



## Satyam Crisis

Devise the apt response



- Satyam crisis has caught the entire outsourcing world off-guard.
- Lack of clarity in the medium to long term on the state of Satyam poses a heightened risk situation for clients, many whom have outsourced mission critical work to the company
- Therefore we encourage clients to take immediate measures to manage the current crisis
- We recommend that clients undertake a four-step Business Continuity initiative



- Clients are also encouraged to revisit their existing vendor management practices post Satyam crisis

# Step 1. Business Impact Analysis



- As a first step, clients should carry out a detailed business impact analysis for the portfolio of work executed by Satyam
- Classify projects by using a set of assessment parameters

## Project Assessment Parameters

Parameters		
Direct Impact on firm's Cash Flow	High	Low
Impact on service/product delivery to firm's customers	High	Low
Impacts compliance to regulatory requirements	Yes	No
Impacts availability of critical business information	Yes	No



Mission Critical



Low Critical

### Nature of Work

Ongoing system support

Project-based work

### Service Classification

ASM (Application Support & Maintenance)

Consulting, R&D, New development, Testing

**Outcome: Classify projects between mission critical and low critical work**

## Step 2. Risk Analysis



- As a client of Satyam, taking cognizance of the various risks elements in the current crisis is extremely critical
- Carry out multi-level risk analysis of Satyam at firm, operational and contractual level

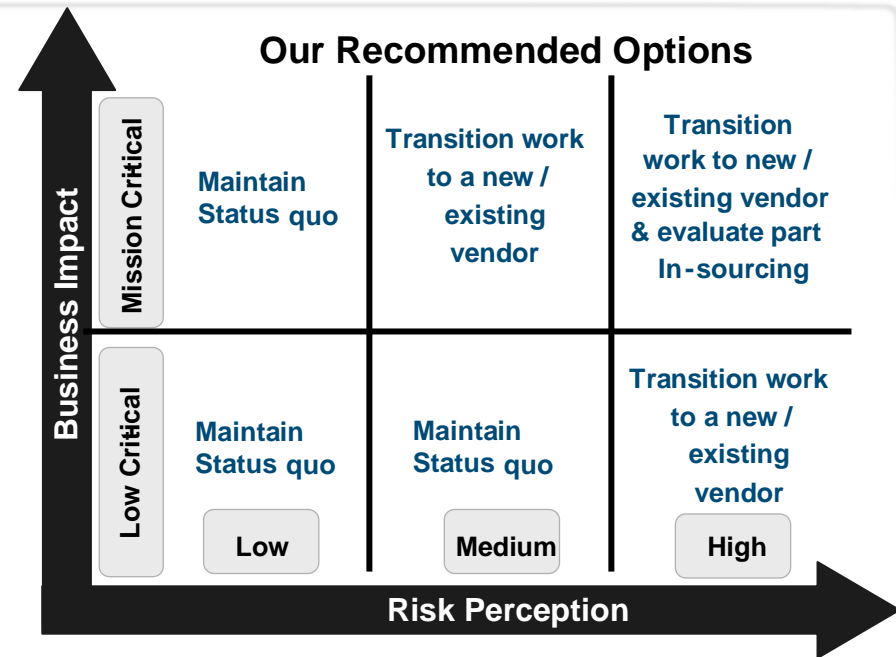
Risks	Type of Risk	Risk Description	Ways to access risk
<b>Firm level Risk</b>	Liquidation Risk	Company ceases to exist to offer services	Monitor the developments closely. Seek legal opinion from the counsel
	Liability Risk	Company continues to offer services with disproportionate liabilities compared to its assets	
	Takeover Risk	Company is taken over by another competitor firm and services are transferred to the new owner	
<b>Operational Risk</b>	Information Security Risk	Risk of losing or misuse of data, code, software etc.	Closely monitor and interact with the offshore project team regularly
	Employee Attrition Risk	Risk of losing key personnel	
	Quality Degradation Risk	Risk of degradation in quality output	
<b>Contractual Risk</b>	Termination Rights & Obligations	Review the clauses pertaining to termination. E.g. notice period, termination for convenience	Review the contract terms
	Termination Assistance Services	Review the clauses on assistance assured by vendor in case termination is invoked	
	Right to Transfer Employees	Clause around transfer of project employees	

**Outcome: For each project, categorize Satyam’s risk perception as Low, Medium or High**

## Step 3. Solution Design



- Using the outcome of the business impact analysis and the risk perception, a suitable solution is selected from the available options
- Possible solution options:
  - Maintain Status quo
  - Transition work to a new/existing vendor
  - Transition work to a new/existing vendor & evaluate part in-sourcing



### Transition work to a new / existing vendor – Specific Cases (Recommended Actions):

**Dual-sourcing clients:** Transition work to a new vendor instead of an existing vendor to mitigate vendor concentration risk

**Multi-sourcing clients:** Transition work to an existing vendor

**Contract up for renewal:** If contract is up for renewal in the immediate future, explore opportunities to transition work to a new / existing vendor

**Mission Critical projects:** Its recommended to transition work to MNC or Tier I Indian vendors

**Outcome: Determining the available options**

## Step 4. Implementation



### Key Implementation Steps

#### Maintain Status Quo

- Immediately appoint a crisis management team
- Monitor delivery performance closely
- Secure access to all systems including code, data and KM tools

#### Transition work to a new/existing vendor

- Immediately appoint a crisis management team
- Thoroughly analyze the termination rights and obligations
- Select a trusted vendor and sign a short-term agreement to get transition started
- Prioritize intended transitions based on the process/application criticality

#### Evaluate Part In-Sourcing

- Immediately appoint a crisis management team
- Thoroughly analyze the termination rights and obligations
- Review contractual terms on Right to transfer employees if possible exercise the right
- Assess the size of the retained organization
- Prioritize intended transitions based on the process/application criticality

## Vendor Management - Post Satyam Crisis



- Satyam episode highlights the importance of a good contractual agreement which is able to handle a crisis as severe as Satyam
- Going forward service buyers need to be more cautious and seek protection in ongoing relationships

### Existing Relationships

- Review existing contractual terms with suppliers to include protections which mitigate risks in a Satyam-like event
- Seek detailed performance reports, encompassing all key operational measures and delivery timings, to identify any potential problems
- Institute periodic financial reporting
- Implement the contractual rights negotiated in the contract which were not getting practiced. E.g. Engaging in regular knowledge transfer sessions
- Most outsourcing agreements include robust audit rights. Time permitting, conduct an operational audit periodically
- Seek proper documentation of the work being done by the vendor

### New Relationships

- Build a strong internal vendor evaluation team seeking greater due-diligence and transparency from service providers
- Seek advice from lawyers and consultants to contractually mitigate risks of outsourcing/offshoring

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