



## **SUCCESSION CRISIS AT INFOSYS-THE BATTLE BETWEEN FOUNDERS AND BOARD MEMBERS**

**Parikshit A. Mahanka**

Asst. Prof, IMDR

**Dr. Devidas Golhar**

Professor, SIOM

“I am a Kshatriya warrior, I am here to fight.” said a beleaguered Sikka who was facing a barrage of criticism from boardmember and co-founder of Infosys, N.R.Narayan Murthy. However, things quickly went downhill thereafter and in a matter of weeks, Vishal Sikka put in his papers as CEO of the 10 billion\$ Infosys Limited on 18 August 2017. Infosys was devalued by almost 24,000 crores rupees as the news spread.

The Background:

Infosys was co-founded in 1981 by CEO Narayan Murthy, Nandan Nilekani, N. S. Raghavan, S. Gopalakrishnan, S. D. Shibulal, K. Dinesh and Ashok Arora all of whom were former employees of Patni Computer Systems. They started off as Infosys Consultants Pvt Ltd. in Pune, Maharashtra.

From 1981 to March 2002, Murthy was the CEO of Infosys which saw it grow multifold and they eventually shifted headquarters to Bangalore, after Narayan Murthy, the other co-founders like Nandan Nilekani, S. Gopalakrishnan, S.D. Shibulal became its CEOs turn by turn.

The struggle:

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With changing times, the board members started feeling they needed a new perspective for running the company and hence around 2011, K.V.Kamath who was hugely successful as the CEO of ICICI Bank earlier was invited to join Infosys in the capacity of Chairman of Infosys and Mr. Shibulal was to be the CEO. However, the move did not work as desired, additionally there was recession worldwide and Infosys had to go through a lean period which witnessed a decline in the company's fortunes & share prices, eventually, he was replaced by Dr. Vishal Sikka in August 2014.

The contrast:

Narayan Murthy, who co-founded Infosys, always believed in austerity and on the other hand was the lavish life-style and pay-package of the Paulo Alto based CEO Vishal Sikka who seen as a lavish spender and his yearly salary was 48.73 crores (approved by the Infosys board, inclusive of other components) compared to TCS's N.Chandrashekharan's 25 crores and Wipro's Abid Ali Neemuchwala's 12 crores.

What irked Narayan Murthy was that Sikka was drawing a pay that was 953 times the median pay for an Infosys employee whereas he favoured a salary 50-60 times the median salary for a CEO.

Sikka, the blue eyed boy of IT industry:

Dr. Vishal Sikka, had made a name for himself as Member of Board at SAP, he was considered a brilliant mind in the field of artificial intelligence and automation, having done a PhD in artificial intelligence from Stanford and he was looked upon as a harbinger of change in technology by Infosys, he hoped to usher in a new era in Infosys by re-modelling what Infosys fundamentally did and set a path for the future.

The new orientation at Infosys:

Sikka, along with his team of experts from SAP got down to work and primarily focused on automation, artificial intelligence and reengineering jobs.

Infosys during this period, launched breakthrough new programs to drive innovation, education and entrepreneurship on a large scale.

These programs included (i) Zero Distance first of its kind programme in the industry intended to drive grassroots innovation at a massive scale, through every employee,

(ii) Design Thinking training, the largest program of its kind to drive creative confidence and problem-finding in every Infoscion, and

(iii) Zero Bench, a bold notion of leveraging the bench as a means to drive additional value for clients.

The impact:

- a. Employee attrition decreased, particularly among high performers, utilisation was at a 10-year high, and client satisfaction was at an all-time high.
- b. The company launched more than 25 new services which rose to 8.3 per cent of revenue last quarter, from zero per cent in April 2015.
- c. Under Sikka's leadership, Infosys developed and launched its artificial intelligence platform Nia, and already has more than 160 artificial intelligence scenarios deployed with more than 70 clients.
- d. Infosys also ventured into new horizons both with design-thinking with clients and its start-up investment fund.

The conflict:

Then began the conflict based on certain decisions taken by Dr. Sikka, Murthy started openly criticising the decisions taken by the incumbent chairman which at times were leaked to media, some of the prominent reasons were:

**a. Salary**

Murthy made it no secret that he disliked the hefty pay package allotted to Dr. Sikka, even though the salary was approved by the board itself, to which the company responded by saying that his package now had more component of restricted stock units (RSUs)

## **b. Severance package**

The then Chief financial officer Mr. Rajeev Bansal decided to quit and was offered a severance package of 17.4 crore rupees (equivalent to 24 months of pay, as per the contract),The company said the employment contracts of key members of the executive team include a severance clause, and such clauses are guided by the complexity of the role as well as country-specific regulations.

## **c. Appointment of Punita Sinha**

Punita Sinha, wife of Jayant Sinha the then Minister of State for Finance, was appointed an independent director in 2016. The appointment raised concerns with founders but the board said she was eminently qualified for the job.

## **d. Growth through acquisitions**

Sikka maintained that Indian IT's older businesses of application development & maintenance, infrastructure management and BPO are slowing and the margins are falling. He believed companies need to innovate and offer value-added services. This move also demanded significant acquisitions. But sources said that some of the founders were not in favour of acquisition-based business model.

## **e. Investigation reports**

The rift between the board and the founders widened over investigations into several decisions made by the company. Narayana Murthy wrote a mail to the board, demanding to make the investigation reports public. The reports refer to internal investigations constituted by Infosys after two whistleblowers' complaints to market regulator Sebi alleging improprieties in its \$200 million acquisition of Panaya & 120 million \$ Skava, questions over the severance payout of the CFO Mr.Bansal were also raised. The reports however found no wrongdoing in the acquisitions.

Slowly, many employees who were former associates of Dr. Sikka at SAP & who had followed him to Infosys started quitting, this was worrying considering the fact that they were leading key positions in the new technology jobs that Infosys was intending to start.

### **The battle of perceptions**

All these factors seemed to favour Sikka, but, in the media, Murthy and other co-founders seemed to be winning the battle, in a survey conducted by Kantar IMRB, Murthy had more support of IT executives & other private players compared to Sikka. About 18% supported Sikka while more than one-third supported Murthy in matters related to Corporate Governance & transparency.

While they strongly supported the idea of a founder or an Infosys insider taking over from Sikka, Murthy's views on frugality seemed to be out of step with the managers. Just less than half the people supported Sikka on the issue of professionals deserving the best globally competitive salary packages with over a quarter agreeing to Murthy's idea of frugality.

Also, Indian working professionals have a strong respect for the founders and don't seem to think that Sikka should necessarily have had a free hand in running Infosys. An overwhelming 57% professionals said an Infosys insider should be made the next CEO with only 21% supporting the idea of a founder coming back to take the reins and 23% want an outsider to lead the company going ahead.

Murthy stepped up the attack on Sikka, claiming that at least three executive directors had told him that Dr. Sikka was Chief Technology Officer (CTO) material and not Chief Executive Officer (CEO) material which upset him further.

The upset Dr. Sikka decided to have a conversation with Ravi Venkatesan which went well into the midnight and decided to resign, then in an unprecedented move, Dr. Sikka went on to blame the Infosys co-founder Murthy for his resignation, he said, "There has been a continuous drumbeat of these allegations, absolutely sickening and everyday you wake up and there is some news story or the other. It has gotten increasingly malicious and personal"

The Infosys board also supported Dr .Sikka and released a statement stating, "Mr. Murthy's continuous assault, including this latest letter, is the primary reason that the CEO, Dr. Vishal Sikka, has resigned despite strong Board support."

Regarding the comment made by Murthy about Sikka being CTO & not CEO material the board said, "Mr. Murthy's letter contains factual inaccuracies, already-disproved rumours, and statements extracted out of context from his conversations with Board members,"

Mr. Murthy, however, refused to comment on this saying, "It's below my dignity to comment on insinuations". He also rejected the claim that he disliked Sikka and said infact he enjoyed his company and the CTO comment was just a reflection of his colleagues' views.

The aftermath:

"I will not try to pretend that we will have the same kind of felicity in attracting overseas talent that the organisation had a while ago. But, it is that very task we have to address even more rigorously, by providing the right environment for people to come and innovate and create new products and services," said R Seshasayee, Chairman, Infosys, now faced with the onerous task of finding a successor to Vishal Sikka, who abruptly quit the software major as CEO.

Both R. Shesayee and Ravi Venkatesan have resigned as Chairman & co-chairman of Infosys after Nandan Nilekani took over and now, Salil S. Parekh who was with Capgemini is slated to take over as CEO of Infosys from 2 January 2018, probably for a term of five years.

The chosen one:

Salil Parekh is known as someone whose management style is 'gentle but firm', "He (Parekh) is good at getting things done but won't spend time talking things up," a former Infosys executive said, who was contrasting the management style of the computer science graduate who led the Indian operations for French multinational Capgemini with that of predecessor Vishal Sikka.

On top of Parekh's agenda will be the need to claw back revenue growth rate to bring it on par with industry peers. This fiscal the company expects to grow at about 6.5% in constant currency adjusted for currency fluctuations). In contrast, industry body Nasscom has forecast growth rates of 7-8% for the sector. Many experts are of the opinion that the new CEO should be given a free hand and should be allowed to build a team of his own.

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Questions for discussion:

Q1. Infosys for majority of period has had its founder members as CEO, yet, succession planning seems to be an issue, comment on steps Infosys could have taken to find a long term successor.

Q2. Was appointing Dr. Sikka a good move? What should have been done for the transition to be smooth?

Q3. Analyse the role of Mr. Murthy in the whole episode, discuss his approach in detail.

Q4. What role could the board have played regarding the discord between Mr. Murthy and Dr. Sikka?

Q5. How should Infosys plan its way ahead?

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