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Satyam Fraud: A Structural Functional Approach to Corporate Governance Reform

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Abstract

The paper uses Satyam Computer Services Limited as a prototypical case of corporate governance failure and recommendations for reforms. In making recommendations for corporate governance best practices, the paper analyzes Satyam's corporate governance framework and management controls through a structural functionalist lens. The case is based on materials obtained from the news and print media, published articles, and interviews given by experts who commented on the case. Corporate governance data were obtained from the Securities and Exchange Commission's (SEC) Edgar database. The findings suggest that corporate governance best practices should not be separate from the discrete parts of the organization. A wider context that encapsulates socio-cultural factors must not only be part of corporate governance mandates; but, also integral in the operational logistic of the corporation. As part of this discussion, the paper explicitly reviewed the governance structure and the make-up of the board of directors that were in place at Satyam prior to the resignation of Chairman Ramalinga Raju and his admission that he was involved in financial statement irregularities. Particular emphasis was placed on how management control systems and cultural controls in companies can shape corporate governance mandates to build effective governance framework.

Keywords: management controls; cultural controls; fraud; structural functionalisms; corporate governance

1. Introduction

Over the past two decades, public attention has been directed to continued revelations of corporate fraud(note 1) across the globe. Companies in the United States (Enron, Tyco, WorldCom, Global Crossing, Quest, Aldelphia, and ImClone), Canada (Nortel, Livent, Sino Forest), United Kingdom (Cattles, Tesco), Japan (Olympus, Toshiba, Kanebo, IHI Corp), Italy (Parmalat), India (Satyam), Trinidad (Clico) etc., were all involved in corporate accounting fraud ranging from fictitious revenue recognition to outright fraudulent accounting. Many of these frauds involved accounting manipulations where senior executives colludes with accountants and information technology (IT) experts to reconfigure and redesigned internal controls to circumvent legislation governing corporate affairs (Lokanan, 2014). These types of accounting fraud raises questions about the quality of corporate governance standards and "best practices" that are expected of companies across the globe. The failure of governance mechanisms to detect and address the red flags associated with these accounting frauds suggest that the quality of current governance practices may not be suitable to address the types of fraud risks that characterise these scandals (Gabbioneta et al., 2013; Lokanan, 2017; Power, 2013). Even if one considers some of the frauds to be the outcome of the global financial meltdown in 2007/08, the share magnitude and scope of their consequences to shareholders and the financial markets suggests a more systemic problem with corporate governance codes and standards.

The present paper used Satyam Computer Services Ltd ("Satyam") as a case of corporate governance failure. At the time of Satyam's collapse, it was the fourth largest corporation in India and a rapidly growing business that offered IT and business processes services to companies across the world. Dubbed "India's Enron" (a reference to the American energy company that was involved in a billion dollars accounting fraud), Satyam is classed as one of the largest fraud in India's corporate history. The fraud came to light on January 7th 2009, when the company's founder and Chairman Ramalinga Raju ("Raju") hand in his resignation and confessed to accounting fraud at Satyam. Raju disclosed a letter to Satyam's Board of Directors (BOD) asserting that "he had been manipulating the Company's accounting numbers for years" by overstating revenues and inflating profits in excess over $1 billion U.S. dollars (Lal Bhasin, 2013, p. 30).

1.1 The Problem

The Satyam fraud brought into questions the epistemological frames of corporate governance in general and cast an ugly shadow on the ability of oversight mechanisms to safeguard shareholders' interests. Notwithstanding its far reaching consequences, the actions of the executives represent a scenario where corporate governance frameworks in place are not adequate enough to detect and prevent the risks associated with financial statement manipulation in modern economies. In many ways, Satyam followed the principles of robust corporate governance and yet still, the individuals who were put in place to safeguard its assets and public interests were able to circumvent regulations. In terms of application, Satyam was following the corporate governance codes of the Securities & Exchange Commission ("SEC"). In this regard, one can argue that there was application of corporate governance best practices to Satyam, which should have deter fraudulent actions. So even though the corporate governance codes were applied, they were not effective in prevent fraud at Satyam. The fact they the codes did not prevent the fraud from happening, however, raise serious questions about corporate governance standards.

Satyam fraud represents a scenario where corporate governance systems is far from detecting and preventing the risks associated with financial statement manipulation in modern economies. In the context of international best practice, this paper draws on sociologist Talcott Parson's (1961a) version of functionalist social theory to argue that a structural-functional approach is highly practical and useful when use as a foundation for systemic analysis of corporative governance failure in collective and integrated cultures like India. Despite the early criticisms of Parsonian structural functionalism in the 1970s, the paper argues that the principles and concepts of structural functionalism remain relevant and useful to understand the governance structure of multi-layered and complex organizations in the mould of Satyam. The structural functional approach emphasises that organizations consist of many constitutive parts that contributes to the overall performance of governance systems (Potts et al., 2014). These parts identified as structures have their respective functions to promote stability and meet the organization needs (Parson, 1961b). The approach taken in this paper centres on whether structural functionalism can be used by management and regulators interested in reforms to understand the linkages between the constitutive elements in organizations and their structural functionalities. The main argument is that complex organizations consist of many constitutive elements that contributes to their overall performance, and that these elements can be identified as structures and functions that are interdependent and when nurtured properly, can be integrated into an effective functioning unit. Mindful of proposing a grand theory of corporate governance reform, far from it, the objective of this paper is to use the principles and concepts of structural functionalism to explore their relevance and underpin an analysis of accounting irregularities and fraud in organization. The structural functionalist approach adopted here considers the contexts in which interrelated parts work in organization, how the governance system is structured and organized, and the various ways in which structures interact and contribute to the overall performance of the organization as a stable unit (see also Potts et al., 2014, p. 23).

The recounting of the storylines continues as follows. First, a brief background of the Satyam fraud is carried out followed by a discussion of Satyam's corporate governance practices and the Board of Directors (BOD) that were in place prior to the resignation of Mr. Raju. This is accompanied by a discussion of Parson's (1951) structural functional approach to corporate governance. In the context of international "best practice", and using the Satyam fraud as a case in point, the paper then proceed to evaluate how the management control systems and the culture of companies may need to be changed to enhance corporate governance standards. Finally, a conclusion is presented that highlights future areas of research.

1.2 Background of the Fraud

The Satyam's scandal started in 2003 when the company began chasing profits to maximize its bottom line and to attract prospective investors. As times goes on, Satyam continued to understate its liabilities while overstating its assets on is balance sheet. Satyam, it is alleged "overstated income nearly every quarter over the course of several years in order to meet analyst expectations" (Lal Bhasin, 2013, p. 30). According to journalists who have covered the case, Mr. Raju used his personal computer to create

numerous bank statements to advance the fraud. Mr. Raju falsified the bank accounts to inflate the balance sheet with balances that did not exist. He inflated the income statement by claiming interest income from the fake bank accounts. Mr. Raju also revealed that he created 6000 fake salary accounts over the past few years and appropriated the money after the company deposited it. The company's global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue. The global head of internal audit also forged board resolutions and illegally obtained loans for the company (Ramachadran, 2009; see also Wharton, 2009).

These fraudulent accounting practices expose the alarming truth of corporate governance standards not only in India, but the world over. Greed, power and supremacy over India's IT consulting market has led Raju to "ride the tiger", which led to the violation of all the underlying principles on corporate governance – accountability, transparency, integrity and efficiency (p. 30). What is rather ironic in this entire fiasco is that Satyam means "truth" in Sanskrit, but as Ramalinga Raju revealed, the Company has been feeding its shareholders and stakeholders a steady diet of asatyam (or untruth) regarding its financial performance (Wharton, 2009; para. 1). Satyam fall was brought about by a toxic combination of conflict-of-interest on the part of its senior executives and a lack of oversight by its Board and advisers (see also Deakin & Konzelmann, 2004).

This case study will evaluate and critically discussed the corporate governance and management control issues that arose in the context of the Satyam's fraud. What follows is a breakdown of Satyam's corporate governance structures and the BOD that were in place prior to the resignation of Mr. Raju. Drawing from the Satyam's experience, recommendations in the context of international "best practices" for stronger corporate governance frameworks are put forward. This is followed by an evaluation on how the management control systems and the culture of the Company may facilitate "best practices" in corporate governance.

2. Satyam's Corporate Governance Structure and Strategy

2.1 Board Independence

To some extent, Satyam did follow the listing standards that constitute good corporate governance (see Exhibit 1). Five of the nine directors on Satyam's board were listed as "independent within the meaning of the New York Stock Exchange ("NYSE") listing standards" of "best practice" for corporate governance (SEC, 2008). Even though the Harvard Business School's award winning professor Krishna Palepu was listed on Satyam's Board, he was not one of the independent directors. Satyam did not have problems with duality and dominance as the role of the Chairman and Chief Executive Officer ("CEO") was separate. However, what is most notable is that brothers Ramalinga Raju and Rama Raju served as

Chairman and CEO respectively of Satyam, and both had a major interest in the Company (Shivanna, 2010, p. 5). Moreover, Satyam did not have any independent board leadership (p. 5). Satyam's SEC Form 20-F also states that its "non-management directors do not meet periodically without management directors" thereby contravening one of the best practices that is mandatory for companies that are listed on the United States (U.S.) exchanges (Behan, 2009, para. 9).

2.2 Board Composition

In its 2008 Form 20-F filing to the SEC, Satyam noted that it has an audit committee, which met all of the requirements of Rule 10A-3 under the *Securities Exchange Act*. The audit committee consists of four members who were all independent in accordance with the NYSE's rules. On the same Form 20-F filing, however, the lack of financial expertise on the Audit Committee was glaring:

We do not have an individual serving on our Audit Committee as an 'Audit Committee Financial Expert' as defined in applicable rules of the Securities & Exchange Commission. This is because our board of directors has determined that no individual audit committee member possesses all the attributes required by the definition 'Audit Committee Financial Expert' (Securities and Exchange Commission, 2008, p. 74).

Perhaps more perplexing was the lack of directors with the requisite financial acumen on Satyam's board (Shivanna, 2010, p. 5). Four of the six non-management directors on the Board were academics, while one was a former Cabinet Secretary of the Indian government, and one had previous board experience as a former CEO and vice-president of a tech company (Narayan Kar, 2013, p. 84). Satyam also had a problem with interlocking directorship as two of the independent directors, Vinod Dham and Tata Ramachnandraprasad were each noted in the SEC 2008 filing as serving on eights boards in addition to Satyam (p. 84). Overall, Satyam showcased a board composition that was not well-rounded and suited for such a large company (Shivanna, 2010, p. 5).

2.3 Board Committees

Satyam's 2008 Form 20-F filing noted that its compensation committee is made up of four members, each one of whom is independent in accordance with NYSE's listing standards. Later down the same page of its Form 20-F filing, Satyam noted that it does "not have a nominating/corporate governance committee" and therefore does not comply with the nominating/corporate governance committee's requirement for listed companies (Securities and Exchange Commission, 2008, p. 74). This is a glaring omission as a failure of Satyam's magnitude could have possibly been averted with the presence of a corporate governance committee (Shivanna, 2010, p. 6). In order to substitute for this glaring departure, Satyam included the "Investors' Grievance Committee" as part of its board structure; this committee it was observed, was not available to meet on a frequent basis (Behan 2009, para. 10).

3. The Problem with Corporate Governance

Before recommendations can be made to improve corporate governance practices at Satyam, it is best to first explore whether the current listing standards are fit-for-purpose. Current corporate governance codes broadly put, require companies to have independent boards, independent audit committees, compensation committees, nomination committee, separation of Chairman and CEO (to avoid the duality problem), and directors' share ownership (Huse, 2005; see also Johnson, Daily, & Ellstrand, 1996; Finkelstein & Mooney, 2003). These requirements are guided in most cases by agency, stakeholder, and stewardship theories that place the onus on gatekeepers to minimise the companies' exposure to risks and create value for shareholders (Davis, 2005; Mallin, 2007). However, if one is to use the Enron's, Worldcom's, and the Parmalat's of this world as precedents, it becomes evident that these narrow frameworks constitutes a one dimensional discourse that even if recommendations are made, they are bound to fail (Braithwaite, 2013; Lokanan, 2017; Power, 2013, Williams, 2013).

While there is no universal definition of corporate governance, the listing standards espoused by the New York Stock Exchange (NYSE), Cadbury Committee, and the Organisation for Economic Co-operation and Development (OECD), all leading players with stakes in the regulatory game, emphasises governance frameworks that focuses on the individualization of risks (Power, 2013). These listing standards share a common theme in their conceptualisations of corporate governance: corporate governance is the manner in which companies and their employees are directed and control to maximise shareholders and stakeholders' capitals (see also Rezaee, Kingsley, & Olibe, 2003). This conceptualisation invariably focuses on the "individualization and responsibilization" of fraud risks as an act committed by individuals with moral defects (Power, 2013, p. 526). What therefore follows are distinct liberal projects of "individualization and responsibilization" in corporate governance discourse to detect and preventing fraud (p. 526). The individualization of fraud risks gives prominence to the agency concerns that arises from separation of ownership and control and accountability problems between BOD and managers (Jensen & Meckling, 1976; Davis, 2005; Mardjono, 2005). Fraud "is positioned as an object in a wider system of rules for talking about, acting on and governing organizations in the name of risk" (Power, 2013, p. 526). The individualisation of risks self-consciously drives the emergence of corporate governance frameworks to identify red flags associated with the lone wolf predatory offender who circumvent regulation to maximise his or her net utility (Strand Norman, Rose, & Rose, 2010; Morales, Gendron, & Guénin-Paracini, 2014).

Beneath this subterranean cluster of discourse masquerading as listing standards, is an ontological disposition that lacks scope and depth and leads to governance frameworks that are not design to capture risks that arise from collusive behaviour. So the problem is that even if all the principles of good corporate governance are followed, they will not be enough because, at the very best, they are designed to detect fraud committed by the lone wolf predatory offender and not collusive behaviour. The role of social influence and wider contextual factors are absent from corporate governance mechanisms. Consequently, the social factors that lead to fraud escape further scrutiny. Eventually, as was evident in Satyam (and the recent spate of corporate scandals across the globe), the governance frameworks implode because they are unable to capture the behaviour of CEOs who combined with their accountants and information technology experts to redesign and circumvent governance mechanisms to perpetuate fraud (Brytting, Minogue, & Morino, 2011; Lokanan, 2017). Thus, the notion of responsible governance in modern capitalism may actually nurture fraudulent practices (Lokanan, 2015; see also Galbraith, 2004; Power, 2013). It is with these caveats in mind that this paper slightly diverges from the present discourse to make recommendations for future changes in corporate governance practices.

4. A Parsonian Approach to Corporate Governance

Parson's (1961a) structural functionalism is a good starting point to understand organizational stability. By using structural functionalism as a logical foundation, rather than a general theory for evaluating governance systems in organization, a Parsonian's approach to governance focuses on the relationship between various components (board independence, board components, board committee etc.) that are integral to organizational stability and the wider structural setting in which corporations operates. In social terms, these components are supposed to have share values, norms, and traits that promote stable behaviour and represent an integrated approach to the theorizing and ontological study of fraud and fraud risk in organizations (Power, 2013). Structural functionalism "considers not only decision-making outcomes, but also the interactions of structures and functions within the system and their influence on decision-making outcomes" (Potts et al., 2014, p. 220). The assumption is that a bounded institutional unit exists, and the study of structures in terms of their respective functions will enable managers and regulators (as decision-makers) "to identify which components of a governance system are limiting the success of planning, and then focus their attention on improving and reforming those areas" (p. 223). The objective is to evaluate what each component does in the organization (as opposed to what corporate governance listing standards) mandate them to do by moving away from the specific micro-setting to understand the system of thought which flows through the organization and what controls constitutes the practice of fraud risk management (Power, 2013, p. 526). Through these evaluative lenses, decision-makers will not waste resources on components that have little impact on the organization's financial performance, but, fruitfully analyze their failure to influence other functional component of the corporate unit.

To perform its function with optimal degree of functionally, the organization must first have a particular kind of structure that governs its operation. Structure here refers to the arrangement of different components and their antecedent's roles that are parts and parcel of the organization (McIntyre, 1966, p. 60). By virtue of a combination to understand the functional roles of each component and their structure, "structural-functionalism is transformed from an obscure and abstract sociological theory to a useful and practical evaluative lens for planning" and implementing corporate governance framework (Potts et al., 2014, p. 221). The goal is to elicit which component is functional as oppose to being dysfunctional in the overall performance of the organization. Components in the organization is said to be functional if they contribute to its overall stability (i.e., preventing costly fraud) and dysfunctional if they disrupt or pose risk to the organization's systems and controls (Power, 2013, p. 526 & 529). In understanding this differentiation, the roles of the components becomes central to a functional analysis and provide a theoretical base to assess their heuristic value to the organization (Udo-Akang, 2012, p. 89). Structural functionalism therefore is seen as a research strategy that is guided by heuristic maxims rather than a grand theory of corporate governance reforms (Strasser, 1977). It provides a foundation for scholarly inquiry into the functional prerequisites that the organization needs to remain stable and at the same time, facilitate a comprehensive analysis "of the organization as a systemic whole with constituent parts in search of mutually adjusted equilibrium" (Demerath & Peterson, 1967, p. 2).

4.1 Ensuring Corporate Governance Best Practice

The deficiencies identified in Satyam's Board can be addressed by aligning current corporate governance practices with a wider structural approach to governance. In this regard, all the constitutive elements of the social system must work in unison to promote corporate stability (Parson, 1961a).A functionalist's approach looks at collective actions and social constructions as pivotal to an engaged and effective Board (Mardjono, 2005). Similarly, with respect to Satyam, the various committees and boards must work together to achieve optimal performance (Jackling & Johl, 2009). A functionalist would argue that a board without the requisite make-up will not function properly and therefore must be policed closely by regulators (Parson, 1961a). As highlighted above, one of Satyam's main problems was that both the Raju brothers were acting as CEO and Chairman and as well as promoters for the company. There were also problems with independent directors who were supposed to be independent of management and an audit committee and BOD that lack financial expertise. Furthermore, the independent directors needed to invest more time to get acquainted with the operation of Satyam and should not have served more than one term (i.e., four years) (Ahrens et al., 2011). While I agree that these deficiencies are vital and require immediacy from Satyam's management, under a Parsonian approach, senior officials would have been negligent in their duty to even fathom that addressing these problems will results in a panacea to Satyam's governance issues. Given that these deficiencies are vital and require immediate attention, more sustained effort should be placed on how the norms, custom and value system of the individuals within these constitutive elements shape governance practices in corporations (Mardjono, 2005; Power, 2013; Cooper, Dacin,& Palmer, 2013).

Following on with the Parsonian approach, current corporate governance codes/practices can ensure good governance by placing more emphasis on the macro-level variables that influences board members behaviours (Galbraith, 2004; Davis, 2005; Ahrens et al., 2011; Cooper et al., 2013). Gatekeepers need to take stock of the fact that the individuals who serve on boards are all embedded in a wider socio-political, cultural, and economic eco-system that shapes their views (Radcliffe, Spence, & Stein, 2011, p. 6; also see Pande & Ansari, 2014). Given this interconnection, corporate governance reforms cannot only afford to place emphasis on narrow agency, stakeholders, and stewardship concerns (Radcliiffe et al., 2011, p. 8); but, must incorporate structural-level variables in the governance framework to address the influence that they have on individuals' behaviours. The focus should be on exploring the corporation, where it is located, how it works, how it influences social actors, and how it changes over time (Davis, 2005; 156).

An effective way to do this is to thoroughly investigate the structural institutions that contributed to individuals' development. The family, educational, and professional institutions that played a part in the socialisation of the individuals should be scrutinized to endure that they are fit-for-purpose before they can serve on corporate boards (Kiel & Nicholson, 2003). More emphasis should be placed on the social system in which these individuals are embedded and the importance of their environment for best practices in corporate governance (p. 190). It is expected that those hired will not only have the technical expertise and requisite knowledge (required by current corporate governance codes/practices) to serve on corporate boards, but that they will bring with them core values that contribute to optimal performance of the constitutive element to which they belong (e.g., audit committee, independent board etc.). To put into context, Satyam's board will not suffer from having two brothers serving as the CEO and the Chairman because according to structuralism, the Raju brothers do not "internalised" the functional requirements that need to be satisfied for the company to remain competitive (Parson, 1961b, p. 425).

The pattern-maintenance of appointing individuals without the necessary financial acumen to the audit committee and BOD to serve on Satyam's board will not be fit-for-purpose as a structuralist view will envisage that these constituent elements do not contribute to good governance (Parson, 1961b, p. 425). Current corporate governance practices, including "the roles [and responsibilities] of non-executive versus executive members of the board (Pass, 2004), the independence of the board of directors (Zandstra, 2002), the role, independence and disclosure of [the] audit committee (Rezaee et al., 2003), [and] the enforcement of compliance and role of internal auditors (Vinten, 1998, 2000, 2002)" are all taken into consideration; but, it is how they work as a functioning unit that is given prominence in the overall scheme of things (as cited in Mardjono, 2005, p.273). The functionalist's emphasis on looking at the organisation as an integrative unit coupled with exploring the individual's socialisation within the wider social system have more mileage to improve current corporate governance practices than one that is based on narrow agency and stewardship frameworks (Palmer, 2012; Power, 2013; Pande & Ansari, 2014).

4.2 The Focus on Controls

Broadly defined, management controls include the systems that managers put in place to ensure that resources are used effectively to achieve organisational objectives (Merchant & Van der Stede, 2007, p. 6; Rufe, 2013, p. 526). The Satyam's scandal highlighted some significant issues concerning the purpose and impact of management control systems of large companies. High sounding management controls make for good public relations; but, by themselves, they are unable to have an impact on good governance (Coleman, 1985, p. 242). While Satyam's demise has been portrayed as resulting from the actions of Chairman Raju acting in the absence of adequate management control, a closer look at the Company (barring a few deficiencies) indicated that it had all the trappings of what a sound and efficient management control system should look like (see Free, Macintosh, & Stein, 2007; Morales et al., 2014).

On the surface, Satyam seems to have dot the "I" and cross the "T" to verify its financial health. Satyam's (2008) SEC filings indicated that the Company had a Code of Business Conduct and Ethics to govern employees' behaviours, a separate internal audit department to check corporate performance, a corporate governance guidelines to ensure that the Company is structured to achieve its strategic objectives, a compensation committee to review compensation packages, and a Big-4 external auditor to verify and substantiate its financial performance. As a matter of fact, Satyam's corporate governance and control structure were lauded by the World Council of Corporate Governance in 2008, which resulted in the Company winning the "Golden Peacock Global Award" for Excellence in Corporate Governance for 2008 (Behan, 2009). The problem with Satyam and some of its predecessors (e.g., Enron, WorldCom, Aldephia etc.), however, is that it is difficult to develop management controls when there are fraudulent collusive behaviour involving management themselves (Free et al., 2007; Dorminey et al., 2010; Murphy & Dacin, 2011; Gabbioneta et al., 2013; Morales et al., 2014). The Satyam's scandal represented a situation where the Chairman and CEO colluded with the auditors, computer technicians, vice-president of finance, assistant finance manager, senior managers, and human resource professionals to redesign the control systems, prepare fake invoices, make fake deposits, falsify the financial statement, and destroyed audit trails to facilitate the biggest corporate fraud in India.

Stronger management controls may be effective to identify risks associated with the lone wolf offender; but, they may not always be effective to detect collusive behaviour (Dorminey et al., 2010; Murphy, 2012; Morales et al., 2014). It takes specialised knowledge to commit corporate fraud, and in Satyam's case, the executives and their inner circles of managers, IT experts, and accountants (over a period of time) consciously re-designed the control system into an opportunity to facilitate fraudulent behaviour (Brytting et al., 2011: 52). Given this context and the working definition of management controls, a key question to ask is: how can managers implement controls to hold themselves and employees accountable? Perhaps what is needed are more action controls that is aligned with cultural controls specifically designed to change the tone of the organisation from one that solely focuses on profit maximisation to one that encourages "mutual monitoring" of employees (Merchant & Van der Stede, 2007, p. 85; see also Wells, 1997; Comer, 2003; Sandelin, 2008; Li, 2013).

Cultural controls can be achieved by aligning management controls with the organisation's objectives (Dent, 1991; Pratt & Beaulieu, 1992; Malmi & Brown, 2008; Sandelin, 2008). Cultural controls have more mileage in countries with "collectivist cultures" (like India) since a team member risk being ostracised if he or she deviates from the strategic direction of the organisation (Merchant & Van der Stede, 2007). Under the Parsonian approach, the common norms and values embedded in the social system are transferred to individuals and shapes organisational life. In this sense, senior managers can effect change by sharing information that is integral to the success of the organisation (Sandelin, 2008, p. 326). When applying this logic to Satyam, it becomes apparent that had Ramalinga Raju shared financial information with the BOD, they perhaps would have had a better understanding of the underlings that led to the company's demise. It is no secret that the CEO, Chairman, and BOD having invested so much was very committed to Satyam. As such, a culture that espouses sharing of financial information would have put the company's "directing minds" in a better position to determine whether the strategic direction should be short-term profit or long-term growth (see Sandelin, 2008). Taken together, management controls are seen more like a functional "package" (i.e., a detailed checklist) to ensure that the controls do not operate in isolation of one another; but, rather through the integration of the functioning units (Merchant & Van der Stede, 2007; Ahrens & Mollina, 2007; Malmi & Brown, 2008).

Action controls are particularly important because they take steps to address behaviours that are seen as harmful to the organisation (Merchant & Van der Stede, 2007; Malmi & Brown, 2008). One of the elements of action controls is behavioural constraints (Malmi & Brown, 2008, p. 294). In Satyam's case, behavioural constraints could have been achieved through segregation of duties and audit rotation every two to three years. To put into context, Ramalinga Raju would not have been the Chairman and the same person in charge of running the Satyam's bank transactions. In the same vein, audit rotation would have allowed the new auditors to discover any discrepancies that were either not detected or covered up from previous audits (Carcello & Nagy, 2004). Moving beyond these alternatives is a recommendation to have tighter controls in the form of functional interaction between units and subsequent action accountability (Merchant & Van der Stede, 2007, p.123). Action accountability consists of specific elements that would require the BOD to hold employees accountable for corporate misconduct. Similar to tight results controls, accountability control must be specific, communicated to all employees and enforced when violated (p. 123).

5. Conclusion

This case study outlined the governance structure of Satyam and some of the corporate governance problems that plagued the company. In doing so, the deficiencies that were inherent in Satyam's governance structure were exposed and analysed. Recommendations were then made for corporate governance practices to be anchored with a structural functionalist's framing. The key argument here is that for corporate governance mandates to be effective, all of the constitutive elements must align as a functional unit to optimize organizational effectiveness. A functionalist's framing give credence to the notion that "[a] company's board is its heart and as a heart it needs to be healthy, fit and carefully nurtured for the company to run effectively" (Solomon, 2013, p. 78). Informed by the functionalist's perspective, the paper then evaluated how management controls and the culture of companies may have to change in order to meet the requirements of current codes governing corporate governance best practices.

As noted earlier, the norms of an organization may encourage criminogenic behaviour even when doing so is illegal. This behaviour is common in accounts of financial fraud, while at the same time serving to reaffirm our faith in the effectiveness and normalcy of corporate governance standards. The extreme case in which an individual's criminogenic behaviour is based entirely on his or her having been socialised solely in, and having completely internalised the dictates of a deviant subculture without contact with wider society is not consistent with the Parsonian approach to governance. Rather, as was made clear earlier, individual deviance emanates from the person holding beliefs that are favourable to norm-violating acts and are shaped by his or her greater exposure to criminogenic settings and corporate governance standards that are perceived as lax and legally porous. The argument that controls will kick in when individuals fail to follow the assemblage of rules that represent corporate governance standards may hold true for the lone wolf predatory offender. However, effective controls are mechanisms underpinned by corporate governance best practices and proportionate sanctions put in place to deter individuals acting as collectives from erring and holding them accountable to legal and ethical standards (Power, 2013). An environment where people (after applying their moral filters) perceive an act of crime as a viable action alterative, suggests that no controls are in place (Lokanan, 2017). Crucially, dealing with conflicting rule guidance in the choice process to violate the law only becomes relevant in explaining fraudulent conduct when fraud is among the perceived action alternatives for the individuals.

Financial fraud involves acts of dual rule breaking to the extent that perpetrators breach rules that harm the corporation as well as broader society. A Parsonian approach is well positioned to handle both these dimensions of behaviour by inquiring why individuals come to perceive harming the corporation (in the process of committing fraud) as well as all the stakeholders of the corporation as suitable action alternatives. By focusing on analysing (theoretically) and researching acts of financial misconduct as the result of lax corporate governance standards, a Parsonian approach can substantially advance our knowledge of the causes and prevention of financial fraud. Interdisciplinary researchers should make it a priority to utilise Parson's (1961a) work to address individual differences in financial fraud causation, while at the same time accounting for aggregate offending patterns.

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Note

Note 1. The terms “fraud”, “corporate fraud”, and “corporate accounting fraud” were used interchangeably throughout this paper. Due to the commonality associated with operationalizing their meanings, it was not necessarily to disentangle the terms.