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CEO Spotlight

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Satyam Crisis – Client's dilemma

Satyam – an India based Top Tier IT firm has been involved in a fraud - this has brought the spotlight back on Corporate Governance which surfaced following the demise of Enron and Worldcom.

It's the first major accounting fraud for the Indian corporate sector as well as global outsourcing industry. We are therefore witnessing unprecedented measures being taking by the Indian government and regulators to protect the interest of various stakeholders.

Satyam as we know is a blue-chip Indian IT Services firm providing services to one-third of Fortune 500 companies globally. Also till recently, Indian offshore vendors were considered the torch-bearers in setting the corporate governance standards in India. To discover a leading member of this group to be committing a financial fraud of such a magnitude is extremely disheartening.

The pride and the reputation of the Indian outsourcing industry have been hit hard. However, we strongly believe that it's an aberration and the faith that buyers of services have shown over the years for Indian outsourcing industry will continue. This incident will surely lead to greater scrutiny and due-diligence of the Indian outsourcing industry by different stakeholders but in the wake of these events that's very much warranted and we are confident that the industry will fully co-operate and come out of this crisis much stronger.

For Satyam's clients, it's definitely testing times as they live through this crisis on a daily basis. Clients who have outsourced mission critical work to Satyam are particularly vulnerable as it directly impacts their internal operations and ability to service their clients. So we believe, it's in clients' best interests to undertake a quick assessment exercise on the portfolio of services outsourced to Satyam to come up with a business continuity plan which addresses the situation in the short and the medium term. Such an assessment should consider the impact client's business as well as risk associated with Satyam at a firm, operational and contractual level. Clients therefore have to make a choice whether to continue working with Satyam or look for other outside alternatives. From an outsourcing risk perspective this crisis has shown that multi-sourcing has proved to be a better option than single vendor approach. As the risk perception of clients for offshoring goes up, clients will proactively choose multiple vendors and location strategy to spread the outsourcing risk. In the short term, we anticipate global outsourcing vendors to benefit as some clients may look to restrict their exposure to Indian offshoring vendors. However, among the Indian vendors, we believe clients will show higher confidence in engaging with Tier 1 Indian vendors as compared to mid-tier.

While strategic sale of Satyam emerges as a viable long term solution, it's possible that the entire process may drag for 6 to 9 months with a fair possibility of failure. Due to this uncertainty, clients will remain exposed in the short to medium term. The recent announcement of Mr. A.S. Murthy (a Satyam veteran) as the CEO by the government appointed board came as a disappointment and in our view does not help in restoring confidence to clients who were expecting a global leader from outside.

The investigations on Satyam are going to continue for some time. Let's hope however that the Indian outsourcing industry and corporate India in general comes out much stronger from this episode and service buyers globally continue to realize their strategic objectives through offshoring.



If you have any questions or comments about this article please contact at avi@tholons.com