



VISHAL KOUL

# Non-technical promoters should step back, and then step out

**Kiran Karnik**, former Nasscom President and government-appointed director on Satyam, talks about the impact of the Satyam fiasco on the IT industry. Excerpts from an interview with **Snigdha Sengupta**

**Does Satyam point to a deeper malaise in the Indian IT sector?** I wouldn't agree with that. The industry's governance standards are high, as is the level of transparency. Satyam is a one-off case. We will look for loopholes in the system, and try to correct them. On the face of it, it seems that Satyam did have systems in place. You had internal auditors and a well-known external auditor. So, one is not sure where exactly the breach took place. Indian IT has strong standards of transparency, accountability and governance. Customers and investors abroad recognise that.

**But Indian IT companies have failed in the past on account of bad governance and malpractices. DSQ Software and Silverline are notable instances. Why does this keep happening?**

We have not seen any lapses in the last few years. DSQ was some years ago. Governance standards have since improved.

**Do you think such situations arise because entrepreneurs are reluctant to hand over businesses to professional managers?** I would say it is a little different in the IT industry. In other

industries, generally speaking, I would agree that there is some reluctance to let go. That is often very counter-productive. Up to a point, entrepreneurs have a role, they drive the vision. But at some point, they have to professionalise and step back. In IT, it is a little different because most entrepreneurs—not all, as in Satyam's case—are technical people. And they continue to bring value in terms of their knowledge and perceptions.

In the Indian IT industry, most companies are like that, where the entrepreneur is, in fact, a technical person who brings in his or her special knowledge and experience. So, in that sense, stepping back would be a loss for the company. But where the entrepreneur is a businessperson, he or she does not necessarily bring value beyond a point, except in having a finger on the pulse of the business. I think, there is a strong case for the entrepreneur to first step back and then step out after a point.

**Your thoughts about the government's response to Satyam?**

The government has acted promptly. I know that, initially, many people, including in the media, asked why it was not registering a case. But you can't jump the gun. You need a little bit of evidence. Subsequently, I think, the government moved very fast in terms of investigations, effectively taking over the company and getting in new directors. It has been decisive and definite action.

**What can be done to ensure corporate governance norms are not breached again, that independent directors function effectively?**

Much of this is for individual companies to do. But clearly, one of the good messages over the last few years has been that companies that are seen as being well-governed get a premium in the marketplace. So, there is not just an ethical payoff, there is a concrete economic payoff, as well. You can see that, for instance, in the case of Infosys Technologies. That acts as an incentive. But individual companies have to make sure that their checks are in place.

**But there were checks at Satyam...**

With respect to independent directors, there are Sebi rules now, and they are very clear. The media is being a bit unfair to the independent directors at Satyam. It was not a rubber-stamp board. It has been implied that Raju put known people and friends, who would say yes to whatever he said, on the board. If you look at the minutes of that (Maytas investment) board meeting, you can see that the independent directors did ask very tough and searching questions. But beyond a point, if the independent directors are given a valuation and papers, they are not in a position to go and investigate everything. What they would look at is overall strategy. In this case, maybe they could have done something else. By and large, independent directors, at least in the IT industry, have played a good and strong role, and we need to continue that.

**What are Satyam's options? Will it be able to hold on to customers and people, and continue? Or, is a sale inevitable?**

We are keeping all options open—it is still very early. But, after a first look, it does seem to me and the other two directors (the

**Technical promoters bring in knowledge. But non-technical ones don't add value beyond a point**

government has since appointed three more directors) that there is still a very viable business here. The company has done well, it has grown, and it has great assets, mainly in terms of talent. We have no idea about the figures yet. From what has been indicated—not just in the balance sheet, but also by people working in the company, there seems to be a strong business proposition. Satyam has a strong brand name. Some individuals have done terrible things, and brought disrepute to the brand and to the Indian IT industry. But the company itself is a sound proposition.

Of course, there is a very serious short-term problem, wherein you need working capital infused immediately. But even the funding we are looking for is not a bailout—we are not looking for a grant, but for a loan. Once the company is back on the rails, it can repay the loan. Without an immediate infusion, it can go on a downward spiral. Employees will get uneasy if they don't get salaries, and some may leave; customers will walk out, and then you're sunk. So, right now, the focus will be to get the company going. Once that is done, whether it should be taken over by someone else can be looked at.

**How soon will you be able to announce a new CEO? What are your criteria for selecting one?**

That's a top priority for us. I would like it to happen today, but it has to be a collective process and may take a little time. There are a number of names in the reckoning. Some have been suggested, some have volunteered and then there are others that come to mind easily. I've suggested that we draw up a wish-list of people, and then see who is available and best suited for the job. In some cases, we may have to sell the job to the individual, and convince him to drop everything and take this up as a challenge and a mission. We have not discussed the criteria as yet. But we definitely need someone with the experience of getting into a difficult situation, managing a large company and providing comfort to employees and customers. ■