Shareholders queue up at an RIL AGM in Mumbai

SATYAM SCAM AND AFTER

Chuck The Cookbook

Post-Satyam, India Inc is showing very low tolerance to fraud

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Everyone was stunned this January when Satyam founder Ramalinga Raju confessed to cooking the company's accounts for years. Apparently, India's fourth largest IT firm barely existed except on paper, though thousands drew salaries from it and scores of multinational clients used its backoffice services. How could this happen, everyone asked, despite the relentless scrutiny of quarterly results and the high publicity an Indian multinational gets? Most of all, if this scam could escape shareholders' attention in an internationally listed firm, could private firms be trusted?

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Somewhere, through all the angry words and "high-level" government investigations, most know enough to be all-out cynics. India is not new to corporate scandal—bank collapses, stockmarket scams and numerous other frauds are easily forgotten, as decades after the event official investigations meander endlessly through red tape. "It's true, public memory is short," says Nishith Desai, corporate law expert and founder of an international tax firm. But there's also a fundamental problem with crime in general (murders, after all, are not prevented even by the harshest punishment) but it doesn't mean we do away with the law.

Truth is, "every time a fraud occurs in a mature society, organisational and regulatory changes do happen that have lasting impact", avers Desai. Many in the legal and professional accounting services agree that while individuals can be deterred, companies and institutions need tougher regulatory controls. After months of consultations within businesses, professionals and government, the latest buzzword is early detection and prevention. Could this be the one big takeaway from the Satyam episode? Some say it is.

Union corporate affairs minister Salman Khurshid says the government "is setting up an early warning system to predict fraud before it actually happens. Pilot tests of this model are being done by market regulator sebi and we hope to have it up and running throughout the country if all goes well".

Frauds tend to bubble up during a slowdown. In better times, companies focus on "creating shareholder value" and making the most of expansion and sales. When the going gets tough, costs are yanked under microscopes. It is even argued that this is why Satyam got caught out—shareholders refused to approve an expensive merger at a time when the slow phase in the global economy loomed close. Consulting major KPMG India, which has conducted 400-500 investigations of corporate fraud (including the Satyam case) in the last five years, has lately seen requests from companies wanting to ensure they are "above board". It has conducted around 100 investigations in the last year.

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After the Satyam episode, India Inc wants to eliminate typical malpractices, and is taking a good look under the hood of procurement, production, sales, distribution and recruitment operations. Says Deepankar Sanwalka, who leads KPMG's corporate forensics work, "Functions where kickbacks and frauds happen are first under the scanner when things go wrong." The slowdown feeds such overt caution. One interesting discovery: salary freezes have pushed some staff into committing fraud. Sadly for them, the post-Satyam corporate will not tolerate even a hint of wrongdoing. "There's a very low tolerance to fraud these days," says Sanwalka. KPMG's 400-odd fraud investigators have been working "night and day" to meet this need.

"Every time a fraud occurs,

The government hasn't been sitting still either. Recently, income-tax rules were slightly amended and soon, for the first time, employees may no longer have to produce bills to claim LTA (leave travel allowance is often claimed on fake bills anyway). The removal of such institutional excuses to commit fraud is just a beginning. Even the professions want change. Company accountants are being asked to balance audit and non-audit work to ensure independence. Top lawyers no longer take up directorship on firms casually and institutional investors—who often missed shareholders' meets—don't act like mute spectators.

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The impact is spilling over to professions such as auditing, accounting, lawyers, consultants and even managers. One inheritance from the early '90s—quarterly result reports—is under fire for being reduced to a mere cliche. Since the early '80s, the global standard for reporting results by the quarter has been adopted by Indian companies as well. Now some are beginning to question such bald reasoning. "Post Satyam, people want proof that their firms aren't comprised solely of spreadsheets, number-charts," says Prof Rajesh K. Aithal who teaches business ethics at IIM Lucknow.

The ICWAI, which sets cost and works accountancy standards in India, believes that segment-wise results also need to be recorded by companies more conscientiously. G.N. Venkataraman, president, ICWAI, says, "The accounting profession needs to move from compliance governance to business governance. The government should make this shift possible by allowing self-governance alongside independent oversight."

It's not surprising that the accounting profession wants a new governance system. "We have asked the government to set up a separate accounting oversight board. Why should a body like the ICAI or ICWAI take this responsibility alone?" asks Kunal Banerjee of Shome & Banerjee, a Calcutta-based accountancy firm.

As changing realities strike at the heart of how businesses will be run in the future, the very incubators are being criticised. Some are wondering if B-schools are responsible for the rise in bad ethics. Ajit Rangnekar, dean, Indian School of Business, Hyderabad, says that the fundamentals of management education are sound and relevant; the need is to sensitise management students to the importance of integrity in business. "Quite often, managers know what is right; they just don't know how to do it. People don't speak up because they believe that it is not feasible. There is a corrosive belief that if they decline a task, someone else will readily conform," he says.

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To counter this, ISB and other schools try to teach students how to stay true to values by using effective 'scripts and skills'. ISB is evolving case studies on 'giving voice to values', while IIM Lucknow is setting up an exclusive centre for corporate governance education. Unlike other scams in the past, India Inc, right across the value chain, is not happy with suffixing the word "scandal" permanently to Satyam's name and leaving it at hat.