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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

CORPORATE FRAUD IN INDIA: A PANORAMIC VIEW OF INDIAN FINANCIAL SCENARIO

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ABSTRACT

That's white-collar crime in a nutshell. The term—reportedly coined in 1939—is now synonymous with the full range of frauds committed by business and government professionals. It's not a victimless crime. A single scam can destroy a company, devastate families by wiping out their life savings, or cost investors billions of dollars (or even all three, as in the Enron case). The Satyam Computer,Mudhra,Harshad Mehta s fraud is neither the first nor will it be the last corporate Financial scam to have hit India, so investors must be on guard and ask for more information before making any investment decision But with corporates, brokers, banks, politicians, regulators colluding at times, many a multi-crore scam has hit India. And the saga is likely to go on.India has seen some of the most high-profile scandals where investors have lost billions of rupees just because a few people in high places could not control their greed. Scams in India (2010-2011) 2G, Scam & Common Wealth Games Scam. We have had a number of scams in India; but none bigger than the scam involving the process of allocating unified access service licenses. At the heart of this Rs.1.76-lakh crore worth of scam is the former Telecom minister A Raja – who according to the CAG, has evaded norms at every level as he carried out the dubious 2G license awards in 2008 at a throw-away price which were pegged at 2001 prices. Another feather in the cap of Indian scandal list is Commonwealth Games loot. Yes, literally a loot! Even before the long awaited sporting bonanza could see the day of light, the grand event was soaked in the allegations of corruption. It is estimated that out of Rs. 70000 crore spent on the Games, only half the said amount was spent on Indian sportspersons. This paper analyses the pattern and trends in the above mentioned financial corporate scams and the need for better corporate governance to avoid the unholy nexus between stake holders.

KEYWORDS
Corporate Scams, 2G Scams, Common Wealth Games Scam, Harshad Mehta fraud.

INTRODUCTION

Corporate fraud is the number one financial crime out of the eight categories of fraud investigated by the Financial Crimes Section of the Federal Bureau of Investigation (FBI) (U.S. Department of Justice, 2005).

As defined by the FBI, "Fraud—the art of deliberate deception for unlawful gain—is as old as history" (Federal Bureau of Investigation, 2005,In 2002, several high-profile financial frauds involving Enron, WorldCom, Adelphia, Tyco, and Global Crossings started debates within academia on the conceptual framework of financial transparency (Kuizick,2004).

Corporate scandal has affected many lives, from lost jobs to lost pensions, and lost retirement savings to personal and family consequences. In the era of the corporate scandals of today, Enron seems to standout as the most significant. Enron's workers were affected in some of the same ways World Com and other employees that worked for companies that were involved in other financial scandals were affected, but what is astounding is that a select few upper management left with millions of dollars while many of the employees lost everything. The government has interjected itself in the situation by taking a stand and prosecuting as many culprits of corporate scandal as possible and giving them harsh fines; and in most cases jail time.

In the broadest sense, a fraud is an intentional deception made for personal gain or to damage another person/entity Wrongful or criminal deception intended to result in financial or personal gain

It started long back—*the problem of fraudulent practices accompanying capitalism*. Some may say that the problem of crony capitalism existed both in the West as well as in the East. And, what we saw as outcomes because of such practices are: South East Asian financial crises, dotcom bust, bubble burst, and the recent financial and economic crises, which have gripped the entire globe. Nobody can forgive what the nexus between Enron and Arthur Andersen did to the U.S. *lassez-faire* economy. Maintaining transparency and accountability in the form of proper balance sheets has become a distant dream because of frauds, scams and scandals being committed by the internal and external auditors as well as the promoters.

TOP FINANCIAL CORPORATE SCAMS IN INDIA

(1) Mundhra Scam(1957)- First Scam of Independent India

The Mundhra scandal involved then finance minister T T Krishnamachari, who pressured the government-owned Life Insurance Corporation of India into bailing out Haridas Mundhra, a Calcutta-based industrialist, by buying shares worth Rs 1.24 crore in six companies owned by him.

1. First successful trial of a financial scandal in Independent India.
2. Haridas Mundhra, a industrialist & stock speculator sold fictitious shares to LIC and thereby defrauding LIC by Rs. 125 crores.
3. Mr. Jawaharlal Lal Nehru, set up a one-man commission headed by Justice Chagla to investigate.
4. Justice Chagla concluded the matter; Haridas was found guilty and was sentenced to imprisonment for 22 years.
5. T.T. Krishnamachari, the then Finance Minister, resigned from his position.

(2) 2G Spectrum Scam

We have had a number of scams in India; but none bigger than the scam involving the process of allocating unified access service licenses. At the heart of this Rs.1.76-lakh crore worth of scam is the former Telecom minister A Raja – who according to the CAG, has evaded norms at every level as he carried out the dubious 2G license awards in 2008 at a throw-away price which were pegged at 2001 prices.

The 2G spectrum scam involved officials in the government of India illegally undercharging mobile telephony companies for frequency allocation licenses, which they would use to create for 2G subscriptions for cell phones. It is alleged that A. Raja arranged the sale of the 2G spectrum licenses below their market value. Swan Telecom, a new company with few assets, bought a license for Rs. 1537crore. Shortly thereafter, the board sold 45% of the company to Etisalat for Rs. 4200 crore. Similarly, a company formerly invested in real estate and not telecom, the Unitech Group, purchased a license for Rs. 1661 crore and the company board soon after sold a 60% stake in their wireless division for Rs. 6200 crore to Telenor. The nature of the selling of the licenses was that licenses were to be sold at market value, and the fact that the licenses were quickly resold at a huge profit indicates that the selling agents issued the licenses below market value. The 2-G Spectrum case is still on and the approximate figures that this scam involves is Rs60000 crs. which the street knows.

3) Commonwealth Games Scam

Another feather in the cap of Indian scandal list is Commonwealth Games loot. Yes, literally a loot! Even before the long awaited sporting bonanza could see the day of light, the grand event was soaked in the allegations of corruption. It is estimated that out of Rs. 70000 crore spent on the Games, only half the said amount was spent on Indian sportspersons.

The Central Vigilance Commission, involved in probing the alleged corruption in various Commonwealth Games-related projects, has found discrepancies in tenders – like payment to non-existent parties, will-ful delays in execution of contracts, over-inflated price and bungling in purchase of equipment through tendering – and misappropriation of funds.

4) Telgi Scam

As they say, every scam must have something unique in it to make money out of it in an unscrupulous manner- and Telgi scam had all the suspense and drama that the scandal needed to thrive and be busted.

Abdul Karim Telgi had mastered the art of forgery in printing duplicate stamp papers and sold them to banks and other institutions. The tentacles of the fake stamp and stamp paper case had penetrated 12 states and was estimated at a whooping Rs. 20000 crore plus. The Telgi clearly had a lot of support from government departments that were responsible for the production and sale of high security stamps.

5) Satyam Scam

Satyam – Enron of India

- The biggest corporate scam in India has come from one of the respected business family.
- Satyam - Fourth largest Indian IT Company listed in India & US.
- Over US $ 2 billion annual revenue size co.
- Established in mid 1980s, grown to 53,000 employees.
- 600 plus customers including 185 fortune 500 Cos.
- Operations in 66 countries across the globe.
- Financial advisor: Merrill Lynch (now Bank of America).
- Auditors: Price Water House Coopers.
- Bankers: Citi bank; BNP Paribas, HSBC & HDFC. Confession.

Cause behind Satyam Scam-

- Fudging of Accounts.
- Over stated Assets of Rs. 490 crore.
- Fake cash balances over Rs. 5,000 crore in the Balance Sheet.
- Interest component of Rs. 376 crore which never flowed into the company's coffers.
- Understated Liabilities of Rs. 1,230 crore.

The scam at Satyam Computer Services is something that will shatter the peace and tranquility of Indian investors and shareholder community beyond repair. Satyam is the biggest fraud in the corporate history to the tune of Rs. 14000 crore.

The company's disgraced former chairman Ramalinga Raju kept everyone in the dark for a decade by fudging the books of accounts for several years and inflating revenues and profit figures of Satyam. Finally, the company was taken over by the Tech Mahindra which has done wonderfully well to revive the brand Satyam.

6) Bofors Scam

The Bofors scandal is known as the hallmark of Indian corruption. The Bofors scam was a major corruption scandal in India in the 1980s; when the then PM Rajiv Gandhi and several others including a powerful NRI family named the Hindujas, were accused of receiving kickbacks from Bofors AB for winning a bid to supply India's 155 mm field howitzer.

The Swedish State Radio had broadcast a startling report about an undercover operation carried out by Bofors, Sweden's biggest arms manufacturer, whereby $16 million were allegedly paid to members of PM Rajiv Gandhi's Congress.

Most of all, the Bofors scam had a strong emotional appeal because it was a scam related to the defense services and India's security interests.

7) Harshad Mehta Scam-

1. Mehta obtained fake Bank Receipts from small banks.
2. The said Bank Receipts were further passed on to other banks as security to obtain cash.
3. This money was used to drive up the prices of stocks in the stock market.
4. Bubble of stock market manipulation and fake BRs busted.
5. Drastically impacted the Stock Market, Economy and progress of the Country.
6. Banking system was swindled of a whopping of Rs. 4,000crore.
7. Even, the Chairman of one of the Bank committed suicide.

Practices adopted in SCAMS-

In these scams, crooks and powerful players, in connivance with the promoters of the company: -

1. Manipulated the Stock Market;
2. Diverted money raised through public offerings to the stock markets or through borrowings or by making false statements in the offer documents with a view to manipulate and make quick personal gains;
3. Made defaults in repayment of deposits and debentures and other debt instruments;
4. Allowed off -the book activities to make financial condition appear better than it was;
5. Failed to ensure independence of companies' auditors by allowing internal and external audit by personnel of virtually the same company or its sister concerns; and
6. Allowed Directors and officers of the Company to use corporate funds as private equity fund.

Who is Responsible for Fraud-

- Board of Directors
- CEO
- CFO
- Senior Management
- Internal Audit
- IT Department
- Middle Management
- Operational Management

Shortcomings' in corporate governance a prelude to corporate scams-

Most of Indian corporate governance shortcomings are no worse than in other Asian countries and its banking sector has one of the lowest proportions of nonperforming assets, signifying that corporate fraud and tunnelling are not out of control (Rajesh Chakraborthi, William L. Megginson and Pradeep K. Yadav, 2007). The governance of most of the country's industrial and business organizations in India were thrived on unethical business practices at the market milieu. A scant regard has been given for the human and organisational values while dealing with their stakeholders in the organisation. Since independence the industrial growth along with the development of corporate culture has started in India. But the governance of most of the industrial and business organizations thrived on unethical practices at the market place. The increasing corruption in the government and its various services had kept the managements of country's industrial and business organizations above accountability for their misdeeds, encouraging them to indulge in more unethical practices. The state- owned organizations occupying a dominant position in the country's economy and being monopolistic, passed on the costs of their corporate misgovernance to the helpless consumers of their products and services.

Organizations in the private sector, barring a few exceptions, indulged in all possible unethical practices to fleece their customers on the one hand and denied the benefits to them. The scams committed in a number of large privately owned corporations during the last one decade clearly indicate the nature and extent of corporate misgovernance that exists in private sector. The interest in corporate governance in India is a recent phenomenon and it is a result of a spate of corporate scandals that shook the country during the early liberalization era (Goswami, 2000).

Unethical Business practices and corporate related scams-

The need for corporate governance was first realized in the country with "Big Bull", Harshad Mehta's securities scam came in to light in 1992. A large number of banks have involved in the scam resulting in the stock market distress for the first time in India. This was followed by a sudden growth of cases in 1993 when translational companies started consolidating their ownership by issuing equity allotments to their respective controlling groups at steep discounts to their market price. In this preferential allotment scam alone investors lost roughly Rs. 5,000 crore. The third scandal of the decade was the disappearance of the companies during 1993—94. During this period, the stock market index shot up by 120 per cent and 3,911 companies that rose over Rs. 25,000 crore and disappeared with out starting business.

In this misdeed of companies, innocent investors had lost a lot of money. During this artificial boom hundreds of obscure companies were allowed to make public issues at large share premium with their misleading prospectuses. Again the Plantation companies scam took place in 1995-96 followed by non-banking finance companies scam in 1995—97. Yet another scandal was the one in which BPL, Sterlite and Videocon price rigging happened with the help of Harshad Mehta. The IT scam between 1999-2000, the firms change their names to include 'infotech', and investors saw their stocks run away overnight. The year 2001 witnessed yet another scam in which Ketan Parekh resorted to price rigging in association with a bear cartel. This brings the evaluation of the corporate governance issue into the mainstream. It is strange but true that early initiative for better corporate governance in India came from the more enlightened listed companies and an industry association. This was quite different from the US or Great Britain, where the drivers of corporate governance were shareholders' groups, activist funds and self-regulatory bodies within capital markets, or Southeast and East Asia, where it was the result of conditions imposed by the IMF and the World Bank in the wake of the financial collapse of 1997-98. When India embarked on its corporate governance movement in 1996—97, the country faced no financial or balance of payments crisis.

KPMG Report on Corporate Fraud and Scams in India-

Corporate fraud, particularly involving financial statements, is on the rise in India and internal controls are failing to prevent such abuses, global consultancy says KPMG report.

Forty-five percent of the 1,000 respondents from leading Indian businesses declared that fraud had increased within their organization, said the study, and conducted every two years.

KPMG said 81% of respondents reported that fraud involving financial statements was "a major issue.""In an atmosphere of doubt and disbelief financial statements are often viewed with skepticism (in India)," the report said.

Corporate fraud has become an increasingly topical issue in India since leading outsourcer Satyam Computer stunned the nation's financial world in 2009 with the admission that its profits had been overstated for years. Satyam founder and former B. Ramalinga Raju declared he had inflated profits and jacked up the company's balance sheet by more than one billion dollars in what was India's biggest accounting fraud.

"Weak internal control systems, eroding ethical values and a reluctance on the part of the line managers to take decisive action against the perpetrators are cited as the most vital underlying reasons for frauds being on the rise," the report said.

"Outsourcing, increase in the use of third parties and technology have combined to open up new avenues of frauds like e-crime and intellectual property theft," said the report.

What goes into the making of India's Best Managed Companies?

Here are some insights offered by the BT-A.T. Kearney study.

Fundamental 1: Value-building is possible in any industry, in any region and at any phase of a business cycle.

Fundamental 2: Growth is spiral-shaped, not linear.

Fundamental 3: Best-managed companies use innovation, geographic expansion and risk taking to fuel value-building growth.

Fundamental 4: Best-managed companies use clearly laid out systems and processes in areas of strategic review, operations and people management to sustain superior performance and growth.

Fundamental 5: Best-managed companies have a strong leadership team to help broad-base strategic thinking and 'fire their growth engine on all cylinders'.

CONCLUSION

Finally, attitudinal change is necessary. By changing our thoughts, we can change our attitude and thereby change our behavior, which can change our lives. The quality of our thoughts equals the quality of our lives. Let us all work towards changing our attitude towards corruption.

The role of corporate houses has become an inevitable in society. The high standard of living that exists today is because of wide spread corporatization which lead to development of world class goods and services.

Corporate house are reflection of society and it is of utmost importance that they follow the ideal corporate governance norms in practice, and keep away from scams and controversies. Best managed companies like Infosys, Dr. Reddy's and Hindalco have made extra efforts in the area of corporate governance. Infosys complies with the corporate governance guidelines of six countries. In the quest for global growth if an organization is able to follow ideal principles of governance, it would definitely be in the long term of it as well as society & nation. Indian corporate houses despite certain short coming are taking earnest steps in this regard which is highly appreciable.

The frauds in the financial markets have been known since years. The greed of the scamsters leads to involvement in unhealthy practices and corruption. It's the common man who has always been at stake. The poorer become poorer and the richer the richest. It's not that these scams are coming to the highlight these days it's a sin that is present since years. Bribery, dirty money, greed, politics have all helped the scamsters to survive. And when they are actually caught in the trap it's too late and the Common Man already suffers. So, always be careful with your investments everywhere.

Let's say 'NO TO CORRUPTION, NO SCAMS'.

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