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The Tech Phoenix: Satyam's 100-Day Turnaround

This case was written by ***Hadiya Faheem,*** *under the direction of* ***Sanjib Dutta,*** *IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

The Case is inspired by the book, "The Tech Phoenix: Satyam's 100-Day Turnaround," authored by TN Manoharan and Pattabhi Ram, Rupa Publications India Pvt. Ltd, 2022. The Case authors have made liberal use of content from this book in writing the case.

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The Tech Phoenix: Satyam's 100-Day Turnaround[1]

"Satyam's 100-day turnaround success was about doing whatever it takes to restore the nation's credibility internationally. The key takeaway is recognizing India's deep strength when the government and the private sector work as one for the common good."[i]

– Deepak Parekh, chairman HDFC[2] and member of government-appointed board of Satyam, in 2022

"The Satyam resurrection is a unique story. The swift action by the government resulted in a turnaround in a record time of 100 days without infusion of taxpayers' money and in collaboration with a few good men of repute and expertise."[ii]

– Shyamala Gopinath, former deputy governor, Reserve Bank of India[3], in 2022

On April 13, 2009, Tech Mahindra Limited[4] (Tech Mahindra) acquired the beleaguered Satyam Computers Services Limited (Satyam), the fourth largest IT services company in India, for INR[5]28.89 billion.[iii] The acquisition marked the successful turnaround of Satyam by India's government-appointed board within a span of 100 days.

Started in 1987 by founder and chairman B Ramalinga Raju (Raju) and his brother and managing director Rama Raju, Satyam provided software development and consultancy services. Over the years, the company achieved remarkable growth under Raju's leadership. Raju received several international awards for his vision, business acumen, and entrepreneurship, while Satyam won awards for its corporate governance practices. However, on January 7, 2009, the company's reputation came crashing down when Raju confessed to an accounting fraud of INR70 billion or US$1.4 billion, in an e-mail to the board of directors of Satyam, the regulators, and the stock exchanges.[iv]

The revelation came as a shock to the company's 51,000[6] employees who faced a bleak future.[v] While some customers raised concerns over how the ongoing projects would continue, others were anxious that their brand image would take a beating since they were associated with a scam-hit company.

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1 The title of the case is inspired by the book by TN Manoharan and Pattabhi Ram, "The Tech Phoenix: Satyam's 100-Day Turnaround," *Rupa Publications India Pvt. Ltd*, 2022.

2 HDFC (Housing Development Finance Corporation) was founded in 1977. It provides home loans apart from other property related services and specialized financial services.

3 Founded in April 1935, the Reserve Bank of India is the central bank in India. It is responsible for regulating the banking system in the country.

4 Tech Mahindra Ltd., earlier known as Mahindra British Telecom (MBT), was a joint venture between the India-based conglomerate Mahindra & Mahindra and the UK-based BT Plc. MBT was renamed Tech Mahindra in 2006.

5 As of April 13, 2009, 1US$=INR49.9. (Source: "U.S. Dollar / Indian Rupee Historical Reference Rates from Bank of England for 2009," https://www.poundsterlinglive.com/bank-of-england-spot/historical-spot-exchange-rates/usd/USD-to-INR-2009).

6 As of January 2009, Satyam had 45,297 regular employees and contract workers. In addition to this, direct billing force accounted for 1,628 employees and employees on payroll of Satyam's subsidiaries accounted for 4,075. Thus the employee count stood at 51,000. (Source: TN Manoharan and Pattabhi Ram, "The Tech Phoenix: Satyam's 100-Day Turnaround," Pg. 87, *Rupa Publications India Pvt. Ltd*, 2022.)

Soon after Raju's confession, the Indian government decided to intervene as it felt that employees of Satyam would lose their jobs, vendors and customers might terminate their contracts with the company, and investors would file class action lawsuits. The government felt that the Satyam fiasco would impact India's image in the global market at a time when the Indian Information Technology (IT) industry had put the country on the world map, making India a preferred destination for IT outsourcing. The government also believed that if the issue was left untended, foreign investors would be hesitant to make investments in the country. Subsequently, the government dissolved the existing board of Satyam and nominated veterans Kiran Karnik (Karnik) former president of NASSCOM[7]; Deepak Parekh (Parekh) chairman, HDFC; C Achuthan (Achuthan), director of the National Stock Exchange[8]; Tarun Das (Das), chief mentor of the Confederation of Indian Industry[9] (CII); and T Manoharan (Manoharan), former president of The Institute of Chartered Accountants of India[10] (ICAI), to resurrect the company. Balakrishna Mainak (Mainak), a chartered accountant, also joined them after Life Insurance Corporation of India[11] (LIC) sought a nomination on the Satyam board.

The government-appointed board faced the Herculean task of restoring fiscal sanity, ensuring business continuity of operations, and engaging with the Satyam employees to keep them motivated in reviving Satyam. Since most of the consumers raised concerns over the continuity of projects, the board assured them that the company would complete the projects on time. According to Karnik, *"All of us on the board felt it was a critically important issue for Satyam, its 50,000 employees, and equally important for the sector because we wanted to show that the Indian IT industry is resilient…That it can face crisis, and overcome it. Also, it was a matter of the country's image. So, our ability to handle the crisis was paramount."*[vi]

The Satyam board faced several challenges while reviving the company. As of December 2008, INR 20 billion was due to suppliers and service providers. Provident fund and tax deducted at source had to be remitted for the month of December 2008, a statutory default of which could have legal ramifications. To add to their troubles, some of the customers were hesitant to make payments as they had concerns about the projects being completed by the company, while others wanted to terminate the agreement since they did not want to be associated with a company with a tainted image.

The government-nominated board tackled all the challenges and after a three-month long process – in February 2009 – the board started the process of identifying a strategic investor for Satyam after taking the approval of the Company Law Board[12] (CLB) and the Securities and Exchange Board of India[13] (SEBI). On April 13, 2009, Tech Mahindra stood as the highest bidder and acquired Satyam. After the acquisition, Satyam was renamed as Mahindra Satyam.

The international media appreciated the public-private partnership between the Indian government and its appointed board of directors for successfully reviving the company without injecting the tax payers' money *(Refer to **Exhibit I** for how the board revived Satyam).*

Going forward, Mahindra Satyam had to tackle the challenges of settling the lawsuits against Satyam, restating its financial accounts, client attrition, and excess manpower.

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7 NASSCOM (National Association of Software and Service Companies) is a chamber of commerce for Information Technology industry in India.

8 Founded in 1992, the National Stock Exchange of India Limited is a stock exchange in India.

9 Founded in 1895, the CII (Confederation of Indian Industry) is an advocacy group and a trade association which engages academic, political, business, and other leaders for shaping regional, industry, and global agendas.

10 The Institute of Chartered Accountants of India (ICAI) was set up under the Chartered Accountants Act, 1949, with the aim of regulating the profession of Chartered Accountancy in India.

11 Founded in 1956, the Life Insurance Corporation (LIC) of India is a public sector life insurance company in India.

12 The Company Law Board is an independent quasi-judicial body with the power to monitor the conduct of companies in the purview of company law.

13 The Securities and Exchange Board of India (SEBI) regulates the securities market in India. It caters to the needs of securities issuers, investors, and market intermediaries.

SATYAM – BACKGROUND NOTE

Satyam was incorporated in 1987 as a private limited company providing software development and consultancy services. Raju and his brother Rama Raju were the promoters of the company. Before starting Satyam, they were involved in other businesses like construction and textiles. The company started operating from Hyderabad in India with 20 employees.[vii]

In 1991, Satyam was listed on the Bombay Stock Exchange[14]. The same year, i.e., in 1991, it went in for an IPO which was oversubscribed by 17 times.[viii] Satyam bagged a project with John Deere & Company[15] – its first Fortune 500 client — the same year. During this time, Satyam was one of the first companies to start the off-shoring model for offering IT services remotely.

In 1993, Satyam entered into a joint venture with Dun & Bradstreet[16] for IT services, followed by another joint venture with US-based business conglomerate, General Electric. In 1996, the company set up two offices in the US and one in Japan. In 1998, the first overseas development center was started in New Jersey, US.

By 1999, Satyam had operations in 30 countries across the world and was assessed at SEI CMM Level 5[17]. By the year 2000, the company had 10,000 employees.[ix] In 2001, Satyam was listed on the National Association of Securities Dealers Automated Quotations[18] (NASDAQ).

By 2004, Satyam was operating in diverse business segments such as financial services, insurance, banking, healthcare, manufacturing, telecom, and retail. The company's revenues crossed the US$1 billion milestone in 2006.[x]

In 2008, Satyam recorded revenues of US$2 billion with a net income of US$417 million. It had 45,969 employees as of March 2008.[xi] Some of its most prominent clients were GE, Nestlé, Fujitsu, and Qantas Airways.

Over the years, Satyam grew to become the fourth largest IT company in India. However, this was before Raju confessed that the Satyam accounts had been inflated. Several investigations revealed that the accounting irregularities had begun in April 2002 and had continued till Raju had confessed to the fraud in September 2008.

In 2007, multinational professional services company Ernst & Young named Raju as 'The Entrepreneur of the Year'. The same year, US-based internal audit certification company the Institute of Internal Auditors gave 'The Recognition of Commitment Award' to the internal audit team of Satyam. In 2008, Satyam won 'the Golden Peacock Global Award' from UK-based World Council for Corporate Governance for the company's corporate governance practices. Once the Satyam scam broke out, the World Council for Corporate Governance took back the award. The chairman of the award committee said, *"The award was obtained as a result of non-disclosure of material facts and therefore, Satyam does not deserve it."*[xii]

For the Financial Year (FY) 2010, Mahindra Satyam reported a total income of INR50.66 billion *(Refer to **Exhibit II** for a four-year financial summary of Satyam)*.[19]

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[14] Founded in 1875, the Bombay Stock Exchange or BSE is a stock exchange in India.

[15] Based in Illinois, John Deere & Company manufactures combine harvesters, tractors, and other equipment used in the agricultural industry.

[16] Dun & Bradstreet is a US-based company that offers business information for use in supply chain management, B2B marketing, and credit decisions.

[17] The Capability Maturity Model (CMM) is a method which helps in developing and refining the software development process of an organization. At maturity level 5, the focus is on improving process performance continually through technical changes/improvements. CMM was developed by SEI, the Carnegie Mellon Software Engineering Institute.

[18] NASDAQ was founded in 1971. It is the largest electronic securities exchange in the US, where more than 3,800 companies are listed.

[19] Mahindra Satyam, Annual Reports 2008-2009.

THE CONFESSION

On January 7, 2009, in an e-mail written to the board, the chairman of SEBI and stock exchanges, Raju stated that, for at least six quarters, Satyam had reported inflated figures of its revenues and profits. He added that the accounting irregularities had been carried out without the knowledge of the board, the auditors, or the senior managers at Satyam.

With this confession, Raju, who had been reputed as a leading entrepreneur and a visionary, came to be known as the perpetrator of India's largest corporate scandal. After the announcement, the market capitalization of Satyam registered a drop of 82%, falling from INR151.83 billion to INR6.62 billion.[xiii]

On the whole, as per Raju's confession, the accounting irregularities amounted to INR71.36 billion *(Refer to **Exhibit III** for details of how Satyam inflated profit figures)*.[xiv] In the letter addressed to SEBI, Raju said, *"What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly. The differential in the real profits and the one reflected in the books was further accentuated by the fact that the company had to carry additional resources and assets to justify higher level of operations – thereby significantly increasing the costs."*[xv] He also wrote that the Maytas[20] acquisition was a last-ditch attempt to 'fill the fictitious assets with real ones.'

Soon after the disclosure, Raju resigned from his post of chairman of Satyam. Subsequently, the company appointed Ram Mynampati (Mynampati), president and whole-time director, Satyam, as the interim CEO of the company. Mynampati announced that the company's cash position was very weak. After the disclosure of the accounting fraud, Satyam's shares plunged by 77.69% to INR30.[xvi] Two days later, Raju and his brother were arrested. The board of the company was also dissolved.

Satyam's external auditor UK-based multinational professional services company Pricewaterhouse Coopers (PwC) also came under scrutiny as it had approved the misrepresentation of revenues and profits in Satyam's financials. In January 2009, PwC reported that its audit might be "inaccurate and unreliable" given the disclosure made by the company. The Securities and Exchange Commission[21] (SEC) initiated a probe and accused PwC of *"failing to comply with some of the most elementary auditing standards and procedures."*[xvii] Subsequently, PwC had to pay a penalty of US$ 7.5 million over its auditing work for Satyam.[xviii]

THE GOVERNMENT INTERVENES

Soon after reading Raju's e-mail, Chandrashekhar Bhave, chairman of SEBI, and Prem Chand Gupta (Gupta), then cabinet minister in the Ministry of Corporate Affairs[22] (MCA), sought to take immediate action. Consequently, on January 8, 2009, SEBI announced an investigation into the accounting irregularities at Satyam. While SEBI was making its own efforts, the Prime Minister's Office (PMO) wanted the MCA to handle the situation. The MCA asked Som Mittal (Mittal), the then president of NASSCOM, to understand the dilemma and file a report. Subsequently, Mittal met the leadership team at Satyam and later gave a briefing to the MCA. This was followed by several meetings in New Delhi, the capital city of India, after which three options were shortlisted to handle the crisis.

The first option was to let the market decide what was destined for Satyam like in the case of American global financial services company Lehman Brothers. In 2008, when the US banking major filed for bankruptcy attributed to the global financial crisis, the then US government led by president

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[20] On December 16, 2008, Satyam announced its plans to acquire two of Raju's infrastructure companies – Maytas Infra and Maytas Properties. However, the institutional investors opposed the deal as there were no synergies between Satyam, an IT company, and Maytas, which were infrastructure companies.

[21] The Securities and Exchange Commission is an agency under the US government which regulates the securities market and protects the interests of the investors.

[22] The Ministry of Corporate Affairs is a ministry under the Indian government which deals with the administration of the Companies Act 1956, the Companies Act 2013, the Limited Liability Partnership Act 2008, and the Insolvency and Bankruptcy Code, 2016.

George W Bush did not bail out the investment bank. However, several people in the MCA felt that if Satyam, which was listed on the NYSE, was allowed to fall, it would negatively impact foreign investment coming into India. In addition to this, the ministry felt that this would affect India's reputation in the global markets as Satyam in its annual reports stated that the company had more than 650 clients out of which 185 were Fortune 500 companies.[xix] There were other concerns too. If Satyam was left to its fate, its associates would be unemployed, the ministry stated. This could also put the Indian government in an awkward situation as India was being projected as a preferred nation for process outsourcing, according to the MCA.

The MCA felt that there were other challenges such as the huge probability that investors in the US would file class-action lawsuits against Satyam if the company was left to its fate, that service providers and vendors would terminate their contracts and claim their dues from the assets of Satyam. The MCA also believed that government agencies, especially the tax department would freeze Satyam's bank accounts and attach properties under several laws to get their money back from the company. All these challenges, the ministry felt, could put an end to any chance of the company being revived. Thus, the ministry decided not to execute this plan.

The second plan was that the Indian government would put in money to bail the company out. However, the ruling government felt that this was a risky proposition as it could be accused by other political parties of abusing the taxpayers' money to save a private company. Hence, the government came up with the third alternative, which involved dissolving the existing Satyam board and constituting a new board comprising government nominees from several fields. With this public-private partnership, the government aimed to safeguard the interests of several stakeholders such as employees, customers, and investors while redeeming India's image in the global markets.

THE 100-DAY TURNAROUND PROCESS

Setting up the New Board

On January 8, 2009, Anurag Goel (Goel), secretary of MCA, called Karnik, Parekh, and Achuthan, and requested them to be part of the new Satyam board. The government also got in touch with Das and Manoharan. All of them agreed to be part of the government-appointed board.

On January 9, 2009, the CLB suspended the existing board of directors, allowing the government to set up the new board. The new board was instructed to meet within seven days of its being constituted. It had to take the necessary steps to resurrect the company and submit periodical reports to the government on the company's state of affairs.

On January 12, 2009, the first board meeting was held with Karnik in the chair. The number one priority for the board was to restore the confidence of the public in the company by ensuring business continuity.

During this time, LIC asked the government for a board representation in the company. The LIC had a 4.34% stake in Satyam, as of 2008.[xx] The MCA agreed and LIC nominated Mainak as a director on the new board of Satyam.

On January 13, 2009, PwC wrote to the new Satyam board stating that the audits performed by them from the quarter ending June 30, 2000, till the quarter ending September 30, 2008, had been done on the basis of records and books produced by the Satyam management. According to PwC, *"We wish to advise that the company should promptly notify any person or entity that is known to be relying upon or is likely to rely upon our audit report that our audit opinion should no longer be relied upon."*[xxi]

Tackling Legal Issues

On January 17, 2009, the second board meeting was held with Parekh chairing the session. For handling Satyam's litigations in the US, the board hired global law firm Latham & Watkins LLP (L&W). To handle legal issues in India, the company hired Amarchand & Mangaldas & Suresh A Shroff & Co. (AMSS), one of leading law companies in India, as legal advisors.

Soon after the appointment, the managing partner of AMSS, Shardul S Shroff (Shardul), and his wife Pallavi Shroff (Pallavi), informed the board of the steps that had to be taken to protect the interests of Satyam. In addition to this, they stated that it was necessary to take proactive measures in the US to avoid any unforeseen issues cropping up. Subsequently, the Satyam board requested Shardul and Pallavi to communicate with the in-house legal team of Satyam to discuss matters related to the court cases in the US that L&W was dealing with. The board also informed L&W to take care of meeting the regulatory requirements while defending claims in the US and keeping them up to date on such matters. AMSS also advised the board to obtain immunity for the actions taken by them by moving the CLB. Subsequently, the board told the legal team to file the necessary documents.

The board along with Shardul and Pallavi decided to hire a firm for doing a proper forensic investigation and restating the financial statements of Satyam from 2002 to 2008. Since Satyam was listed on the NYSE and had a global presence, the board felt that a multinational accounting firm had to be engaged. Hence, the board enrolled both KPMG[23] and Deloitte Touche Tohmatsu[24] as forensic auditors[25] given the fact that transactions for six years had to be covered and also the urgency of the situation.

After hiring the forensic audit firms, Manoharan met Udayan Sen, CEO of Deloitte India, and Russel Pereira, CEO of KPMG India, to discuss how the accounts of Satyam were to be reinstated at the earliest. He told both the firms that they had to identify fraudulent accounting transactions and help Satyam in preparing restated financials. The firms had to write to customers and the banks to confirm their balances and restructure the customer ledger accounts. Manoharan suggested that the firms identify every related party transaction while analyzing both current assets and liabilities. They would have to use data analytics to compare and reconcile the internal data with the external data obtained from customers, vendors, banks, and other agencies. The team had to collate and secure the electronic data including emails to decide how the fraud had been committed.

To take care of the auditing process, the board formed an audit committee comprising Manoharan, Mainak, and Achuthan. Manoharan was responsible for looking into finance and internal audit. The audit committee recommended that the board appoint an accounting firm for an internal audit to be carried out. In most large corporates, the auditors performed process audits and test checks were done to verify whether the controls and procedures were in place. In the case of Satyam, an in-house team led by auditor VSP Gupta carried out the audit. The audit committee noted that earlier, the transactions audit had been totally omitted and day to day transactions had been verified on a sample basis. If the transaction audits had been in place in Satyam, the auditors would have discovered the fictitious nature of some of the Bills, Manoharan pointed out.

Mitigation Measures

Having noted the legal matters, the board turned to the business leaders of the company – TR Anand, Sriram Papani, Ravi Bommakanti, and Keshab Panda. The leaders requested the board to speak to the Satyam's customers and assure them that the projects were in progress. The finance team at Satyam comprising Venkatakumar Raju, V Ramesh Kumar, and G Subramanian, informed the board that the cash position of the company was not sound. A sum of at least INR5 billion would have to be injected for the salaries of the associates to be paid for the month of January 2009.[xxii]

The Satyam leadership also stressed to the board that there was a need for speed. There were concerned that customers would have contingency plans and the company had already lost 20% of the existing business with one of the long standing customers exiting the company. The business loss from this exit would work out to more than US$100 million, impacting 1,000 associates. The leadership feared that

23 Founded in 1987, KPMG is a professional services –company which provides tax, audit, and advisory services.

24 Deloitte Touche Tohmatsu is a professional services company which provides enterprise risk, audit, tax, and advisory services globally.

25 Forensic accounting is an area of accounting where accounting experts are involved in situations resulting from litigations or disputes.

another US$100 million would be lost if two major customers transitioned to other service providers.[xxiii] The leadership team suggested that two actions could temporarily salvage the situation, the first being to publicly commit to the associates that salaries would be paid for the month of January 2009 and the second being to appoint a CEO to show that the company was in control.

Retaining Customers

In January 2009, Das and Karnik briefed customers such as Applied Materials, GSK, and Cisco about the revival plan. Karnik also spoke to Gartner. The board also sent personalized emails to all its key customers to make them aware of the positive developments taking place at the company.

Some of Satyam's top notch customers such as Nestlé, Walmart Caterpillar, National Australian Bank, and Nissan called the board members for some clarifications. The board assured them that Satyam would complete their projects and deliver them on time without compromising on quality.

On January 30 and 31, 2009, Manoharan was in Bahrain on some ICAI-related work. During this time, he devoted some of his time to meeting clients of Satyam and also to motivating associates who were working in Bahrain. Manoharan met Satyam's associates Fayez Ramzy Fayez and Souvik Dey to understand the status of the projects undertaken in the country.

During this time, Satyam was servicing Bank Muscat International (BMI) on a US$20 million contract.[xxiv] Manoharan learned from the executives that BMI was hesitating to continue doing business with Satyam. Hence, he fixed up an appointment with BMI CEO Andrew Bainbridge (Bainbridge) and COO Marco Peter Walters (Walters).

Manoharan briefed them on the government initiatives and the measures the board was taking to resolve all their concerns. Walters wanted the contract with Satyam to be amended before releasing the amount of US$500,000 which was due to Satyam from BMI. He also wanted a bank guarantee, which was equivalent to liquidated damages, and a stringent measurement of the completion of milestones. Manoharan negotiated for partial modifications and prevented a client from leaving.

Manoharan then went to Bahrain Telecommunications Co. (Batelco), a leading player in the telecom space. Peter Kaliaropoulos (Kaliaropoulos), CEO of Batelco, had doubts over Satyam's ability to deliver on time. The project was already behind by a few weeks due to visa issues and other disruptions and Kaliaropoulos wanted to sever ties with Satyam. However, Manoharan spoke to the Hyderabad[26] office and advised them to clear the bills of the visa agent. He also spoke to the agent to get the visas and renew them without any delay. Manoharan assured the visa agent that all his arrears would be cleared. Kaliaropoulos was pleasantly surprised by the measures Manoharan had taken in just one day to clear all the operational issues. He staggered the US$3.5 million contract payments due to Satyam based on the milestones achieved by the company and agreed to the modified terms. Thus, another client was saved.

On February 4 and 5, 2009, the board meeting was chaired by Achuthan. BCG suggested that AS Murthy (Murthy), head of Global Delivery and Leadership Development at Satyam, be appointed as the interim CEO of the company. The board also appointed Homi Khusrokhan (Khusrokhan) and Partho Datta (Datta) as special advisors to assist the company in management and finance respectively. Khusrokhan and Datta supported Murthy and the government-appointed board in defining priorities and effectively accomplishing them. After the meeting, in the press release, Achuthan said, *"I am confident we are on the right track and we will be able to safeguard the interests of our customers, associates, investors, and other stakeholders."*[xxv]

Satyam's SWOT Analysis

According to Manoharan, Satyam had world-class infrastructure, an excellent talent pool, premium customers, and low borrowings. He believed that the company acquiring Satyam would have access to all these and could resurrect the business. He pointed out that the major drawbacks for any company acquiring Satyam were the tainted image of the company and its huge operational costs. The board implemented some cost reduction measures. For example, the associates were made to go in for video

[26] Hyderabad is the capital city of Telangana, a southern state in India.

conferencing rather than traveling, a practice that was already catching on because of the global financial crisis. Physical journeys were to be undertaken only when absolutely necessary. Since boarding and lodging would incur costs, overnight travel was encouraged and the company entered into tie-ups with hotels for a discounted tariff.

Another weakness observed by Manoharan was that there was a lack of controls and processes at the company. Human intervention had been involved in the import and export of data from verticals to the finance department due to which Satyam's financial statement could be manipulated. He suggested that the company should have automation to protect the authenticity of the data.

Satyam's two campuses in Hyderabad could be pledged for INR17 billion and this provided the company an opportunity to take loans from IDBI and Bank of Baroda (BoB).

According to Manoharan, the government offered unconditional support during the revival of Satyam. In addition to this, the SEBI, the MCA, and the CLB gave the board huge strength to carry out action plans without any legal issues.

On March 31, 2009, the government made the new board to be regarded as a government company for specific purposes. According to Manoharan, the government never intervened in any of the company's strategies or execution. It was given 100% freedom and independence, which helped it make quick decisions.

According to Manoharan, the government-nominated board also led to confidence being restored among investors, customers, and associates. He pointed out that while Parekh was known in the banking sector, Karnik had a huge network as president of NASSCOM. Manoharan added that Das had experience in making companies work in adverse situations, while Achuthan knew the capital market legal system, and Mainak's presence on the board gave a positive signal to other shareholders of Satyam that the company would be revived. Manoharan stated that his experience at ICAI, devoting full time to the board, and taking operating decisions also worked in the company's favor.

Manoharan pointed out that the most challenging part during the 100-day revival process was handling the media as they were constantly looking for news which could be sensationalized. He also stated that while they were working as part of the government-nominated board, many government departments were making the revival process challenging. For instance, the Income Tax department froze Satyam's bank accounts. Foreign banks were also rigid in their conditions related to repayment of loans and securities.

Bidding for new orders also hit a roadblock for Satyam. The tenders required companies to furnish financials for the years 2005 to 2006, 2006 to 2007, and 2007 to 2008. This was difficult for Satyam as there were accounting irregularities at the company during that period. Companies bidding for new tenders also had to provide bank guarantees for bidding and performance but bankers wanted a 100% margin in some cases and 110% in others.[xxvi] A few tenders asked the company to attach a solvency certificate, which would confirm that the company had a positive net worth and that the realizable value of its assets was more than the payable value of its liabilities. This certificate was required by commercial offices and the government to assure them about the financial position of entities or individuals. However, Satyam was able to get some brand new contracts and some renewals despite such hassles, giving it an impetus during the revival process, according to Manoharan.

Satyam also had to deal with class action lawsuits filed in New York. Damages were claimed for the erosion of wealth due to a drop in stock prices. The investors stated that this was attributed to the falsification of financial statements by the company. The company instructed its lawyers in the US to defend Satyam in the class action lawsuits and in matters requiring compliance with SEC requirements.

Motivating Associates

Despite facing several challenges, the board focused on boosting the morale of its associates since employee motivation levels were at an all-time low. They urged the employees to stay positive and focus on reviving the company.

The board encouraged the marketing team to aggressively bid for new projects and let the world know that Satyam was back in business. This worked in the company's favor as it was able to get some projects from existing customers and some new customers as well. When these initiatives began to show results, the associates cheered up.

Every evening the board sent out an electronic news bulletin to its associates under the title 'News Today'. In it, the company shared the positive news that was happening in the company and the revival steps that were being taken. A 'Direct from the Leadership' campaign was also carried out wherein the business leaders gave their team pep talks each day, making the associates more confident and encouraging them to put in extra efforts during these testing times.

An initiative called 'Surf the Board' was started to help the associates know what was happening in the company. The bytes from the board members were spread through the Intranet (Satyam World) and News Cast (News Today Live), and were also uploaded on YouTube.

In addition to this, 24/7 helpdesk services were set up for flow meetings. Clarifying of queries and learning interventions were arranged and counseling was given at project locations where the attrition rate was high. Another campaign called 'The Breaking News Buzz' flashed positive news to the associates instantly. After the board launched the 'Surf the Board' campaign, daily queries decreased from 60 per day to less than five. Once the board initiated the Direct from the Leadership program the queries fell to zero. The associates focused on delivery believing that the company was in safe hands.

To motivate Satyam's associates, Manoharan said, *"I am now part of Satyam and one among you. We, the board, are with you in this task to bring the company on track. Join hands with us in the revival, and we can turn Satyam around soon. After that, you can look back with a sense of satisfaction that you did the right thing in staying with the company when it mattered the most."*[xxvii]

Building Synergy with Customers

Manoharan believed that they could retain the customers of Satyam as the company had a great talent pool and a history of delivering high quality services to its customers. Most of the customers said that the quality of delivery had improved phenomenally after Raju's confession. Another factor which worked in favor of the company was that it assured its customers that if they were unhappy with its work, they could switch to another service provider and the company would ensure a smooth transition. According to Manoharan, the frank conversation with the customers built their trust in the company and made them willing to wait and watch *(Refer to **Exhibit IV** for new projects bagged by Satyam with existing customers)*.

Raising Funds

The board members requested Parekh to speak to bankers who would extend loans to Satyam. Parekh spoke to IDBI and Bank of Baroda (BoB) seeking a loan of INR3 billion, to which both the banks consented to lend. Subsequently, all the necessary formalities to get the documentation done were started. The board also focused on expediting the customer collections and executing cost optimization measures in a bid to raise more money *(Refer to **Exhibit V** for Satyam's cash flows from January 9, 2009 to March 31, 2009)*.

Finding a Strategic Investor

On January 22 and January 23, 2009, the government-nominated board conducted its third board meeting. Das headed the meeting and the board members decided to revive the business, carry out forensic investigations, initiate actions for restating the financial accounts, handle court cases and claims, and find a strategic investor for Satyam who could have a controlling stake in the company.

The board felt that to retain its customers and its associates, it was crucial to bring in a new owner. Thus, the board decided to find a strategic investor.

The board appointed Goldman Sachs[27] and Avendus Capital[28] as investment bankers for advising the company on strategic options to find a potential suitor. These options included identifying strategic

[27] Goldman Sachs is an American investment banking, investment management, and securities company.

[28] Avendus Capital is an India-based investment bank, which provides services like M&A solutions, capital raising, etc.

investors, ensuring a fair and transparent approach to the entire process, and obtaining expressions of interest. The Boston Consultancy Group[29] (BCG) was appointed as management advisor.

On February 19, 2009, the CLB made an announcement allowing Satyam to induct a strategic investor and also increased the authorized equity share capital of the company from INR1.60 billion to INR2.80 billion.[xxviii]

In February 2009, the board planned to have an open bidding process for selecting the company's strategic investor and decided to sell a 31% stake in the company by issuing new shares. The winning bidder was required to acquire 20% of the shares from the secondary market. The board also retained the option of issuing an additional 20% shares, in case the winning bidder failed to obtain them from the market.[xxix]

The Registration Process

On March 9, 2009, the registration process was started by Satyam to bring in a new suitor. On March 13, 2009, the board gave the bidders a request for proposal (RFP) Document. The RFP stated how the bidders could submit their expression of interest (EOI). The board also wanted the bidders to file their audited financial statements for the previous three years. It wanted proof that they had INR15 billion to back their bid. The RFP also provided the criteria for disqualification and the process for selecting the successful bidder.

Since the process for finding a strategic investor had to be done under a former chief justice of India or a retired judge of the Supreme Court, the board appointed Justice Sam Piroj Barucha (Barucha), retired chief justice of India, Karnataka High Court, India. The board decided that if the second highest bid was less than 90% of the highest bid, the highest bidder would be declared the winner. Otherwise, there would be another round of sealed bids among the bidders. The board in consultation with Barucha would declare the bidder who submitted the highest bid in the second round as the winner.

In the end, only three bidders – L&T, Tech Mahindra, and WL Ross and Company were left. Tech Mahindra participated in the bidding process through Venturbay Consultants Private Limited, the company's wholly-owned subsidiary.

In March 2009, Khusrokhan and Datta told the bidders where the strategic investor could bring in value. They said, *"Put in place a new road map, restore Satyam to its high-growth chart and establish highest levels of corporate governance. Leverage Satyam's pull on customers, bring in a strong bottom-line focus, and above all, preserve the Company's spirit of engagement in CSR."*[xxx]

The Winner

April 13, 2009 was the day of the bidding. All the bids were evaluated for technical competency and all three bidders cleared the financial round. L&T made a bid of INR45.9, Tech Mahindra's bid stood at INR58, and WL Ross & Co.'s bid stood at INR20. Tech Mahindra's bid was the highest and the second bid was below 90% of the offer.[xxxi] Hence, there was no need for an auction. The board verified the source of money for supporting the price quoted and Tech Mahindra gave the confirmation. The board then declared Tech Mahindra as the winner. Tech Mahindra had to inject a capital of INR28.89 billion to take over Satyam.

The international media appreciated the government-appointed board since this was a unique story of a turnaround. They felt that not many turnarounds had been achieved through a public-private partnership without a penny of the taxpayers' money being injected.

Appreciating Satyam's resurrection, Samir Arora, fund manager at Helios Capital Management[30] said, *"This has been a remarkable job from the government and the board to have turned this around so completely and there is nothing to add. It has been very well done. This could be an operating model for many other scams that we discover in India."*[xxxii]

[29] The US-based Boston Consultancy Group is a management consulting firm with a presence in 38 countries as of 2009.

[30] Helios Capital Management is a financial consultant in Mumbai, a city in India.

On April 16, 2009, the CLB approved the INR58 per share offer given by Tech Mahindra believing that the new owner would nurture the ailing company back to health. Tech Mahindra deposited INR29.10 billion in the escrow account, which included INR17.56 billion toward a 31% stake and INR11.54 billion toward the open offer. Of the total amount, INR7 billion was from Mahindra's own funds and the remaining amount was raised through debt.[xxxiii]

On April 20, 2009, representatives of Tech Mahindra, including Anand Mahindra, vice-chairman and managing director, Mahindra Group, and chairman, Tech Mahindra, met the board of directors and a few of the top executives of Satyam.

On April 22, 2009, Tech Mahindra announced that its offer to buy shares of Satyam from the open market would begin on June 12, 2009, and would last till July 1, 2009. During this period, Tech Mahindra planned to buy 199 million shares at INR58 each. The offer was extended to the company's US-listed shares also. In case Tech Mahindra failed to acquire 20% shares through this offer, additional preference shares would be issued by Satyam. In order to make the transition smooth for Satyam, Tech Mahindra chose not to bring in many changes in the way Satyam functioned. Tech Mahindra put in place an integration team to facilitate the integration of both the companies.

Tech Mahindra announced that Satyam would function as an independent company. Murthy, the interim CEO of Satyam, would continue to be its CEO while Mynampati, would continue as President. According to Vineet Nayyar (Nayyar), CEO, Tech Mahindra, the immediate agenda of Tech Mahindra as far as Satyam was concerned was to win back the confidence of investors, recoup its financial health, retain the company's talent pool, regain lost clients, and retain existing ones.

As per the agreement between Tech Mahindra and Satyam a list of 100 top executives were to be retained by Tech Mahindra for at least a year. It specified that Tech Mahindra could not undertake unrelated businesses without the prior approval of the shareholders. As per the agreement, Satyam would help Tech Mahindra in making the required filings with and approvals, exemptions, etc., from SEBI, the Securities Exchange Commission in the US, and the NYSE, where Satyam was listed.

LOOKING AHEAD

In May 2009, Tech Mahindra repaid the loans taken from the IDBI and BoB. The company settled the Upaid Systems[31] (Upaid) case for US$ 70 million.[xxxiv] In June 2009 Satyam was renamed as Mahindra Satyam.

In 2010, the forensic investigators after probing Satyam's accounts found that the accounting irregularities had been taking place at the company since April 2002 and were to the tune of INR67.63 billion or US$ 1.35 billion.[xxxv] This was close to Raju's revelation of INR70 billion fraud. Having announced the financial irregularities, Nayyar said, *"With this announcement, we have fulfilled an important commitment and kept to our promise of transparency and agility. It also marks the beginning of a more significant journey of growth in the future."*[xxxvi]

Going forward, Mahindra Satyam had to cut down on costs, retain its associates, and use the company's talent pool to deliver quality service. Analysts felt that Mahindra Satyam was helping Satyam regain its lost glory as the company recorded revenues of US$5.998 billion as of March 31, 2022 thus becoming India's fifth largest IT services company.[xxxvii]

QUESTIONS FOR DISCUSSION

1. What are the lessons learned in crisis management from the case? Suggest alternative ways in which the crisis could have been handled by the government-appointed board.
2. Examine the role played by the government constituted board in reviving Satyam. Was there a structured path adopted by the board to revive Satyam, which could become a template for reviving loss making companies in future?
3. Define corporate governance. Critically analyze the corporate governance practices at Satyam. Why did the company's board fail to fulfil its responsibilities?

[31] Upaid is an online and mobile payment services company.

Exhibit I:

The Revival of Satyam

Year	Event
June 24, 1987	Satyam was incorporated as a private company.
August 26, 1991	Satyam goes public.
December 16, 2008	A board meeting takes place wherein acquisition of Maytas properties by Satyam is discussed.
January 7, 2009	Raju confesses that he had been inflating revenues and profits for several quarters in the past.
January 8, 2009	Goel speaks to prospective members of the government-appointed board.
	SEBI launches an investigation into the accounting irregularities at Satyam.
	RoC seizes electronic records and books from Satyam's offices.
January 9, 2009	CLB suspends the old board of Satyam.
January 11, 2009	Government announces the first set of new board members of Satyam.
January 12, 2009	First board meeting takes place at Hyderabad; chaired by Karnik.
January 13, 2009	PwC announces that the audit reports of Satyam are unreliable.
January 15, 2009	Government announces the second set of board members including LIC-nominated Mainak.
January 17, 2009	At the second board meeting chaired by Deepak Parekh, legal advisors and internal auditors are appointed.
January 18, 2009	Forensic auditors are appointed.
January 22, 2009 and January 23, 2009	Das chairs the board meeting to discuss continuity issues.
January 23, 2009	A petition is filed before SEBI for immunity of board members.
January 26, 2009	A strategy meeting is held at Hyderabad.
January 27, 2009	Manoharan chairs the meeting and investment bankers and BCG are appointed.
January 28, 2009	Legal advisors file a petition before the CLB for immunity. IDBI and BoB sanction loans to Satyam.
January 29-31, 2009	CLB grants immunity to the board.
February 4, 2009 and February 5, 2009	Achuthan chairs the board meeting. Murthy is appointed as CEO and Khusrokhan and Datta are appointed as special advisors.
February 6, 2009	Government appoints Karnik as Chairman of Satyam.
February 13, 2009	SEBI amends Takeover Regulations.
February 18, 2009	Board petitions SEBI for permissions and relaxations for the strategic investor while acquiring Satyam.
March 4, 2009 and March 5, 2009	Manoharan meets vendors and customers in the Middle-East.
March 9, 2009	Registration process for bidding begins.

Year	Event
March 13, 2009	RFP is sent to eligible parties.
March 21, 2009	Ten bid documents are evaluated.
March 24, 2009	Data room is created for bidders.
March 27, 2009	Management presentation is given to Tech Mahindra.
March 28, 2009	Management presentation is given to L&T.
March 29, 2009	Management presentation is given to WL & Ross.
April 3, 2009	Board meets bidders and answers their queries.
April 13, 1009	Tech Mahindra quotes the highest bid and is declared the winner.
April 16, 2009	CLB approves Tech Mahindra as the bidder.
April 20, 2009	Tech Mahindra pays INR28.89 billion into escrow accounts.
June 23, 2009	Satyam is renamed as Mahindra Satyam.
July 11, 2009	Tech Mahindra is allotted additional shares for gaining 51% controlling interest as per order from the CLB.
June 24, 2013	The merger between Satyam and Tech Mahindra is completed.
April 9, 2015	Raju is convicted.
March 31, 2020	Mahindra Satyam records a turnover of US$5.2 billion and has businesses in 90 countries with 125,000 employees.

Adapted from T N Manoharan and V. Pattabhi Ram, "The Tech Phoenix," Rupa Publications India Pvt. Ltd, 2022.

Exhibit II:
Four Year Financial Summary of Satyam*

(Rs in millions)

Particulars	2010-2011	2009-2010	2008-2009	2007-2008
Income from Operations	47,761	51,005	84,062	81,373
Other Income	2,899	129	617	2,572
Total Income	50,660	51,134	84,679	83,945
Operating Profit / (Loss) (PBIDT)	7,263	5,781	-12,031	20,856
Interest and Financing Charges	92	254	390	59
Depreciation / Amortization	1,499	1,908	2,972	1,379
Exceptional items	6,411	4,169	62,428	
(Loss) before Tax	-739	-550	-77,821	19,418
Provision for Tax	537	162	1,531	2,261
(Loss) after Tax	-1,276	-712	-79,352	17,157
Equity share capital	2,353	2,352	1,348	1,341
Reserves and Surplus	43,881	43,963	16,063	72,217
Debit balance in Profit and Loss Account	24,622	23,346	-22,634	51,177
Earnings per share				
INR Per equity share of INR2 each				
Basic (INR)	-1.08	-0.65	-117.91	25.66
Diluted EPS (INR)	-1.08	-0.65	-117.91	25.12

**Note: The details for 2007-2008 are as published by the previous management of Satyam Computers Limited.*
Source: Mahindra Satyam, Annual Reports 2008-2009, 2009-2010, and 2010-2011.

Exhibit III:
How Satyam Inflated Profits

According to Raju, the balance sheet of the company, as of September 30, 2008, had the following inflated figures:

- Inflated (non-existent) cash and bank balances of INR50.40 billion (as against the INR53.61 billion reflected in the books).
- An accrued interest of INR3.76 billion which was non-existent.
- An understated liability of INR12.30 billion on account of funds arranged by Raju.
- An overstated debtors' position of INR4.90 billion (as against INR26.51 billion reflected in the books).
- The revenue for the second quarter being reported as INR27 billion, whereas the actual revenue was INR21.12 billion.
- The operating margin being reported as INR6.49 billion (24% of the revenues), whereas the actual margin was INR610 million (3% of the revenues), resulting in cash and bank balances going up by INR5.88 billion in the second quarter of 2008-09.

Source: "Satyam Saga, Chairman Ramalinga Raju's Letter," www.businessworld.in, January 6, 2009.

Exhibit IV:

Satyam's New Contracts from Existing Customers

Opportunity Won	Region	Industry	New/Extension	TCV* ($ millions)	Duration (Years)
Customer 1	USA	Conglomerate	Extension & New	66	3
Customer 2	USA	Energy & Utilities	Extension	46	<1
Customer 3	USA	TIMES[32]	Extension	21	4
Customer 4	Rest of World	Retail	New	18	7
Customer 5	Europe	Manufacturing	New	16	<1
Customer 6	Europe	Manufacturing	New	11	<1
Customer 7	Global	Manufacturing	Extension	9	<1
Customer 8	USA	ISV	Extension	9	<1
Customer 9	Americas	Manufacturing	New	9	<1
Customer 10	USA	Energy & Utilities	Extension & New	6	<1
Others (205 customers)				169	
Total contracted value (from 215 customers)				$380 million	
Note: Customer names are confidential hence not displayed.					

Source: T N Manoharan and V. Pattabhi Ram, "The Tech Phoenix," Rupa Publications India Pvt. Ltd, 2022.

Exhibit V:

Cash Flows of Satyam (January 9, 2009 to March 31, 2009)

(in INR billion)

Cash Flow Summary	January[33]	February	March	Grand Total
Opening Balance A	143	300	482	143
Collections B	736	636	692	2,064
Loans C	-	300	69	369
Payments D	579	754	870	2,203
Surplus/deficit (B+C-D) E	157	182	(109)	230
Closing Balance (A+E)	300	482	373	373

Source: T N Manoharan and V. Pattabhi Ram, "The Tech Phoenix," Rupa Publications India Pvt. Ltd, 2022.

32 TIMES refers to Telecom, Infrastructure, Media and Entertainment, Semi-conductor.

33 From January 9, 2009 to January 31, 2009.

End Notes:

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