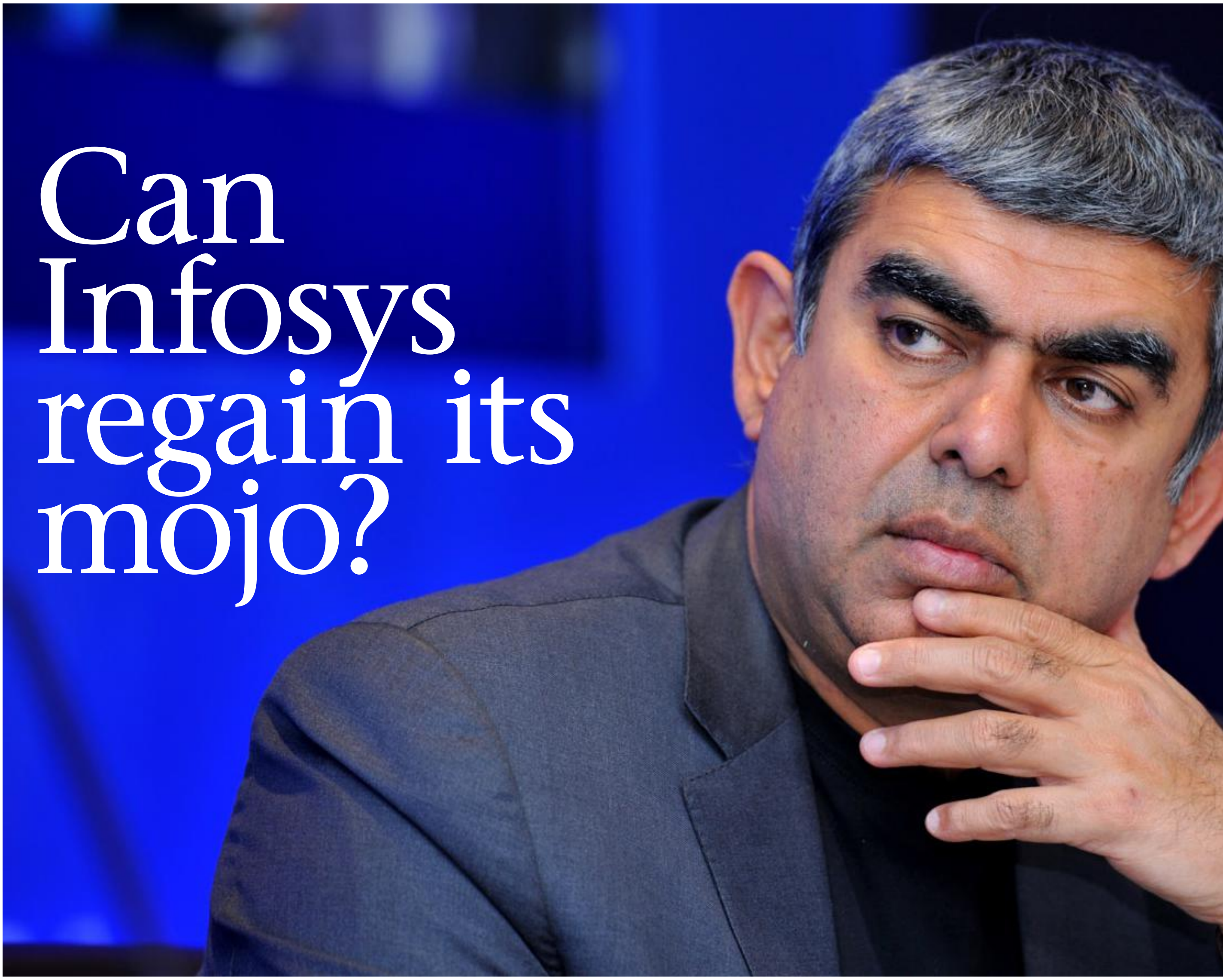
SANAY BORADE



Can Infosys regain its mojo?

Under Vishal Sikka, Infosys has been facing challenges, including a tussle with its founders. Can Sikka get it back on track?

On 14 July, Vishal Sikka, CEO, and Pravin Rao, COO, Infosys, rode to the Pyramid Building within their Bengaluru campus for the Q1 press briefing in a driverless golf cart. What made the golf cart special was not just that it was autonomous, but that its software has been developed indigenously by Infosys, along with the Indian Institute of Technology, Delhi. The duo's arrival in this Infosys-developed autonomous golf cart made for great photographs. Sikka said the golf cart ride was symbolic: it shows the world that Infosys is at the cutting edge of technology. Perhaps, what he left unsaid was the state-of-the-art vehicle also symbolises that Infosys is in control of the ride ahead.

The symbolism is important for Infosys. Recently, the company dropped its target of achieving $20 billion in revenue by 2020 – a target, albeit aspirational, that Sikka had set in 2015. (It crossed $10 billion in revenue at the end of FY17.) The company had also reportedly targeted reaching profit margins of 30 per cent and $80,000 in revenue per employee. "The numbers seem achievable," said Infosys co-chairman Ravi Venkatesan in an interview with a business daily a few weeks ago. "The time frame to achieve that is a different thing. Realistically, it does not look like they will be achieved by 2020."

Given the challenges the industry is facing, perhaps dropping this aspirational target, by itself, is understandable. But, over the past year and more, Infosys has been badgered on many different fronts. There have

been charges of misuse of visas, discriminatory hiring, allegations of acquisition deals not being above board, several senior level departures including, most recently, Sandeep Dadlani, who was president & head, Americas, and Ritika Suri, head, large deals. But the biggest blow came from its founders, led by the iconic N.R. Narayana Murthy, who has made strong and public allegations against the company's board of directors, of being derelict in its duties. Murthy has accused the board of lacking in corporate governance and transparency, something that Infosys was highly regarded for, when he was at the helm. But more of this later in the article (*see box*: Founders not keepers). For now, suffice to say that, in the face of these challenges, it is important for Sikka to show that he is in control. The real question then is – is he?

When asked by *Business India* about what he considered his biggest challenge in leading Infosys since he took over the reins in August 2014, Sikka said: "Transformation at large scale is never easy. Especially in our case, in the case of IT services, not only at Infosys but in general in the industry, where our core business is being commoditised and under margin pressure. This is usually not the case when you deal with transformation. Also, (at Infosys) we are a globally distributed leadership team. When I started, Pravin and I used to split our responsibilities. We were inheriting the company from three founders and five executive board members, who used to collectively be responsible for the company. So, it is not easy to lead the company in times like that."

The jury is still out on where Infosys is headed. Though to be fair, for the quarter ended 30 June (Q1 2017-18), Infosys beat street expectations and announced better than expected results and also outperformed its larger peer Tata Consultancy Services (TCS). At $2.65 billion, Infosys' Q1 revenue was up 2.5 per cent sequentially in constant currency (which discounts the impact of currency fluctuations) while net profit fell 0.4 per cent to $541 million. On a year-on-year basis (same quarter last year) the revenue was up 6.3 per cent, while the net profit rose by 5.8 per cent. Q1's operating margin, at 24.1 per cent, was flat, when compared to Q1 2016-17, despite factors such as rupee appreciation and salary hikes. Infosys also maintained its full year growth guidance at 6.5-8.5 per cent growth in constant currency terms while, in reported dollar terms, it raised its growth forecast to 7.1-9.1 per cent from its earlier guidance of 6.1-8.1 per cent. This is seen as a positive signal in challenging times, especially since, in the past three consecutive quarters, the company had reduced its full year revenue guidance.

The driverless golf cart that Infosys developed: in control of the drive ahead

STEADY PLODDER

	2014	2015	2016	2017
Total Income (₹ crore)	50,133	53,319	62,441	68,484
OPM(%)	26.7	27.9	27.3	27.1
PAT	10,656	12,372	13,489	14,353
S Capital	286	572	1,144	1,144
ROCE(%)	30	29	28	27

New services

Interestingly, for the first time in Q1 2017-18, Infosys called out revenues for new services and new software that were launched just two years ago. These now account for 8.3 per cent and 1.6 per cent respectively. The new services areas include cloud ecosystem, big data and analytics, Internet of Things, cyber security, API and micro services, and data and mainframe modernisation. New software offerings include the artificial intelligence platform Nia and cloud-based commerce platforms Edge, Panaya and Skava. Importantly, half of the additional revenue of $2 billion that has come in the past two years

'Doing my job in the best way I can'

On 1 August 2014, when Vishal Sikka took over as CEO & managing director, Infosys, it was a different world. He had the blessings of founder N.R. Narayana Murthy and the other co-founders, who gracefully made way for the first outsider to take charge of the company they had started in 1981. Sikka came from leading German software firm SAP, with strong credentials and was expected to take Infosys out of a slow-growth phase it had slipped into under S.D. Shibulal, the last of the founder-CEOs, and to a new growth trajectory. Today, apart from the unprecedented challenges facing the industry, Sikka has to contend with some public criticism from the founders. In a conversation with Meenu Shekar, Sikka says: "I am disappointed that some of this is happening in the public, but I have to do my job in the best way I can." Edited excerpts:

SANAY BORADE

With all the distractions around the public differences with the founders over the past few months, how tough has it been to keep yourself focussed and motivated? And, how have you motivated your team – especially, since the key issues raised by the iconic founders were around your compensation and the severance amount paid to (former CFO) Rajiv Bansal?

Mr Narayana Murthy hired me and I have had great respect for the founders, in their capabilities but also in their value system and the culture they have created. So the fact that this was all in public was quite unfortunate. We delivered a great performance in Q1. The team was really able to focus on execution and on pretty much every aspect of execution we did a great job.

Coming to your point about how I stay motivated, well, I grew up in a humble way, my father was an engineer with the railways and my mother was a teacher. We used to live in a one-bedroom house in Rajkot and later in Baroda. My mother was a great believer in education. She used to always say, 'don't do something unless you are ready to give it your absolute personal best'. She would say, 'don't look at competition against other people but against yourself and make sure that you are always bettering what you did in the past and that you are constantly improving on that'. So, that's how I stay motivated. Also, when I see our engineers, our software developers, the youngsters in the company and the opportunity to transform this company to a company of innovators, people who can change the way our clients work and bring unprecedented innovation to it, well, that's a pretty extraordinary motivation. It's not easy. Things can get pretty tough, especially, given the distractions. But that is how I motivate myself. I remind myself that I am here for all the employees and all the clients and all the shareholders.

Did you ever think of quitting Infosys in the past few months?

No. The thing is you have to always give your absolute best. And making sure that the job I came here to do is what I keep on doing. As long as I am here, I am going to keep doing that. That's what I remind myself always.

People usually ask me about the other employees who have left. I have not spoken about it because it is not something we talk about. But the reality is that in the time before I joined, a lot of executive leaders had left. In the team I inherited, there were a lot of young leaders who were themselves new and who had taken over from seasoned leaders. This kind of transition we are on is a tough one and it works for some people and doesn't work for some.

But even some of the people who you brought in have left. Right?

Yes, that's a different category. And that makes me more sad. A lot of world-class people followed me (to Infosys) and they wanted to be part of this transformation, to contribute. On top of the usual challenges, some of the stuff that happened in the public in the past year or so is quite baffling to people on the outside and it's not easy for them to accept. That is something I do feel sad about. But the company is doing extremely well, despite all of this.

In an earlier media interview, Narayana Murthy had said that all the founders left the company in 2014 because they wanted to give a free hand to you to craft and execute your own strategy. Going by recent events, they don't seem to have lived up to that promise. How disappointed are you about this? Or had you factored this in from the beginning – that

founders don't/can't always let go?
When I started, we were transitioning from a founder-led board and founder-led management to a professional management and an independent board. If you recall, just before I joined, Mr. Murthy was executive chairman, Kris was executive vice-chairman and Shibu was managing director & CEO. So, you had three founders running the board and the company. And, from there, it was a quick transition to a professional, outside CEO and an independent board, which had several new members. That kind of transition is not an easy transition. On top of it, there was a lot of anxiety in the company. Revenue growth was significantly below the industry level, attrition was high. These were all things that were known. I would say that until the talk around my salary and Rajiv's severance, we were executing quite independently and we have achieved a lot of good things and going forth our focus is to continue to deliver value for our clients, shareholders and employees. I am disappointed that some of this is happening in the public but I have to do my job in the best way I can. I have to stay focussed on that and keep my team focussed on this.

When you took over as CEO three years ago, what were the top-most priorities for you?
It was a three-part strategy. One, renew the existing business by bringing in automation and innovation. Two, get into new businesses required for the future. And three, most importantly, reinvest in learning and education.

When you look back at the past three years, how would rate your performance as CEO of Infosys on a scale of 1 to 10?
No, no, no. The flaw with that kind of a rating system is that you already know in advance what you were going to do and, therefore, what you did you can put into the box you already defined earlier. My own experience is that this is not how life works. Steve Jobs used to say you can only connect the dots looking backwards. My sense is, like an entrepreneur you enter into a situation, you innovate and do your best. History writes what you did. Looking at the footprints of what we have done I think it is something to be tremendously proud of but there is a lot that still needs to be done.

From where it is today, what do you consider to be Infosys' biggest challenges and looking ahead what are your key priorities?
If we keep doing what we did in the past and if we don't renew ourselves and embrace new things there is no doubt that we will become obsolete. So, we have to constantly embrace transformation, especially in our industry. The book *Freedom from the known*, by Jiddu Krishnamurti has been a big influence in my life. Krishnamurti used to talk about how, in order to do something new, we have to abandon what we have known. That while we must remember the key elements of what brought us here, the timeless elements of our core, we have to abandon the ways we have worked earlier. This freedom from the known and to be able to embrace the unknown is always the biggest challenge.

I was talking to a client yesterday in Frankfurt. They are a large specialty chemicals company and make chemicals for agriculture, for food, meat, etc. We are helping them transform from being a provider of chemicals to being a provider of animal nutrition, management of livestock, management of plants, helping farmers and so on. So, looking ahead, this transformation to help our clients think holistically about their future and help them do breakthrough projects and become a really strategic innovation partner to our clients is key to our growth. Our ability to grow the strategic areas makes it easier for us to bring our traditional business to our clients with much less friction.

Recently, Infosys said the target of $20 billion revenue by 2020 has been dropped. Why did the company withdraw this? And if you were to crystal gaze, by when do you think Infosys can reach $20 billion in revenues?
I first presented that in October 2014 in my first board meeting as CEO. You must remember, at that time, our revenue growth was half to one-third of the industry, the iconic founders were leaving and attrition was high. It was a time of anxiety in the company. In that situation I created this aspirational goal to rally the company around. Other companies have done the same. Infosys has also done this in the past. So, it was done to motivate the troops. It was never a financial guidance, or a guidance that we gave to the markets. So, one should not confuse the two things.

But your compensation also got linked to that...
Yes, sometime last year or whenever, it was linked to my compensation. But it was an internal matter, something that the board decided. But, in my mind and in our public statements, it has never been the case that this was anything but aspirational. And there were three elements to this. One, there was a $20 billion revenue target; two, a 30 per cent margin target, which meant that we want this revenue growth without compromising the margins; and three, $80,000 revenue per employee. This in some sense is the most difficult and the most important measure – which is that we are able to achieve the growth and profitability in a nonlinear way by improving the productivity per employee. These three elements in a quantitative way capture the essence of what we are trying to achieve. So, in that sense, we are not abandoning our goal. But, whether they happen in 2020 or a few years later is not the issue here. What's important is that the work we do in automation and in innovation, in renewing our existing business and in developing new businesses, should together get us to this point.

So, will you be around when this happens? Will this happen on your watch?
I hope so. I certainly hope so. I'm doing something that is extremely challenging but also, at an emotional and spiritual level, it is rewarding. As long as I have the ability and the opportunity to do that and the context and the atmosphere to do that I will keep doing it.

If you had to describe your three years at Infosys in a word or a couple of words, what would you say?
Ignited minds, lots of travel and lots of noise.

Founders not keepers

When N. R. Narayana Murthy left Infosys in 2014 after handing over the reins to the first non-founder CEO Vishal Sikka, he said he and the other co-founders wanted Sikka to have a free hand to craft and execute his own strategy. Murthy had first left in 2011 as per his own company rules when he turned 65, But, setting aside his tenets, he returned in 2013 as executive chairman, when he saw it floundering under co-founder S.D. Shibulal's leadership. That he returned, and with his son in tow – this after always maintaining that children of promoters had no place in the company – was a clear indication that, for Murthy to let go of the company he co-founded in 1981 is not easy.

That has become even more apparent over the past one year when Murthy has been trying to write Infosys' script from the sidelines via explosive interviews to the media. Much has been written about this, but here is a quick recap. Murthy has raised various issues including the compensation packages of Sikka and Rao, the severance package offered to former CFO Rajiv Bansal – going so far as to call it hush money – the severance package given to former general counsel David Kennedy and the board appointment of Punita Kumar Sinha, wife of Union minister Jayant Sinha. He demanded that the current chairman R. Seshasayee step down because of lapses in governance. (Seshasayee is due to retire in May 2018, when he turns 70).

Murthy also suggested that 'to restore its credibility', the board must consult "from time to time, experts like Mohandas Pai, Bala, Marti Subrahmanyam and Omkar Goswami, in finance and good governance; people like Nandan in sales and marketing; people like Kris and Sharad in technology and Finacle; people like Dinesh and Shibu in delivery expertise." This list of Murthy's includes cofounders, former CFOs, former board members and people close to him.

The Infosys' board on its part has tried to address some of Murthy's concerns. For instance, on Murthy's recommendation, it inducted director D.N. Prahlad into the nomination and remuneration committee (NRC) that oversees the nomination process and the incentives and pay offered to its senior-most executives, including the chief executive. Prahlad, a former Infoscion and relative of Murthy, was appointed an independent director in October 2016. (In an interview with a business daily, Murthy has pointed out that Prahlad is "not my relative as defined in the company law.") The board also created a position of co-chair and elevated board member Ravi Venkatesan to the position. It restructured its executive compensation and released a document explaining in detail its policy on this matter. Sikka's package for 2016-17 was pared down. And, re: Bansal's severance package, the board engaged an external law firm to investigate the matter. To ensure better alignment between the board and management executives on strategy and execution, it set up a committee of directors. At the same time, though, interestingly, in its annual filing with the US Securities & Exchange Commission, for the first time ever, Infosys marked the 'activist shareholders' as a risk factor.

The general consensus on Murthy's outbursts has been that it was unwarranted, especially the public manner in which he conveyed them. Analysts and experts say once founders hand over the mantle, they become just another key shareholder and must let the persons who are heading the company run it in the manner they think fit, to take it to the next level. If they have any grievances, they must use the correct mechanisms laid by law to address them.

"I have tremendous faith in the board of directors; it will be silly of me to assume that all of them put together will allow something wrong to happen"
N. R. Narayana Murthy,
Business India,
29 May 2011

"There are two parts to this issue," notes Kavil Ramachandran, professor & executive director, Thomas Schmidheiny Centre for Family

has come from these new services and new software. This is expected to only increase, going forward. Also, in this quarter, digital as a whole, accounted for 23 per cent of the company's revenues. These offerings are important because they yield higher margins than the company's traditional lines of work.

The company also reported better revenue per employee. At $51,921, it has been consistently moving up for six quarters in a row. This has come on the back of better utilisation – 84 per cent excluding trainees, the company's highest level in 15 years and 80.2 per cent including freshers, the highest level ever.

Mixed views

"We are happy about the results," says Sikka. "It was a strong broad-based performance by the team in all aspect of the business. Overall, I am happy with the execution in this quarter and in particular with the growth in the new services and new software".

But not everyone is enthused. Shriram Subramanian, founder & managing director, InGovern Research Services, a proxy advisory & corporate governance firm, cautions that "one swallow doesn't make a summer" and that "long-term sustainability and financial performance shouldn't be seen from a quarterly basis." In its report, Emkay Global, a brokerage house, notes: "Though the numbers are better than expected on reported basis, we do not see any major positives on annual basis as there has been no uptick on constant

Enterprise, Indian School of Business: "One, the role of founders who no longer have any significant shareholding, and two, the functioning of the board. On the first, I don't think someone who has already sold a house has the right to dictate or comment on modifications the new buyers have made on it. On the second, Murthy had the responsibility to ensure that the board composition was strong enough to drive the new growth strategy, while adhering to high quality corporate governance and organisational values.

"I cannot break my principle of not commenting on Infosys once I leave the company"

N. R. Narayana Murthy,

Business India, 23 June-6 July 2014

After all, the board is the ultimate custodian of all these. I am not convinced that he played that role well." Regarding the board's response to Murthy, Ramachandran says: "The board handled it well; may be, it was a little too accommodative!"

Shriram Subramanian, founder & managing director, InGovern Research Services, a proxy advisory and corporate governance firm, feels that, in Sikka's contract, "the clauses are in favour of Sikka, irrespective of Infosys' performance. So, Murthy has his angst and some of it is valid." On Murthy's letter to the board on COO Pravin Rao's increase in pay, Subramanian says: "It is unfortunate that Murthy is still talking about this, but, over time, compensations will increase to be benchmarked to peers and should be linked to performance. Also, compensation to senior management is for the board to decide and the shareholders to approve. As a founder, Murthy may have been frugal in compensation packages, but times have changed."

Subramanian continues: "Some of the issues raised by the promoters are similar to those activist shareholders would usually raise. Was it right on the part of Infosys to term its founders as activist shareholders and as part of risk factor? I can only say it is right or apt for Infosys to place all issues it faces before all investors. The board will have to take inputs from any activist shareholder, including founders, and examine the merits of it and deal with it appropriately. Infosys is also vulnerable to activism like what happened to Cognizant with Elliott Asset Management."

How does all of this impact clients? Sidhant Rastogi, partner, Zinnov Management Consulting, notes that typically clients are not concerned about tussles between the founders and the board. "In the US, this is quite common, it happens all the time. There are activist investors everywhere. At the end of the day, it's the company's performance that counts." Adds Sudin Apte of Offshore Insights: "If investors start deciding top management compensation and severance packages then it will become impossible to run companies. Clients are more concerned about business related issues and the value that vendors bring by way of helping them to achieve their goals."

On the co-chair, Apte believes it has been a good move by Infosys. It is a good mechanism, he says, to create a bridge and engage with the founders in a meaningful manner. Rastogi feels that Infosys will only benefit with Venkatesan being co-chair. ISB's Ramachandran differs. "Venkatesan has a successful background. I cannot say if he is the best person to lead the company. Two, I do not understand the reason to have a co-chairman, both non-executive, for Infosys."

According to Ramachandran, what Infosys does need is an "executive chairman, with a clearer vision and proven track record, particularly of turnaround nature." He adds: "There should be further clarity on what the company's core values are and what traditions to continue, keeping the goal of revival in mind. And the structure and composition of the board should be decided keeping the interests of the organisation, and not to please anybody, howsoever important a person he is."

Meanwhile, what is the impact of this public fracas on brand Infosys? Not much, says Harish Bijoor, brand-strategy specialist & founder, Harish Bijoor Consults. According to him, while the early impact was big, it got fizzled out. "The brand worry at that point of time was whether the founders would want to take a re-look at everything. The key worry was as to where the real power-centre lay. The key question was whether these were backend board issues or would they spill on to the operations side of the business and onto servicing shores. Infosys has curtailed the damage on this count well. Performance is the ultimate elixir. It erases everything that is negative to brand."

The pressure is now on Sikka.

currency guidance…"

Others are more optimistic. Apurva Prasad, senior analyst, institutional equities, HDFC Securities, sees two key positive takeaways from the results. One, a sharp improvement in execution, both in terms of utilisation and fixed time revenues; and, two, an improvement in the top 25 accounts, which had slowed down in the prior three quarters. "The account-specific headwinds that Infosys was facing is probably receding and not as big a problem, as it was earlier," says Prasad. The big concern for Prasad is growth; the fact that Infosys' guidance still takes only industry level growth. According to him, a strong performance in Q2 will determine Infosys' trajectory, going forward. "We would like to see secular, broad-based growth and deeper participation from the larger geographies and larger verticals. That will give the confidence that the growth is sustainable," he says.

Sarabjit Nangra, vice-president, research, Angel Broking, is "positive on the company, given the valuations and long-term prospectus." For Nangra, the biggest positive from Infosys' Q1 results is its "ability to deliver a good set of numbers in challenging times, which is a sign of good leadership quality."

Looking at a broader time frame since Sikka took over as CEO in August 2014 and became the first non-founder of the company, Sudin Apte, CEO & research director, Offshore Insights, an IT advisory and research firm, says he is "not at all

Embracing new ways, while retaining core values

Pravin Rao, COO, Infosys, is an old-timer. He has been with the company since 1986, worked closely with the founders and has seen the company through its ups and downs. In a conversation with Meenu Shekar, Rao says one of his key priorities to ensure that the company is able to embrace new ways of doing things while retaining the core values. Edited excerpts:

What is the transformation Infosys is going through under the leadership of Vishal Sikka?

There is a lot of technology-led disruption happening across industries at present and this provides a great opportunity for us to help our clients. But these very disruptions are also impacting us at the same time. Given this scenario, we are looking at three main transformations within Infosys. One, we are transforming from a traditional IT services company to an innovation-led software plus services company. This means that, in each of our offerings, we will increasingly use software and technologies and tools to make them much more efficient and much more differentiated. Our second transformation is a cultural transformation in terms of innovation. We want to make our people think creatively and challenge the status quo. We want to move from being problem-solvers to becoming problem-finders. We are also moving away from a promoter-led management to an outsider-led management for the first time in the company's history. This brings with it its own nuances.

What would you say are the key challenges of shifting from a founder-led organisation to a professional-led organisation?

In our case, the founders themselves were also professionals. They came with their own concrete skill-sets. So, Infosys has always been run as a professional company. But, with Vishal Sikka, for the first time we got someone from outside to run the company. That to me is a bigger difference than promoter vs a non-promoter. Someone from outside always comes with different ideas, a different culture and a different environment. I think this transition probably would have been easier and smoother if the challenge (for Sikka) was only about scaling the business and not coping with the technology disruption and other challenges like the protectionist measures, etc, that the entire industry is facing. When we navigate through such challenging times, we always question ourselves if we are doing the right thing by not following some of the things which worked well for us in the past.

So, what are some new ways of doing things from founder-led times to now?

For example, when this industry was growing, it was all about acquiring capabilities and scaling. The more successful you were at scaling the more successful you were as a company. This meant that there was a lot of premium on managers – people who could manage people. But in today's world, it is less about managing people. For an individual to be successful, he must have either strong technical competency, or deep domain expertise or excellent client interfacing skills. This is a transformation we have to deal with as an organisation. We will need to recruit people from outside who come with newer skills, different skills and they may be contributing not as managers but as individual contributors. And they will need to be highly paid because they bring critical value. Our challenge will be to manage the internal dynamics. How do you attract people with competitive compensation structures without causing dissonance in the internal workforce?

discounting" the firm. Pointing out that Infosys has held on in tough times, Apte says: "If you look back three years, Infosys was far behind the industry. Since then, there has been a sustained progress and while it has been slower than expected, it has been steady."

Apte notes that, under Sikka's leadership, Infosys has achieved many positives, including "re-energising the team, stopping client exodus, increasing its engagements with clients, renewing business in traditional service lines and stopping loss of wallet share." Where it has lacked, he adds, is that it has not been able to grow its existing accounts or grow a new account substantially – in $50 million to $100 million business

What are the biggest challenges for Infosys today?

At an industry level, there is a confluence of new technologies and the pace at which these technologies are changing is a lot more rapid and dramatic than we have ever seen before. From an IT services perspective, on the one hand we are seeing the rapid commoditisation of traditional businesses and there is a tremendous focus on cost cutting and reduced spends. At the same time spends on new services is not happening at the same pace. This is resulting in slower growth for the industry. This tech-disruption is also disrupting our business model – the global delivery model. Because in the new services we need to work closer with the customers and this means having more people onsite. In addition, because of the geo-political issues and protectionist measures we need to recruit locally in different geographies in larger numbers. This will have its own nuances. Earlier, the local hires were primarily experienced hires and used to fit in easily with our global delivery model but now we will need to recruit from colleges as well. So we need to see how best we can deploy freshers trained in the new technologies into client projects. All this requires tweaking our delivery model. Also, earlier it was all about acquiring a capability and then scaling it. Today, we have to acquire multiple capabilities and scale them all at the same time. So, what we are seeing today is dramatically different from what we have ever seen in the past.

What are your key priorities as COO?

My first priority is to make sure that, as an organisation, we are agile by way of policies, processes and infrastructure, etc, so we can fully support the people at the front end, the delivery teams, to be more productive and serve the end customers better. The second priority is the cultural transformation – to change from being problem solvers to problem seekers. And, third, given my longevity in the company and having worked with the founders closely, how do we embrace the new ways of doing things while retaining the core values? Having been in the company for a long time I believe that this is a critical role I play.

How is Vishal Sikka's strategy of 'new and renew' fundamentally different from Infosys 3.0 under S.D. Shibulal? The core vision and the overall strategy seem to be the same.

Infosys 3.0 was the same except that, in Infosys 3.0, while we spoke about disruptive themes (digital consumers, smarter organisations, emerging economies), we did not back it up with concrete offerings or how we needed to transform ourselves to take advantage of those shifts. Today, we are saying that the disruptions are happening and this is what we need to do (New and Renew). So, we are probably much more prescriptive now. In some sense, Infosys 3.0 was a little ahead of its times.

You have worked closely with the founders. What is your take on the many issues raised by them against the board?

All these are iconic people. They have built the institution and they mean well for the company. So, my sense is that we have to respect their views. We must take their feedback seriously and wherever relevant, we must try and change. The board has also acknowledged this – that in hindsight, we could have handled some of the issues in a better manner. In other cases, maybe we have not done a good job of articulating what we are trying to do. So, we must engage with them better and address their concerns.

per year range. Infosys, he notes, has also not been successful in getting large deals which is why the recovery has been slow. But then, much of this is because of the challenges the industry is facing and not specific to Infosys.

External challenges

Indeed, the bigger challenge today ahead of Infosys is not the tussle with its founders (who together hold 12.7 per cent equity) or other internal issues, but external challenges that are threatening the fundamentals of the Indian IT industry. There are protectionist speed-breakers such as US President Donald Trump's loud rhetoric against outsourcing and granting H-1B visas – the temporary work visas used by Indian IT firms in large numbers to fly their engineers to client sites in the US – the largest market which accounts for over 60 per cent of their exports. Then there is the slowdown in the banking and financial services sector – one of the biggest verticals of Indian IT firms – and reduced IT spending. But perhaps more important than these is the disruptions caused by new technologies such as digital, automation, artificial intelligence, etc, which are making the old ways of working redundant. Reflecting this growing uncertainty, in February, for the first time in 25 years, industry body NASSCOM deferred giving the annual revenue outlook for 2017-18 by a quarter; in June it forecast a 7-8 per cent growth.

'My objective is to focus on the future rather than the past'

Ravi Venkatesan, former chairman, Microsoft India and Cummins India, joined the Infosys board in 2011. He was recently elevated as co-chair. In an interaction with Meenu Shekar, Venkatesan says his objective is to focus on the future. Flawless execution, he believes, is the key to success going ahead. Edited excerpts:

Why did Infosys feel the need to have a co-chair at this point in time? As co-chair, what are your key focus areas?
The industry and the company are both going through a period of significant turbulence. The board and Sesh (Infosys chairman R. Seshasayee) felt it would be prudent to have a 'co-pilot' to share the load. Sesh and I work collaboratively; he leads on some matters, while I do on others. It has turned out that he has tended to focus more on leading the board while I, partly because I am based in Bengaluru, have been able to work more closely with Vishal and his leadership. It's all fairly seamless.

You have known Narayana Murthy for many years. When he was heading the company, he had always maintained that, whatever be the internal differences, as a team, they must present a common face to the outside world. In the context of this culture that Murthy so carefully nurtured at Infosys, how do you see his going public with his differences?
My objective is to focus on the future rather than the past. We need to drive looking at the windshield not the rear-view mirror. What matters now is that we must execute flawlessly, the strategy that we have set out for taking advantage of the industry shifts that are happening and consolidate our leadership position. Our shareholders care primarily about superior and sustainable financial performance which means superior execution. For this to happen, the alignment and support of all stakeholders is crucial. Mr. Murthy is both the founder of Infosys and a significant shareholder and his and fellow promoters' support for the transformation that the company is attempting is crucial.

You recently said that it is possible to bring the founders and the management together as 'One Infosys'. What do you think caused the dissonance in the first place? And how are you trying to resolve it?
Business transformations are less about strategy and more about culture. The great Peter Drucker said "culture trumps strategy" and he is so right. When you start making changes to strategy and organisation, when you bring in new lateral hires, you start disturbing the internal equilibrium, the power structures and the very identity of the firm. This can create emotions ranging from anxiety to anger and can therefore be destabilising. I led such a transformation at Cummins India and am living through something similar at Bank of Baroda. So, I know what it feels like. The key is to be sensitive to this and engage with key stakeholders and get everyone on board and make course corrections along the way. The key is to unite people behind a common purpose, a common direction and a roadmap with milestones. You have to get investors, the board, the top team, key employees all aligned which is what we call 'One Infosys'. This requires enormous amount of honest, sometimes uncomfortable dialogue. But, as people see the green shoots of success, as the financial performance from the new growth engines starts kicking in, people suddenly becoming believers and supporters. I hope we are at the cusp of this.

In a recent media interview, you said Infosys underestimated the importance of gaining consensus and bringing all stakeholders on board with its transformation plans and ended up with misalignment, concerns and anxieties. Were you referring only to the founders or to other stakeholders as well?
Definitely, all stakeholders – which includes clients, senior management, employees, the board, investors, including the founders, and frankly, even the public at large, given how important Infosys has been and remains to India. In any large transformation, it is critical to take all these stakeholders along or you encounter anxiety, disappointment and eventually, resistance to change. We did try to do this but as I said before, in retrospect, we underestimated how much more was needed

"What has got us so far – repeatability, offshoring, excellent processes, high quality at low cost, etc – won't get us to the next level," says Sidhant Rastogi, partner, Zinnov Management Consulting. "The skills and business models required for the new digital world are different." Adds Apte: "The industry is facing structural changes and the gaps between what clients are looking for and what the Indian IT firms have to offer is widening."

This is where Sikka's strategy of 'new-and-renew' – focussing on new services and software and delivering traditional services through a new people-plus-software and automation model, along with his strong push to drive grassroots innovation through his 'zero distance' programme becomes important. According to Sikka, zero distance means that, in every single project, irrespective of what it is and however mundane, his team must do something innovative. They must not only find and solve the problem but must go beyond the charter of the project and deliver new value that the client did not expect.

On another front, in terms of hiring, Infosys is targeting to hire over 10,000 professionals in the US over the next two years. Sikka says this is not as much about dealing with the visa hurdles, as about the new

and we are working hard to address this.

What measures are you taking to bring other stakeholders (other than the founders) on the same page?
Communications; communications; communications. The legendary Jack Welch who drove a stunning transformation of GE said he only regretted two things looking back. He would have made people change sooner and he would have communicated more. He said that the key to success is getting the right leaders on the bus and the wrong leaders off the bus quickly. And, even more important to engage and communicate with investors and employees to the point of being 'relentless and boring'. So, it is about becoming proactive and systematic in communications with all stakeholders. This is why we have re-energised our Stakeholder Relationship Committee of the board that now lead.

Compensation and severance has been a key area of friction between the different stakeholders. How is the board addressing this issue?
The Nominations and Remuneration Committee (NRC) has been spending an enormous amount of time and effort getting this right. We have articulated our compensation philosophy. The NRC is thoroughly reviewing our compensation policy and practices and making changes where appropriate. The challenge is to maintain the fine balance between being market competitive and equitable. This challenge is not unique to Infosys alone. A recent report stated that CEO compensation in India is about 1,200 times the median salary. So, this is a vexing issue in capitalism but, as a leading global company, we have to strike a responsible balance that feels fair to employees and society.

Why was the committee of directors set up? And what is the role of this committee?
Things are moving really quickly and we need to be much more agile on both strategy and execution. This committee was set up to enable much closer engagement between the top management and the board so that management can make important decisions faster knowing that they have the full support of the board. This is a critical success factor in a VUCA (volatile, uncertain, complex and ambiguous) environment. And, although it's been just a quarter, I dare say it's working well.

There seems to be a spate of senior level exits at Infosys. How is this impacting both the working as well as the morale of the company and what measures are you taking to stem this exodus?
Yes, there have been a number of senior leaders who have left the company in recent years. On one hand, this is a matter of concern. On the other, this is not a big surprise, because the whole industry is transforming and our leaders are highly regarded and in great demand everywhere. Many of our alumni are now CEOs of or in senior roles in other large companies. We are proud of them and their success is a tribute both to them individually and to Infosys' ability to attract and develop effective leaders. So, even as we should redouble our efforts to ensure we have zero exits of our top talent, we must understand that a certain degree of churn is inevitable. I think the main thing we need to do is strengthen our focus on identifying outstanding leaders at every level and ensuring that we are giving them big challenges and stretch roles to accelerate their development and growth. Also, at a time of change, it's critical to have a stronger emotional connection with employees, so that they feel that the top management and the Board cares about them.

What do you think are the biggest challenges facing Infosys today? And what are the key measures in place to address these challenges?
I am convinced that Infosys and the rest of the industry have a gigantic opportunity ahead of us, given what is being called the 'Fourth Industrial revolution'. Every company in the world has to transform or perish. They are all looking for someone credible to help them transform. So, I believe that there is a glorious future ahead of us. The challenge is that monetising this opportunity requires new capabilities, some cultural shifts and most of all a new leadership mindset. Our challenge is accomplish this internal transformation successfully. As Gandhiji said, we have to be the change we wish to see in our clients! This is all easy to say and much harder to do.

business models. "It's about the changing nature of the workforce, the changing nature of business priorities. The American companies are in the throes of a massive digital transformation and the kind of services and the capabilities they need are all about being close by, being able to work on next generation technologies rapidly and bringing together the best of local talent with the best of global talent in new ways of working."

In the three years that Sikka has been at the helm, revenues have grown from \$8.2 billion in 2013-14 to \$10.2 billion in 2016-17, while net profits have moved up from \$1.7 billion in 2013-14 to \$2.1 billion in 2016-17. During the last fiscal, the revenue grew 8.3 per cent in constant currency and, for the second year in a row, Infosys' growth was in line with its peers.

Offshore Insights' Apte thinks that Infosys' strategic direction is correct but he is a bit concerned about what he terms as a 'flip-flop' in the company's automation and digital story. Apte points to Infosys' next-generation AI platform Nia, which was launched in April this year and which integrates some of the company's earlier capabilities around cognitive and robotics, etc. "They need to make up their minds on what is near term and what is long term and then march

Confronting challenges

Vishal Sikka, who was appointed CEO of Infosys on 1 August 2017 – just a few months after Narendra Modi's game-changing victory – completes three years now. And three years at the helm is a good period to assess his contribution. And, market cap is one tool to measure how the company has been perceived as growing under his leadership. In this case, the market cap of Infosys has gone up by 16 per cent from 1 August 2014, till date. While it has underperformed the Sensex, which has gone up by 27 per cent during the same period, it has, despite perceptions to the contrary, outperformed its peer Tata Consultancy Services, which has actually seen a 3 per cent dip in market cap. HCL and Wipro too have shown positive growth. While HCL has, in fact, seen the highest growth at 17 per cent, Wipro's market cap too has grown – by 7.6 per cent.

While growth in market cap from point A to point B is one measure of success, what is disconcerting is the fact that, over the last one year, which saw the promoters of Infosys at loggerheads, the market cap of the company has declined. Its share prices on an adjusted basis have dipped by 9 per cent, as compared to a 7 per cent decline in TCS.

One conclusion drawn from the share price movement is that, despite the noise about governance and unhappiness expressed by the promoters, the company has not done too badly. And Infosys, like any other IT company, is faced with extraneous problems, including the policy changes in the US, the main market, the decline in the offshoring model and the advent of new technologies, including artificial intelligence and automation. However, these are generic problems and all companies are restructuring themselves to remain relevant in the changing environment.

Infosys has already given sufficient evidence that it is in the process of reinventing itself again. While it may not be easy for a service company to change itself overnight, the market is still giving the company space and willing to wait for the outcome. While there are too many negatives, most of which seem to have been factored in the prices, it will be unwise to write off the IT industry at this stage. The super-normal profits of yester years, which led the companies in the industry to a much higher premium, may not happen again soon. The high expectations the companies' performance had generated may well have to be tempered down, which is what is being witnessed now. The high P/Es and share prices that went with these inbuilt expectations may also start coming down.

However, going by the past track record of the IT industry, *Business India* is still hopeful that the flag bearers of IT industry, including Infosys, TCS, Wipro and Tech Mahindra will be able to cope up with the structural changes and emerge winners once again, though one may have to wait for 2-3 years for that to happen.

◆ DAKSESH PARIKH

PEER GROUP COMPARISON

(₹ lakh Cr)

	Infosys	TCS	Wipro	HCL	Tech Mahindra
CMP	971	2481	290	890	378
MCap (Jul 28, 2017)	2.23	4.76	1.42	1.24	0.34
MCap (Aug 1, 2014)	1.93	4.93	1.32	1.06	0.5
Change (%)	16	-3	7.60	17	-32
P/E	15.56x	18.3x	16.5x	14.5x	12.81x
Dividend Yield (%)	2.65	1.93	0.62	1.77	3.75

on it steadily. The flip-flop on their focus between the traditional and the new services also makes me nervous," he says. He also believes that Infosys needs to increase its pitch in the traditional services. Pointing out that while AI, automation and cognitive, etc, are good to talk about, they won't yield big business immediately, "Clients will only take baby steps in them," comments Apte. It is the traditional service lines that are still important from a client perspective. Infosys need to educate the clients on what it is doing in these areas and how it is revamping these traditional services, using new technologies. Infosys needs to also educate clients on how it can help them in both the new world and in the old world."

HDFC's Prasad is of the opinion that, with digital at 23 per cent and new services and software at 10 per cent of current revenues, Infosys is on the right track. The problem, he thinks, is in the balance legacy portion that is growing at 2-3 per cent. "The ideal scenario is digital growing at 20-25 per cent and legacy business growing in mid or high single digits." Zinnov's Rastogi believes that Sikka's product background is a big advantage for Infosys in these new times, since he understands the whole shift from a 'first person perspective'. "Overall, Infosys is doing the right things," says Rastogi. "It has already started taking the required steps and has started pivoting, where needed. I would only like to see some more velocity."

Meanwhile, in recent weeks, all has been quiet on the founders' front, except for Murthy's comment in July in an interview to news channel *CNBC TV 18,* that his biggest regret is his decision to leave Infosys in 2014 – after his second stint – and hand over the reins to a non-founder management and board. Infosys watchers say that if there is a big difference of opinion on capital allocation as and when that is announced – up to ₹13,000 crore ($2 billion) is expected to be paid out to shareholders during 2018 in dividends and share buybacks – there could well be another public clash.

As they say in Bollywood: *picture abhi baki hai*! Watch this space.

◆ MEENU SHEKAR

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