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A Critical Study on Corporate Crime with Special Reference to Satyam Scam

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ABSTRACT

Corporate crimes are frequently committed by several companies to increase their profits by illegal means. One such corporate crime is the Satyam scam. Satyam Computer Services Ltd. was an Indian Information Technology based company situated in Hyderabad, Telangana (formerly in Andhra Pradesh) formed by Ramalinga Raju in 1987. During the year 2009 the company made revenue upto $2.1 billion becoming one of the fastest growing market companies generating and having about 9% market share. After 2009 it came to light that Ramalinga Raju had been falsifying the companies' data. They had altered the number of sales, earning cash level, providing false financial accomplishment. Ramalinga Raju along with his auditors had forged bank statements, faking invoices and had also inflated customer numbers. This showed the lack in Corporate Governance. Corporate Governance is a system through which a company can be directed and controlled. Corporate Governance helps in determining the aim and value of the company. The Board of Directors of a company are responsible for the governance of the company. Their roles in governance of a company is by appointing of directors and auditors of the company. Since there was no proper governance of Satyam Computer Services Ltd it led to the falsification of the companies accounting for many years since 2003, even though it came to light only by the end of 2008. In this paper we will see in detail about the scam, its aftermath, and the ways in which such scams can be prohibited from happening in the future.

Keywords: *corporate fraud, crime, law, white-collar crime.*

I. INTRODUCTION

"Corporate crime kills far more people and costs taxpayers far more money than street crime"[2]

- Anita Roddick (British businesswoman)

Satyam Computer Services Ltd. was an Indian Information Technology based company situated

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[2] Roddick.A.2001.Take it personally: How to make conscious choices to change the world, Massachusetts,Conari press.

in Hyderabad, Telangana (formerly in Andhra Pradesh) formed by Ramalinga Raju in 1987. During the year 2009 the company made revenue upto $2.1 billion becoming one of the fastest growing market companies generating and having about 9% market share. After 2009 it came to light that Ramalinga Raju had been falsifying the companies' data. They had altered the number of sales, earning cash level, providing false financial accomplishment. Ramalinga Raju along with his auditors had forged bank statements, faking invoices and had also inflated customer numbers. This showed the lack in Corporate Governance. Corporate Governance is a system through which a company can be directed and controlled. Corporate Governance helps in determining the aim and value of the company. The Board of Directors of a company are responsible for the governance of the company. Their roles in governance of a company is by appointing of directors and auditors of the company. Since there was no proper governance of Satyam Computer Services Ltd it led to the falsification of the companies accounting for many years since 2003, even though it came to light only by the end of 2008. In this paper we will see in detail about the scam, its aftermath, and the ways in which such scams can be prohibited from happening in the future.

(A) Research Objectives

The Main objectives of the research are:

1. To analyze the lack of corporate governance and its outcomes through the Satyam Scam
2. To analyze the possibilities to avoid scams from happening.

(B) Research Questions

1. Whether corporate governance norms has been fulfilled by Satyam Scam?
2. How corporate crimes can be prevented in respect of stringent legal framework?

II. FACTS - THE SCAM

Satyam Computer Services Ltd.[3] was founded in 1987 in Hyderabad, Telangana(formerly in Andhra Pradesh). The then CEO was Mr. Byrraju Ramalinga Raju. Satyam was considered as one of the fastest growing Information Technology Company as its revenue went up to $2.1 billion. During this period Ramalinga Raju received several awards like Ernst and Young Entrepreneur of the Year Service in 1999, Dataquest IT Man of the year in 2000, Asia Business Leader award in 2002. The company started with an annual revenue of 1 Billion Dollars in

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[3] Mohammed Shafeeq, *The Rise and Fall of Ramalinga Raju,* BUSINESS TODAY, available at: https://www.businesstoday.in/latest/corporate/story/satyam-computer-case-ramalinga-raju-guilty-50805-2015-04-09 , (28/09/2024)

2003 and grew upto 2 Billion Dollars revenue by then end of 2008.

Satyam operated many companies over 60 countries and had more than 50,000 employees employed. Satyam Company had also won the prestigious Golden Peacock Award for Corporate Governance in the year 2008. This led to the increase in the stock price of Satyam Computer Services, and attracted many investors to purchase the stock in Satyam Company as it was a Public Company.

In the later part of 2008 some of the Board of Directors of Satyam Computer Services Ltd. wanted to acquire MAYTAS, a real estate company founded and run by Mr. Byrraju Ramalinga Raju but they faced a lot opposition from the shareholders and had to reverse their decision within 12 hours. 23 December 2008 Satyam was barred from doing any business by the World Bank under the pretense that Satyam was providing "improper benefits"' to its staff and " failing to maintain proper documentation". The World Bank banned Satyam from doing any business with any bank for a period of 8 years.

By the end of 2008, coinciding with the global financial crisis, Mr. Ramalinga Raju faced increased pressure from lenders and creditors to settle his obligations. During this time Mr. E.Sreedharan, the Chief of Delhi Metro Corporation wrote a letter to the then Planning Commission Deputy Chairperson Montek Singh Ahluwalia raising concerns regarding government's decision to award MAYTAS with the Andhra metro rail project stating that MAYTAS has some hidden agenda to gain more price for his land through which the metro was being built.

On January 7 2009 Mr. Ramalinga Raju confessed that he had forged all the revenue of the company, i.e. nearly $ 1.6 Billion stated in their annual company revenue was actually non-existent. He inflated the bank statements by inflating the income of the company. He also revealed that his brother Mr. B. Suryanaryana Raju, former Managing Director of Satyam, B. Rama Raju brother of Mr. Byrraju Ramalinga Raju and two auditors from PriceWaterHouse Coopers Subramani Gopalakrishnan and T.Srinivas were also involved in the scam and that they had helped in forging the bank statements, faking invoices , inflated customer numbers and illegally obtaining loans for the company.

Mr. Ramalinga Raju stated that in order to show Satyam Computer Services Ltd. growth in revenue in the New York Stock Exchange and the Bombay Stock Exchange they had tampered with the numbers by inflating Satyam's assets by Rs 7,800 crores accounting to approximating up to 94% of the companies' assets. Mr. Raju also admitted to overstating revenue of Rs. 5,040 crores approximating up to 75% of the revenue of the company.

III. TIMELINE OF EVENTS CONTRIBUTING TO THE FRAUD

S.NO	YEAR	EVENT
1.	24 June 1987	Launch of Satyam Computer Service in Hyderabad
2.	1991	Launch of Satyam Stock in Bombay Stock Exchange
3.	2001	Listed in New York Stock Exchange, revenue crosses $ 1 Billion
4.	16 December 2008	Satyam announces plan to acquire MAYTAS, both Maytas properties and Maytas Infra owned by Ramalinga Raju. However this was opposed by shareholders of Satyam
5.	23 December 2008	World Bank barred Satyam from conducting business due to allegation regarding failure maintain proper documentation and illegal profits for staff.
6.	26 December 2008	Resignation of Independent Director Mr. Mangalam Srinivasan
7.	28 December 2008	Resignation of additional 3 independent directors. Due to decrease in share price Satyam hired Merrill Lynch to evaluate options to increase the alue of shareholders.

8.	2 January 2009	Promoters holding decreased from 8.64 % to 5.13 %
9.	6 January 2009	Promoters holding fell to 3.6%
10.	7 January 2009	Resignation of Ramalinga Raju after confessing to falsifying of companies revenue.
11.	8 January 2009	Filing of first class-action lawsuits on behalf of US Shareholders against Satyam management following the scam.
12.	11 January 2009	Indian Government interfered and formed a new board of directors.
13.	April 2009	Tech Mahindra acquired a controlling a stake in Satyam through a government led bidding process and rebranded as Mahindra Satyam
14.	2013	Mahindra Satyam merged with Tech Mahindra.

IV. VICTIMS OF THE FRAUD

1. Workers of Satyam spent many hours in agony as they faced unpaid wages, cut backs, retrenchment, and similarly no hopes for jobs outside. The workers of Satyam were left with no hope regarding their future ethically, monetarily, legally and socially.[4]

2. The Customers of Satyam lost their trust and confidence with the company and wanted to take back their investment to secure their future. Cisco, Telstra and World Bank cancelled their

[4] Swati koul and Chahana Charles, *Critical Analysis of the Satyam Computer Scam: India's Biggest Accounting Fraud*, Lexforti.com, *(29/09/2024), 10:00am*, available at: https://lexforti.com/legal-news/satyam-computers/

contracts with Satyam which caused a huge loss to the investors and so they started opening their shares for bidding

3. A doubt was cast over India as a brand and the IT Sector in India was the prime target of financial harm and caused disrepute.

4. The Banks and the creditors who had given money to Ramalinga Raju faced extreme financial loss due to this scam.

5. Indian Government became a major victim of the fraud financially and socially. This fraud made Foreign investors to curtail from investing in India.

V. Role of auditors

The auditors of the Satyam firm both internal and external Price Water House Coopers(PwC) who were working with Satyam for over a decade were suspected as accomplices to the fraud. During the investigation it was found that PwC was using the auditing tools like spreadsheets given by Satyam without actually verifying the accuracy of the accounts.

It is believed that the only reason the scam was known publicly was because of an anonymous email sent by one Mr. ‘ Joseph Abraham’ whose identity remained unknown. It was sent to Mr. Krishna Palepu, independent director of Satyam who forwarded to Mr. M. Rammohan Rao, Chairman of the Auditing Committee of Satyam.

Mr. Gopalkrishnan when questioned by Mr. M. Rammohan Rao, as a representative of PwC, dismissed his claims and reassured Mr. Rao that there would be a meeting of the audit committee on December 28, 2009 to address the contents of the email, but eventually the meeting never took place.

VI. Regulatory loopholes

The SEBI in its 65 page investigation report talked about the following regulatory loopholes that led to the Satyam Scam[5]:

a. Falsification of Accounts

SEBI stated that Ramalinga Raju had manipulated the bank statement and balance sheets in order to showcase increase in profits for the company and inflated its profits by $ 1 Billion. This method however worked for many years gaining Ramalinga Raju a series of awards and

[5] India forensic Media, *Satyam Investigation Report by SEBI*, indiaforensic.com, 29/09/2024, 11.30am, available at: https://indiaforensic.com/satyam-investigation-report-by-sebi/#:~:text=Summary%20of%20SEBI%20Report&text=Satyam's%20Chairman%2C%20Ramalinga%20Raju%2C%20confessed,by%20more%20than%20%241%20billion

lots of foreign investors. But when the scam came into limelight the same lead to a huge financial loss for the company.

b. Failure of auditors

SEBI in its report stated that one of the major criteria that would have stopped such a scam from happening was, if the external auditors were careful enough to read and verify the accounts given by Satyam and not just blindly work with those accounts without proper verification. So SEBI suspected that the external auditors PwC worked together with the company to perpetrate the fraud.

c. Failure of the board of directors

The Board of Directors failed to perform their duty with due diligence. There was no good corporate governance on the part of the directors. If they had proper corporate governance they could have detected the ongoing scam and prevented huge financial loss. The scam highlighted the poor management of the company.

d. Insider Trading

SEBI also found evidence of insider trading with the company wherein some of the independent shareholders of the company sold their shares prior to the disclosure of the fraud avoiding significant loss to those individuals although the other independent shareholders faced major financial loss because of the insider trading.

e. Regulatory Failure

SEBI in its report had also highlighted that the failure of the government as well as the Ministry of Corporate Affairs (MCA) as they should have kept a check on Satyam as to whether they were following proper corporate governance since they were a top IT sector company.

VII. Aftermath of the Scam

The Satyam Scam in 2009 caused a lot of financial strain but it also showed the importance of good corporate governance. Investigations took place and criminal cases were filed against Ramalinga Raju, his brother Rama Raju, the Managing Director of the Company and 8 others who were involved in the scam.

Mr. Ramalingam Raju, his brother Mr. Rama Raju the Managing Director of Satyam, Mr. SrinivasaVadlamani, the companies head of internal audit and its Chief Financial Officers were arrested under the charge of fraud. The Auditors of PwC were also arrested for fraud. The Institute of Chartered Accounts of India (ICAI) held the CFO and the auditors of PwC guilty of professional misconduct.

On April 9, 2015 the Special Court of Hyderabad found Ramalinga Raju and 9 others guilty of cheating, forgery, criminal breach of trust, criminal conspiracy, destruction of evidence and were awarded 7 years imprisonment and a fine of Rupees 5 Crore each.

SEBI in the year 2018 had barred PwC the external auditing firm of Satyam from auditing for the next two years on the grounds of criminal conspiracy, breach of trust and forgery.

During this time the Indian Government had intervened and reconstituted the Satyam board to stabilize the company. In April 2009, Tech Mahindra acquired a controlling stake in Satyam through a government led bidding process. Later the company was rebranded as Mahindra Satyam. On 25th June2013, Mahindra Satyam legally merged with Tech Mahindra.

VIII. Statutory violations

Below are the Statutory violations committed by Ramalinga Raju and 9 others:

1. **Companies Act, 1956**

    a. Section 209

Description: Failure to maintain proper books of account

Punishment: Imprisonment up to 6 months and/or fine up to Rs 10,000

    b. Section 233

Description: Non compliance by auditor with duties of auditors

Punishment: Fine up to Rs 10,000

    c. Section 628

Description: Penalty for false statements

Punishment: Imprisonment up to 2 years and fine

2. **SEBI (Securities and Exchange Board of India) Act, 1992**

    a. Section 15HA

Description: Penalty for fraudulent and unfair practices relating to securities

Punishment: Penalty up to Rs 250 million or three times the amount of profit made out of such practices, whichever is higher.

    b. Section 24

Description: Contravention of the provision of the SEBI Act, 1992 or Rules of Regulations made thereunder

Punishment: Imprisonment upto 10 years and/or with fine up to Rs. 250 million

3. **Indian Penal Code, 1860**

   a. Section 406 [Section 316 of BNS, 2024]

Description: Criminal Breach of Trust

Punishment: Imprisonment up to 3 years and/or fine

   b. Section 418 and 420 [Section 318(3) and Section 318 (4)of BNS, 2024]

Description: Cheating

Punishment: Imprisonment up to 7 years and/or fine

   c. Section 463,464,465 [Section 336(1), Section 335, Section 336(2) of BNS, 2024]

Description: Forgery

Punishment: Imprisonment up to 2 years and/or fine

   d. Section 477 A [Section 344 of BNS, 2024]

Description: Falsification of accounts

Punishment: Imprisonment up to 7 years and/or fine

IX. MEASURES TAKEN REGARDING CORPORATE GOVERNANCE

The Government of India and other regulatory authorities have taken several measures regarding corporate governance in India. The following are few of the notable changes made:

Several Committees were formed by the task force set up by Confederation of Indian Industries headed by former Cabinet Secretary Naresh Chandra to give recommendations. Based on the recommendation of this task force Voluntary Guidelines for Corporate Governance in 2009 was issued by Ministry of Corporate Affairs. The National Association of Software and Services Companies established a corporate governance and ethics committee which suggest reforms relating to audit committees, shareholder rights and whistle blower policy.

The Securities Exchange Board of India(SEBI) amended its listing agreement and included provisions relating to establishment of vigil mechanism, role of Audit Committee etc in cases of fraud or irregularity in the year of April 2014. During 2015 SEBI also framed a new regulations which is applicable to all listed companies relating to disclosure and reporting of material events and fraud called SEBI(Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR).

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In 2013 a new Companies Act, 2013 came into force repealing Companies Act, 1956. This new Act brought provisions which would benefit the larger stakeholder community. This new Act also made corporate fraud as a criminal offence. This new Act clearly set out the responsibilities of the auditors, independent directors, company secretaries to report instances of fraud and also expected them to play a more active role.

The new Companies Act 2013 mandates that the Responsibility statement of the Directors must be mentioned in the Board of Directors Report. The Act also states that there must be compulsory rotation of all the individual auditors every five years to avoid malpractices and instances of fraud while performing their duties. The Act also states that after every 10 year the audit firm must be rotated to avoid malpractices and instances of fraud while performing their duties.

In 2016, the Institute of Chartered Accounts of India came up with new Act to make sure stringent framework for related party transactions called Guidance Note on Reporting on Fraud (ICAI Guidance Note, 2016).

The Serious Fraud Investigation Office (SFIO) had been given the power to make arrest. After such power had been conferred, the SFIO have been actively investigating cases relating to corporate fraud.

X. Impact of reforms in corporate governance

The Organization for Economic Co-operative and Development(OECD) helps policy makers to evaluate and improve legal, regulatory and institutional framework for corporate governance of listed companies.[6]

The OECD gave 4 principles that ensure smooth function of corporate governance.

a. Accountability: OCED included provisions for effective management, accountability of the directors to its shareholders

b. Transparency: OCED state that transparency is the key to bring in new investors and that the companies should be able to disclose all the necessary documents required.

c. Responsibility: The company should be responsible for its shareholders and public interest as well.

d. Fairness: Investors must be protected, there should not be any insider trading these are

[6] OECD.ORG available at:,https://www.oecd.org/en/topics/policy-issues/corporate governance.html#:~:text=OECD%20standards%20help%20governments%20improve,companies%20and%20state%2Downed%20enterprises, *(02/10/2024), 2:00pm*

linked to fair principle.

XI. Suggestions

1. The Directors have to give more powers to check and control the companies affairs.
2. Transparency must be maintained so that the shareholders and investors will get to know the functioning of the company.
3. The external auditors must not only rely on the data given by the internal auditors, they must review the accounts periodically.
4. Laws must be amended in such a way that more stringent punishments are given to people who commit such frauds.
5. Special courts must be established to give people faster remedy from such frauds.

XII. Conclusion

Due to the Satyam scam there were several reforms made by the Indian Government in corporate laws. These reforms encouraged companies to follow good corporate governance so that they can avoid such scams. This scam enabled everyone to see the lack of corporate governance which was a result of negligence on the part of both the auditors and directors of the company. These reforms made sure that the directors and the share holders have to work together to maintain transparency even while making decisions for the company. If any of the decisions affect the interest and rights of the shareholder, investors they must be able to raise their voice against such decisions. Those who make such decisions must be held responsible for their action. Overall good corporate governance must be followed and all the rules and regulations made by the government must also be followed by the company.

Through the Satyam scam the Indian Corporate sector have learnt about the necessity of good corporate governance and have been helpful in reforming Indian corporate laws wherein initially the shareholders were the most vulnerable when the company faces loss. There must be more safeguards and stringent measures to protect the rights of the shareholders.

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