Case Study

LEADERSHIP CRISIS AT INFOSYS

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It's the end of an era at Indian software services firm Infosys. On June 12, 2014 at the Bangalore headquarters of the $8.2 billion firm, N.R. Narayana Murthy, the 67-year-old co-founder and executive chairman, announced that after 33 years, he and the other two remaining co-founders — S. Gopalakrishnan, who serves as executive vice chairman, and CEO S.D. Shibulal — were stepping down. What's more, the new CEO, 47-year-old Vishal Sikka, is not from within the 160,000-strong Infosys talent pool.

http://knowledge.wharton.upenn.edu/article/icon-idle-leadership-challenges-facing-infosys/.

Although, one year ago Infosys Limited announced that Board approved appointing Mr. N R Narayana Murthy as Executive Chairman of the Board and Additional Director with effect from June 1, 2013.

Mr. N R Narayana Murthy said, "This calling was sudden, unexpected, and most unusual. But, then, Infosys is my middle child. Therefore, I have put aside my plans-in-progress and accepted this responsibility. I am grateful to Mr. K V Kamath – the Chairman, the Board, and every Infoscion for giving me this opportunity. I intend to do my best to add value to the Company in this challenging situation".

During his five year term, Mr. Murthy would draw a token compensation of Rupee One per year.

Mr. S Gopalakrishnan would be re-designated Executive Vice Chairman effective June 1, 2013 and would primarily focus on key client relationships and broader industry issues. Mr. S D Shibulal would continue to be the Managing Director and CEO.

Mr. S Gopalakrishnan and Mr. S D Shibulal have requested that they draw a compensation of Rupee One per year. The Board has accepted their requests, subject to necessary shareholder's and government approvals.

In order to function more effectively Mr. Narayana Murthy intends to create the Chairman's office to assist him during his tenure and has requested the Board to permit him to put together a team for this function. The team will include his son, Dr. Rohan Murty, as Mr. Narayana Murthy's executive assistant.

https://www.infosys.com/newsroom/press-releases/Pages/NRN-executive-chairman.aspx.

The trio could have chosen to stay on – Murthy as executive chairman for another four years till 2018 and Gopalakrishnan and Shibulal (both 59) in executive roles for another year, and in non-executive

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roles for another five years. Murthy says the trio decided to step down in order to give Sikka a free hand in running the company.

One of the reasons for deciding to hand over the charge to new generation by stepping down could have been the disturbing trend which started immediately after their taking over the charge that 13 senior Infosys executives, left the company from July 2013 to June 2014:

1. July 9, 2013 – Basab Pradhan, head of global sales and marketing
2. August 24, 2013 – Sudhir Chaturvedi, senior vice-president and head of financial services, Americas
3. August 28, 2013 – Ashok Vemuri, director and head of Americas operations
4. September 6, 2013 – Humberto Andrade, geo-head, Latin America Infosys BPO
5. September 17, 2013 – Kartik Jayaraman, global sales head – BPO, energy/utilities/services industry
6. October 1, 2013 – Paul Gottsegen, chief marketing officer
7. November 18, 2013 – Stephen R Pratt, managing partner – worldwide consulting and systems integration
8. December 19, 2013 – Subbu Goparaju, senior vice-president and executive council member
9. December 20, 2013– V Balakrishnan, director and chief financial officer
10. March 19, 2014 – Chandrashekar Kakal, senior vice-president
11. April 18, 2014 – Nithyanandan Radhakrishnan, member of the executive council, senior vice-president and general counsel
12. May 28, 2014 – BG Srinivas, president and member of the Board
13. June 06, 2014 – Prasad Thrikutam, worldwide head – strategic sales, marketing and alliances; Head of Infosys Americas.

https://qz.com/219159/the-search-is-not-over-13-senior-executives-left-infosys-in-the-last-year/.

According to K. Ramachandran, Professor of family business and wealth management at the Indian School of Business (ISB), the departure of the three co-founders is a positive development. He says the move indicates that the founders recognize that "they do not have the capabilities to take the company to the next orbit of growth, which is essential to remain competitive in the industry". Ramachandran adds: "There also appears to have been some perpetual dilemma of … sticking to the way they have been playing the game all along and … starting to play the game in a new way. It is indeed a challenge many big industry leaders face. It is good that [Infosys] leadership has made this bold move and in some sense avoided the possible fate of a dinosaur". S. Raghunath, professor of corporate strategy and policy at the Indian Institute of Management Bangalore (IIMB), notes that by appointing a new CEO and giving up his executive chairman role, Murthy has shown that "he has the imagination and courage to take risks on people and ideas".

But some suggest that the founders had no choice but to leave. "It is unlikely that a non-founder CEO would have agreed to join if Murthy had continued for an indefinite period," says Shriram Subramanian, founder of InGovern, a corporate governance research firm. "It would likely have defeated the purpose of having a [new] CEO lead the company into the future".

Sikka's appointment, too, has evoked mixed reactions. He comes from the German software firm SAP, where he was a member of its executive board, leading all products and driving innovation. Sikka is credited with developing HANA – High-performance Analytic Appliance – SAP's flagship in-memory database management system, and is considered to be a visionary who understood the importance of big data well before his peers. He left SAP in May after 12 years. An Indian-born American citizen, Sikka is based in California and will continue to operate from there.

Sundararaman Viswanathan, manager at Zinnov Management Consulting, calls the hiring of Sikka "a masterstroke" by Infosys. "The fact that the company has made a conscious choice in favor of an outsider signifies three things. One, it is now open to external input. Two, the company needs to undergo a transformation internally and three, the industry is transforming and Infosys wants to align itself to the transformation," says Viswanathan.

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>
> *– Kartik Hosanagar*

But Sudin Apte, CEO and research director of IT research firm Offshore Insights, points out that Sikka, for all his credentials, has not had any experience as a CEO, at heading sales or even as a profit and loss account owner. According to Apte, Infosys's existing urgent organizational and structural challenges include: stability, sales and marketing, attrition, pricing strategy and responsiveness to customers. "Sikka may well have these skills, but they are as yet unproven. This is not a movie-making business where you sign up a star and you are done," says Apte. "Sikka's capabilities and his thought process are extremely useful for IT version 3.0, or five years down the line. The million dollar question is: Will he deliver in the short and medium term?"

Ending the Uncertainty

But many observers agree that the most important part of Sikka's appointment is that the uncertainty over the new CEO is now over. With him at the helm for the foreseeable future, there will be some stability around Infosys's strategy and therefore, better execution. Sikka, however, has a challenging task at hand. Over the past few years, Infosys – once an icon and industry bellwether that played a huge role in putting India on the global IT map – has stumbled on practically every front – be it financial, employee engagement or corporate governance.

Partha Iyengar, country manager for research at Gartner India, suggests that Sikka will have to move very quickly "to calm the three key stakeholders – employees, customers and investors". in that order. V. Balakrishnan, a former Infosys board member and contender for the CEO job who quit the company in December after more than 20 years, adds that Sikka needs to create an emotional connection with employees and customers. "He has to rebuild his core team. Also, he comes from the products background while Infosys is a services company. So the challenges are big. Hopefully, with his background and pedigree, [Sikka] will be able to make it work".

Sikka himself is confident. Pointing out that the distinction between products and services is rapidly blurring, he says that Infosys will continue to be a services company that delivers value to customers. "To me, the opportunity to work with clients and go into unprecedented new areas where software is making its way for the very first time is very exciting. The opportunity to build some amazing new products and new applications, including co-innovating with customers, is huge".

How well and how quickly Sikka can lift Infosys back to its former prominence remains to be seen. The big question for now is: What is the root of the crisis at Infosys? And what are the lessons to be learned from it?

An Overstayed Welcome?

Infosys was started in 1981 by seven co-founders led by Murthy. Two of the co-founders left early on, and the third retired three years ago. The rest took turns in the CEO role. Murthy had the longest run – 21years before voluntarily passing the baton to younger co-founder Nandan Nilekani in 2002. Nilekani, however, only lasted five years as CEO. At Murthy's behest, he stepped down to make way for

Gopalakrishnan. Shibulal subsequently took over in 2011. The same year, Murthy turned 65 and stepped down as non-executive chairman. "Founders bring discipline, passion and a focus on getting things done", says IIMB's Raghunath. "This dedication and commitment to the company from successive founders was commendable".

At the time of Murthy's retirement, Infosys increased the retirement age for chairman from 65 to 70, but with a caveat: The policy would not apply to any of the founders. In an interview with Knowledge@Wharton in 2011, Murthy said: "That would be putting the individual above the institution".

But Murthy broke his own rule when he returned in 2013 as executive chairman. The company was floundering and Murthy came back to set it right. In fiscal 2012-2013, Infosys grew at a rate of 6.6% – one of its worst performances since the company's inception. Its growth forecast of 6% to 10% for the year was lower than the industry projection of 12% to 14%. The company's margins, once the best in the industry, also slipped.

Murthy also broke another of his well-articulated and publicized values – that his children would not join the company. When he returned to Infosys for his second go-round, Murthy brought on his son, Rohan Murty, as his executive assistant. He also set up a dual power center in the company in the form of the chairman's office. Rohan Murty has now left the company along with his father.

During Murthy's second term, the company continued to underperform compared to its peers. More importantly, some of Murthy's decisions, policies and experiments with the organizational structure resulted in deep employee disengagement. Attrition reached an all-time high, and more than a dozen very senior executives left the company – including the joint-president, head of the Americas division, global sales head, head of delivery, head of strategic sales and head of Infosys' BPO and India business. Some of those executives had been considered frontrunners for the CEO position.

At the time of the new CEO appointment, Infosys promoted president U.B. Pravin Rao to COO, and also elevated 12 executives to the positions of executive vice president and gave them key responsibilities. This move was largely perceived as a bid to stem further exodus. So while Sikka does have a senior team in place, it is a relatively unproven one.

A Crisis of Leadership

"I do believe the crisis at Infosys is a leadership issue", says Kartik Hosanagar, a Wharton professor of operations and information management. He notes that while for a successful company like Infosys, it's likely that all founders pulled their weight, that doesn't imply that all founders were good leaders. "Some might have been great within their silos, but not necessarily ideal leaders of the company. Further, once companies scale beyond a certain size, good CEOs are not necessarily good entrepreneurs, but good managers. So it's not clear if it was a good idea to have the founders succeed one another [as CEO]. In hindsight, I think the Infosys board made some mistakes in managing CEO succession". Hosanagar adds that Infosys has had to deal with other challenges also — new entrants entered the space and the market became more competitive.

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> *– Matthew Bidwell*

But Apte of Offshore Insights points out that market conditions have been the same for all firms in the sector. He says that Infosys' inability to deal with the changing environment is a direct offshoot of its founder-CEO model. "The founders came with a particular mindset. They also created processes and systems that have not changed over the past three decades. They needed to change with the changing times and inject fresh thinking". InGovern's Subramanian adds that at different stages of a company's evolution, different competencies are required. Leadership, he says, should be based on competency and merit. "When a company is started, the founders are well versed in leading it. However, when the company achieves a stage of maturity and becomes large, it is not necessary that the founders … lead the company. Unless all founders are competent, one founder succeeding another never works".

Subramanian also notes that the investments made by Infosys on leadership (it set up a leadership institute in 2001) seem to be largely focused on developing junior and middle management. "The investments don't seem to have prepared the company for a leadership crisis at senior managerial levels".

Looking back, does Murthy think that the founder-CEO model was a wrong one for Infosys? Should the company have brought in a non-founder CEO much earlier? No, says Murthy emphatically. "I personally believe that every one of the choices we made were the best choices under the circumstances. Just as [K.V. Kamath, chairman of the nominations and governance committee at Infosys] and his team spent lots of days and hours deliberating and looking at data to choose the best [leader in Sikka], let me assure you that as one who believes in the adage, 'In God we trust; everybody else must bring data to the table,' we used enough data and facts to arrive at the best possible CEO at that point in time. I have no hesitation in saying that".

But Subramanian also questions the role of the Infosys board. He points out that advisory firms like InGovern and some investors and analysts "raised concerns of founder succeeding founder without any emphasis on merit and competence," and some large investors "voted with their feet," selling their holdings. "The board of directors should take a proactive role in leadership and succession planning, and not wait for a crisis to precipitate issues". T.V. Mohandas Pai, a former Infosys board member, adds: "If the board does not change a non-performing CEO urgently, it compromises itself. A company has to work on the basis of merit at all levels". Pai was with Infosys for 17 years and seen as a CEO contender. He quit in 2011 when Shibulal got the post.

According to Matthew Bidwell, Wharton professor of management, if a board fails to replace a non-performing CEO just because he also happens to be a co-founder, it is a failure of corporate governance. "In theory, the board's responsibilities are to the welfare of the corporation," he notes. "If their personal ties to, or respect for, the CEO prevent them from making decisions that are in the best interests of the corporation, then they are failing in their fiduciary duties". Bidwell adds that such a failure is not unusual. "In most companies, even if a CEO is not a co-founder, the board is often quite deferential. Often, the CEO picks the board members, and they respect him or her and are grateful. This often makes it very difficult for them to sack a long-serving CEO".

ISB's Ramachandran adds: "This happens when the board members fail to remember their professional responsibilities and go soft on the need to critically examine executive performance constantly. Also, the presence of a very strong and iconic chairman may result in the board not taking tough decisions". Ramachandran emphasizes that there is a difference between ownership and management. "A co-founder is an owner, but may not always have the qualities required to manage the firm successfully. There are several instances, particularly in the U.S., where the board has fired the founder/CEO for poor performance".

According to Ramachandran, founders must constantly assess their continued relevance to manage the company. "They should know that ownership rights do not give anybody an automatic capability to run the company successfully…. There should be a succession plan in place always. Institution building is neither easy nor automatic. One has to work at it".

"Sikka may well have [the required] skills, but they are as yet unproven".

– Sudin Apte

Hosanagar says Murthy also made a mistake in bringing in his son. "I personally don't doubt that his intentions were good. [But] this was bad PR for him and the company, especially in the light of his prior statements. While Rohan's activities may have nothing to do with the troubles facing the company, it had an indirect negative effect by creating a distraction and raising questions about Murthy's judgment".IIMB's Raghunath, however, has a counter argument: "Murthy as executive chairman was well within his rights to utilize the services of a professional as his executive assistant who also happened to be his son".

But Ramachandran notes that when founders break their own rules, it has an extremely negative impact on employee morale and results in disconnect between stakeholders. "Both the founders and the board have brought down the reputation of Infosys as an institution that stands for its values and professionalism". InGovern's Subramanian adds: "Knowing that the value system professed by the founders and senior management has been compromised, employees may compromise on their own values".

Bidwell, however, says that it is hard to generalize. "We might say that founders should not break their own rules – but you would also have to consider how important those rules are to the employees, and whether breaking them makes things better or worse. Probably the biggest downside of bringing in family members is that it can lead non-family to feel [that they are] no longer eligible for top positions. That may be one of the reasons why senior people left – if they were worried about being passed over for senior jobs by Murthy's son".

Inside Vs. Outsider

Sikka's appointment has also raised the insider vs. outsider debate. "If there is a sense that the culture is broken and radical change is needed, then an outside CEO probably makes sense", Bidwell says. "If it is more a case of building on strengths and returning to the historical culture, then an insider is probably best".

Pai points out that in the case of Infosys, most of the senior people have already left the company, making it difficult to return to the past. "The next level of leaders is all unit heads. Compared to them, Sikka is far more senior and accomplished. So there is no one left who could feel resentful that someone from outside has come, and has deprived them of their due".

As an outsider though, what extra leadership capabilities does a new CEO need to bring to the table? "He has to consult the top team with an open mind and send the message that he is a team player and believes in the power of collective thinking," ISB's Ramachandran notes. "He has to articulate his vision for the company fairly soon, which should be a combination of continuity and change. He needs to communicate this very effectively to all the key stakeholders, particularly the employees. He has to evaluate the core resources and capabilities and identify new growth opportunities more entrepreneurially".

According to Subramanian, the outsider-CEO needs to "energize the senior management team toward a common goal". This, he says, "will prevent senior-level exits while also enhancing the morale across the organization".

Meanwhile, as part of the new CEO appointment, the company has also made a change in its structure and has brought back the position of the COO. In earlier years at Infosys, the COO job, like the CEO, was always a founder. The position was scrapped in 2011 when Shibulal, the last of the founders, became CEO. Though the CEO-COO structure worked for Infosys earlier, this time around not only are both positions held by non-founders, but one of them is an outsider, while the other is an Infosys veteran of 28 years. "This dual power structure does not have a natural equilibrium" because it is not easy to define the roles without a lot of overlaps, says Ramachandran. Taking an analogy from tennis, he adds: "This is like a doubles game where the understanding between the two players has to be perfect and bereft of ego clashes".

If Sikka gets his act right, he could take Infosys places. The world around us, he notes, is getting reshaped and completely transformed by software – high-digital technology and computing. And the fundamental role of technology, he adds, is to amplify and augment the capabilities of people. "As technology becomes more powerful, the end-user becomes more empowered". Sikka says his vision is to take a lead role "in shaping and accelerating" this change. "Every industry, every company, in every walk of life is going through this transformation, and I am very excited to be working toward bringing [it] about…".

The question then is that whether Vishal Sikka being able to deliver what was expected from him?

Is Vishal Sikka finding it difficult to build a stable senior management team at Infosys Ltd? That's the question being asked by some executives within the company as the CEO grapples with the challenge of identifying leaders who can head independent units.

Sikka has already reversed two of his decisions on heads of business divisions in a little less than 18 months, even as three other executives tasked with reviving Infosys's three divisions have left the company.

Since taking over as the first non-founder chief executive of Infosys in August 2014, Sikka has hardly put a foot wrong. But the frequent change of leaders is hurting business, with some units lagging behind Infosys's overall growth.

"I have to candidly say that some of the exits were related to performance," Sikka told analysts in Pune last month, when asked about senior management exits. During Sikka's tenure, six executive vice-presidents and eight senior vice-presidents have left the firm.

This is true as Sikka did send out a stern message to the company's senior management: shape up or ship out. But the question being asked now is why Sikka first appointed leaders, only to move them later.

"The question is not why there are so many exits even after two years, although by now there should be some stability. But why did the CEO appoint leaders in the first place, only to move them out later?" said a senior executive. The executive, who declined to be named, reports to an executive vice-president, who, in turn, reports to Sikka.

In December 2014, three months after taking charge, Sikka replaced Deepak Padaki with Ritika Suri as the head of M&A (mergers and acquisitions). Suri, Sikka's former colleague at SAP AG, was also given the additional mandate of overseeing Infosys's $500 million Innovation Fund.

Infosys expects $1.5 billion in new revenue from buyouts as part of Sikka's ambitious target of hitting $20 billion in revenue by March 2021.

However, in July this year, Padaki was asked to return to head M&A even as Suri was asked to head the large deals team at the company.

Another executive who has seen roles change is Sanjay Purohit, formerly head of EdgeVerve, the products, platforms and solutions subsidiary. Purohit was first asked by Sikka to shift base to Palo Alto and head the Infosys Consulting division in February last year but was shunted out of the unit in July. The current role of Purohit, who moved back to Bengaluru, is not clear.

An Infosys spokeswoman declined to share details on Purohit's new role.

Meanwhile, three executives who were appointed by Sikka have left the company, raising more questions about the struggle to build a stable leadership team.

Michael Reh was appointed as head of EdgeVerve in October 2014 but left abruptly at the start of the year. In a bigger setback to Sikka, the head of the Cloud, Infrastructure and Security unit, Samson David, left the company in July, a little less than 15 months after his appointment in February last year. Finally, Anup Uppadhayay, who was made Infosys BPO head in November 2014, left in July.

http://www.livemint.com/Companies/e8RduyxnOZHqtnYtpuB4rL/Is-Infosys-facing-a-leadership-crisis.html

It was reported on September 2, 2016 that in the past three months, Infosys Ltd's shares have fallen by over 17%, while the Nifty index has risen by nearly 8%. In the process, Infosys now trades at a near 20% discount to the Nifty, based on the forward price-earnings multiple, according to analysts at JP Morgan India Pvt. Ltd.

What's striking about this is that Infosys has never traded at such a high discount to the broad market, except for a brief period during the global financial crisis. Of course, Infosys hasn't been doing too well lately, as the sharp cut in its annual revenue growth guidance testifies.

http://www.livemint.com/Money/phO50aIOyZI7WPX64DsR8K/Infosys-valuation-discount-reaches-record-levels-what-gives.html

It is said that stock market is the barometer of the economy and reflects the sentiments of the investors about the companies. The success or failure of a company is reflected in the market price of its shares. Infosys needs to reflect and choose a path which is acceptable to all concerned.

Questions

1. "The Infosys board made some mistakes in managing CEO succession" Critically evaluate the statement. Do you think that Infosys could not make succession planning at top level? Give reasons for your answer.
2. Should a CEO be promoted from inside the organization or hired from outside? Justify your answer.
3. What are the challenges being faced by Infosys currently and what type of leadership is required in Infosys in this situation? Explain with examples.
4. Identify the areas where Infosys has stumbled and discuss the actions that you would take in this situation if you were the new CEO.