

## **How Satyam are Indian Firms?**

Last week's revelation from the CEO of Satyam Computers Mr. Ramalinga Raju that he has been cooking the books and had overstated figures to the order of \$1 billion USD came as a rude shock to the business world. Satyam is considered one of the leading software services providers out of India and has clients that range a multitude of firms from all over the world. It is quite ironic that Satyam means truth in Sanskrit and the biggest fraud in Indian business happened at Satyam. The fundamental question in the mind of managers and firms worldwide is whether Satyam is an isolated case or that are many other frauds and scams from Indian firms that are going to come to light in the upcoming months? Are there particular risks in the Indian context?

Here are the relevant aspects of the Satyam fraud. First, Mr. Raju in his letter has indicated that this fraud was mostly about his inability to face the external world and relay to them the difficulties that Satyam as an organization faced in terms of finance and performance. What started as a small lie became larger and larger in scale with time. In short, he could not relay the bad news. Second, the lack of scrutiny on the part of directors and the auditors, both consisting of well respected professionals begs the question – was this not known to anyone (which is what Mr. Raju has claimed)? Or was it the case that there were no whistle blowers? Third, many public firms in India started out as small family businesses that have grown leaps and bounds over the last several decades. In these firms, the chairman and his or her siblings and their offspring control the majority of key decision making. So if they together decided on something, there would be little opposition within the organization. This works fine as long as share holders are not involved (i.e. the firm stayed private) or are not educated about their rights. It should be noted that while such firms may be tightly controlled by a family group, they have a capable and professional management team as well as competent workforce, which is the reason they have done so well in the global economy. Fourth, traditionally Indian culture does not encourage open criticism or arguments between the boss and employee. In many cases, the owners are considered the “giver” (provider of food and shelter) and it is considered a sacrilege to criticize them.

The Satyam case is the first big fraud in the Indian context. While close knit management team, and cultural values that may deter whistle blowing and relaying bad news, may be additional risk factors associated with Indian businesses, there is no evidence from Satyam thus far to indicate that those factors outweigh three important factors, individual greed, lack of oversight and tight standards for corporate governance and short term focus, that seem to transcend national boundaries in such scams.

Jayashankar M. Swaminathan  
Professor, University of North Carolina- Chapel Hill and author of  
*Indian Economic Superpower: Fiction or Future?*