Abstract

I propose to write a case on the rise and fall of Satyam Computers Limited (henceforth, Satyam). Satyam was a fast growing software services Indian company with seemingly excellent corporate governance and an outstanding management team. The case of Satyam illustrates the advantages and limits of corporate governance norms. Firms can satisfy corporate governance norms in letter but not in spirit. In the case of Satyam, it had listed an ADR on NASDAQ, had a Big 4 auditor, had an illustrious board of directors and yet had been perpetrating a massive fraud on its shareholders for many years. The silver lining to this case is that information disclosure norms and shareholder reaction to an acquisition attempt were instrumental in causing the fraud to come to light.

Project Description

I propose to undertake a case study of Satyam Computers Limited (henceforth Satyam). This is a case of the rapid rise of an Indian software company to one of the top 4 Indian software services companies. Riding the wave of software services outsourcing, the firm was able to maintain solid growth since inception. Seemingly a picture of sound corporate governance, Satyam listed an American Depositary Receipt on NASDAQ and won prestigious international corporate governance awards. Directors on its board included highly reputed academics and business people. Its auditors was the internationally known PriceWaterhouseCoopers. Its founder, Ramalinga Raju, was feted in India and abroad as a dynamic and successful technology entrepreneur whose views were highly sought after.

Hints of problems at Satyam began with the news of Satyam seeking to acquire a real estate firm, Matyas Limited, owned by Ramalinga Raju’s family. Investors were shocked at the proposed acquisition cost as well as its intended diversification into a completely unrelated business. The Satyam ADR and domestic price fell sharply reflecting investor disapproval of the proposed acquisition. Responding to the stock price reaction, Ramalinga Raju announced that Satyam was aborting the acquisition attempt. A week later, Ramalinga Raju made an announcement
admitting cooking the accounts of Satyam for several years. It turns out that a significant part of Satyam’s reported profits over the last several years was inflated and fictitious and the cash balance reported on the books was also fictitious.

I intend to use this case study to illustrate both the advantages and limits of good corporate governance norms. While following good corporate governance norms and satisfying information disclosure requirements should, on average, provide investors with more comfort about management’s attitude to investors, firms may violate the spirit of the governance norms while seeming to satisfy the letter of the norms. Satyam clearly illustrates a case where the firm appeared to follow the highest corporate governance standards through the following actions. It listed an ADR on NASDAQ thus voluntarily committing to higher levels of information disclosure. It appointed academics and business people of repute and expertise to its boards indicating a proper functioning and independent board of directors. It appointed one of the big 4 auditors PriceWaterhouseCoopers as its auditor. Yet, despite these actions, it was perpetrating a massive fraud on its shareholders for several years.

On the positive side, the sophistication and power of its ADR and domestic investors was highlighted by the way the stock price reacted to the acquisition attempt of Matyas. Some international shareholders filed lawsuits against Satyam over the acquisition proposal. This forced management to abort the attempt to acquire a promoter owned unrelated business at an inflated price. This was instrumental in causing the fraud to come to light. Otherwise, Satyam could have used the acquisition (paying for the acquisition of Matyas Limited with the reported fictitious cash balance of Satyam) as a way to gloss over years of fraudulent inflated profits and the fraud may never have come to light.

As part of the case study, I will provide a history of Satyam computers, its ADR listing, historical financial ratios and figures, composition of its board of directors, details of the proposed acquisition of Matyas Limited and the shareholder reaction to the announcement of the acquisition attempt, stock price reaction to management aborting the acquisition attempt, shareholder reaction and the Indian stock market reaction to the revelation of corporate fraud, and finally how the Satyam saga has unfolded since the revelation of corporate fraud.

I propose to complete this case study by November 2009.