of Rs. 1,230 crore on account of funds arranged by me
 - d. An over stated debtors position of Rs. 490 crore (as against Rs. 2651 reflected in the books)
2. For the September quarter (Q2) we reported a revenue of Rs. 2,700 crore and an operating margin of Rs. 649 crore (24% of revenues) as against the actual revenues of Rs. 2,112 crore and an actual operating margin of Rs. 61 crore (3% of revenues). This



family members has any idea about these issues. Having put these facts before you, I leave it to the wisdom of the board to take the matters forward. However, I am also taking the liberty to recommend the following steps:

1. A Task Force has been formed in the last few days to address the situation arising out of the failed Maytas acquisition attempt. This consists of some of the most accomplished leaders of Satyam: Subu D, T.R. Anand, Keshab Panda and Virender Agarwal, representing business functions, and A.S. Murthy, Hari T and Murali V representing support functions. I suggest that Ram Mynampati be made the Chairman of this Task Force to immediately address some of the operational matters on hand. Ram can also act as an interim CEO reporting to the board.
2. Merrill Lynch can be entrusted with the task of quickly exploring some Merger opportunities.
3. You may have a 'restatement of accounts' prepared by the auditors in light of the facts that I have placed before you.

I have promoted and have been associated with Satyam for well over twenty years now. I have seen it grow from few people to 53,000 people, with 185 Fortune 500 companies as customers and operations in 66 countries. Satyam has established an excellent leadership and competency base at all levels. I sincerely apologize to all Satyamites and stakeholders, who have made Satyam a special organization, for the current situation. I am confident they will stand by the company in this hour of crisis.

In light of the above, I fervently appeal to the board to hold together to take some important steps. Mr. T.R. Prasad is well placed to mobilize support from the government at this crucial time. With the hope that members of the Task Force and the financial advisor, Merrill Lynch (now Bank of America) will stand by the company at this crucial hour, I am marking copies of this statement to them as well. Under the circumstances, I am tendering my resignation as the chairman of Satyam and shall continue in this position only till such time the current board is expanded. My continuance is just to ensure enhancement of the board over the next several days or as early as possible.

I am now prepared to subject myself to the laws of the land and face consequences thereof.


(B. Ramalinga Raju)

Copies marked to:

1. Chairman SEBI
2. Stock Exchanges

Source: Mint (8 January 2009) "Raju's Confession", *Mint*, http://epaper.livemint.com/ArticleImage.aspx?article=08_01_2009_005_003&keyword (accessed 15 January 2009).

EXHIBIT 6: GLOBAL ROLL CALL OF SCAMS



| Company | When Exposed | Money Involved | Allegations | Post Scam |
|---|--------------|------------------------|---|--|
| Bank of Credit & Commerce International | 1991 | more than \$20 billion | Faking liabilities and assets, out of proportion loans to single customers using a network of dummy companies, money laundering, bribery, facilitation of tax evasion | Liquidated and paid \$10 million in fines and forfeited all \$550 million of its American assets which was used for the repayment of losses and restitution to BCCI's victims |
| WorldCom | 2002 | \$7.2 billion | Overstated cash flow, gave founder Bernard Ebbers \$400 million in off-the-books loans | Sought bankruptcy protection in 2002, changed its name to MCI and paid \$750 million to be paid to wronged investors. In 2003 MCI got a contract to build a cellular telephone network in Iraq |
| Xerox | 2000 | \$1.5 billion | Falsifying financial results for five years, boosting income | Xerox agreed to pay a \$10 million and to restate its financials dating back to 1997 |
| Mirant | 2002 | \$1.1 billion | Overstated various assets and liabilities | Sought bankruptcy protection in 2003 and emerged from bankruptcy in 2006 |
| Enron | 2001 | \$1 billion | Boosted profits and hid debts, manipulated Texas power market, California energy market, bribed govts to win contracts | Changed its name to Enron Creditors Recovery Corporation. Its goal is to pay off the old Enron's remaining creditors and wind up Enron's affairs |
| AOL Time Warner | 2002 | \$49 million | Fraudulent round-trip transactions to show a boosted online advertising revenue | The company now known as Time Warner Inc agreed to pay \$300 million in civil penalties to be distributed to the harmed investors |
| Arthur Andersen | 2001 | NA | Shredding documents related to audit client Enron | Convicted of obstruction of justice, lost clients. From a high of 113,000 employees the firm is now down to around 200 |

Source: Times News Network (9 January 2009) "Global Roll Call of Scams", *Times of India*,

<http://epaper.timesofindia.com/Default/Scripting/ArticleWin.asp?From=Archive&Source=Page&Skin=pastissues2&BaseHref=CAP/2009/01/09&PageLabel=20&ForceGif=true&EntityId=Ar02001&ViewMode=HTML&GZ=T> (accessed 26 February 2009).

EXHIBIT 7: SNAPSHOT OF DIRECTORS AT INDIAN COMPANIES**SNAPSHOT OF DIRECTORS OF SENSEX COMPANIES****(Based on 30 SENSEX companies who have filed information)**

- 306 individuals, who are on the boards of these 30 companies, occupy a total of 800 directorship positions in 342 listed companies.
- Of these 306 individuals,
 - 158 hold only 1 directorship each.
 - 114 hold only independent directorship positions.
 - **Only 11 are women (3.6%),** occupying a total of 29 directorships.
 - **61 hold more than 5 directorships in listed companies, with 1 person holding 16 directorships.**
- Of 30 companies,
 - 12 (40.0%) have a Non-Executive Chairman, of whom 6 (20.0%) are Promoter-Directors.
 - 13 companies (43.3%) have a woman on their board.

Distribution Summary by Number of Directors

- There are a total of 345 directorship positions on these 30 companies, giving an average of 11.5 directors per company.
- The maximum number of directors in any company is 17 (Oil & Natural Gas Corp.Ltd.).

| No. of Directors | No. of Companies | % |
|------------------|------------------|------------|
| < 5 | 0 | 0 |
| 5 – 10 | 9 | 30 |
| 11 – 15 | 17 | 57 |
| >15 | 4 | 14 |
| Total | 30 | 100 |

Distribution Summary by Age

- The average age of the directors is 60 years.
- The youngest director is aged 38 years (Mr.Samir Gaur) and the oldest is 87 years (Mr.Sangram Singh Kothari). 1 individual is below the age of 25 years and 53 individuals are above 70 years.
- **Of 1 individuals who are < 25 years, 0 hold only independent directorship positions.**
- **Of 53 individuals who are > 70 years, 29 hold only independent directorship positions.**

| Age | No. of Directors | % |
|-----------------------|------------------|------------|
| 25 & below | 1 | 0 |
| 26 – 35 | 0 | 0 |
| 36 – 45 | 15 | 5 |
| 46 – 60 | 134 | 44 |
| 61 – 69 | 103 | 34 |
| 70 – 80 | 48 | 16 |
| 81 – 90 | 5 | 2 |
| > 90 | 0 | 0 |
| Total | 306 | 100 |

Of the 306 individuals, 90 are on the board of 341 foreign based companies.

- The 306 individuals are also on the boards of 1,347 unlisted companies/organisations. In all,
- as such, they occupy a total of 2,527 directorship positions in 1,689 listed/unlisted companies/organisations.

SNAPSHOT OF DIRECTORS OF BSE-100 COMPANIES

Based on 100 BSE-100 companies who have filed information

- 885 individuals, who are on the boards of these 100 companies, occupy a total of 1,972 directorship positions in 647 listed companies.
- Of these 885 individuals,
 - 497 hold only 1 directorship each.
 - 310 hold only independent directorship positions.
 - **only 34 are women (3.8%)**, occupying a total of 75 directorships
 - **111 hold more than 5 directorships in listed companies, with 1 person holding 16 directorships.**
- Of 100 companies,
 - 41 (41.0%) have a Non-Executive Chairman, of whom 23 (23.0%) are Promoter-Directors.
 - 37 companies (37.0%) have a woman on their board.

Distribution Summary by Number of Directors

- There are a total of 1,058 directorship positions on these 100 companies, giving an average of 10.6 directors per company.
- The maximum number of directors in any company is 17 (Oil & Natural Gas Corp.Ltd.).

| No. of Directors | No. of Companies | % |
|------------------|------------------|------------|
| < 5 | 1 | 1 |
| 5 – 10 | 47 | 47 |
| 11 – 15 | 44 | 44 |
| >15 | 8 | 8 |
| Total | 100 | 100 |

Distribution Summary by Age

- The average age of the directors is 58 years.
- The youngest director is aged 30 years (Mr.Dheeraj Rajeshkumar Wadhawan) and the oldest is 88 years (Mr.Basant Kumar Birla). 1 individual is below the age of 25 years and 129 individuals are above 70 years.
- **Of 1 individuals who are < 25 years, 0 hold only independent directorship positions.**
- **Of 129 individuals who are > 70 years, 69 hold only independent directorship positions.**

| Age | No. of Directors | % |
|----------------|------------------|------------|
| 25 & below | 1 | 0 |
| 26 – 35 | 11 | 1 |
| 36 – 45 | 70 | 8 |
| 46 – 60 | 424 | 48 |
| 61 – 69 | 250 | 28 |
| 70 – 80 | 114 | 13 |
| 81 – 90 | 15 | 2 |
| > 90 | 0 | 0 |
| Total | 885 | 100 |

- Of the 885 individuals, 213 are on the board of 690 foreign based companies.
- The 885 individuals are also on the boards of 3,287 unlisted companies/organisations. In all, as such, they occupy a total of 6,476 directorship positions in 3,934 listed/unlisted companies/organisations.

Source: Directors Database “Snapshot of Directors of Sensex and BSE-100 Companies”, <http://www.directorsdatabase.com/> (accessed 1 June 2009).