A CASE STUDY ON MEGA MERGER OF SBI WITH ITS ASSOCIATE BANKS AND BHARTIYA MAHILA BANK

Ms.Jaspreet Kaur,

Assistant Professor

Mgmt. Dept, Trinity Institute of Professional Studies, Dwarka

Merger and Acquisition is one of the major aspect of corporate finance world. M&A is defined as consolidation of firms. Merger refers to combination of two or more companies to form one. With an objective of wealth maximisation, companies keep evaluating different opportunities through the route of merger or acquisition because it is believed that two separate companies together create more value compared to being on an individual stand.

From the past few years Banking Industry is being consolidated to reap the benefits of mergers and acquisitions. Bank in general terminology is referred to as a financial institute or a corporation which is authorized by the state or central government to deal with money by accepting deposits, giving out loan and investing in securities. The main role of Banks are economic growth, expansion of the economy and provide funds for investment. In the recent times banking sector has been undergoing a lot of changes in terms of regulation and effects of globalization. These changes have affected this sector both structurally and strategically. With the changing environment many different strategies have been adopted by this sector to remain efficient and to surge ahead in the global arena. One such strategy is through the process of consolidation of banks which emerged as one of the most profitable strategy. There are several ways to consolidate the banking industry; the most commonly adopted by banks is merger. There have been several reforms in the Indian banking sector, as well as quite a few successful **mergers and acquisitions**, which have helped it, grow manifold. The first and the most successful example of merger is of New Bank of India merging with the Punjab National Bank (PNB). This was the **first merger between nationalized banks. And then there were a lot of mergers in banking industry which exemplified that mergers are beneficial for an industry.**

The most recent and largest merger in the history of banking industry was of State Bank of India with its 5 associate banks namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore(SBM), State Bank of Patiala(SBP), State Bank of Travancore(SBT) and Bharatiya Mahila Bank. It was on 1st April 2017 that "the SBI opened as 'one bank' and will continue to operate in the same manner as before, post-merger" - Bhattacharya told the media.

Shares of State Bank of India (SBI) and its listed associate banks (State Bank of Bikaner, State Bank of Mysore and State Bank of Travancore) gained 3-13 percent on the back of approval from the cabinet for their merger.

At 09:27 hrs, the next day after approval, State Bank of India was quoting at Rs 273.20, up Rs 4.55, or 1.69 percent on the BSE. SBBJ was quoting at Rs 752.45, up 4.80 percent, SBM was

trading at Rs 589 up 4.87 percent and State Bank of Travancore was quoting at Rs 590.10, up 5.38 percent. The rest two associate banks —State Bank of Patiala and State Bank of Hyderabad — are unlisted. The merger will bring nearly a quarter of all outstanding loans in India's banking sector to SBI's books.

Founded in 1806, Bank of Calcutta was the first Bank established in India, and over a period of time, evolved into State Bank of India (SBI). SBI represents a sterling legacy of over 200 years. It is the oldest commercial Bank in the Indian subcontinent, strengthening the nation's trillion-dollar economy and serving the aspirations of its vast population.

The Bank is India's largest commercial Bank in terms of assets, deposits, branches, number of customers and employees, enjoying the continuing faith of millions of customers across the social spectrum. SBI, headquartered at Mumbai, provides a wide range of products and services to individuals, commercial enterprises, large corporates, public bodies and institutional customers through its various branches and outlets, joint ventures, subsidiaries and associate companies.
SBI merged with its associate banks in order to have increased balance sheet and economies of scale. With this merger:

- SBI has entered into the league of top 50 global banks.
- It has now 24,017 branches and 59,263 ATMs serving over 42 crore customers
- SBI is now a banking behemoth with an asset book of Rs 37 lakh crore.
- The merged entity will have one-fourth of the deposit and loan market, as the SBI's market share will increase from 17% to 22.5-23%.
- SBI's asset base is now five times larger than the second largest Indian bank, ICICI Bank.

Apart from these facts, there are many perceived gains as well: the government, as shareholder, feels that now it will have six less capital-hungry banks to worry about. It was expected that a larger institution will be better equipped to deal with sticky loans, thereby enabling fresh credit outflows to productive sectors. Thus Productivity and efficiency are also among the expected benefits.

But these benefits were questionable due to SBI's legacy and ownership structure. **A former SBI chairman had once remarked that reforming SBI was trying to make an elephant dance.** Even discounting for exaggeration, according to the statement, a larger and unmanageable bank is getting even larger. The merger seems to overlook a critical, post-crisis concern - the too-big-to-fail (TBTF) question. The TBTF theory posits that some institution are so large and intricately interconnected with different parts of the economy that failure can create a systematic shock. This forced many government to bail out large financial institutions with taxpayer money. It might also be instructive to note that many countries have been formulating preventive TBTF regulations. Australia, for example, has prohibited any merger between the country's four largest banks.

This whole merger process was something like a shortgun wedding, with not enough opportunity to pause and ponder. There were many imponderables involved in this big merger, for example, the overlap in the combined physical network, the people question, or integrating disparate back-end systems and processes. Most recently the issue of employees has also come up. State Bank of

India’s mega merger with its associate banks has been anything but smooth for some of the latter’s employees. Whereas Officers and clerks working for the erstwhile associate banks feel that they have been given a raw deal with several instances of arbitrary transfers and many officers losing out on their seniority post the transfer. A senior official of the association said the employees are facing increased working hours as the servers at SBI are unable to handle the traffic, and they (the staff) are still adjusting to the new working conditions. There have been several instances of arbitrary transfers with allegations that SBI has not been following the rules governing transfers. Aggrieved SBI had filed a counter petition arguing that it was strictly complying with all the stipulations and safeguarding the interests of the employees of the associate banks and denied all allegations.

"The merger will affect the seniority of top officials of Associate Banks and will also result in redeployment or loss of jobs of some workmen and closure of branches and finally, the banks might lose some of their regular customers," said C.H. Venkatachalam, AIBEA general secretary

The bigger question was the impact that the merger would have on the health of SBI. Cumulative bad loans of the five associate banks were as big as 35% of the bad loans of SBI. Their slippage ratio stands at 20% and credit costs have deteriorated to 5.56%. Also, their Non Performing Asset (NPA) were around 4 times the NPAs of SBI alone. When these banks having deteriorating conditions join SBI, they will have adverse effect on SBI's health.

No doubt, the revenue will increase, but at what cost? What we need is not big, but strong, efficient and vibrant banks.

In order to understand the current scenario and throw light on the impact of merger on SBI, A comparison is drawn between pre merger entities (before merger SBI and associate banks) and post merger entity (after merger - the consolidated bank).

The Quarter that was – The Starting Point:

Rs. in Crores

SBI + ABs + BMB	31st March 2017 (Solo)	31st March 2017 (ABs)	1st April 2017 (Merged)
Total Deposits	20,44,751	5,40,569	25,85,320
CASA Ratio (%)	45.58	40.10	44.40
Gross Advances	16,27,273	3,25,234	19,52,507
Mkt. Share - Deposits (%)	18.13	5.04	23.17
Mkt. Share - Advances (%)	17.11	4.15	21.26
Number of branches	17,170	6,847	24,017
Total Staff	2,09,572	70,231	2,79,803
No. of customers (in lakhs)	3,375	829	4,204

SBI + ABs + BMB (Asset Quality Ratios)	31st March 2017 (Solo)	31st March 2017 (ABs)	1st April 2017 (Merged)
Gross NPA Ratio (%)	6.90	20.15	9.11
Net NPA Ratio (%)	3.71	12.99	5.19
Provision Coverage Ratio (%)	65.95	52.18	61.53
Slippage Ratio (%)	2.59	17.87	5.78
Credit Cost (%)	2.14	5.77	2.90

SBI + ABs + BMB	31st March 2017 (Solo)	1st April 2017 (Merged)
CET 1 (%)	9.82	9.41
Tier 1 (%)	10.35	10.05
CAR (%)	13.11	12.85
GoI Shareholding (%)	61.23	60.75

SBI + ABs + BMB (Financial Ratios)	31st March 2017 (Solo)	31st March 2017 (ABs)	1st April 2017 (Merged)
Cost to income Ratio (%)	47.75	57.66	49.54
Cost of Deposits (%)	5.79	6.31	5.84
Yield on Advances (%)	9.42	8.98	9.32
NIM (Domestic) (%)	3.11	2.35	2.93

Source : SBI Press Release (Q1 FY18 Results)

Details of terms for better understanding:

CASA Ratio : CASA ratio stands for current and savings account ratio. CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits

Gross NPA : A nonperforming asset (NPA) refers to a classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. Provisions made for NPAs are not considered in case of Gross NPAs.

Net NPA : Gross NPA - Provisions

Slippage Ratio : (Fresh accretion of NPAs during the year/Total standard assets at the beginning of the year)*100

Capital Adequacy Ratio (CAR) : The *capital adequacy ratio* (CAR) is a measure of a bank's *capital*. It is expressed as a percentage of a bank's risk weighted credit exposures.

Details of Profit and Loss account are as follows:

Rs. in Crores

	2016-17		2017-18	Growth Q1FY18 Over Q4FY17	Growth Q1FY18 Over Q1FY17
	Q1	Q4	Q1	%	%
Interest Income	54494	58968	54905	-6.89	0.76
Interest Expenses	36248	37903	37299	-1.59	2.90
Net Interest Income	**18246**	**21065**	**17606**	**-16.42**	**-3.51**
Non-Interest Income	8761	12222	8006	-34.50	-8.62
Operating Income	**27007**	**33287**	**25612**	**-23.06**	**-5.17**
Staff Expenses	7783	8914	7724	-13.34	-0.75
Overhead Expenses	5462	7064	6013	-14.88	10.08
Operating Expenses	**13245**	**15978**	**13738**	**-14.02**	**3.72**
Operating Profit	**13762**	**17309**	**11874**	**-31.40**	**-13.72**
Provisions	13388	20751	9869	-52.44	-26.29
Net Profit	**374**	**-3442**	**2006**		**435.88**

Source : SBI Press Release (Q1 FY18 Results)

As SBI needed reconstruction, this step of merger seems to be a smart step. Long term benefits of the merger will significantly outweigh the near term challenges. The resulting cost advantage; enhanced reach; and economies of scale from this merger, will help SBI sustain its mission of being an enduring value creator. But at the same time the enthusiasm to create massive banks through mergers needs to be tempered with scepticism.

On the basis of case given above, answer the following questions:

Q1. Why the big size of SBI (post merger) is matter of concern?

Q2. What are the employees related issues of this merger?

Q3. What effect this merger had on the share price of SBI and its associate banks?

Q4. Critically analyse the report given for pre and post merger details in respect of benefits and cost of merger

Q5. 'Mergers like this should be promoted for other Public sector banks'. Do you agree with this statement. Give reasons.

Hints for answers :-

1. The size of newly merged SBI is a matter of concern because this merger has transformed SBI into such a big entity that now it can lead to problem of Too Big Too Fail. Any failure of such an

institution can cause problems for the whole economy and government has to bailout these institution to avoid havoc.

2. After the merger the issues of employees has come up. Many senior employees have lost their positions and there were cases of arbitary transfers of employees. No rules or regulation are being followed for transfers. There were also issues related to the calculation of retirement benefits and gratuity of employees of associate banks. And instances of increased working hours to handle increased traffic from customer services has also come up. Thus these things are causing problems for the employees.

3. Post the announcement of merger of SBI with its associate banks, the share price of SBI and four of its listed associate banks had soared up to 3-13%

4. Benefits

Market share of deposits and advances, No. of branches, Staff and customers has increased. Net profit has also shown an increase. Thus leading to advantages of merger.

Gross NPAs, Net NPAs, Slippage Ratio, Credit cost etc has also increased. Thus it comes under the cost of merger.

5. It is a good idea to promote mergers like this for other Public sector banks. Even the government, enthused by the success of SBI merger, is considering clearing another such proposal in the public sector banking space by this fiscal end with a goal to create 4-5 global sized lenders. Now, the Finance Ministry is looking to replicate the model in the case of other state-run banks so that they reach critical mass to compete with global peers. Finance Minister Arun Jaitley has on several occasions said India needs 5-6 banks of global size and scale and further consolidation in the banking sector will be done at the appropriate time.

Consolidation is a must but decision in this regard should be based on commercially prudent parameters. If the NPA situation gets better, then only mergers like this should be promoted. There are factors like regional balance, geographical reach, financial burden and smooth human resource transition that have to be looked into while taking a merger decision. And there should not be merger of a very weak bank with a strong bank "as it could pull the latter down".

Thus merger in banking industry should be promoted to create global banks but keeping in mind the above stated facts.

Bajaj Auto's Working Capital Requirement: Is Negative Working Capital Positive?

Ms. Vaishali Sharma
Assistant Professor,
TIPS, Dwarka
vaishalisharma2811@gmail.com

Ms. AmbaniRathaur
Assistant Professor
TIPS, Dwarka
ambanirathaur@yahoo.com

Ms. Sonali Sharma
Assistant Professor
TIPS, Dwarka
sonali1987sharma@gmail.com

Ms. MadhuRuhil
Assistant Professor,
TIPS, Dwarka
madhuruhil1991@gmail.com

In an emerging economy like India, three-wheelers are a low cost means of transport in cities and towns. India is the largest three wheeler market in the world. These vehicles are used as passenger vehicles (auto-rickshaws) as well as small capacity commercial vehicles (pick-up vehicles). It is a small but fast growing segment, with production increased from 2,03,234 vehicles in 2001 to 3,74,414 vehicles in 2005. Three-wheeler sales in India touched a new record of 0.36 million registering a growth of 10.5% CAGR over the last 6 years (2004-2009). Ernst & Young viewed this growth as, "Three-wheelers have played an important role in the last-mile connectivity both for passenger as well as commercial purposes. The existence of a large number of small-businesses promises a sustainable demand in the domestic market. Very little has been done in terms of product innovation and manufacturers will have to focus on it. Going forward, this segment will face competition from small commercial vehicles in the commercial space, for which the manufacturers have to rethink product positioning and marketing strategies."

Bajaj Auto is an established player in both two-wheeler and three-wheeler market segment. It is one of the leading players (41.3%) in the three-wheeler segment. Total exports of the three wheelers reached 141.24 thousand units, registering a growth of 44.5% CAGR over the last 6 years (2003–2009) with a large contribution i.e., 97% being accounted by Bajaj Auto

Bajaj Auto is a flagship company of the Bajaj Group which is amongst the top 10 business houses in India. Bajaj Auto is ranked as the world's fourth largest two and three-wheeler manufacturer and is well known exporter (it exports to several countries - Latin America, Africa, Middle East, South and South East Asia). The history of the company dates back to 1965, when Rahul Bajaj (present chairman of the Group) took charge of the business and turned the company into new heights.

The predecessor of Bajaj Auto was formed on November 29th 1945 as M/s Bachraj Trading Ltd. In 1948, it started selling imported two- and three-wheelers and in the subsequent year, it became public limited company. After obtaining manufacturing license from the Indian government in early 1960s, the company started manufacturing its own two-wheelers and by 1970 it reached a mark of 10,000 vehicles. In the same year, it introduced new models of two-wheelers and launched three-wheeler vehicles. Based on the consumer categories and approximate price points, Bajaj Auto classifies motorcycles into three segments - Entry segment (these are typically 100 cc motorcycles at a price point of INR 35,000, Bajaj Auto is in this

segment through the Platina), Executive segment (they comprise 100 cc to 135 cc motorcycles and priced between INR 40,000 to INR 50,000, it has two brands in this segment - XCD and Discover) and Performance segment (these are sleek and high performing motorcycles with price points in excess of INR 50,000 and Pulsar is the flagship brand in this segment)

During 1980s with the entry of Japanese and Italian scooter companies into the Indian market, domestic players like Bajaj Auto faced tough competition as the foreign companies adopted sophisticated technology while the latter used low-end technology. However, Bajaj Auto, with its strong brand image and other competency features maintained dominant position in the Indian auto industry. Soon, the company started investing in high-end technologies and focused on high-end offering, particularly in high-powered motorcycles. Year-on-year the company increased its production size and attained economies of scale

In fiscal year 1994-1995, it produced 1 million vehicles and became a well-established exporter to several countries. It is India's largest exporter of two- and three-wheelers. In 2006-2007, exports of Bajaj motorcycles grew by 82% to 3,00,656 units and three-wheelers by 87% to 1,40,645 vehicles. In the same financial year, over 1,50,000 two-wheelers and three-wheelers sales were made to Sri Lanka and also over 1,00,000 vehicles were sold to Latin America

Besides, establishing an assembly plant in Nigeria, Bajaj Auto in FY2006-2007 established a 95% owned joint venture in Indonesia which in coming years will play a key role in expanding the company's footprint in South-East Asia

The global turmoil and resultant low demand affected the Indian auto industry. Though the production volume increased, the third quarter of FY2008-2009 was particularly tough. Average monthly sales of motorcycles in India plunged by over 17% in the 3rd quarter of 2008-2009 with that of 2nd quarter - from an average of 5,24,939 units per month to 4,35,114 units. The sales and profits of Bajaj Auto tumbled - net sales and other operating income fell by 2.6% to INR 88.11 billion in 2008-2009. However, the company succeeded in maintaining double-digit operating EarningBefore Interest, Tax, Depreciation and Amortisation (EBITDA) margin of 13.6% of net sales and other operating income for 2008-2009 rising to 15.2% margin for the fourth quarter (2008-2009). In addition, the robust exports of the company made some positive news. During 2008-2009, it exported an all-time high of 7,72,519 units of two and three-wheelers, representing a growth of 25% over the previous year (2007-2008).

However, since past 5 years, current liabilities of the company exceeded current assets resulting in a negative working capital. Nevertheless, Bajaj Auto is taking necessary measures to improve its working capital. But the company is not considering this as negative remark as the other players in the industry are also experiencing negative working capital. Experts viewed that the top Indian companies with high return on capital have operated on negative working capital. Interestingly, companies belonging to FMCG and

auto industry are known for good returns to their shareholders (both in terms of dividends and capital gains) though they showed a negative working capital. In addition to Bajaj Auto, Hero Honda which is the market leader and TVS, the third largest in this segment are also operating on negative working capital but are giving high returns to their shareholders. Due to the improved inventory turnover ratio and better working capital management cycles, these companies are enjoying the wide gap between the days of cash receipts from their debtors to payment days to their creditors. In short, they are enjoying the time period between numbers of days the payment to creditors and their receivables.

QUESTION:-

Ques-1. Since, the nature of the industry has a considerable influence in the working capital management, for how long can the nature of auto industry allow the company to continue negative working capital?

[Hint: Negative working capital is closely tied to the concept of current ratio, which is calculated as a company's current assets divided by its current liabilities. If a current ratio is less than 1, the current liabilities exceed the current assets and the working capital is negative.If working capital is temporarily negative, it typically indicates that the company may have incurred a large cash outlay or a substantial increase in its accounts payable as a result of a large purchase of products and services from its vendors. However, if the working capital is negative for an extended period of time, it may be a cause of concern for certain types of companies, indicating that they struggle to make ends meet and have to rely on borrowing or stock issuances to finance their working capital.]

Ques-2. To what extent the nature of industry will determine the working capital requirement of the company?

[Hint: Working capital requirement is influenced by various factors. In fact, any and every activity of a company affects the working capital requirements of the company. The magnitude of influence may be different. Some important of them are:Nature of the Industry / Business, Seasonality of Industry and Production Policy, Production Cycle Time, Credit Policy, Growth and Expansion, Raw Material Short Supply, Net Cash Profit, Dividend Policy,Price Levels,Cash Requirements, Volume of Sale, Terms of Purchase and Sales, Inventory Turnover etc.]

From Management Trainee To Incumbent- Elevation Of Aspirations Or Dreams Crushing Reality: A Case Study

Developed By:

Neha Narula, Assistant Professor

Elisha Arora, Assistant Professor

Dr. Shaily Saxena, Associate Professor

Dr. Vandana Malviya, Associate Professor

This is the story of a young MBA, Ms Priyanka Jain, with strong academic background and realistic ambitions. In the backdrop we have recession hard hitting the placement season and final year students, keen to start their career in the professional world, hanging on to the first job that they could lay their hands on. The most terribly hit specialisation during this period is HR (Human Resource) Management.

The organization:

Let us call it, Alligator India Pvt Ltd. It was established in the 1960's in western India to look over its operation of manufacturing consumer products, across India. With operations covering more than 140 countries, it is one of the top 3 manufacturers of such products in the world. In a nut shell, Alligator India Pvt. Ltd. was well established in terms of its business, employee strength, market share and profits. An organization of such a reputation came for campus placement to a management institute looking for students from all functional areas – Marketing, Finance, Systems and HR. Obviously, as a student pursuing MBA - HR, Priyanka was elated.

The Initial Shock:

A day after the students were informed about the campus placement, a pre-placement dialogue session (or PPT) was arranged in the campus at 2:30 pm to be delivered by the higher officials of the company. After a long wait, at 4:45 pm, the International Head (HR) and the VP (Marketing) met the students. The International Head (HR) was 51 years of age and the VP (Marketing) was 30. They gave a presentation which included only their company and product

profile ignoring the role of Management Trainees (MTs), their pay package, location and growth prospects in the organization.

During the interaction and question-answer session, any question by the students on job

profile and location of work were harshly ignored by the International Head (HR) and VP (Marketing) respectively. The students were fascinated to hear that the International Head (HR) had promoted an MBA (Finance) person to the post of Head (HR) and an MBA (Operations) person to the post of Personal Assistant to the CFO (Chief Financial Officer) of the company within a period of one year. They were baffled between whether the organization lacked proper structure, performance management and career advancement policy or it was that it had a culture where promotion was not a problem as long an employee showed potential, talent and interest and that it had a strong cross functional/job rotation policy?

The Selection Process:

The selection process took place in 2-steps : group discussion (GD) and interview. Students were not shortlisted on any criteria. As long as they were interested they were welcome to appear for the GD, which was the screening process.

Priyanka's GD was scheduled the next day after the PPT. Again it was behind schedule – it

started at 8 pm instead of 6 pm. After the GD, the International Head (HR) asked questions individually to each of the candidates. He was sarcastic with each of the answers given by the students. Priyanka was confused as she didn't understand what would she answer when her turn comes? There was a lot of expectation gap between the answers given by the 23 or 24 year old students and the 51 year old International Head HR. Thankfully Priyanka moved up successfully to the next tier.

Personal interview was scheduled for the following day. Again it was to start at 10 am but it

started at 11.30 am. It was a one man show. Priyanka was the 4th candidate to be interviewed. The International Head (HR) did not exhibit excellence in either interviewing skill or soft skills. When the candidate was asked to give location preference, she was given Hyderabad

despite her choice of Mumbai, citing no vacancy as the reason. Surprisingly, all other candidates after Priyanka were placed in Mumbai. The take home salary offered was Rs. 3.6 lakhs per annum for freshers and Rs 4 lakhs per annum for previously experienced candidates. The soaring ambition and self belief nose-dived but the recession made Priyanka swallow her pride and accept the offer. It was true for all the nineteen Management Trainees selected by the organization from the Institute, out of its total 20 new Management Trainees.

The Offer Letter

Finally, a month after the interview and the offer, the offer letters came. It had no reference no., the designation of the individual who signed the offer letter, the address of the factory where each individual was to report and even the CTC (Cost to the Company) was not mentioned. It took the Institute a long time and a number of reminders to confirm the CTC from the organization. Through a brief e-mail it was communicated that the CTC offered was 3.6 lakhs to the freshers and 4 lakhs with previous work experience. This disappointed all 19

Management Trainees as the amount was supposed to be their take home and not CTC.

The joining date mentioned was 1st of June in respective locations. Suddenly the company changed all the plans. The selected candidates were to report to Mumbai and stay there for a week before joining their respective locations. Rumours spread thick and fast across the Institute with this period of stay in Mumbai varying from 3 months to 1 year. Fed up, Priyanka contacted the International Head (HR) who confirmed that all Management Trainees were to be in Mumbai for 1 year.

The organization promised to provide accommodation for a few days till the Management Trainees arranged their own accommodation. But at the last moment, when they called up an HR Executive to get the address of the place where they were to put up, she mentioned that the Company was not providing any accommodation, not even for 1 day, citing that the Finance department was not sanctioning the same. Even talking to the HR Head did not solve the problem as according to him “finding an accommodation in Mumbai is not at all tough” and that he found his in three days when he had come to Mumbai for the first time.

Priyanka took the help of the alumni network and was welcomed by one to share with her till she found her own.

All these disturbed the selected students. They lost trust in the organization even before they actually joined it. The Joining

The Management Trainees assembled at the HR Centre on the assigned date of joining. HR Centre was a small air conditioned class room, equipped with age old furniture, a white board, an LCD and white sheet for projection. The two ACs were in dire need of maintenance, as, when switched on they produced such a noise that audibility became a problem. The Management Trainees were immediately handed over a form and a green coloured paper on which it was written "AGREEMENT". Some of the clauses of the agreement were as follows:-

1. There was a bond of 3 years post 1 year training period in the organization.

2. If the company felt that the Management Trainee was promising (post-training), he/she will be absorbed as Assistant Manager, with or without increments, and must continue with the organization for a minimum period of 3 years. On the contrary, if the company felt that the trainee is unsuitable, then he/she would be asked to leave without an experience certificate.

3. If the trainee decides to leave during the training period then he/she would have to pay back the company the entire stipend received till then and at the same time also pay back the training cost as ascertained by the organization at the time of leaving. No experience certificate will be granted even in this case.

After the agreement was signed and submitted by all the Management Trainees, the appointment letter was issued the very next day. But the photocopies of the agreement were given after 7 days and that too after constant reminders. Priyanka's appointment letter had a number of errors in her address.

The Induction Programme

A 3-day induction programme was organised which covered introduction about the organization and its products, details about their manufacturing process, their competitor, certain unethical practices they follow to continue their business, bribes they give to the trade union to solve labour issues and so on. The speakers – in-company personnel – generally arrived late and overshot the time allotted to them. They also boasted about the company and their contribution to the organization.

The MTs were asked to come to the organization on a Sunday at 3 pm to meet the Global CEO. After waiting till 7pm, they were met by the Personal Secretary to the Global CEO. He met each of the MTs individually and asked them if they wanted to be a part of his team that involved work related to Finance, Accounts, Auditing and so on. Most of them declined as they were HR and Marketing MBAs and wanted to work in their respective fields except for one HR specialist who grabbed the offer. Unfortunately, she was put on the job without any guidance and every time she approached anybody for help she was snubbed. Clearly, she was unwelcome to the department.

The MTs were taken for a factory visit to see the manufacturing process. The shop floor was neat and clean. Workers had proper uniform. The food at the Canteen was being offered at a subsidised rate - Rs 3 per plate and unlimited quantity. However, the canteen needed renovation, number of utensils increased, and the quality of food and hygiene had to be improved. There was a bus facility for workers that were being availed mainly by women workers. Also there was a crèche for children below the age of 6 years. Women were not put to operate machines. They were put into the packaging department. Hence, their safety was taken care of. There was a medical room to provide first aid. Provisions for clean drinking water and clean toilets had been made within the factory premises. All legal compliances under the Factories Act 1947 had been taken care of.

All the workers - men and women - were equally happy to receive the MTs and explained the processes with a lot of enthusiasm. But as soon as they came to know that they were coming from the management and were there to work as managers, their facial expression turned to suspicion.

The workers mentioned that they were receiving pending wages after a period of 3 months each for a period of 2 years in continuation as the company had been making severe losses since the past two years. This was contrary to what the company projected itself as – a profit making organization. On enquiry, the MTs were told that they would receive their salary on

the 10th or on the 15th of the next month. This came in as a shock as it is difficult to survive in Mumbai with salaries being paid 10 or 15 days late when all expenses towards rent and fooding needs to be met on the 1st day of each month.

The only good thing was the lunch offered on the first day of the induction in a good hotel. On the second day they were taken to the factory canteen for lunch, which was not up to the mark.

The Resignation

After analysing all these points Priyanka decided to resign. The fact that another colleague had already put in her paper influenced her decision too. After a lot of persuasion she was released without any release letter.

Priyanka felt that the organization was like a Alligator ready to swallow everything in sight. It had already swallowed her image of an ideal corporate life, her zeal to work and all her HR-related knowledge about policies and procedures that have been taught class after class. This continuous clash between theory and practise and the unprofessionalism of the organization made her resign.

Today, Priyanka is jobless but a happy person.

Questions:

Q1- Do you think Priyanka took correct decision? Was Priyanka's decision a well thought out one or taken in haste?

Q2- What other options were available for Priyanka in the organization?

Q3 comment on the Ethics of Alligator India Pvt. Ltd.

Q4 Can recession be a reason for an organization to be unprofessional?

Q5- What practices should the organization adopt to ensure the retention of new joinees?

Q6- Is it compulsory for every organization to adopt sound human relational policies in today's modern business era? If, yes what such policies should Alligator adopt?

Hint

Ques 1 Think in terms of priyanka's state of mind to stay or leave when you are a new joinee.

Ques 2 Think in terms of whether priyanka should voice out her concerns to the HR department as well as higher authorities or not.

Ques 3 think in terms of timely pay to workers, general discipline, CTC issue etc.

Ques 4 benefits to organization for having sound HR policies. Design a discipline related policy for Alligator

UNETHICAL CREATIVE ACCOUNTING : A CASE STUDY OF SATYAM COMPUTERS LIMITED

Ishleen Kaur Ahuja Assistant Professor
Kanika Sharma Assistant Professor
Sapna Thukral Assistant Professor
Khushboo Gautam Assistant Professor
Upasana Gutt Assistant Professor

Trinity Institute of Professional Studies, GGSIPU, New Delhi

Learning Objective: After discussing the case, the students will be able to explain why ethics or ethical behaviour is important for long term survival of an organisation.

Emergence of Satyam Computers Limited

Satyam Computer Services Limited in the Indian “outsourced” IT service industry was a growing brand name. The company was formed by Mr. Ramalinga Raju in 1987 in Hyderabad. The firm began its operations with 20 employees and with no time it became a “global” business. It offered IT and business process outsourcing services spanning various sectors. Satyam set an example of “India’s growing success”. In short span of time company won numerous awards and recognition for innovation, governance, and corporate accountability. “In 2007, Ernst & Young awarded The CEO Mr. Raju with the ‘Entrepreneur of the Year’ award. On April 14, 2008, Satyam won awards from MZ Consult’s for being a ‘leader in India in CG and accountability’. In September 2008,Satyam was awarded with the ‘Global Peacock Award’ by the World Council for for global excellence in corporate accountability”. Unfortunately, less than five months after winning the Global Peacock Award, Satyam became the talk of the town but this time for a “massive” accounting fraud. Satyam’s IT services businesses included 13,120 technical associates servicing over 300 customers worldwide by 2003. “The strength of Satyam at that time was huge demand as importance of IT services increased in businesses worldwide; the impact of the Internet on E-Business was huge and, the growing need of IT services providers who could provide a range of services”. In-order to effectively compete against domestic as well as global competitors, the company designed a variety of long term business growth strategies. From 2003-2008, the company growth had no bars. Satyam generated USD $467 million in total sales. By March 2008, the company had grown to USD $2.1 billion. The company demonstrated “an annual compound growth rate of 35% over that period”. Operating profits averaged 21%. Earnings per share similarly grew, from $0.12 to $0.62, at a compound annual growth rate of 40%. Over the same period (2003-2009), the company was trading at an average trailing EBITDA multiple of 15.36. Finally, In January 2003, company’s share price

were 138.08 INR, Satyam's stock were trading at a peak price of 526.25 INR— which reflected a 300% improvement in share price after nearly five years. Satyam in year of operations had generated significant corporate growth and shareholder value. The company was a leading Brand—in a global IT marketplace. The external environment in which Satyam operated paved many opportunities for the company's growth. The case of Satyam accounting fraud has been named as "India's Enron".

Mr. Ramalinga Raju and the Satyam Scandal

On January 7, 2009, Mr. Raju confessed in a letter to the Satyam Computers Limited Board of Directors "he had been manipulating the company's accounting numbers for years". Mr. Raju claimed that he overstated assets on Satyam's balance sheet by $1.47 billion. Nearly $1.04 billion in bank loans and cash that the company claimed to own was non-existent. Satyam also underreported liabilities on its balance sheet. Satyam overstated income nearly every quarter over the course of several years in order to meet analyst expectations. For example, the results announced on October 17, 2009 overstated quarterly revenues by 75 percent and profits by 97 percent. Mr. Raju and the company's global head of internal audit used a number of different techniques to carry out the fraud. "Using his personal computer, Mr. Raju created numerous bank statements to advance the fraud. Mr. Raju untrue the bank accounts to increase the balance sheet with balances that did not exist. He overstated the income statement by claiming interest income from the fake bank accounts. Mr. Raju also revealed that he created 6000 fake salary accounts over the past few years and appropriated the money after the company deposited it. The company's global head of internal audit created fake customer identities and generated fake invoices against their names to increase revenue. The global head of internal audit also fake board resolutions and illegally obtained loans for the company" . It also appeared that the cash that the company raised through American Depository Receipts in the United States never mentioned in the balance sheets. Greed for money, power, competition, success and prestige compelled Mr. Raju to "ride the tiger", which led to violation of all ethical duties and responsibilities imposed on them as fiduciaries—the duty of care, the duty of negligence, the duty of loyalty, the duty of disclosure towards the stakeholders. "The Satyam scandal is a classic case of negligence of ethical duties, total collapse of ethical standards, and a lack of corporate social responsibility. It is human greed and desire that led to fraud. This type of behavior can be traced to: greed overshadowing the responsibility to meet ethical duties; severe competition and the need to impress stakeholders especially investors, analysts, shareholders, and the stock market; low ethical and moral standards by top management; and, greater emphasis on short-term performance and profits. According to Central Bureau of Investigaton, the Indian crime investigation agency, the fraud activity dates back from April 1999, when the company embarked on a road to double-digit annual growth. As of December 2008, Satyam had a total market capitalization of $3.2 billion dollars. Satyam planned to acquire a 51% venture in Maytas

Infrastructure Limited, a leading infrastructure development, construction and project management company, for $300 million. Here, the Raju's had a 37% stake. The total turnover was $350 million and a net profit of $20 million. Raju's also had a 35% share in Maytas Properties, another real-estate investment firm. Satyam revenues exceeded $1 billion in 2006. In April, 2008 Satyam became the first Indian company to publish IFRS audited financials. On December 16, 2008, the Satyam board, including its five independent directors had approved the founder's proposal to buy the stake in Maytas Infrastructure and all of Maytas Properties, which were owned by family members of Satyam's Chairman, Ramalinga Raju, as fully owned subsidiary for $1.6 billion. Without shareholder approval, the directors went ahead with the management's decision. The decision of acquisition was, however, reversed twelve hours after investors sold Satyam's stock and threatened action against the management. This was followed by the law-suits filed in the US contesting Maytas deal. The World Bank banned Satyam from conducting business for 8 years due to inappropriate payments to staff and inability to provide information sought on invoices. Four independent directors quit the Satyam board and SEBI ordered promoters to reveal pledged shares to stock exchange. Investment bank DSP Merrill Lynch, which was appointed by Satyam to look for a partner or buyer for the company, ultimately blew the whistle and terminated its engagement with the company soon after it found financial irregularities . On 7 January 2009, Satyam's Chairman, Ramalinga Raju, resigned after notifying board members and the Securities and Exchange Board of India (SEBI) that Satyam's accounts had been fallacious. Raju confessed that Satyam's balance sheet of September 30, 2008, contained the following irregularies: "He faked figures to the extent of Rs. 5040 crore of non-existent cash and bank balances as against Rs. 5361 crore in the books, accrued interest of Rs. 376 crore (non-existent), understated liability of Rs. 1230 crore on account of funds raised by Raju, and an overstated debtor's position of Rs. 490 crore. He accepted that Satyam had reported revenue of Rs. 2700 crore and an operating margin of Rs. 649 crore, while the actual revenue was Rs. 2112 crore and the margin was Rs. 61 crore". In other words, Raju: 1) inflated figures for cash and bank balances of US $1.04 billion vs. US $1.1 billion reflected in the books; 2) an accrued interest of US $77.46 million which was non existent; 3) an understated liability of US $253.38 million on account of funds was arranged by himself; and 4) an overstated debtors' position of US $100.94 million vs. US $546.11 million in the books. Raju claimed in the same letter that "neither he nor the managing director had benefited financially from the inflated revenues, and none of the board members had any knowledge of the situation in which the company was placed". The fraud took place to divert company funds into real-estate investment, keep high earnings per share, raise executive compensation, and make huge profits by selling stake at inflated price. The gap in the balance sheet had arisen purely on account of inflated profits over a period that lasted several years starting in April 1999. "What accounted as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. This gap reached unmanageable proportions as company operations grew significantly", Raju explained in his letter to the board and shareholders. He went on to explain, "Every attempt to eliminate the gap failed, and the aborted Maytas

acquisition deal was the last attempt to fill the untrue assets with real ones. But the investors thought it was a shameless attempt to tap cash out of Satyam, in which the Raju family held a small stake, into firms the family held tightly". Table 1 depicts some parts of the Satyam's fabricated 'Balance Sheet and Income Statement' and shows the "difference" between "actual" and "reported" finances. Fortunately, the Satyam deal with Matyas was "salvageable". It could have been saved only if "the deal had been allowed to go through, as Satyam would have been able to use Maytas' assets to shore up its own books". Raju, who showed "artificial" cash on his books, had planned to use this "non-existent" cash to acquire the two Maytas companies. As part of their "tunnelling" strategy, the Satyam promoters had considerably reduced their holdings in company from 25.6% in March 2001 to 8.74% in March 2008. Furthermore, as the promoters held a very small percentage of equity (mere 2.18%) on December 2008, as shown in Table 2, the concern was that poor performance would result in a takeover bid, thereby exposing the gap. It was like "riding a tiger, not knowing how to get off without being eaten". The aborted Maytas acquisition deal was the final, desperate effort to cover up the accounting fraud by bringing some real assets into the business. When that failed, Raju confessed the fraud. Given the stake the Raju held in Matyas, pursuing the deal would not have been terribly difficult from the perspective of the Raju family. Unlike Enron, which sank due to agency problem, Satyam was brought to its knee due to tunnelling. The company with a huge cash pile, with promoters still controlling it with a small per cent of shares (less than 3%), and trying to absorb a real-estate company in which they have a majority stake is a deadly combination pointing prima facie to tunnelling The reason why Ramalinga Raju claims that he did it was because every year he was skirting revenue figures and since expenditure figures could not be fudged so easily, the gap between "actual" profit and "book" profit got widened every year. In order to close this gap, he had to buy Maytas Infrastructure and Maytas Properties. In this way, "fictitious" profits could be absorbed through a "self-dealing" process. The auditors, bankers, and SEBI, the market watchdog, were all blamed for their role in this major accounting fraud.

Table 1: Fabricated Balance Sheet and Income statement of Satyam as of September, 2008

Items in Rs. Crore	Actual	Reported	Difference
Cash and Bank Balances	321	5361	5040
Accrued Interest on Bank fixed deposits	Nil	376.5	376
Understated Liability	1230	None	1230
Overstated Debtors	2161	2651	490

Total	Nil	Nil	7136
Revenues(Q2 FY 2009)	2112	2700	588
Operating Profits	61	649	588

Table 2: Promoter's Shareholding Pattern in Satyam from 2001 to 2008.

As on	Promoter's Holding in %
March 2001	25.6
2002	22.26
2003	20.74
2004	17.35
2005	15.67
2006	14.02
2007	8.79
2008	8.74
Dec. 2008	2.18

Unethical Fraud Culture at Satyam

It all started with Raju's love for land and an insatiable thirst to earn eexcess of it. Ambition along with high risk ran in conniving with his goals, coupled with MAYTAS (nothing but Satyam when read from right to left), was an infrastructure company owned by Raju's sons and was a perfect recipe for this disaster. Scam was so perfect that no auditor or analyst could figure it out till Raju himself admitted to the massive irregularities in his self-confession. The trigger to merge Maytas along with Satyam was completely a failed attempt. The outrage over Raju's admission of continously systematic accounting fraud has broadened to wider concern about the potential damage to India's appeal for foreign investors particularly, in the IT services industry. It took nearly two years and over 100 experts who assessed the total damage of the scam ,popularly known as "Satyam Scam". The final figure shaded under Rs. 8,000 crore.. Following were revealed unethical practices by Raju,

1. Maintaining Records: Mr. Raju thoroughly maintained details of the Satyam's accounts and minutes of meetings held. Satyam stored records of accounts in a server called "My Home Hub." Details of accounts of 2002 to 2009 were stored in two different and separate Internet Protocol (IP) address.

2. Fake Bills and Invoices: Fake bills and invoices were created using the software applications, such as "Ontime", used for calculating working hours worked by an employee. A program was planted in the source code of the official invoice management system creating a user ID "Super User" with an extreme power to hide or show the invoices in the system. Raju admitted to faking revenues, clients and even profits. The CID told the court that "Raju even falsified number of employees in the company by 13,000 and pocketed the money spent as salaries for these non-existent employees. He also faked 7561 invoices which raked up fake revenues to the tune of Rs. 5,117 crore, and raked up fake cash worth Rs. 3,983 crore. He tampered with the invoice management software to give birth to this massive scam which is worth Rs. 7,900 crore in its totality.

3. Massive web of Companies: A huge web of 356 investment companies was secretly used to frauduently divert funds from Satyam Computers Limited. All these companies had several fake transactions in the form of, advances and loans within and among them and inter-corporate investments

4. Thirst to earn Money?: The cash which was fraudulently raised was used to purchase thousands of acres of land, with an aim to ride a booming realty market. It presented massive problem as facts had to be secretly hidden to keep showing healthy profits for Satyam that was growing in size and scale. Raju put this scenario, "it was like riding a tiger, not knowing how to get off without being eaten." .Every attempt planned and made to eliminate the gap failed. The last straw of scam, cashing out through selling Maytas Properties and Maytas Infrastructure to Satyam for an estimated Rs. 7,800 crore.

5. The Modus Operandi of Accounting Fraud: As financial frauds go, the one wreaked by Raju & Company was quite uncomplicated. Satyam's top management simply cooked the books of company by overstating its revenues, profit margins, and profits over aperiod of 5-years, from 2003 to 2008 and applied complex methods like derivatives accounting or off-balance sheet transactions that were used by Enron's executive. Keen to project a consistently rosy picture of the company to investors, employees and analysts, the Rajus manipulated Satyam's books so that it appeared to be a big-fat enterprise than it actually was. To achieve this, they sewed up deals with fictitious clients.For good measure, profits too were padded up to show healthy margins. Over the years, these ghostly clients understandably never paid their bills, leading to a big hole in Satyam's balance sheet. The hole was plugged by inflating the debtors (dues from clients) in the balance sheet and forging bank statements to show a mountain of cash and bank balances. After several years of such manipulation, Satyam was reporting sales of over Rs.5,200 crore in 2008-09, when it was in reality making about Rs. 4,100 crore. Its operating profit margins were shown

at 24% when they were actually at 3% and its handsome profits on paper covered up for real-life losses. It was when the company ran out of cash (of the real variety) to pay salaries that Ramalinga. Raju decided that he could not ride the tiger any longer and made his confession.

6. Riding a Tiger: Raju was impelled to admit the fraud following an aborted attempt to invest $1.6 billion in Maytas Properties and Maytas Infrastructure ("Maytas" is Satyam spelled backwards)—two firms promoted and controlled by his family members. On December 16, Satyam's board cleared the fake investment, sparking a negative reaction by investors, who pummelled its stock on the New York Stock Exchange and NASDAQ. The board hurriedly reconvened the same day and called off the proposed investment. Resignations streamed in in next 48 hours. The attempt finally failed, and Raju made the stunning confessions three weeks later.

7. Truth in Numbers: Notwithstanding Raju's confession, an episode of Satyam has brought into sharp relief to the role and efficacy of independent directors. SEBI requires Indian publicly held companies to make up at least half their board strength with independent directors. The knowledge of independent directors and even audit committee members is inherently limited to prevent wilful withholding of crucial information. The reality at the end of the day was that even as an audit committee member or as an independent director they would have to rely on what the management was presenting to them, drawing upon his experience as an independent director and audit committee member. "It is the auditors' job to see if the numbers presented are accurate." That is what the directors should have been asking. Instead, he adds, like the dog that didn't bark in the Sherlock Holmes story, the matter was allowed to slide. Even if outside directors were unaware of the true state of Satyam's finances, some red flags should have been obvious.

Aftermath of Satyam Scandal

Just after the fraud and its confession was publicised, Merrill Lynch terminated its relationships with Satyam, Credit Suisse suspended its coverage of Satyam, and PricewaterhouseCoopers (PwC), the auditors of the Company, was issued a Show Cause Notice and its license to operate in India was revoked. Coveted awards won by Satyam and its executive management were taken back from the company. Satyam's share price fell to 11.50 rupees on January 10, 2009, their lowest level since March 1998, compared to a highest price of 544 rupees in 2008. In the New York Stock Exchange, Satyam shares peaked in 2008 at US $ 29.10; by March 2009 they were trading around US $1.80. Thus, investors lost approx. $2.82 billion in Satyam. Unfortunately, Satyam included false information of its earnings and assets for years, thus rendering its accounts unreliable and inaccurate. Criminal charges were brought against Mr. Raju, including: criminal conspiracy, breach of trust, and forgery and the same were being investigated by CBI. After the Satyam fiasco, Investors even became wary of those companies who are clients of PwC, which

resulted in fall in share prices of around 100 other companies varying between 5% - 15%. The news of the scandal shook the Indian stock market, and the benchmark Sensex index fell more than 5%. Shares in Satyam fell more than 70%. The chart titled as “Fall from grace”, shown in Exhibit 1 shows the Satyam’s stock decline between December 2008 and January 2009 due to the ‘unethical’ decisions made by the company’s executives.

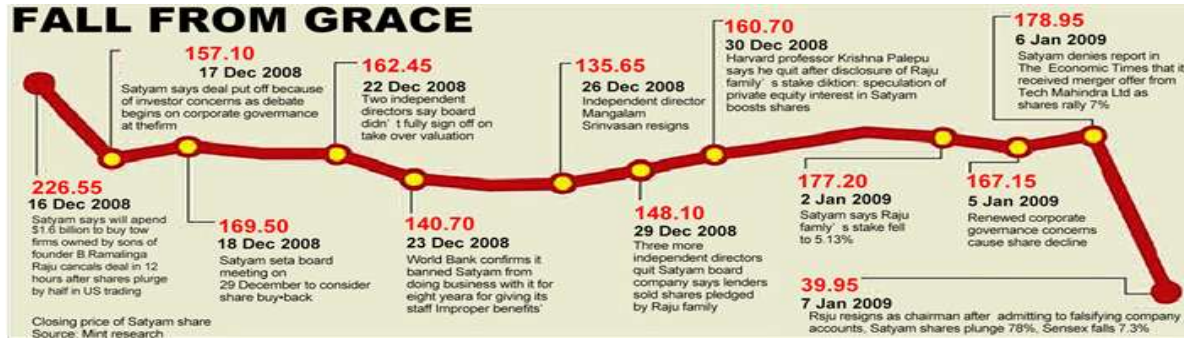

Exhibit 1

Just after Raju’s confession about accounts falsification, an investigation was started by the Indian Government, but did not participate directly with Satyam to avoid appearing responsible for the fraud, or trying to cover up the fraud. 10 “new” directors were appointed on the board by the Company Law Board and they started working to find a solution that would prevent the end of the firm and their goal was to sell the Company within 100 days time period for which they worked diligently to bring stability and confidence back to the company. For this purpose, the Directors met with bankers, accountants, lawyers, and government officials immediately. To achieve the purpose, the board of directors hired Goldman Sachs and Avendus Capital and outsourced them the task of selling the company in the shortest time possible. Several major players in the IT field had gained enough confidence in Satyam’s operations to participate in an auction process for Satyam. A retired Supreme Court Justice, Justice Bharucha, was appointed by SEBI to supervise the process and instil confidence of market players in the transaction. Several companies bid on Satyam on April 13, 2009 in a formal public auction process. The winning bidder, Tech Mahindra, bought Satyam 51% share in the Company successfully saving the firm from a complete collapse.

Investigation: Criminal and Civil Charges

The investigation that followed the confession of the fraud has led to charges and allegations against several different groups of people involved with Satyam, main ones being Mr. Raju, Mr. Raju’s brother, B. Ramu Raju, its former managing director, Srinivas Vdlamani, the company’s head of internal audit, and its CFO on criminal charges of fraud, several of the company’s

auditors (PwC) with fraud. The ICAI ruled that “the CFO and the auditor were guilty of professional misconduct”. The CBI also investigated the CEO’s overseas assets. There were also several civil charges filed in the US against Satyam by the holders of its ADRs. Both civil and criminal litigation continued in India and civil litigation continued in the United States as well. On 10 April 2015, "'Ramalingam Raju'" was convicted with 10 other members. Some of the main victims due to the unethical practices were: employees, clients, shareholders, bankers and Indian government. In the aftermath of Satyam, India’s markets recovered and Satyam now lives on merged with Tech Mahindra. But, Satyam as a brand could not survive due to the unethical decisions taken by its Top Management and executives. India’s stock market is currently trading near record highs, as it appears that a global economic recovery is taking place. With the right changes, India can minimize the rate and size of accounting fraud in the Indian capital markets.

Conclusion

The scam finally had to end and the results were having far reaching consequences. Thus, Satyam scam was not an accounting or auditing failure, but one of CG. Some of the well known issues, according to Sharma (2015), were: unethical conduct, insider trading, false books and spurious accounting, lax board, unconvinced role of independent directors, questionable role of the audit committee, suspicious role of rating agencies, debatable role of banks, incorrect disclosures, no action on whistle blowers’ information, promoters pledging of shares, etc.

Recent corporate frauds and the scream for transparency and honesty in reporting have given rise to two conclusions. First, forensic accounting ability have become very important in unknotting the complicated accounting operations that have obfuscated financial statements. Second, public demand for change and subsequent regulatory action has transformed CG scenario across the globe. In fact, both these trends have the common goal of acknowledging the investors’ concerns about the transparent and clear financial reporting system. The failure of the corporate communication structure, therefore, has made the financial community fully aware that “there is a great need for skilled professionals that can identify, expose, and prevent structural weaknesses in three key areas: poor corporate governance, faulty internal controls, and fraudulent financial statements. In addition, the CG framework needs to be first of all strengthened and then implemented in “letter as well as in right spirit”. The increasing rate of white-collar crimes, without doubt, demands strict fine and punishments. Perhaps, no financial fraud had a greater impact on accounting and auditing profession than Enron, WorldCom, and recently, India’s Enron: “Satyam”. All these wrongful deception have led to the passage of the Sarbanes-Oxley Act in July 2002, and a new federal agency and financial standard-setting body, the Public Companies Accounting Oversight Board (PCAOB). It also was the impulsion for the American Institute of Certified Public Accountants’ (AICPA) adoption of SAS No. 99, “Consideration of Fraud in a Financial Statement Audit”. But it may be that the greatest impact of Enron and

WorldCom was in the notable increased focus and awareness related to fraud. It establishes external auditors' responsibility to plan and carry out audits to provide a reasonable assurance that the audited financial statements are free of material frauds. As part of this research study, one of the key aim was "to examine and analyze in-depth the Satyam Computers Limited's accounting scandal by representing the sequence of events, the repercussios of events, the key parties involved, major reforms undertaken in India, and learn some lessons from it". Unlike Enron, which descend due to "agency" problem, Satyam was brought to its knee due to "tunneling". The Satyam scandal highlights the significance of securities laws and CG in emerging markets. There is a broad consensus that emerging market countries must aspire to create a regulatory environment in their securities markets that fosters effective CG. India has managed its transition into a global economy well, and although it suffers from CG issues, it is not alone as both developed countries and emerging countries experience accounting and CG scandals. The Satyam scandal brought to light, once again, the significance of ethics and its connection to corporate culture. The fraud committed by the founders of Satyam is a testament to the fact that the science of conduct is swayed in large by human greed, ambition, and hunger for power, money, fame and glory. All kind of scandals/frauds have proven that there is a need for good conduct based on strong ethics. The Indian government, in Satyam case, took very quick actions to protect the interest of the investors, safeguard the credibility of India, and the nation's image across the world. Moreover, Satyam fraud has forced the government to re-write CG rules and strenghten the norms for auditors and accountants. The Indian affiliate of PwC routinely failed to follow the most basic audit procedures. The SEC and the PCAOB fined the affiliate, PwC India, $7.5 million which was described as the largest American penalty ever against a foreign accounting firm. According to President, ICAI (January 25, 2011), The Satyam scam was not an accounting or auditing failure, but one of CG. This apex body had found the two PWC auditors prima-facie guilty of professional unacceptable behaviour. The CBI, which investigated the Satyam fraud case, also charged the two auditors with complicity in the commission of the fraud by consciously overlooking the accounting irregularities. The culture at Satyam, especially dominated by the board, symbolized an unethical culture. On one hand, his rise to stardom in the corporate world, coupled with immense pressure to impress investors, made Mr.Raju a "compelled leader to deliver outstanding results". On the contrary, Mr.Raju had to curb his own morals and values in favour of the greater good of the company. The board connived with his actions and stood as a blind spectator; the lure of big compensation to members further encouraged such behaviour. But, in the end, truth is sought and those violating the legal, ethical, and societal norms are taken to task as per process of law. The public confession of fraud by Mr. Ramalinga Raju speaks of integrity still left in him as an individual. His acceptance of guilt and blame for the whole fiasco shows a bright spot of an otherwise tampered character. After quitting as Satyam's Chairman, Raju said, "I am now prepared to subject myself to the laws of land and face consequences thereof". Mr. Raju had many ethical difficulties to face, but his diligent immoral reasoning brought his own demise. The fraud finally had to end and the implications were having far reaching repercussions. Thus, Satyam scam was not an accounting or auditing

failure, but one of CG. Undoubtedly, the government of India took prompt actions to protect the interest of the investors and safeguard the credibility of India and the nation's image across the world. In addition, the CG framework needs to be strengthened, implemented both in letter as well as in right spirit, and enforced strenuously to curb white-collar crimes.

Assignment Questions

1. Critically evaluate the ownership structure and Board Composition of Satyam Computers before its crisis.

2. Discuss the circumstances under which Satyam's Fraud was exposed, and the reasons for fraud.

3. There have been many audit failures globally, and Satyam is also a case of unethical accounting and failed accounting practices. Critically discuss the responsibility of the main groups responsible for financial reporting in relation to Satyam's scandal.

4. What lessons can be learned from the Satyam Case?

A CASE STUDY ON TUPPERWARE ENCOURAGING WOMEN ENTREPRENEURSHIP

By:

SagunaKhajuria
Assistant Professor,
Trinity Institute of Professional Studies,
Dwarka, New Delhi.
Saguna.khajuria@gmail.com

Aarti Suryavanshi
Assistant Professor,
Trinity Institute of Professional Studies,
Dwarka, New Delhi
Aarti_dawra@yahoo.co.in

Abstract: The case discusses a class of women who want to have a successful career as well perform their family responsibilities and duties efficiently;such a platform where they can achieve their dreams without neglecting their family and how being an entrepreneur they can achieve this work life balance. The case presents Tupperware as a good opportunity for such aclass of women.

Entrepreneurship is the process of creating and managing an enterprise. It involves all the actions that a person takes to bring his dream of setting up a business into reality. It is also called as a creative andinnovative response to the environment.Women entrepreneur is defined as a woman or a group of women who set up and run a business enterprise. According to the Government of India, for a woman to be entrepreneur she should have 51% share in the capital invested and should employ at least 51% of women.

In India women constitute almost half of the population. Nowdays women it is observed that women want to be independent, they have aspirations, they want to achieve something in life and to do so they acquire quality education, join good jobs and become self sufficient. But still there are many women who still suffer due to our male dominated society, they have dreams but are unable to achieve them. While there are other class of ladies who have professional education, good jobs but they have to leave it all due to marriage or child birth. Such ladies consider their families to be first priority but they do have aspirations to achieve that are subdued due to family responsibility. These class of women are family devotee but they also want to achieve something for themselves in the professional work but it becomes very difficult for them to enter corporate

life after taking such long temporary breaks from work. The industry is intimidated to hire such family devotees, as they believe their work will suffer due to their family responsibilities.

Such class of women who want to achieve something in life but not at the expense of their family, entrepreneurship can be the right choice. They can be their own boss, flexible worktimings etc.**,** can create a work life balance. But is it so easy to be an entrepreneur- No there are many hurdles to be cleared to bring this dream of being an entrepreneur a reality. Hurdles such as- family support is required, finance is also a major concern, lack of expertise or appropriate skills, competition, associated risks etc.

To overcome these hurdles there are lot of opportunities available in the direct marketing industry- here risks involved are less, there isn't much investment required, guidance and trainings are provided to run businesses. One such company who we can say is leading is Tupperware. It provides lots of opportunities for such class of ladies who want to pursue a career as well as take care of their family.

Tupperware was founded in the year 1938 by Earl S.Tupper. However it was a lady named Brownie Wise who made Tupperware popular and innovated the method of 'selling through parties'. Tupperware at present follows selling through network as well as its USP method of selling through parties. Tupperware is exclusively for ladies where the customer is a lady as well as the seller is a lady. A lady who joins Tupperware becomes a consultant in the first stage; she does her sales like an independent business.She organizes a party and calls other ladies whom she knows; this party involves several games etc as well as she sells her products and make new members of Tupperware family. It is like building a chain or network of ladies and as the network grows, so does the hierarchy- they become managers, executive managers and finally distributors. The process from being a consultant to distributor is the process of becoming an entrepreneur. The most important tool required for running this business successfully is persuasion, convincing and meeting more and more people and creating a vast network.

Sneha, a Tupperware distributor feels delighted to be self-sufficient. Sneha is an MBA in marketing from a very good business school in Delhi. She was placed in one of the top companies in the IT sector in the marketing department. She was supposed to be the next marketing manager until she quit her job due to family. She had a baby and everything around

her changed; she didn’t want to keep a maid for her baby but wanted to dedicate herself to him. She became a fulltime mom.

But that marketing bug was still in her. Over the time she got very frustrated sitting at home, she wanted to do something to be self- sufficient, to be financially independent and confident but at the same time she wanted to devote her time to her baby too. Through one of her friends she came to know about Tupperware, she was delighted to find how the business works. She can be a working mom, working as well as taking care of her baby. So she got the membership and being an excellent marketing person devised newer methods to convince people and do the sales. Within no time she became an executive manager, leading a team. She enjoyed her work as well as was able to give time to her family. Today she is a Tupperware distributor; she has full autonomy for her job. She decides her working hours, earns a lot and is very happily managing her house. Like this Tupperware has inspired many ladies, bringing happiness back to them, telling them to dream and making their dreams come true.

A tupperware distributor is an entrepreneur, she runs the business as her own, develop unique methods to increase her sales force and to grow her business. Tupperware provides the necessary trainings (weekly and monthly) and develop the skills required for setting up this business. It doesn’t involve a huge investment and thus risks associated are less. Tupperware in past also launched a TV campaign ‘She Can,You Can’ where they were encouraging women entrepreneurship.Hina Shah, (Director- International centre for Entrepreneurship and Career development, Ahmedabad) was the face of this campaign who says,” Entrepreneurship needs to be developed as our society doesn’t teach women to become entrepreneurs.

So we conclude here that Tupperware dealership is an ideal career option for such class of women who want to be their own boss, want flexible working hours and most important are family dedicated. Tupperware believes in enlighting, educating and empowering women.

References:

- By Alison J. Clarke, Tupperware: The Promise of Plastic in 1950s America,Published by Smithsonian Institution.
- TaslimaKhan, Princess of Plastic, Business Today- September 15, 2013. http://www.businesstoday.in/magazine/special/most-powerful-businesswomen-in-india-asha-gupta/story/198075.html
- www.tupperwareindia.com
- Asha Gupta, Women entrepreneurs on what it takes to build a brand,India Today- May 10,2012.
- Shikha Mahajan, Women entrepreneurship in India,Global Journal of Management and Business Studies.ISSN 2248-9878 Volume 3, Number 10 (2013), pp. 1143-114
- NitashaNatu, Tupperware's hugely successful 'She Can, You Can' campaign initiates its second season, The Times of India, Mumbai edition–May 29,2013.
- Tupperware Provides Opportunity for Women Entrepreneurs in Frontier Markets http://www.uschamberfoundation.org/blog/post/tupperware-provides-opportunity-women-entrepreneurs-frontier-markets/31575
- Tupperware India launches ‘She Can, You Can’ Campaign to help realize a million dreams https://tupperwarebrandspr.wordpress.com/2012/06/15/tupperware-india-launches-she-can-you-can-campaign-to-help-realize-a-million-dreams/
- Sameer Kamat, 7 Problems faced by Women Entrepreneurs in India. http://www.mbacrystalball.com/blog/2014/09/10/problems-women-entrepreneurs-india/

Question/ Answers

Q.1- What do you understand by Women Entrepreneur. Give few examples of

Women entrepreneurs in India.

Q.2- What are the challenges faced by women in their career growth?

Q.3- How do you think Tupperware is helping in women empowerment?

Hints:

Q1. Women entrepreneur is defined as a woman or a group who set up and run a business enterprise and she should have 51% stake in the business.

FalguniNayyar CEONykaa, RichaKar Co-founder and CEO Zivame are some of the examples of Women Entrepreneurs.

Q2. Family Commitments, finance, lack of expertise or appropriate skills, competition, associated risks etc.

Q3. Tupperware follows selling through network as well as its USP method of selling through parties. Women can manage family along with the business as it does not required any fixed timings per day to be dedicated for the job. It allows the women to handle the business along with their family commitments.

ABOUT US

The Trinity Institute of Professional Studies (TIPS), Sector-9, Dwarka, an ISO 9001:2008 certified institute, is affiliated to Guru Gobind Singh Indraprastha University. It was founded in 2007 under the aegis of Kamal Educational and Welfare Society (KEWS) with the objective of overcoming the critical demand for skilled professionals in India and abroad by nurturing intellectual capital by adopting best practices in quality education.

TIPS is offering courses / programs across various disciplines, such as Management, Commerce, Information Technology and Journalism & Mass Communication. Today, the Institute has over 1500 students and more than 60 faculty members. The faculty at the Institute has proper experience both from the industry and academics as a result of which it brings the right mix of research and industry experience to education and consultancy offered by the Institute.

COURSES OFFERED:

Programme	Annual Student Intake	First Shift	Second Shift
BJMC	120	60	60
BCA	120	60	60
BBA (G)	120	60	60
B.COM (H)	200	100	100

TRINITY INSTITUTE OF PROFESSIONAL STUDIES

"A+" Category Affiliated Institution of Guru Gobind Singh Indraprastha University, Delhi

Sector-9, Dwarka Institutional Area, New Delhi-110075, Tel: 011-45636921/22/23/24

TRINITY MANAGEMENT REVIEW

Trinity Management Review (TMR) is a quarterly online magazine brought up by the management department of Trinity Institute of Professional Studies. The articles, case studies, research papers and other contributions are made by academicians, consultants and management practitioners covering various areas of management. TMR offers a variety of perspectives from around the world to help you gain greater insight into the current management principles and practices.

Disclaimer:The views and opinions presented in the articles, case studies, research work and other contributions published in Trinity Management Review (TMR) are solely attributable to the authors of respective contributions. If these are contradictory to any particular person or entity, TMR shall not be liable for the present opinions, inadequacy of the information, any mistakes or inaccuracies.

Copyright © March 2015 Trinity Institute of Professional Studies, Dwarka. All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the under mentioned.

Trinity Institute of Professional Studies
An ISO 9001:2008 Certified Institution
(Affiliated to Guru Gobind Singh Indraprastha University, Delhi)

Sector-9, Dwarka, New Delhi-110075
Ph: 45636921/22/23/24, Telefax : 45636925
www.tips.edu.in, tips@tips.edu.in