Leadership Transition at Infosys

This case was written by Hadiya Faheem, under the direction of G V Muralidhara, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
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“Leadership changes do end up creating distraction for people, and companies lose precious time from that perspective. In case of Infosys, this is more pronounced because of the exit and superannuation of people who had significant span of control over the company.”

– Avneet Singh, VP-Global Sourcing at advisory firm Everest Group, in September 2011.

“The current debate on the leadership transition at Infosys, at a time when business leaders are confronting challenges posed by a rapid escalation of complexity, is helpful to introspect on certain fundamental attributes of a sustainable and responsible business enterprise. Successful businesses are not just built on talent, technique, and temperament. They are also equally balanced by a right dose of trust, truthfulness, and transparency. Seven co-founders with different styles came together under the leadership of N.R. Narayana Murthy to nurture a first class global enterprise of enormous value built on values. If the understanding among the co-founders which may be more than two decades old is still being respected and honored, it speaks volumes about the delicate chemistry of governance being practiced at Infosys. I think Infosys has managed to strike a healthy balance continuing to lead with wisdom.”

– V.V. Ranganathan, a co-founder of Values Centered Innovation, an Innovation Enablement Company, in May 2011.

“Infosys wants a seamless transition but the IT services market at the moment is a battlefield.”

– Herminia Ibarra (Ibarra), an INSEAD professor of organizational behavior, in May 2011.

INTRODUCTION

For decades, Bangalore-based information technology and consulting company, Infosys Ltd. (Infosys) had been the undisputed role model for IT companies in India by setting a benchmark on categories such as governance and leadership. However, since the fourth quarter of 2012, the company lost its coveted position of being India’s most respected company not just for its growth and margins but also for its best practices in talent management and shareholder transparency thanks to a not so smooth process of leadership transition. This was in stark contrast to its reputation as a company which had managed succession planning well over the years followed by a seamless leadership transition.

Infosys, founded in 1981 by Narayana Murthy (Murthy) and six others, was known for leadership development and succession planning. In 2001, the company had set up the Infosys Leadership Institute (ILI) to nurture and groom future leaders. Since most of the company’s founders were nearing the retirement age, it developed a strong leadership pipeline and defined clear successors to lead the company. Ever since Murthy had announced his plans to retire by August 2011, the company had been focusing on bringing in a new successor. In May 2011, Infosys chose banking veteran, KV Kamath (Kamath), former CEO of ICICI Bank, the largest private sector bank in

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India, as the non-executive chairman of Infosys. Soon after Kamath took over his position in August 2011, Kris Gopalakrishnan (Gopalakrishnan) was made the executive co-chairman and SD Shibulal (Shibulal), the CEO and managing director.

The company was optimistic that the leadership changes would help it get back onto the growth trajectory. Infosys had been reporting disappointing results for the last four quarters of FY 2012-2013. Despite the key leadership changes, the company’s performance continued to decline. The company, known as the sector bellwether for providing quarter guidance which it usually exceeded, not only failed to meet its guidance for the Q4 of 2012 but also gave a lower revenue guidance of 5 percent growth for the FY 2013. This was lower than the guidance of 11 to 13 percent projected by the National Association of Software and Services Companies (NASSCOM)\(^4\) for software and services companies for the FY 2013.

The leadership changes at the company met with mixed reactions. Some analysts felt that bringing in an outsider like Kamath who had proven his skills at ICICI Bank would work in favor of Infosys. On the other hand, some investors felt that had the company brought in outsiders for the positions of executive co-chairman and CEO and MD, the stock markets would have reacted positively. Some industry experts felt that the internal restructuring at the company had come at a time when the company was underperforming compared to its peers. Moreover, a challenging macro environment had also led to a drop in the company’s growth.

Despite several problems affecting the company, Infosys said that it had carried out seamless transitions in the past and would continue to do so, considering its depth of leadership.

EARLY HISTORY OF INFOSYS

Infosys Limited was incorporated as Infosys Consultants Private Limited\(^5\) (Infosys) in 1981 in Bangalore\(^6\) by Murthy and six others\(^7\) with a seed investment of US$ 200. At the time of inception, Murthy and his colleagues decided to build an organization that would command the admiration of others. According to Murthy, “We discussed the objectives of the company and decided that we wanted to become India’s most respected company. Seeking respect was behind our founding Infosys. We deliberately defocused on revenue and profits. Our goal was to do everything by the book. We realized that if we did the right thing, revenues and profits would come automatically.”\(^8\)

Since its inception, Infosys relied heavily on overseas projects. While six of his colleagues went to the US to start working on software development, Murthy stayed in India to obtain a license from the Reserve Bank of India (RBI). Murthy added, “Computers were not easily available in the market. It used to take at least three years to import a computer to India at that point in time. So we decided that some of us would be based in the US to start work. But, even before travelling abroad it took us 10 days to get a permission from the RBI.”\(^9\)

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\(^4\) NASSCOM is the apex organization for IT software and service organizations in India. Formed in 1988, NASSCOM’s objective is to act as a catalyst for the growth of the IT industry in India.

\(^5\) In June 1992, the company’s name was changed to Infosys Technologies Limited. In April 2011, Infosys Technologies Limited was renamed as Infosys Limited.

\(^6\) Bangalore is the capital of the southern state of Karnataka. In the late 1990s and early 2000s, Bangalore became the favorite destination for IT and ITES jobs and had thus become the hub of the IT industry in India. Subsequently, it came to be called the Silicon Valley of India. The term ‘Bangalore’ entered the lexicon of the US IT industry to refer to jobs being moved to Bangalore through outsourcing by US companies.

\(^7\) The group comprised Narayana Murthy, Nandan Nilekani, S. Gopalakrishnan, K. Dinesh, SB Shibulal, NS Raghavan, and Ashok Arora. Ashok Arora left Infosys in 1983 to join a US-based software company.


Infosys did not have the required space to install the computers it purchased, so these were installed in the premises of one of its customers, where the new employees were trained. Products like proprietary banking software were then developed at the site. During this time, Infosys focused on acquiring domain knowledge in segments like retailing, finance, distribution, and telecommunications.

In 1982, the company employed its first set of employees from the Indian Institute of Technology, Madras. These employees were provided training and were sent abroad for onsite projects. After its revenues started increasing, Infosys started spending more on training and product development.

By the late 1980s, Infosys started providing on-site services. In order to execute the IT projects, it stationed its people at the client’s location. They would then develop software to meet the clients’ requirements. This was an expensive proposition. Local talent, especially in locations in the US where Infosys was executing projects, was not readily available and was very expensive. For the most part, the company would place Indian employees at the clients’ location, which was again a costly proposition.

In order to take advantage of the low cost workforce in India, Infosys opened a software development center in Bangalore in 1993. It convinced its clients that their IT projects could be completed in India. By doing projects in India, Infosys gained two advantages—a cost advantage due to lower manpower outlay, and a new advantage in terms of developing the company’s own technical and managerial skills for such projects. Soon, Infosys started obtaining several offshore development contracts under which customized software would be written in India and installed at the client’s sites abroad.

By the late 1990s, Infosys had moved from competing on low wages to focusing on developing intellectual property. Drawing on the knowledge and experience it had obtained by developing software for varied clients, Infosys introduced generic products in the areas of banking, telecom, and retail. It started emphasizing the quality of its software in order to differentiate itself from other IT companies. In 1998, Infosys received the CMM Level 4 certification. Through adherence to CMM, Infosys was able to formalize its development processes.

In the late 1990s, Infosys pioneered the Global Delivery Model (GDM) as a strategic outsourcing tool, where the company could take the work to the place where it could be performed best, at the lowest cost, and with the minimum risk. For a GDM to be efficient, the work had to be broken up into logical components and distributed to locations where they could generate maximum value. By using GDM, Infosys delivered the highest process and quality standards, while leveraging on differences in cost, quality, and skill sets of manpower in different locations. The ultimate objective was to pass on these benefits to its clients.

With its expertise in many areas and its focus on quality, Infosys was able to bag many big IT projects, some of which were contracted on a fixed time and fixed price basis. Infosys guaranteed to its clients software products of high quality. Having established itself as a firm with much better capabilities than its competitors, the company charged higher prices for its services.

By 1999, Infosys had more than 110 customers including multinational giants like Nestlé, Apple, and GAP. At this point, the company felt the need to set up development centers which were not too far from the client’s location, where tasks of strategic importance could be carried out. For this purpose, in October 1999, Infosys opened two centers close to its clients’ locations in Fremont, California, and Boston, Massachusetts.

10 The Capability Maturity Model (CMM) is a set of instructions followed by an organization to gain control over the software development process. At CMM Level 4, the performance of a process is controlled through quantitative techniques.
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In 1999, Infosys created history by becoming the first Indian company to be listed on NASDAQ\(^{11}\) (Refer to Exhibit I for some milestones in the growth of Infosys).

At a time when other players in the Indian IT industry were focusing on voice-based business process outsourcing (BPO) businesses such as call centers, Infosys attracted a lot of attention by focusing on the less explored and supposedly riskier non-voice based market comprising data centers and record management by launching a BPO subsidiary called Progeon in April 2002. By 2009, the non-voiced based BPO business was contributing to 20 percent of Infosys’s revenues.

In 2002, Nandan Nilekani took over as CEO of Infosys and Murthy was appointed as the Chairman and Chief Mentor of the company (Refer to Exhibit II for CEOs of Infosys at different points of time). Under Nilekani’s leadership, the company reached the US$ 1 billion mark in 2004.\(^{12}\) Till 2007, Nilekani served as the CEO of Infosys. In 2007, he was appointed as the co-chairman of Infosys. He served in this post till mid-2009. In June 2009, Nilekani was invited by the Prime Minister of India, Mannaoh Singh, to head the ‘Aadhaar’\(^{13}\) project and was given the rank of a union cabinet minister as Chairperson of the Unique Identification Authority of India\(^{14}\) (UIDAI).

In August 2011, Murthy retired as Chairman of Infosys and became Chairman emeritus of the company.

For the FY ended March 31, 2012, Infosys recorded revenues of US$ 6.99 billion (Refer to Exhibit III for a five-year financial summary of Infosys).\(^{15}\)

**FOCUS ON LEADERSHIP DEVELOPMENT**

Since the early 2000s, Infosys had focused on grooming future leaders. Toward this end, the company set up the Infosys Leadership Institute (ILI) in 2001 to nurture future leaders and effectively manage the exponential growth experienced by the company (Refer to Exhibit IV for a brief note on ILI and Refer to Exhibit V for a timeline on ILI). At the ILI, the executives were groomed to handle the changes in the external and internal environment.

Amidst the focus on nurturing future leaders, Infosys realized that most of the founders were nearing the retirement age of 60. Some of the founders had left at the beginning itself. In 1989, Ashok Arora had left, followed by NS Raghavan in 2000. Murthy was due to retire in 2011 followed by Gopalakrishnan, Shibulal, and Dinesh in 2015. Commenting on this situation, Nilekani, while serving as the co-Chairman of Infosys, said that leadership transition was a key challenge at Infosys as four of the seven founders who were among the executive directors on the Board, were nearing the age of 60 and would retire soon. Thus, the company planned a smooth succession and management. This was part of the essential duties of good corporate governance and one of the most crucial responsibilities of the Board, experts opined.

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\(^{11}\) The National Association of Securities Dealers Automated Quotation System (NASDAQ) is a US-based stock exchange, which comprises largely of technology stocks.


\(^{13}\) The Aadhaar project was initiated by the United Progressive Alliance (UPA) under the guidance of Mannmohan Singh (Singh), Prime Minister (PM) of India and member of the UPA, to provide an identity to the 1.2 billion citizens of India. The project aimed to plug loopholes in welfare programs where checking leakages and identifying beneficiaries was a major challenge.

\(^{14}\) UIDAI is an agency set up by the Government of India for implementing the AADHAAR scheme, a unique identification project.

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Having identified the leadership crisis, the company felt that the employees should be groomed to handle higher positions in the future. In 2007, the company selected some 700 people called Tier leaders. In 2009, there were 552 people in the program since some of the employees had left.

In January 2009, Mathew Barney (Barney) was appointed as the Head of the ILI. In his earlier assignments, Barney had helped the world’s top companies such as AT&T, Lucent Technologies, and Motorola to find their next set of leaders. At Infosys, for the first time he was working with a company where the founders were passing on the baton to the future leaders. Commenting on Infosys’s leadership succession, Barney said, “It’s an inflexion point for Infosys, and we need to prepare for it.”

Infosys’s HRD head, Mohandas Pai (Pai) who had brought in Barney, said, “We believe we have around 100 leaders who can be CEOs of companies of different sizes. That doesn’t mean, though, all of them can become the CEO of Infosys.” Since the company lacked a system which could identify, organize, and hone that leadership, Barney and his seven-member team planned to put a system of grooming leaders into place.

At the top, the company had a 13-member board. Five of the members were executive members having operational roles in Infosys. Below the board was a four-member executive council, which was the grooming place for the next Chief Operating Officer, Chief Financial Officer, and Chief Executive Officer. But the major activity took place below the executive council. Here, Barney and his team developed a three-tiered structure to identify leaders at all levels from its 115,000 employees.

Tier 1 of the three-tiered structure included people from senior vice president level, Tier 2 included people from vice president positions, and Tier 3 included people from the associate vice president positions. Other employees could apply to Tier 1 if they felt they were eligible. Their candidature was approved by the internal directors after an extensive evaluation of their performance and intensive interviews. According to Barney, since there were very few leaders required in Tier 1, it was easy to find them. The candidates for Tier 2 were selected by members of the ILI and heads of business units while Tier 3 candidates were selected through a computer-adapted assessment tool.

Once the candidates were shortlisted, they were put under the care of the ILI Director. They were then nurtured through mentoring sessions and training programs designed by ILI. Commenting on the Infosys leadership succession strategy, Barney said, “The big plus to what Mr. Murthy did with Nandan [Nilekani, co-founder and formerly CEO and co-chairman] and with Kris [S. Gopalakrishnan, co-founder, CEO, and managing director] was sustaining the leadership mental model of the company and ensuring seamless succession without any hiccups. Look at some of the companies that haven’t done this, both in India and across the world. The result has been pretty awful in many cases. The founders [at Infosys] have achieved amazing things and they want to sustain that. They want the company to be around for 200 years, so what better way than to continue to grow the next layer in a very personal way?”

LEADERSHIP TRANSITION

Nilekani, who was involved with the key management people to nurture leadership and implement the succession planning strategy at Infosys, stepped down from the post of CEO to head the government’s Unique Identification (UID) project in 2009. Soon after his exit, in October 2009, the ILI was reorganized to focus hugely on the leadership development needs of the seniormost

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leaders termed as Tier 1 leaders since the company had witnessed key people stepping down. Thus, Infosys felt that the focus on Tier 1 leaders would help the company groom potential leaders to occupy the seniormost positions and mitigate the risk of leadership succession.

Since Murthy was to step down as the Chairman in August 2011, the company started searching for his replacement in 2010. The people involved in this process comprised Cornell University professor Jeffrey Sean Lehman (Lehman), an independent director on the Infosys board and chairman of the nominations committee, in addition to Deepak M Satwalekar, former Managing Director and CEO of HDFC Standard Life Insurance Co. Ltd. and KV Kamath, former CEO of ICICI Bank and member of the nominations committee at Infosys. The company felt that Kamath’s candidature could not be ruled out just because he was on the nominations committee. During this time, Infosys also increased the retirement age of board members from 65 years to 70 years, indicating clearly that Kamath was one of the top contenders for the post. Some experts appreciated Infosys’ transition plans, saying that the changeover was done in an “orderly manner”. “They are the first among major Indian companies to go through this transition. It’s always a challenge when you move the original management out. So far, they have done it in a transparent and orderly manner,”19 said John McCarthy, senior vice-president and principal analyst, Forrester Research20.

In keeping with its succession planning strategy, Infosys appointed Kamath as the non-executive chairman of the company in May 2011. Subsequently, Murthy became Chairman emeritus of the company. Gopalakrishnan was made the executive co-chairman at the company, and Shibulal, the CEO and managing director. Commenting on the leadership transition, Lehman, said, “These three leaders [Kamath, Gopalakrishnan, and Shibulal] meld an extraordinary range of talents and experiences with a united commitment. We couldn’t be in better hands.”21

Since the company was often criticized for being run by its founders, leaving no scope for new talent to occupy the seniormost positions, the company felt that bringing in an outsider like Kamath would help it raise the confidence of investors. Moreover, the company’s last co-founders – Shibulal and Gopalakrishnan – were slated to retire by 2015. Thus, bringing in Kamath was one of the first steps in the succession planning process, according to Infosys. Experts also felt that this was in contrast to the conservative approach adopted by the company till then of not bringing in outsiders.

The board of directors at Infosys chose Kamath since he had proven his mettle at ICICI during his 13-year period as its CEO and managing director. He was known for the innovative approach he used to boost growth at ICICI. He was also instrumental in making ICICI tech-savvy in the early 1990s, when it was still a developmental financial institution. Thus, Kamath was a pioneer in harnessing technology for establishing businesses in the financial sector. He was also known for smoothly handling the succession process at ICICI in 2009, which involved appointment of several women professionals to key positions. Infosys also planned to leverage on his expertise in international governance practices as well as to build the next line of leaders. Thus, Infosys bought in Kamath to manage the process of leadership transition seamlessly like the company had done in the past. Commenting on Kamath succeeding Murthy, Chanda Kochhar, MD and CEO of ICICI Bank, said, “Kamath has always identified future trends and opportunities ahead of others. He has always looked beyond the immediate boundaries and identified future horizons of growth. He will bring to this new role the foresight, strategic vision, and depth of knowledge for which he has been widely recognized and honored.”22

20 Forrester Research, Inc. is a technology and market research company.
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One of the first steps Kamath had to take as Chairman of Infosys was to draw up a succession plan for the exit of all founders and the appointment of young professionals at the company. He would help the company identify and groom people to fill positions at the board level or at the management council level. Commenting on the process of grooming future leaders, Kamath added, “In that process, there is a whole lot of handholding, mentoring, building of leadership talent, engagement of customers and teaching the younger lot is required.”

Some analysts opined that Kamath’s induction suggested that the company was following the succession model which it had strongly believed in i.e. the company was not passing on the mantle to family members but was bringing in more professionals. Analysts felt that bringing in Kamath would help the company deliver solutions to its clients across several sectors ranging from manufacturing, technology, and banking. On the other hand, some analysts felt that though Kamath was responsible for turning ICICI from a development bank to a retail powerhouse, his role in Infosys would be limited only to operations and business.

While dealing with leadership transition, the company was also re-organizing its portfolio and rotating its business heads. In 2011, the company created four business verticals – financial services and insurance under Ashok Vemuri (Vemuri), energy, utilities, communications, and services under Prasad Thrikutam; manufacturing under BG Srinivas (Srinivas); and retail, consumer packaged goods, logistics, and life sciences under Pravin Rao.

In February 2012, the company made leadership transitions across its financial services and manufacturing verticals. Srinivas, Global Head of its Manufacturing & Engineering business, was made the new leader of the company’s Financial Services & Insurance business. Vemuri, Global Head of its Financial Services & Insurance business, was in charge of the company’s Manufacturing & Engineering business. Commenting on the new responsibilities assumed by Vemuri and Srinivas, Shibulal, said, “We have always focused on giving our leaders a diverse set of experiences over time to fully realize their potential. Ashok and BG’s track record in leading high growth organizations has been superb. This change allows them to leverage cross-industry experience to help our clients Build Tomorrow’s Enterprise.”

Commenting on the leadership transition across its financial services and manufacturing verticals, Gopalakrishnan said, “It will allow these leaders more independence in terms of functioning and leadership development is a reason for doing this (restructuring).

In October 2012, Infosys announced that Chief Financial Officer (CFO) V Balakrishnan (Balakrishnan) would step down from his post in favor of Rajiv Bansal (Bansal), Vice-President, Finance, Infosys. Balakrishnan was to assume the new role of heading the company’s Indian business division, the BPO unit, and its biggest software product – Finacle. The company reported that Balakrishnan had voluntarily given up his position in a bid to give a chance to the younger lot of executives at the company.

THE RESPONSE

Though the leadership transition was greeted with optimism by some industry experts, it was not received well by some of the company’s high profile employees. Soon after the nominations committee announced the names of Kamath, Gopalakrishnan, and Shibulal for the various posts, Pai quit the company in July 2011. Though he said that he was leaving the company to pursue

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other interests, it was reported that he had allegedly stated that the founders had overlooked the experience and competence of other professionals and valued seniority over merit. Pai’s exit did not go down well with several industry experts. They felt that though the company had restructured its ILI to bring in new leaders, the effort was not enough. They added that the effort to identify new talent was insufficient seeing that the founders had known about Murthy’s retirement in 2011 and the rest of the top management in the next four years. Vishesh Chandiok, National Managing Partner at audit, tax, and advisory firm Grant Thornton India, added, “It is best to have the bad news early. Not everybody has the desire to work for a company forever and the succession planning should start early, and involve potential successors.”

Some experts felt that Pai’s exit was an indication that the founders were overbearing and had a say even in the smallest matters. Commenting on Pai’s sudden resignation, an ex-employee of Infosys said, “In the early growth years it was pure merit... but after 2001, it became bureaucratic.” Some experts felt that the company should have brought in an outsider for the post of co-chairman and CEO in a bid to achieve a turnaround. According to Rahul Jain, senior analyst with Dolat Capital, “The changes were on expected lines and it is just a reshuffling of portfolios among the founder members. Had there been a surprise by selecting an outside professional to run the show, the markets would have reacted positively. Now it all comes down to how the revamped team goes along and handles the challenges ahead.”

Amidst several opinions, Murthy maintained that loyalty and longevity were the major factors for occupying senior level positions. He added, “When you have a class of people all of whom are brilliant, then you automatically look at how long they have shown this brilliance. So while we had other people — Mohandas Pai, Balakrishnan, and others — we had to make a decision based on longevity in the company and the kind of responsibility they have handled. Kris was theoretically ahead of Nandan but he gave it up voluntarily and Raghavan was not interested in taking up any responsibility. So Nandan became the CEO. Then Kris was ready and he was chosen. Dinesh wanted to retire because of his health. And then Shibulal, who was the seniormost among high quality performers, was chosen.”

The leadership transition was not received well by the company’s investors either. After the high profile exits of Nilekani and Murthy, they felt that there was some uncertainty about the company’s direction and execution. Some experts felt that leadership was a critical issue and could not be taken lightly especially in the case of Infosys since Nilekani and Murthy were thought of as charismatic leaders. Peter Cappelli, Wharton management professor, said in an article published in Knowledge@Wharton, “In a situation where the CEO is also the founder, it’s not just a succession event when he or she steps down. These people are closely identified with the organization and it can be extremely traumatic when somebody like that (leaves). They have to think carefully about what kind of person could step in.” In the same article, another Wharton professor of operations and information management, Kartik Hosanagar, said, “The rate of innovation in the technology industry allows entrepreneurial founders to remain in charge longer than their management skills might warrant because fast growth at the firms can mask management weaknesses.”

He added that as the IT companies matured, the problems became evident, making the process of succession urgent.

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Some industry experts opined that some companies such as Infosys preferred appointing internal employees to senior most positions to bringing in outsiders since their employees were aware of their organizational culture. However, they felt that the internal employees did not make any incremental changes in the company and did not make attempts to challenge the status quo. “I can’t think of a single instance when these companies actually interviewed an external candidate. At best, they (may have) looked at some names shared by a board member. Indeed, for three decades, Infosys’s next leaders watched as founders took charge as CEOs, one by one. These so-called smooth transitions make you ask if in all these years, Infosys has ever considered an external candidate at all,” said a board member of one of the top-five Indian tech firms.

Some of the company’s competitors said that after Nilekani’s exit in 2009, the company had failed to find someone with the same Corporate-level contacts. Industry observers opined that since the IT industry was growing faster and experimenting with new verticals, the top leaders also needed to grow their skills to match the trend. Sunny Banerjea, head of performance and technology at audit and accountancy firm KPMG, added, “The Indian IT industry is now more global and two companies — TCS and Cognizant — are charging ahead because they have stable and focused leadership.”

Despite several reactions on the company’s leadership transition issues, Murthy felt that Infosys had handled the succession well and said, “I don’t know of many companies in the world which have handled succession based on meritocracy, transparency, well-known procedures, discussions, and debates at the board as Infosys.”

CHALLENGES

Analysts opined that in Infosys, Kamath would face a different set of challenges. The founders were exiting and a new set of leaders had to be found and groomed for major responsibilities. The transition had to take place without causing uncertainty among shareholders and resentment among management and the employees. However, Murthy was sure that Kamath would manage the succession process well at Infosys and said, “Nobody has managed the transition from CEO to chairman as well as KVK has. He has made sure that Chanda was in the front seat. Was there to provide all advice, nicely, in a dignified manner. It is one of the finest examples.”

Industry observers pointed out that though the founders did not allow family members of the co-founders to enter the company, and ran it professionally, their unwritten practice had been to make all the co-founders CEOs by rotation. This was done even though other members of the board and senior executives were contenders for the post. Commenting on the company’s CEO rotation strategy, Peter Schumacher, president and chief executive of Germany-based consulting firm, Value Leadership Group Inc, said, “The CEO rotation strategy at Infosys has diluted the power of the office of the CEO and hurt performance. When the CEO changes every few years critical issues don’t get addressed; eventually the organizational dynamics can get very messy and difficult to control.”

It was reported that Infosys’s clients also had problems with the company’s leadership transition. According to a survey of 80-odd clients of Infosys in 2012 by Sudin Apte (Apte), principal analyst and chief executive officer of IT research firm, Offshore Insight, clients had several issues such as

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34 Chaitanya Kalbag, “My View has always been I don’t Care about the Top Line.” http://businesstoday.intoday.in, February 17, 2013.
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project heads changing every five-six months and management being busy with internal organizational changes. Apte added, “The clients we surveyed did not have any quality issues. Their complaint was that Infosys had fewer people, at least 20-25% lower, than other vendors for collective mining and account management. The problems started with the leadership change and reorganization. Today, Infosys is neither a leader nor is raising the bar.”

Thus, Kamath and his team also had to combat the challenge of maintaining a relationship with their high-profile clients.

The fact that Infosys had missed its earnings target for the last quarters of FY 2012, led to Herminia Ibarra (Ibarra), an INSEAD professor of organizational behavior, commenting that Kamath would face the challenge in dealing with “the old Goliaths” and bringing in newcomers. “The challenge is whether he [Kamath] also has the vision to see where Infosys wants to be once it emerges from battle and the leadership ability to guide the troops in this new era. To do this he will need to engage and motivate a younger generation that is now poised to take the lead,” noted Ibarra.

Some industry observers pointed out that Kamath would have to develop his clout like Murthy and Nilekani had done. It was reported that Nilekani had built relationships with clients such as British Telecom, PepsiCo, etc. due to which the company enjoyed an advantage over other Indian IT companies. Kamath also had to take steps to see that the Infosys brand was recognized worldwide.

LOOKING AHEAD

Despite the transition challenges faced by the company, Shibulal denied that Infosys was facing such a crisis. He said, “It is a perception issue. The reality is that we continue to win large-scale transformation deals.” He remained optimistic about the company’s future and said that the key management changes would help the company boost sales. He added that the Infosys 3.0 strategy announced in 2011 would also help the company drive growth in the future. The company also believed that its Infosys 3.0 strategy would help it come out of the leadership transition crisis. According to Kamath, “We saw the chair role change from a professional founder to an outsider. As we go forward, we will also have to prepare an executive leadership for that movement. Along with this, we’ve had very turbulent environment in which to chart this course. Infosys had clearly articulated what is the path they believe ought to be taken, which was Infosys 3.0, which is basically: how do you facilitate building tomorrow’s enterprise?”. Since Shibulal was also expected to retire by 2015, analysts felt that another leadership overhaul could be expected at the company. They said that the company would again focus on dealing with internal shifts rather than fighting competition and spending time with clients, and this would be reflected in its performance once again. Moreover, for the first time in the history of Infosys, a non-Infoscion could take over as the CEO which could make the investors cautious though Infosys had a reputed leadership team.

Going forward, Gopalakrishnan believed that to develop leaders in a big organization such as Infosys, a planned and formal process with a clear model and a set of leadership competencies was required. This would enable the company to identify future leaders. He felt that such a model was required for Infosys since the new set of leaders were expected to emerge with the founders on the verge of retirement. He also gave the assurance that the team would handle the leadership transition process well. Gopalakrishnan added, “As we look ahead, we will ensure that this leadership transition is smooth as all other transitions have been in the past. We are also making

Leadership Transition at Infosys

other organizational changes to strengthen our market position.”

He added that the company also had plans to nurture leaders who had the vision and the ability to articulate that vision, for the seniormost positions, Murthy also remained optimistic about succession planning and leadership transition at Infosys in future and said that “there are very clear ‘key performance indicators’ for each of the three executives [Srinivas, Vemuri, and Balakrishnan] and the best performer will be selected to head the company. All the three are in the running. In some ways, it is perhaps a good model because now there is incentive for each one of them to perform better and better.”

41 “Infosys Names Shibulal Chief Executive, Kamath Chairman Amid Competition,” www.4to40.com, 2013.
Exhibit I
Infosys – Milestones

1981
- Infosys Incorporated

1991
- Completed IPO
- Infosys was the first company in India to adopt a code of corporate transparency and offer stock options to employees in 1993.

1995
- Set up development centers across India

1996

1997
- First International office in the US
- Set up office in Toronto

1999
- Annual revenue of US$ 100 million
- Listed in NASDAQ
- Opened offices in Germany, Sweden, Belgium, Australia
- Set up two development centers in the US

2000
- Annual revenue of US$ 200 million
- New office in Hong Kong
- Global development centers in Canada
- Three development centers in US

2004
- Revenue crossed US$ 1 billion
- Offices in the Netherlands, Singapore and Switzerland

2006
- Revenue crossed US$ 2 billion

2009
- Infosys launched its development center in Brazil and second in Latin America

2010
- Revenues crossed US$ 5 billion

2011
- Narayana Murthy hands over chairmanship to KV Kamath

2012
- Infosys was ranked as the world’s most innovative companies by Forbes.

Adapted from http://www.infosys.com/about/Pages/history.aspx.
Exhibit II
CEOs of Infosys at Different Points of Time

<table>
<thead>
<tr>
<th>CEO</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narayana Murthy</td>
<td>1981-2002</td>
</tr>
<tr>
<td>Nandan Nilekani</td>
<td>March 2002 to April 2007</td>
</tr>
<tr>
<td>Kris Gopalakrishnan</td>
<td>July 2007 to August 2011</td>
</tr>
<tr>
<td>Shibulal</td>
<td>August 2011 to 2015</td>
</tr>
</tbody>
</table>

Compiled from various sources.

Exhibit III
Infosys Financials

(In US$ millions except per share)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$6,994</td>
<td>$6,041</td>
<td>$4,804</td>
<td>$4,663</td>
<td>$4,176</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>4,118</td>
<td>3,497</td>
<td>2,749</td>
<td>2,699</td>
<td>2,453</td>
</tr>
<tr>
<td>Gross profit</td>
<td>2,876</td>
<td>2,544</td>
<td>2,055</td>
<td>1,964</td>
<td>1,723</td>
</tr>
</tbody>
</table>

Operating Expenses:

| Selling and marketing expenses | 366 | 332 | 251 | 239 | 230 |
| Administrative expenses       | 497 | 433 | 344 | 351 | 334 |
| Total operating expenses      | 863 | 765 | 595 | 590 | 564 |
| Operating profit              | 2,013| 1,779| 1,460| 1,374| 1,159|
| Other income, net             | 397 | 267 | 209 | 101 | 175  |
| Profit before income taxes    | 2,410| 2,046| 1,669| 1,475| 1,334|
| Income tax expense            | 694 | 547 | 356 | 194 | 171  |
| Net profit                   | $1,716| $1,499| $1,313| $1,281| $1,163|

Earnings per equity share:

| Basic ($) | 3 | 2.62 | 2.3 | 2.25 | 2.04 |
| Diluted ($) | 3 | 2.62 | 2.3 | 2.25 | 2.04 |

Weighted Average Equity Shares Used in Computing Earnings per Equity Share:

| Basic | 571,365,494 | 571,180,050 | 570,475,923 | 569,656,611 | 568,564,740 |
| Diluted | 571,396,142 | 571,368,358 | 571,116,031 | 570,629,581 | 570,473,287 |
### Comprehensive Income Data

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<tr>
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<tbody>
<tr>
<td>Cash dividend per Equity Share ($) *</td>
<td>0.76</td>
<td>1.22</td>
<td>0.48</td>
<td>0.89</td>
<td>0.31</td>
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<tr>
<td>Cash dividend per Equity Share (()) *</td>
<td>35</td>
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<td>497</td>
<td>433</td>
<td>344</td>
<td>351</td>
<td>334</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>863</td>
<td>765</td>
<td>595</td>
<td>590</td>
<td>564</td>
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### Earnings per equity share:

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<tbody>
<tr>
<td>Basic ($)</td>
<td>3</td>
<td>2.62</td>
<td>2.3</td>
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<td>2.04</td>
</tr>
<tr>
<td>Diluted ($)</td>
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### Weighted Average Equity Shares Used in Computing Earnings per Equity Share:

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Exhibit IV

A Brief Note on Infosys Leadership Institute

The main task of the ILI was to study and develop different leadership styles, in accordance with the processes and culture at Infosys. Before setting up the ILI, Infosys did a careful study of eight corporate training models, including those of GE, Philips, and Motorola. The institute aimed at developing leaders from among the employees of Infosys and to provide them with the opportunity to take the company ahead. The ILI had over 100 faculty members, 70 percent of whom held a doctorate degree. In the ILI, the company leaders shared their experiences with the candidates. The participants were also trained on a wide range of topics that included strategy, organizational change, transformational leadership, thought leadership, nurturing excellence, and creativity. The institute equipped the future leaders to meet the growing demands of the company. In order to realize its vision, Infosys identified leadership competencies on four dimensions – work, people, technology, and business. Each of these was further divided into several elements. The top management selected candidates to participate in the leadership program based on their past performance and after an assessment of their leadership potential. Usually the duration of leadership training was three years. Each of the individuals selected for the program had one faculty member from the ILI assigned to them. These faculty members guided the employees in becoming leaders by creating and acting on the personal development plans of the employees. They also supported the individuals in implementing the change objectives. They helped the employees in determining the interventions they required to become future leaders. On the selection process of future leaders, S Gopalakrishnan, COO and Joint Managing Director, Infosys, said, “Great performance puts employees on the fast track to growth within the organization. As does their commitment to surpassing customer expectations, setting standards in business and transactions, and being a paradigm for the industry and the company. Creativity, devotion to being ethical and sincere in dealings, and the commitment to strive relentlessly in pursuit of excellence are also major considerations while identifying future leaders at Infosys.”

Infosys followed a nine-pillar model for leadership development. The nine pillars were 360-degree feedback, developmental assignments, Infosys culture workshop, developmental relationships, leadership skill training, feedback incentive programs, system process learning, community empathy, and action learning. The company developed this model after carrying out research about the processes followed by 18 of the most successful global enterprises. Each of the nine pillars contributed in its own way to the development of leadership competencies. Participation in the 360-degree feedback program was compulsory for all the trainees undergoing leadership training. From the remaining eight pillars, they could choose one or more for their own development. According to GK Jayaram, Director, ILI, “The leadership competencies were identified after a detailed analysis of the most desired traits that an ideal Infosys leader ought to have. The constituents providing feedback are superiors, peers, subordinates, clients, and self.”

When the ILI was first set up, it included all the non-engineering sides of development — soft skills, project management skills, [and] leadership development — for all the employees. Toward the end of 2009, the ILI was restructured. It was responsible for overseeing the development of only the high-potential leaders who had been identified within the company and who someday could be in the seniormost positions.

Compiled from various sources.

### Exhibit V

**Timeline on Infosys Leadership Institute**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2001</td>
<td>The Infosys Leadership Institute (ILI) is set up. It was established keeping in with the vision that Murthy had of creating an advisory body that would be responsible for taking the strategic decisions about the company.</td>
</tr>
<tr>
<td>October 2001</td>
<td>The Management Development Center at Infosys is inaugurated by K Dinesh, a co-founder of Infosys.</td>
</tr>
<tr>
<td>January 2004</td>
<td>The Learning &amp; Development group formed in 2000, created with the key mission of “enabling the Infoscion to deal proactively and effectively in a global environment so as to maximize value to the customer” is merged with the ILI to form one group. The group focuses on offering both managerial and leadership training.</td>
</tr>
<tr>
<td>December 2009</td>
<td>The ILI is restructured with the L&amp;D group to form a new unit called Professional Skills Development (PSD) with Education &amp; Research in a bid to focus on leadership development.</td>
</tr>
<tr>
<td>December 2010</td>
<td>ILI launches a book called ‘Leadership @ Infosys’ written by Mathew Barney.</td>
</tr>
<tr>
<td>2012</td>
<td>John Antonakis, Professor, Department of Organizational Behavior, University of Lausanne, certifies ILI experts to teach Charismatic Leadership.</td>
</tr>
</tbody>
</table>

*Adapted from “Infosys Leadership Institute,” www.infosys.com.*
Suggested Readings and References:

2. Chaitanya Kalbag, “My View has always been I don’t Care about the Top Line,” http://businesstoday.intoday.in, February 17, 2013.