

Corporate Crime: A Comparison of Culture at Enron and Satyam

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Abstract: To be able to compare what happened at Enron and Satyam, one needs to look into the basic functioning of companies. The pertinent question here is how were these companies able to misrepresent their assets to such a proportion without the knowledge of anyone within their organizations? Was it loyalty or fear or both that kept employees in these organizations from blowing the whistle on the wrongdoers? While the result of both frauds was an initial rise in stock price and although the scam in Satyam Computers Services Ltd. is being called 'The Indian Enron', there are several differences between these two episodes. This paper lays down the differences between Enron and Satyam and explores the corporate culture prevalent in India and the U.S. to explain the possible differences in the route the management of the two companies took to falsify the information.

Key concepts: Nepotism, cronyism, micro-geographies, corporate culture, cross-cultural studies, Special Purpose Entities, Mark to Market accounting, corporate governance

Introduction

There are several definitions of corporate governance. The Securities and Exchange Board of India defines it as "the acceptance by management of the inalienable rights of the shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders.

It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company." (Sapovadia & Patel, 2009)

Good corporate governance works in a well functioning chain of power. To protect the investors' rights,

financiers, auditors, boards of directors and financial analysts work together and maintain transparency in the system (Healy & Palepu, 2003). These governance bodies also act as a check on each other. Governmental agencies such as the S.E.C. handle the overall functioning of this system.

The failures of this system and the urgent need to improve it have been the media's hottest topic for the past few months now. The shocking Madoff Ponzi scheme, the fall of Satyam Computers and now the fraud charges against Texas banker R. Allen Stanford have all shaken the confidence of investors in an already shaky economy. Several explanations are being issued as the corporate world tries to understand why these gross distortions take place, and even more incredulously, how they manage to go unnoticed until it is too late. The Enron scandal and the resulting stringent regulations have obviously not been successful in preventing situations of the same type from happening. One of the reasons for this could be the fact that these falsifications often start small and subsequently become unmanageable. This seems to result in an unfortunate series of actions; once started they are difficult to stop and they consequently blow out of proportion before hitting the media. As Mr. Ramalinga Raju, the founder of Satyam Computers mentioned in his letter to the board of directors, the fraud 'was like riding a tiger, not knowing how to get off without being eaten'.

To be able to compare what happened at Enron and Satyam, one needs to look into the basic functioning of companies. The pertinent question

here is how were these companies able to misrepresent their assets to such a proportion without the knowledge of anyone within their organizations? Was it loyalty or fear or both that kept employees in these organizations from blowing the whistle on the wrongdoers? While the result of both frauds was an initial rise in stock price and although the scam in Satyam Computers Inc. is being called 'The Indian Enron', there are several differences between these two episodes. This paper lays down the differences between Enron and Satyam and explores the corporate culture prevalent in India and the U.S. to explain the possible differences in the route the management of the two companies took to falsify the information. The hypothesis is that there is high likelihood that the cultural set up of different countries may have a major impact on how scams of this type are conducted within their organizations, that there may be a different set of motives and unique irregularities in the system that allow for such crimes to occur.

Benefits of effective corporate governance

When Satyam Computers declared bankruptcy, the economy of the country was already in the doldrums. The problems at Wall Street had spread to the rest of the globe, especially India where a lot of the work from the U.S. is outsourced. With the downfall of the fourth largest company the stock market crashed even more, dragging the economy lower. It is quite logical to link corporate governance to not only the financial system of an

organization but to the economy of the whole country (Chakrabarti, 2005).

Another straight forward reasoning for the emphasis on good corporate governance is that when a company follows all the rules it is supposed to follow and keeps its proceedings transparent, there are low chances of the organization losing its money over law suits.

Models of corporate governance

There are two basic structures into which corporate governance can be categorized; the market based Anglo-Saxon pattern followed by countries like the U.S., India and U.K. and the bank based model that is followed by companies in Germany and Japan. In the bank based model, a country's major banks hold the reins of the companies' functioning. They are primarily responsible for the supervision of the organization and have their representatives in the body of stakeholders.

In the Anglo-Saxon model of corporate governance, checks on the management are kept through the financial market. The shareholders display their discontent with the management by selling the company shares. This results in the share prices of the company nose-diving and this makes the company vulnerable to being seized by another. An acquisition of the company by another would mean new management, and it is this fear of being seized by another organization, more than shareholder action, that makes the management follow regulations.

However, hostile takeovers are not common in Asian countries. Also,

the problem with the Indian corporate sector is that often the majority shareholders of the company are also the top management. Family members are given preference in important positions without formal procedures that need to be followed to check their suitability. Unfortunately, the legal system of the country is also slow and corruption is prevalent in most sectors of the government. Court cases drag on for extremely long durations, sometimes decades, and it becomes unfeasible to process anything through the legal system (Chakrabarti, 2005).

Satyam Computers Private Ltd.

The Indian corporate structure has shown promise the past few years. With a majority English speaking population, there has been great demand for call centers from companies in developed countries, especially the U.S. and U.K. The sheer number of qualified, talented young people in the country has made it a haven for Foreign Direct Investment (FDI). Besides, the country's banking system has long supported the advancement of companies. As a result India has been on the global map for Information Technology (IT) for quite some time now. The rapid pace at which the country was developing its corporate structure reminded many of the American capitalist economy. However, after a decade or so of spurt in growth, the Indian corporate sector is being called to line.

Satyam Computers Private Ltd. was started in 1987 by its founder Mr. Ramalinga Raju in Andhra Pradesh, India. In a short span of time Satyam climbed

the corporate ladder to be recognized as the fourth largest company in India. It offers services such as Business Process Outsourcing (BPO) and consultancy in several IT, engineering and management departments. Very soon prominent Fortune 500 companies like Nestle, GE and GM from the U.S. came to be top customers on Satyam's client list.

On January 7th 2009, Mr. Ramalinga Raju declared that he had been showing nonexistent profits on the company's books for the past several years. This billion dollar fraud episode is famously being called 'India's Enron'. The incident has made the foreign investor question India's capacity to govern its corporate sector and maintain high standards of transparency. After the episode came to light, Satyam's shares have gone down by more than half. In April 2009, just four months after Mr. Raju's declaration of fraud, the company was finally taken over by Tech Mahindra. Today, Mr. Ramalinga Raju (ex-chairman of the company) and his brother Mr. Rama Raju (ex-Managing Director) have been put into prison in Chanchalguda Central jail in Hyderabad, India. Linked to the Satyam fraud is the attempt made by Mr. Raju to transfer the company's funds to Maytas properties, which is a real estate company owned by Mr. Raju's sons.

India: nepotism, cronyism and corruption

Although the corporate sector in both India and the U.S. is based on the Anglo-

Saxon model, there are some very important distinctions that need to be made. Culturally speaking, India, like other Asian countries, is notorious for corruption, cronyism and nepotism (Yu & Xu, 2001). Nepotism refers to the hiring of members of the same family to positions in an organization. It is widely held to be unfavorable because it is assumed that people who are given a job or promotion because of their relation to the higher-ups are not qualified for the positions. Nepotism in the corporate sector in India has given rise to a unique set of circumstances, making its issues different from those that are encountered in the U.S. corporate sector. The presence of family members in high ranking positions has been the crux of many governance problems in India. In most family owned businesses in India, relatives and kin form the majority shareholders of the company. With family influence in senior management, decisions often cater to the profit of the family unit instead of the business or the other stakeholders of the company. As a result of a lethargic legal system improper recruitment of this type is not prevented by the government.

The view towards nepotism also differs very widely based on geography. Cross-cultural studies show that cultural diversities affect the way people in different countries view nepotism along with its advantages and disadvantages (Abdalla, Maghrabi & Raggad, 1995). An example can be given of Indian politics where nepotism has long been established as an accepted method of entry into the system. The country's first Prime Minister, Jawaharlal Nehru, his daughter, Indira Gandhi, her son

Rajiv and his wife Sonia Gandhi have all been active members of the Indian political system and benefit from the enthusiastic support of the Indian masses, most of who want the country to be lead by a 'Gandhi'. As a result "the world's most populous democracy has sometimes looked suspiciously like a family business" (The Economist, 2009).

Legally speaking, even in the U.S., nepotism is a complex issue because there are no formal, uniform laws regulating it. Issues related to nepotism have to be decided on a case-to-case basis, according to the laws of the state. What makes this issue even more complex is the fact that several cases related to nepotism clash with prevailing policies that regulate discrimination against marital status, sex, age and even racial discrimination.

Another reason why nepotism is not a good practice is because of the reputation of unprofessionalism that gets attached to organizations practicing this form of employee recruitment. A 1965 Harvard Business Review article on nepotism states that more than sixty percent of executives in their study had a negative attitude to the practice of hiring relatives into a company (Harvard Business Review, 1965). While the U.S. has reached a stage where it does not allow 'paired employment' (Padgett & Morris, 2005), India has barely begun to consider the detrimental effects of giving precedence to family over other qualified candidates.

The practice started out when there was no legal protection for assets that were handed to a non-family member. As a result, most families tried to keep all financial matters within their

control. There is high likelihood for nepotism to occur in "micro-geographies where several external factors like socio-cultural, economic, educational, and political structures force people to support their close relatives or friends" (Arasli & Tumer, 2008). Another reason why family members were given priority was to encourage and maintain a healthy rapport between the people responsible for running a successful business. It has been widely accepted that this ease in relationships creates a homogeneous work environment as people coming into the organization have pre-formed bonds (Bennett- Alexander & Hartman, 2009).

As the corporate sector in India grew, families continued to keep all decision-making authority in their hands. However, this has not been in the best interest of the minority stakeholders of the company. The majority shareholders and higher management make all decisions based on what will be most profitable for the family. The general trend has been to try and transfer company funds into other family owned businesses; the Maytas incident in the Satyam scandal is a classic example. There have been rumors that the problems in Satyam were linked to its connection with Maytas which is a real estate company owned by Mr. Raju's sons (Ramachandraiah, 2009). Poor and unprofessional land valuation techniques had resulted in the Maytas properties, which were owned by the Raju family, being valued at a price of one crore rupees (about twenty thousand dollars) per acre when the value of the property was actually ten

lakh rupees (about two hundred thousand dollars) per acre (Sandhir, 2009). When questioned, Mr. Raju declared that trying to transfer the funds into Maytas was the last remedy that he resorted to, to disguise the fictional company assets. Fortunately, as this move was strongly opposed by the shareholders, the deal did not go through. However, the action has nevertheless made foreign investors question the tendency of Indian companies to employ family members in an unqualified manner. Some researchers maintain that nepotism in India has created an image of overly conservative, paternalistic organizations which have poor succession planning and tunnel vision and which are rampant with role confusion (Das & Gupta, 2008).

The corporate scene is not similar in western countries. In the U.S. and the U.K. senior management might try to inflate the assets of the company to obtain better compensation that is offered as an incentive and is directly related to the quarterly profits of the company. Previously management had to hold their shares for a period of six months to evaluate the steadiness of stock price in the market before selling them. However, as a result of changes made to Section (16) of the Securities Exchange Act of 1934, higher management is now allowed to sell their shares when the price of company stock goes up, courtesy several 'acceptable' accounting practices such as the validation of accounts receivables as 'cash on hand'. This pattern has been very convenient for higher management; they increase assets through dubious accounting practices

and then sell their shares when stock prices are high, getting rid of it before the prices drop, thus leaving the shareholders to bear the burden of the crash (Coffee, 2002).

While Satyam's contributions to the Indian society through charitable programs put it on the radar as one of the nation's most coveted companies, like other Indian companies, it evidently lacked in basic transparency and accountability. The scandal has alerted foreign investors who are now questioning the credibility of Indian companies, dealing a severe blow to the Indian corporate sector.

In the past few years family controlled businesses in India have had problems related to corporate governance. Research has revealed that family based businesses make lower profits and are in higher danger of facing crashed stock prices during an economic downturn (Sapovadia & Patel, 2009). There is also a very high chance of family owned businesses encountering the threat of acquisition by another company or losses because of internal rivalry, as can be observed in the Ambani family's struggle for power.

The Indian Corporate Sector

As a developing nation, India has been in the forefront of economic progress among third world countries. After attaining independence in 1947, Indians inherited a well functioning stock market (Dharmapala & Khanna, 2008). Today almost a million companies are registered in India in a corporate sector that has been recognized by most of the western countries to be 'booming'.

The country has also recognized the importance of setting regulations to govern the corporate sector which has become increasingly responsible for the rapid development of this agrarian economy. The most important step taken by the Indian government towards this is the establishment of the Securities and Exchange Board of India (SEBI) in 1992. The committee established by the Confederation of Indian Industries (CII) under Mr. Rahul Bajaj, which developed the Code for Desirable Corporate Governance, was another major move. In the years 2000 and 2003 the SEBI formed two committees, one under Mr. Kumar Mangalam Birla and the latter under Mr. Narayan Murthy, the former CEO of Infosys (Sur & Chakraborty, 2006).

However, although these steps have been taken from time to time, Indian corporate past has not been devoid of scandals. Just previous to the formation of the SEBI, India had to come to terms with the Harshad Mehta Stock market scam. Also, as a result of scams in the late eighties and early nineties, the London Stock Exchange conducted an enquiry under Sir Adrian Cadbury which submitted the famous Cadbury Committee report in 1992 to restore the faith of investors in company auditing (Dutta, 2006).

Other regulations that have been passed include the Industrial Development and Regulation Act (1951), the Companies Act (1956), the Industrial Policy Resolution (1956), the Security Contract Act (1956) and the Accounting standards set forth by the ICAI. While these regulations have all laid down severe penalties, little is

known of how well the rules are being followed.

When the corporate sector of the country was in its infant stages in the late nineties, the Development Finance Institutions of India (DFIs) acted as the main lenders of credit to Indian companies. They were also the majority shareholders of the companies to whom they lent and had their representatives on the company boards. This clearly shows the high level of control the DFIs could have had in the companies' functioning, to the extent that the system seems similar to the bank based model of corporate governance. However, most often companies did not repay the loans they had taken from the DFIs and there was nothing that the boards could do. When the net worth of these companies was completely depleted, they would be referred by the Sick Industrial Companies Act (SICA) to the Board for Industrial and Financial Reconstruction (BIFR) which proved to be an unsuccessful undertaking.

Most of India's problems seem to root from its legal system. All legal systems are based on one of the four systems found in the world- the English common law, the French civil law, the German civil law and the Scandinavian civil law. Both the Indian and the U.S. legal systems are built on the English common law; however there is a world of difference in the way that law is implemented in these two countries. While the *de jure* protection offered seems strong, the *de facto* protection does not come up to the standards of developed countries.

Another interesting aspect of this issue that needs to be considered from the shareholders' point of view is

the *shareholder's index* and the *rule of law index*. The *shareholder's index* is a range from 0 to 6 which tries to determine whether the shareholders rights are protected by a particular legal system on paper, meaning whether proper rules and regulations have been laid down, whether they have been checked for loopholes. The *rule of law index* attempts to understand whether the regulations that have been laid down are being followed to protect the shareholders of companies under a particular legal system. Research has revealed the fact that while the legal system in India scores well on the *shareholder's index*, it does not do so according to the *rule of law index* (Chakrabarti, 2005).

A 2006 Ministry of Company affairs statement revealed that nearly four hundred companies in the Mumbai Stock Exchange face charges related to violation of corporate governance norms (Sapovadia & Patel, 2009). These infringements have been of several types. Often majority stakeholders of the company, with no thought to other investors, try to transfer the company's funds to other family projects similar to the Maytas deal. Often the auditors of the company are prevented or bribed to not display the actual financial position of the company. As the Boards of Directors are usually comprised of cronies of the majority shareholder, who also has his people in the senior management positions of the company, most of these breaches are watched by mute spectators who are nominal authorities in the company. Although the Companies Act makes the filing of annual returns and submitting of balance sheets mandatory (Sapovadia &

Patel, 2009), companies not following the rule are rarely penalized. India admittedly has superior financial transparency as compared to other Asian countries (Chakrabarti, 2005); however, legal implementation of regulations has a long way to go as compared to standards in the U.S. Consequently, the law that has been laid down to govern the corporate sector ends up remaining on paper and the victims of such flagrant violations, usually the minority shareholders and lenders, continue to suffer.

Enron

As compared to the relatively recent Satyam scam, Enron has been very well documented and researched. Enron, a company that had become one of the world's leading energy dealers, recruiting more than 22,000 employees, declared bankruptcy in 2001. For several years this Houston, Texas based company had, through systematic and willful accounting manipulation, inflated its assets. Enron's accounting firm, Arthur Andersen, recognized as one of the best and most coveted accounting firms in the U.S., crashed because of its involvement in the fraud.

At its zenith, Enron was considered the company of the twenty first century. It was applauded for the measures it took to strengthen employee security through benefits and compensation. The media was bursting with stories of its philanthropy and contributions to sustainability. After the 1988 deregulation of electrical power markets (Sims & Brinkmann, 2003), the company was given free rein to operate. It began linking itself with several

contracts, many of which were extremely complicated in nature. These contracts and operations were often international and involved intricate transactions that were difficult to account for (Healy and Palepu, 2003). Eventually, Enron began using several questionable accounting techniques, such as *mark to market accounting*, to keep these operations running. The company also created many Special Purpose Entities (SPEs). These were established to look like a 'legitimate' segment of the company and regularly received funds, thus concealing the losses of the company.

Mark to market accounting has been held as one of the main techniques used by Enron's senior management to drive up the profits of the company on the books. This ingenious calculation consisted of Enron taking into account revenues that the company was supposed to receive, but which it had not yet received, and computing the profit the company would accumulate from increased energy prices and interest rates in the future based on these revenues (Healy & Palepu, 2003). In a steady market and a stable economy, these predictions would have come true. This is probably why the GAAP in the U.S. requires companies to make use of Fair Value Accounting. However, Enron's calculations of profit went too far ahead into the future. In 2001, Enron had made deals with Quaker Oats to provide its plants with energy. Enron Energy Services signed an agreement that was to last for ten years. It had not even begun supplying Quaker with the promised energy and staff but had already calculated a profit of 23.4

million dollars in profit from the transaction (Tonge, Greer & Lawton, 2003). Other such contracts included names like Compaq, IBM, Saks Incorporated, and Blockbuster. In the example of Blockbuster Video, a transaction was signed in which Enron agreed to supply several U.S. cities with entertainment. Projects were set up in several cities to supply homes with entertainment and plans were made to 'encode and stream the entertainment over its global broadband network'. So far so good. However, there were doubts about the technical workability of this project and whether it would have market demand in the future. Despite these misgivings, Enron proceeded to calculate a profit of 110 million dollars from this deal (Healy & Palepu, 2003).

Enron also relied on *Special Purpose Entities* and other forms of so-called 'structured finance' (Deakin & Konzelmann, 2004) methods to portray a picture of profit without showing the losses. Often these SPEs were off-shore entities that had been vaguely documented in the company. Funds were often transferred to these projects for developmental and other purposes to "move some 1.27 billion dollars of assets off the Enron balance sheet, delay reporting losses, hide debt, inflate profit and revenues and enrich some of the executives who ran them" (Tonge, Greer & Lawton, 2003). The transactions that were carried out to account for these entities were complex, intricate and very difficult to understand, a fact which served the people who were running them very well. The misuse of these accounting techniques may have started small, but

soon grew out of control until the company had to declare bankruptcy. The ability to keep the transactions of these SPEs away from the parent company enabled Enron to falsify its exact status on the balance sheets. Enron had managed to convince the SEC that the SPEs were not its subsidiaries; as a result its transactions were not intensely scrutinized (Sims & Brinkmann, 2003). The fact that external vendors were allowed to invest in these transactions (Deakin & Konzelmann, 2004) and therefore legitimately demand a certain share of the profits added to the complexity of the situation.

An example can be given of the Raptors SPEs which were a group of projects that worked based on the sponsorship they received from other projects. As a result of this external funding, Enron was able to use creative accounting techniques to keep losses from being shown on its financial statements although the company had provided most of the funding for their functioning (Benston & Hartgraves, 2002). There were hundreds of such entities started by Enron by the late 1990s. While some were used to fund the purchase of contracts to supply gas, several were formed with the main objective to manipulate assets to further the company's attempts in acquiring stakes in other companies and joint ventures (Healy & Palepu, 2004). Enron's risk-spreading included the practice of entering into SPE transactions with non-existent investors (example Chewco).

Enron's auditors, Arthur Andersen, have been blamed for having met the letter of the law but violating

'the spirit of law' (Duska, 2005). An external auditor's primary responsibility lies to the shareholders of a company; the people who have bought shares and who rely on auditors like themselves for an accurate picture of the company's financial position. The SEC requires public listed companies to present audited financial reports in order to make sure that there are no irregularities in their functioning and to alert shareholders of any that might emerge (Stabus, 2005). After Enron declared bankruptcy, Arthur Andersen was held responsible for not blowing the whistle on the fraud that was taking place there and ultimately lost all standing in the market. Andersen initially approved the SPE transactions that Enron was conducting and although the unconventionality of the financial and accounting methods used to conduct these deals was briefly discussed, not much resistance was shown. The demerits of the auditing firm acting as consultants to Enron have been argued widely among experts; most hold the opinion that these two services could have created conflicting interests and as a result prevented Andersen from being good auditors. Many others believe that the Andersen case could easily be an example of bribery; the fees that the firm received from Enron accounted for 27 percent of its total auditing fees (Healy & Palepu, 2004). The firm seemed to have struggled with trying to provide ethically consistent advice as auditors and suggestions as consultants that may not have borne too much weight on right or wrong. Whatever the case was, Enron and other corporate scandals are clearly affected by inefficiency and "decline in

the professional standards of the legal and accounting gatekeepers" (Coffee, 2002).

Be it Enron or Satyam, the ability to swindle the investors was created due to the failure of the regulators and auditors. These 'gatekeepers' are the ones who the investor traditionally depends on to get information on how the company is doing. Although there is always a possibility of charismatic management influencing shareholders (which in the case of Enron was founder Kenneth Lay), when the financial position of a company is kept transparent by auditors there are lower chances of deception. Unfortunately, the investor can still be hoodwinked if the gatekeepers are bribed into silence. The recent case of financer R. Allen Stanford is another unfortunate example where the Texas banker paid an Antigua banking regulator around a hundred thousand dollars for his help to keep the S.E.C. away.

One needs to understand that the above mentioned incidents were all part of the corporate culture that the company had created. In the search for perfection and to maintain their standing in the business world, Enron developed and encouraged a culture of finding loopholes in the ethical and legal system. Their goal in some sense seemed to be to "circumvent systems that were designed to protect the company and the shareholders" (Berenbeim, 2002). 'Minor' rule breaking was considered acceptable for the achievement of the higher goals of the company. Everything was driven based on the bottom-line. The Enron executives of the time seemed to have assumed that this came under healthy

competitiveness and allowed it, but there came a time when Enron could no longer continue the façade. Even when the executives realized that the fraud could not be hidden for too long, they tried everything in their means to persuade the investors to keep holding on to and even buy more shares. The Enron failure in this sense can be called a leadership failure, as the very leaders of the company directed their workers towards taking unethical actions. This resulted in the rest of the employees following suit because 'if the boss thought it was OK, then it probably was OK'. When the company started failing publicly, the supposed leaders engaged in finger pointing and raced to save their own skin, giving no thought to the hundreds of shareholders whose savings they had wiped out. There is also evidence of senior executives being responsible for destroying documents that could have been used to prove Enron's illegal dealings. Employees have stated that those who noticed and wanted to report irregularities were concerned about getting fired. A lot can be said about the culture that the leaders at Enron created. They set the wrong role models, rewarded risky rule breaking and created a 'win-at-all-cost' system (Sims & Brinkmann, 2003). All in all, it was HR techniques of motivation gone awry. The company gave the term competitive advantage a dangerous twist. Their performance appraisal system has been called the 'rank and yank' system; employees who followed the culture set by leaders and raked in profits were awarded bonuses while the ones who did not were fired (Tonge, Greer & Lawton, 2003).

Discussion

While both Enron and Satyam were involved in corporate crimes where the senior management of the companies inflated assets, they used very unique means to accomplish the ends. The first clear difference is the transfer of funds to other entities in order to separate those transactions from the parent company. In the case of Enron, mark to market accounting and reliance on SPEs enabled the company to achieve the purpose. Also, Enron was unique in the sense that the company had placed enormous powers in the hands of its CFO to carry out transactions which were not scrutinized by the board (Coffee, 2002). Andrew Fastow and his management team skillfully created hundreds of special purpose entities before their declaration of bankruptcy in 2001. While the management at Satyam tried to accomplish something of the same kind through the Maytas deal, the differentiating angle here is the fact that Maytas was a family holding. Enron found loopholes in the legal system and was eventually successful in maintaining the pretense of the fake off-shore entities and duping the public, but it had to find those loopholes. The scene in India seems to be a little different. Even though regulations in both the countries are almost the same on paper, Indian companies in general seem to find bending the law, openly and quite directly, easier than U.S. firms. Although the Maytas deal was not allowed to go through due to investor resistance, there is plenty of evidence to show the ease with which companies in India disregard regulation and how

openly this is done. In a country where giving and taking bribes is commonplace, legislators will have to pay more emphasis on drawing future regulations that help avoid such a situation to spread to the corporate sector of the country. The U.S. attempted to achieve a goal of stricter regulation by passing the Sarbanes-Oxley; India is in the process of strengthening accountability in higher management and auditors by making amendments to Clause 49 of the Listings Agreement.

There's also something to be said about corruption and familial connections within a company. It is common knowledge that lack of evidence regarding the involvement of board of directors in a fraud, both in the U.S. and in India, is frustrating for investors. Most people feel certain that crimes of such high magnitude cannot be conducted without the knowledge of those people who are closely related to the functioning of the company. This line of thought takes on more meaning when we consider the degree of nepotism in the Indian corporate sector. As mentioned previously, in many companies where the majority shareholder is a family, relatives are directly allotted positions of power. This has been an unquestioned practice for several years. Family members expect to be given senior positions and not doing so can sometimes be construed as being a traitor to the community. The practice is so widely accepted that not much is done in the form of following anti-discrimination policies. However, while this practice is discriminatory and against the principles of employment law, it bears even

greater consequences when corporate crimes of this kind become easier. With the whole family involved in the company there's often the attitude of wanting the company to earn profits for the family as opposed to benefiting all the stakeholders. There's high probability of the family being in cahoots while conducting bogus transactions and this risk can be eliminated by a stricter adherence to anti-nepotism policies. While recruiting family is not always a bad thing, especially when worthy heirs are tested for their merit before being allowed to hold a position (Brendan, 2004), the trade-offs of this policy have to be kept in mind and emphasis should be placed on developing a system of checks to avoid any concentration of power once the company starts trading in public securities.

In Enron, crime was possible as a result of cooperation among senior management and an unhealthy emphasis on aggressive competition. Western culture, and especially the U.S., is celebrated for its focus on individualism and goal-directed behavior. The ability to work hard, be competitive and reach the pinnacle of success is admired. This has been true to such an extent that people from eastern countries come to the U.S. to try to achieve the 'American Dream'. A clarification that needs to be made here is that Asian cultures also have a competitive culture. However, in these countries the kind of competition that is encouraged differs. In Asian countries competition does not take the aggressive form of driving out competition but focuses more on improving oneself. It is a more inclusive

culture which respects community norms. Studies have shown that while Americans tend to use words like 'best', 'achievement' and 'success', Asians tend to use words like 'growth', 'endure' and 'advancement' (Baillie, Dunn & Zheng, 2004). One might assume that America has reached a stage where the culture expects people to achieve even when it might be injurious to them and people around them in the long run. A lot can be said about the harmful effects of cultural expectation; in the case of the U.S., the very culture of competition seems to have lead to the downfall of Enron.

Suggestions for future research

The Satyam fraud came to light on the 21st January, 2009; as a result, there is very limited research data available on it. Future research can focus on newer data that may be published subsequent to this paper to add the latest dimension. Corporate culture and the effect it could have on employees, independent auditors and boards of directors has been the main focus of this paper. It emphasizes on how certain forms of behavior are tolerated due to some accepted norms. In a country where familial relations are held in high deference, certain ways of functioning that might not be tolerated in some other countries are endured. This throws light on the importance of the human resources division of every company and the urgent need for laws that prevent this manner of functioning from being considered 'OK'. The U.S. has diversity training due to its stringent anti-discrimination laws; it is time Indians became wary of the issues that

could arise as a result of a politically incorrect approach to corporate culture.

However, the points mentioned in this paper that differentiate Enron from Satyam are not restricted to corporate culture. There are innumerable differences in these two frauds from other angles that the paper does not talk about. A study of Enron and Satyam from those dimensions will reveal a clearer picture of the differences in these two scandals and, ultimately, corporate governance in these two countries.

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