

PRESS RELEASE

“Satyam fraud can be the greatest threat to India's corporate reputation unless handled proficiently. We must recognize it is a systemic failure and not of an individual. Mr Raju is certainly not a chartered accountant and was incapable of hiding Rs7000 crores from company's balance sheets for 10 years on his own or dupe such an eminently qualified board to believe that their profit margin was just 3% compared to 20% for its competitors.

The auditors were most eminent. But their eminence also stood out from the fact they were named in previous scams at Yukos, Tyco and Bernie Madoff Ponzie scheme.

During this period the board had several opportunities to audit company accounts through its audit committee.

So the action we need has to be comprehensive, effective and immediate. It has to be on all fronts not only to contain the damage. The biggest sufferers will be employees and shareholders and investors. But its repercussions on the market cannot be underestimated. So in this season of governments bailing out companies, the first thing government must do is to use its inherent powers take over the company to ensure its continuity as an ongoing concern, constitute fresh management and end the anxiety of investors , employees and shareholders. Remember not long ago faced with massive unemployment as a consequence of credit crisis Mr Gordon Brown UK Prime Minister announced that they will break every rule to help save jobs. Our government should do no less.

Now comes the malfeasance. Here action has to be immediate. No serious fraud office is required to book the confession of deception resorted to by Mr Raju. Similarly in regard to audit firms it is apparent from their previous conduct that self-regulation did not help. The whole financial industry has become circumspect after the admission of guilt by Mr Greenspan at the recent US Congressional hearings.

Now 82, Mr. Greenspan came in for one of the harshest grilling of his life, as Democratic lawmakers asked him time and again whether he had been wrong, why he had been wrong and whether he was sorry. Mr. Greenspan admitted that he had been wrong in believing in the self-correcting power of free markets, repeating what Eliot Spitzer said four years ago as the Advocate General of New York Stock Exchange. He conceded he had failed to anticipate the self-destructive power of wanton mortgage lending and multitrillion dollar credit default swaps. He said Mr. Greenspan admitted that he had been wrong in believing in the self-correcting power of free markets, repeating what Eliot Spitzer said four years ago as the Advocate General of New York. He conceded he had failed to anticipate the self-destructive power of wanton mortgage lending. The whole intellectual edifice, however, collapsed in the summer of last year.

It is important not to condone but understand the context of Satyam's fraud. It is not our inability to create new laws but lack of will to enforce that has resulted in the destruction of life's savings of millions of people all over the world. That the scam of CDS with a notional value of \$64 trillion can take place in this world right in front of our eyes with none being taken up is a reminder why frauds like Satyam will continue.

With the decimation of Arthur Anderson the world has only four auditing companies. The world's booty is divided among them. They are the ones who made money even after Sarbanes Oxley even though their own reputations were besmirched by ENRON and WORLDCOM scandals. So India can take a lead. Let west not sermonize us on corporate governance. Let us take proactive action in this case and tell the world that even international names who aid frauds in this country cannot be tolerated.

As for corporate governance we need to ensure no listed company has the chairman and CEO rolled into one. Each Company must have a properly well defined process of recruitment of independent directors and should not bank on their name but evidence of independent mind. In fact we don't need independent directors. We need directors of independent mind.

We must get boards drive companies and not be driven by company management. To make this happen the Companies Bill 2008 must ensure agendas are sent in advance. Companies must also ensure that the institution of lead independent director is established.

Remuneration of Directors should not be so attractive that they also become as dependent on the company as executive directors. Issues of Corporate Governance need to be discussed at international level because the capital has a habit of moving from unregulated to lightly regulated shores. A lesson we must all learn from the meltdown is that countries must unite in ensuring strong regulatory framework and rigorous enforcement.

The good news is that the market has first time acknowledged the gains from good corporate governance. While some companies lost almost 25% due to Satyam fall out, a number of companies with good governance like Tatas , Wipro , Infosys either gained or suffered marginal loss.

We must all remember that the market has become extremely savvy. It will stand non nonsense. We are living at a time when shareholders and the public at large will not remain quiet. Even this fraud would never have come to light but for the activism of Satyam investors. So make no mistake. The price of hiding failures will be much more than revealing them. Companies need to be encouraged to own exposures, failures and rewarded for being transparent.

The biggest challenge for the companies is how to combat the culture of cosines in the board. We need independent directors who are trained to ask awkward difficult questions and have the courage to belch at the dinner table."

This was stated by Dr Madhav Mehra, President of UK based World Council for Corporate Governance at the Press Conference held in New Delhi in connection with 19th World Congress on Leadership in the Economy of Surprise , Wrenching Change and Contradiction , being held on 16-18 January 09 in Mumbai

For Institute of Directors
Ashok Kapur IAS (Retd)
Secretary General
Institute of Directors
New Delhi
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