Narayan Murthy to Vishal Sikka: The Pass of the Leadership Baton

Haresh Barot
Assistant Professor,
Government Commerce College,
Naroda, Ahmedabad, Gujarat, India
Email: barotharesh@yahoo.com

Poonam Chhaniwal
Assistant Professor,
V. M. Patel Institute of Management
Ganpat University, Gujarat, India
Email: chhaniwalpoonam@gmail.com

Abstract

Case Study discusses about Background of Narayan Murthy's comeback, Murthy's Legacy, The failure on Board Succession & the looming presence of unlikely Infoscion, Disconnected Infosys, Exodus & persistent attrition, The leadership predicament, The way ahead for Infosys.

The questions are asked on Re- entry of Narayana Murthy and employee engagement at Infosys.

Key Words
Narayan Murthy, Vishal Sikka, Leadership, Infosys.

Citation: Barot, H. & Chhaniwal, P. (2017), Narayan Murthy to Vishal Sikka: The Pass of the Leadership Baton, *Ganpat University Journal of Applied Research In Social Sciences & Humanities, 6* (1 & 2), 60-68.

Infosys: What Went Wrong?

The audio scape of the investor chatter and the Infosys song moving hand in hand died down minutes before 3 p.m. on June 14, 2014. N.R Narayana Murthy walked on the stage along with other board members.

Silence prevailed as he got up and walked down across the podium to address the company's annual general meeting for the last time. Murthy surprised everybody by announcing that he would leave the company just a year his return.

Background of Murthy's comeback

Infosys for years used to be investors favourite for exceeding earnings target. The bell weather company had been struggling in the past two years as its big customers in the U.S. & Europe had cut costs. It also witnessed rivals like Tata Consultancy Services & HCL Technologies grabbing away the market share as well. Infosys witnessed tremors that shook the foundations of the organization. The traumatic early departure of Mr. Nandan Nilekani amidst recession and the resignation of Human Resources Head Mr. Mohandas Pai sent the company to an all-time low. The retirement of Murthy was the final nail on the coffin.

Amidst all these, the reins of the company were passed over to Shibulal. Chief Executive Shibulal was one of the seven engineers who launched the company by pooling together $250. In April 2013, Infosys forecasted full-year sales growth missed analyst expectations, by a margin of up to 50 percent, pushing down its sales to an all-time low. During his term, Shibulal was the only founder to have taken a break from Infosys to work at a different company (Sun Microsystems). He doggedly pursued a widely criticized business strategy 3.0 that snowballed into disaster.

The strategy touted as a bold bet, when it was announced was the company's attempt to separate itself from the rat pack by venturing aggressively into new areas of technology such as cloud computing software application products & platforms.

The problem was its timing as it was akin to changing the engines of the planes mid-flight which led to Infosys dropping the ball with its traditional outsourcing business. The 3.0 strategy indicated a willingness on the part of the company to undertake a bold transformation in a rapidly evolving technology landscape. But customers had not drastically reduced outsourcing traditional software development business.

Such was the state of affairs under 'Shibu' as he is popularly known that within a year of his tenure as CEO, Infosys started missing its own revenue guidelines. The company was not going anywhere and needed good anchors to energize the company. The board members insisted Murthy for a comeback at latter's house in Jayanagar, Bangalore. But Murthy was reluctant. A month later too, the board members tried the same argument but through a different approach. This time Murthy was amenable to suggestions. A few days later board members got a message from Murthy, that he would consider coming back if there was external pressure. Narayana Murthy even reached to his former team, like Nandan Nilekani and Mohandas Pai but they declined because of their own commitments.

Murthy's return has been widely reported to break two rules, Infosys co-founders had set for themselves, that they would retire at the age of 60 and that none of their family members would be employed at the company.

On June 1, 2013, Murthy announced his comeback. In a statement issued by the company, 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."

Murthy's Legacy

In the midst of the hoopla surrounding Sikka's appointment as CEO, no one really asked why Murthy, who had suggested that he would stay for five years when he returned in 2013, left barely 12 months later. Vishal Sikka the visionary leader of SAP the new CEO may have inherited a more leaner Infosys but will have to face a daunting task of reviving the revered IT company from the following angles.

The failure on Board Succession & the looming presence of unlikely Infoscion

A pertinent question clouding everyone is how $8 billion company, a former bell weather of the information technology (IT) industry got to come to such a position. How did it turn as desperate to seek the return from retirement of its first CEO?

As it always goes in the era of stiff competition, one the notably supreme responsibility of any board is planning for succession – identifying at least one leader who can immediately take up the role if the current CEO is hit by a bus. It was known at Infosys that Kris & Shibulal (fondly called of) were last in line among founders preordained to head the company. A current board member opined that directors were caught in a situation where there were just too many moving parts. While the board was planning to keep in mind the Shibulal's date of retirement two things changed in quick succession – growth petered out and the company ensnared in a legal battle about visas in the US. "You did not have too many quarters to take the decision on what is corrective," said the board member. Visas fiasco did not happen under the reins of Shibulal.

It happened under somebody else & somebody else was responsible for the activity. All the governance issues came on the Shibulal's shoulders. It was this that things started taking a worse shape and became too difficult to handle that Murthy had to step in. It

was not that seamless succession planning was the only lapse of the board. The appointment of Rohan Murthy as his father's executive assistant (EA) was another low.
Way back in 1994, Infosys started a programme called Voice of the Youth. The underlying idea behind the initiative was to tap, harness & nurture the creative energy of its young employees and also develop future leaders. Then there was another such institute rolled by Infosys called the Infosys Leadership Institute in Mysore – an institute that was supposed to churn out 500 leaders at one point of time. The question that still remains unanswered. What is that stopped Murthy form picking as Executive Assistant from within the institute?

A 'founders only' policy meant that Kris Gopalakrishnan & S.D. Shibulal took turns at the high chairs. Co-founder Shibulal was appointed CEO on August 21, 2011. In the following quarters, both revenues and margins suffered setbacks. The company's operating margins, previously among the highest in the industry dipped to 25.7 percent in December 2012 from 31.2 percent in December 2011. Infosys cost of sales was shooting through the roof. Murmurs of unease with Shibulal had grown stronger. In private circles, Chairman K.V. Kamath started saying that he was unhappy with the company's performance. One of the board members met Murthy to check if he could make a return to the company. In the same line, Kamath met Murthy with presenting the same intent.

Murthy, according to source laid down three conditions for his comeback-first that he needed all the powers to make decisions, a private jet for travel to all the delivery locations and the entry of Rohan Murthy. No one objected to the first condition. The issue was only with the third condition placed. It so happened that only board member opposed to this condition laid down by Murthy. He advised Murthy not to come back because by doing so he would be going against the principle values Infosys stood for-promote meritocracy, under promise over deliver, be ethical, take no risks and share the wealth, among others.
None of the other board members were seen against this third condition. Murthy assured them that Rohan would be there just an executive assistant, nothing else. Rohan turned out to be more than an executive assistant.

Disconnected Infosys

Infosys, as one is familiar, is well versed as a conservative company. The company had a rule for all. All the employees were to wear a tie on Monday and Tuesday. The idea did not go well with the majority of the employees especially who were not customer facing. The story goes that one day Rohan Murthy asked for the tie rule to be scraped. Surely many other employees had been asking for it, but the rule quickly changed after Murthy's return. People were quick to realize where was the power epicenter.

There were others who gained in influence in the company. Rohan was an Executive Assistant but he became an extra-constitutional authority. "He didn't understand business but the organizations started taking decisions based on his views", said a former executive council member.

The chairman's office which was set up as an enabling office turned into a power center disempowering senior people and further slowing down decision making. Around August 2013, Rohan started an attempt to measure individual productivity by way of time spent at work. This was implemented by way of software installed on all computer screens to track employee productivity. The idea did not go well with the employee as they felt that they were not working in a factory. It caused un-fanned resentment among middle level and junior level employees of India's largest IT services company. Rohan's role was clearly strategic in the company. It is not uncommon for EAs to assume strategic roles, opined Rajiv Dube, Director of Group Corporate Services at Aditya Birla Group, but becoming a power centre altogether is a different thing. Murthy himself gave it away during the AGM speech that laid out in detail six strategic efforts Rohan conceived, implemented and pushed forward. Many of Rohan's initiatives may have been well-intentioned but it seemed that old-timers found it difficult to digest the status quo being questioned.

Some others like Gaurav Rastogi who joined Infosys in 2003 and responsible for bringing driving long-term revenue growth expressed that it wasn't about the status quo as everybody knew that the company needed to change for driving long term revenue growth. It ultimately came down to lack of transparency and clarity of thought. Gaurav who based in US was engaged in rebuilding company's sales organization when this entire sequence of events took place. He quit the company in 2013.

Exodus & persistent attrition

Celebration around Murthy's comeback lasted for about a month. Global sales head Basab Pradhan was asked to go. Heeding suggestions from the chairman's office, Murthy said he did not want senior experienced lateral hires and could run the onsite sales show with fresh graduates from premier B- schools. (Annexure II)

It was assumed that Pradhan's exit was part of early shake up Murthy was orchestrating. Next to go was Sudhir Chaturvedi who oversaw some of Infosys most important financial services accounts. Murthy started questioning pay hikes to sales employees. Murthy went to give Ranganath a target of saving $ 160 million in onsite costs a year. This created a sense of panic. Sales & support staff numbered 9,346 by March 2014, down from 9,680 in the year ago. Infosys also trimmed its field marketing team in the US and Europe.

Foreigners were fired and Indians were asked to come back. IT/ITES companies like Cognizant & IGATE were subsequent beneficiaries of this exodus from Infosys. Murthy's cost-cutting decision ended up hurling the company. The budget for Infosys Labs, R &D wing of the company was not hiked. Soon after Murthy's comeback, Subrahmanyan Goparaju, the head of Infosys Labs, deliberated on the issue but had to face a template of questions. Budget was needed for better talent. More employees with Ph.D., more internships more partnerships with professors who would agree to be at Infosys at sabbatical.

Murthy never approved any higher budget either. Labs, at its peak, had 600 people. By the time Goparaju quit in December 2013 the workforce numbered around 450. The company's R & D expenditure totaled 2.5 per cent of overall revenues in 2012/2013 – reduced to two percent in 2013/2014.

The leadership predicament

Different executives left for different reasons. Among the three internal CEO candidates who left Infosys Ashok Vemuri was unhappy with the swap to manufacturing. Shibulal asked Vemuri who headed the firms banking, finance and insurance business (BFSI) to head manufacturing. B.G. Srinivas the manufacturing head became the new head of BFSI. Ashok Vemuri joined IGATE as CEO. Balakrishnan wanted HR to report into him that never happened nor did Murthy and Shibulal do much about his suggestion to promote Vemuri. (Refer Annexure I)

N. G. Srinivas the last of the three to leave the company was upset because in the CEO hunt he was put in the same level with many who reported to him. Srinivas did not discuss his resignation with Murthy. He just sent a mail saying that he was quitting. If you do not meet the revenue it is flagged at the highest level. It is a pressure cooker environment. When you fall there is no sympathy at all, said a sales executive heading a vertical. People left because of the pressure.

The way ahead for Infosys

Murthy may have made the company cleaner and cleaned it up of redundant people. Nevertheless, the new CEO, Vishal Sikka, will face the daunting task of connecting disconnected people. Time will be a predictor to tell us whether Sikka can create a team out of the cadre of leaders he inherits. Rastogi former, Infosys Vice President has rightly said that," He will find plenty of ambition, but will he be able to give them a shared purpose that's higher than their individual ambition". ?

Questions

1. Do you think that the re- entry of Narayana Murthy is justified?
2. Looking into the current level of employee engagement at Infosys suggest some measures which can bring a fillip to engagement.

References

Chengappa, S. (2014, November 3). *Deccan Chronicle .* Retrieved October Tuesday

Infy after Murthy . (2014, July). *Business Today* , pp. 47-56.

Infy after Murthy . (2014, July). *Business Today* , pp. 47-56.

J, M., & N, S. (2013, June 5). *The Economic Times .* Retrieved October Wednesday , 2014, from The Economic Times website : http://articles.economictimes.com

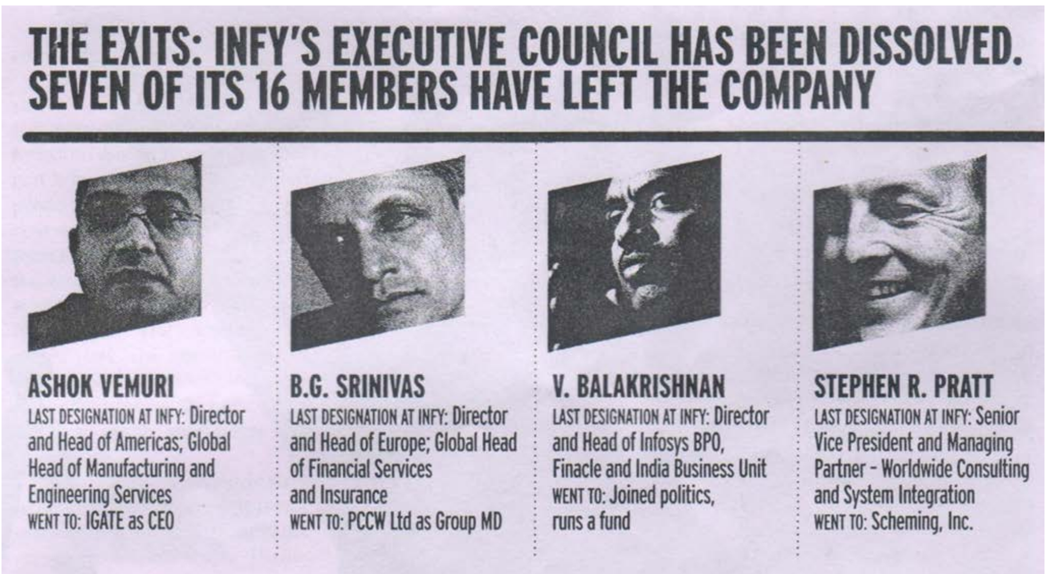
JV, S., & J, M. (2014, August 18). *The Economic Times .* Retrieved October 13, 2014, from The Economic Times Website : http://articles.economictimes.indiatimes.com

Malik, B. (n.d.). *Infosys: What went wrong .* Retrieved October Thursday , 2014, from http://mbaskool.com

Sinha, V. (2013, December 3). *Hindustan Times .* Retrieved October 2, 2014, from Hindustan Times Web site : http://www.hindustantimes.com

What went down at Infosys. (2014, September 03). Retrieved October 2014, from http://www.livemint.com

ANNEXURE- I



THE EXITS: INFY'S EXECUTIVE COUNCIL HAS BEEN DISSOLVED. SEVEN OF ITS 16 MEMBERS HAVE LEFT THE COMPANY

ASHOK VEMURI
LAST DESIGNATION AT INFY: Director and Head of Americas; Global Head of Manufacturing and Engineering Services
WENT TO: IGATE as CEO

B.G. SRINIVAS
LAST DESIGNATION AT INFY: Director and Head of Europe; Global Head of Financial Services and Insurance
WENT TO: PCCW Ltd as Group MD

V. BALAKRISHNAN
LAST DESIGNATION AT INFY: Director and Head of Infosys BPO, Finacle and India Business Unit
WENT TO: Joined politics, runs a fund

STEPHEN R. PRATT
LAST DESIGNATION AT INFY: Senior Vice President and Managing Partner - Worldwide Consulting and System Integration
WENT TO: Scheming, Inc.

PRASAD THRIKUTAM
LAST DESIGNATION AT INFY: Senior VP and Global Head of Energy, Utilities, Comm. and Services
WENT TO: Dell Services as President and Global Head, Application Services

CHANDRASHEKAR KAKAL
LAST DESIGNATION AT INFY: Senior Vice President and Global Head of Business IT Services
WENT TO: L&T Infotech as COO

BASAB PRADHAN
LAST DESIGNATION AT INFY: Senior Vice President and Head of Global Sales, Marketing and Alliances
WENT TO: Hexaware Technologies, Board Director

NANDITA GURJAR
LAST DESIGNATION AT INFY: Senic
Vice President and Group He
of Education and Research
WENT TO: On a sabbatical

ANEXURE II

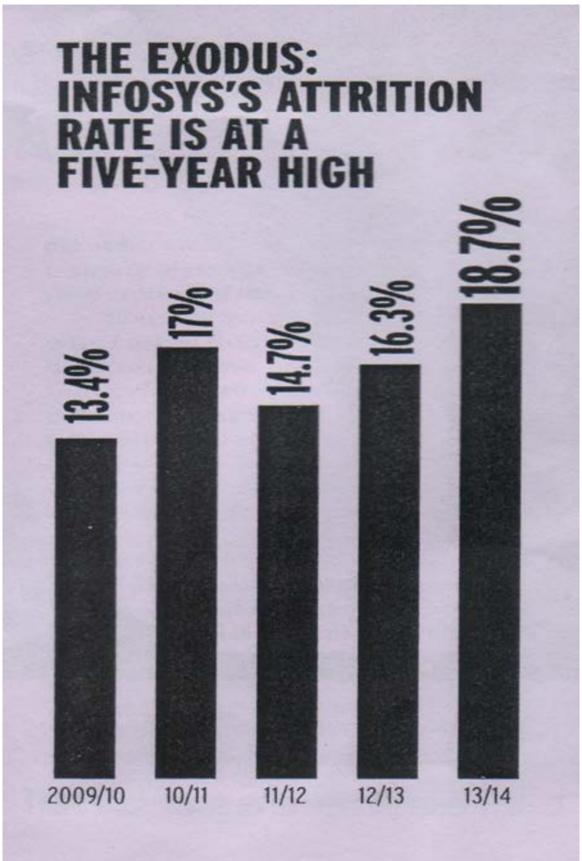
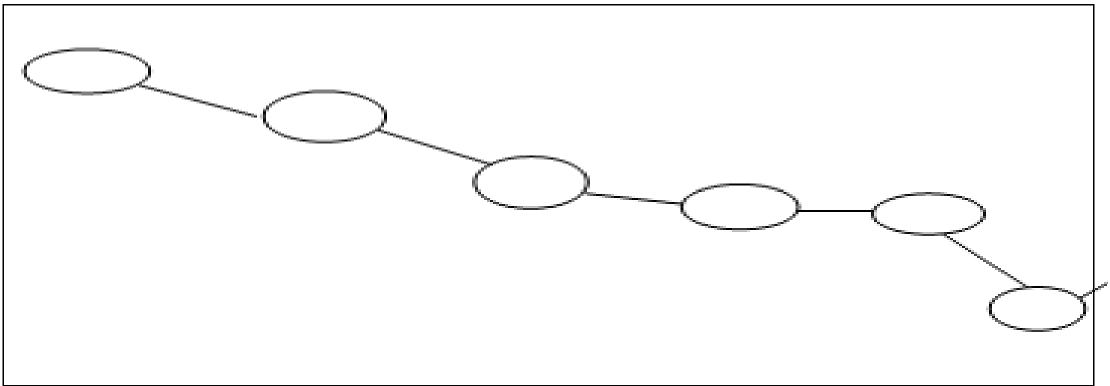


EXHIBIT 1

FAT BURN: HOW NARAYANA MURTHY'S COST CUTTING INITITAIVES PUSHED MARGINS UP



28 Q1FY13	26.3 Q2FY13	25.7 Q3FY13	23.6 Q4FY13	23.6 Q1FY14	21.9 Q2FY14	25 Q3FY14

EXHIBIT II

TCS INCREASED ITS REVENUE LEAD OVER INFOSYS, WHILE COGNIZANT TOOK OVER IT

Particulars	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
TCS	6339	8187	10171	11568	13442
INFOSYS	4804	6041	6994	7398	8249
DIFFERENCE	1535	2146	3177	4170	5193
COGNIZANT	3279	4592	6121	7346	8843
INFOSYS	4804	6041	6994	7398	8249
DIFFERNCE	-1525	-1449	-873	-52	594