Register No.: ................................... Name.: ..................................................................

# SAINTGITS COLLEGE OF ENGINEERING (AUTONOMOUS)

(AFFILIATED TO APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY, THIRUVANANTHAPURAM)

**FIRST SEMESTER MBA DEGREE EXAMINATION (S), FEBRUARY 2023**
**(2021 Scheme)**

**Course Code: 21MBA113**

**Course Name: Ethics, Governance and Corporate Responsibility**

**Max. Marks: 60** **Duration: 3 Hours**

## PART A

***(Answer all questions. Each question carries 2 marks)***

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|---|---|---|
| 1. | List out the causes of unethical behavior. | 2 |
| 2. | Explain the importance of fairness in employment contracts. | 2 |
| 3. | Classify the pillars of corporate governance. | 2 |
| 4. | Summarize the importance of corporate disclosure. | 2 |
| 5. | Recall the need for CSR. | 2 |

## PART B

***(Answer any 3 questions. Each question carries 10 marks)***

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|---|---|---|
| 6. | Examine the contribution of business ethos principles practiced by Indian companies towards organizational effectiveness with suitable examples | 10 |
| 7. | Determine the importance of advertising ethics practices in Indian Industry. Present the forms of ethical violations with suitable examples. | 10 |
| 8. | Distinguish between Agency Theory and Stewardship Theory of Corporate Governance | 10 |
| 9. | Comment on the emerging trends in corporate governance | 10 |
| 10. | Identify the Strategies for CSR and Summarize its barriers with examples | 10 |

## PART C

***(Compulsory question, the question carries 20 marks)***

11. **CORPORATE GOVERNANCE FAILURE AT SATYAM**

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. 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". Satyam was listed on the New York Stock Exchange ("NYSE") in 2001 and on Euronext Amsterdam in 2008. In 2007, B. Ramalinga Raju was honoured with the Ernst & Young Entrepreneur of the Year award. His shocking announcement sparked a big debate over whether India possessed adequate guidelines for corporate governance.

**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. 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.

**Appalling Confessions**

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. Satyam's balance sheet carried inflated and non-existent cash and bank balances. 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. 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.

**Good Governance Myth**

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. 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. Raju appointed Pricewaterhouse Coopers ("PwC")—one of the "big four" international accountancy firms—as the company's auditor, and Merrill Lynch as his deal advisor.

**Satyam Scam: Fallouts**

**Difficulty Retaining Clients**

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.

**Implications for Corporate India**

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.

**Credibility of International Audit Firms**

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. 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. As part of the investigation into the Satyam scam, SEBI issued a show-cause notice to PwC.

**Role of Independent Directors**

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. 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.

1. Examine the unethical issues happened at Satyam 5
2. Explain the theories of corporate governance with reference to the Satyam case. 5
3. Analyze the reasons behind inadequate corporate governance at Satyam? 5
4. Evaluate the corporate governance failure of the Satyam 5

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