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Lessons from the Satyam-Maytas deal

Key points to keep in mind..

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Some sprucing up may be in order.

Amit Garg

The Satyam-Maytas deal has been announced and called off within the space of a day. In that one day, the company has faced significant issues related to corporate governance and professionalism. Whatever the merits of the deal, investor sentiment has caused Satyam to back-track on a billion-dollar deal and caused serious loss of face for the promoter group.

Over the coming year, many companies will need to address the challenges of the economic environment and the necessity of corporate restructuring activities. As they chart these actions, it would be useful to imbibe the lessons from Satyam.

Shareholders are more activist than ever: In less than 24 hours, the major shareholders of Satyam forced a change of stance on a billion-dollar deal. This is a rare event in Indian corporate history. It appears that Satyam may well have been able to push the deal through on a legal front — but an overnight decline of more than 50 per cent in the ADR led it to decide that the loss of investor confidence would be enormous.

Even after the retraction, the stock fell by more than 25 per cent on December 17 — which

essentially is a penalty for perceived lack of corporate governance. In another market, this could have been the trigger for a takeover attempt. Shareholders, especially institutional ones, can no longer be taken for granted.

Investors tend to reward focus and punish unrelated diversification: Along with the rewards of an IPO, there come the responsibilities and pressures of a publicly listed company.

Since the 70's, investors have frowned upon corporate diversification. The argument is that in an efficient capital market, the investor himself has the choice of diversification — he does not need the management to take that decision for him. If an investor wants a bit of Real Estate along with IT, he can choose to invest in companies focused on those sectors. While doing so, he is likely to choose the best scrips in each of those sectors, in the proportion that he chooses.

Since liberalisation, most Indian business houses have actually tried to streamline and focus their different listed entities. To go against this premise requires an extremely strong business case and large, demonstrable synergies. In this case, neither was presented.

Transparency is critical: Even assuming that the deal made sense for Satyam, it was obvious that it would come under intense scrutiny. A person tuning in to TV on December 16 would be obliged to ask several questions linked to the choice of business, its timing, the basis for valuation, the cash involved, the structure of the deal itself, etc. Given this, it was incumbent upon the management to come out with a detailed rationale for the deal with all the supporting facts and figures. They should also have proposed a "more stringent than normal" process to consummate the deal.

Instead, it came across as a situation where the management was disclosing selective details and trying to push across the deal. Maybe investors behaved in a knee-jerk manner — but there was no information available to behave otherwise!

Professionals need to stand up and be counted: While the promoter group has copped the flak for the deal, the executives of the company cannot escape censure either. A professional manager is expected to be objective and think of the company's interests.

There are three possibilities. One, the professionals did not understand the implications of the situation. Two, the promoter group was badly advised by them. Three, the executives (and the board) understood what was happening and meekly "toed the line". There is glory in none of these situations.

Reputations take a long time to be re-built: Over the course of one day, Satyam has managed to reduce public confidence in its business model (otherwise why would it seek to diversify?), corporate governance practices and the quality of its executive team. This loss of confidence has been immediately visible in the investor reactions, but is likely to manifest itself in employee as well as customer perceptions. Re-building this trust is not impossible — but is likely to take a lot of time. In this fast paced world, that may be a setback a company could do without.

How Satyam recovers from this setback is going to be watched with interest by all. There is a need for speedy and effective damage control with investors. Extensive communication and sharing of information is required to convince them that the management meant to do the right thing. Ultimately, however, it is all about performance. Shining results over the next year would go a long way to convince people that the icon has not fallen.

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