

D 42942

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Name.....

Reg. No.....

FOURTH SEMESTER M.B.A. DEGREE EXAMINATION, JUNE 2018

(Syllabus Year 2016)

M.B.A.

BUS 4C 22—CORPORATE GOVERNANCE

Maximum : 36 Weightage

Time : Three Hours

Part A

Answer all questions.

Each question carries 1 weightage.

1. Distinguish between Public and corporate governance.
2. Briefly explain the scope of corporate governance.
3. What are the essentials of good corporate governance ?
4. Write any three recommendations of Cadbury Committee.
5. Briefly explain the role of Audit Committee.
6. Why Financial reporting is essential for good corporate governance ?

(6 × 1 = 6 weightage)

Part B

Answer any four of the following questions.

Each question carries 3 weightage.

7. What are the objectives of corporate governance ? Explain.
8. Discuss the legal frame work for corporate governance.
9. What are the issues in managing dominant shareholders ? Explain.
10. Explain the relevance of Sarbanes Oxley Act.
11. Discuss on statement "Good corporate governance improves stake holders trust".
12. What is the role of regulators in corporate governance ? Explain.

(4 × 3 = 12 weightage)

Part C

Answer any three of the following questions.

Each question carries 4 weightage.

13. Discuss the public governance structure in detail.
14. Explain the administrative framework of corporate governance.

Turn over

15. What are the important recommendations of Naresh Chandra Committee ?
16. Discuss the interdependency of corporate governance and CSR.
17. What are the various corporate governance issues in India ? Explain.

(3 × 4 = 12 weightage)

#### Part D

#### Compulsory question.

#### 18. Case :

On January 7, 2009, Mr. Raju disclosed in a letter to Satyam Computers Limited Board of Directors that "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 perpetrate the fraud. "Using his personal computer, Mr. Raju created numerous bank statements to advance the fraud. Mr. Raju falsified the bank accounts to inflate the balance sheet with balances that did not exist. He inflated 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 inflate revenue. The global head of internal audit also forged 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 made it to the balance sheets. Greed for money, power, competition, success and prestige compelled Mr. Raju to "ride the tiger", which led to violation of all duties 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 fiduciary 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 fiduciary duties; fierce 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" [28]. According to CBI, 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% stake in Maytas Infrastructure Limited, a leading infrastructure development, construction and project management company, for \$300 million. Here, the Rajus 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 disclose 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 falsified. Raju confessed that Satyam's balance sheet of September 30, 2008, contained the following irregularities: "He faked figures to the extent of Rs. 5,040 crore of non-existent cash and bank balances as against Rs. 5,361 crore in the books, accrued interest of Rs. 376 crore (non-existent), understated liability of Rs. 1,230 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. 2,700 crore and an operating margin of Rs. 649 crore, while the actual revenue was Rs. 2,112 crore and the margin was Rs. 61 crore".

Questions :

- (a) What are the various irregularities led to the collapse of Satyam Computers ? Discuss.
- (b) Explain the corporate governance Implications in the case study.

(1 × 6 = 6 weightage)