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This case was prepared by Professor Ekta Sinha (Department of Management Studies, Saraf College, University of Mumbai, India) and Dr Mihir Ajgaonkar (Group Head — People & Performance and Communications, SP Jain Institute of Management and Research, Mumbai, India), as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative or business situation.

Please send all correspondence to ektasinha26@gmail.com.

The Infosys Saga: An Indian IT Giant Faces a Leadership Crisis*

INTRODUCTION

Infosys Limited (Infosys) was one of the Indian information technology leaders that spearheaded India's transformation as an information-technology giant. Infosys worked with leading multinational organizations around the world to provide high tech digital solutions and consulting. It operated in 46 countries including the United States, Europe, and China with annual revenues of \$12.6 billion and 116,000 plus employees worldwide.¹ In 2018, it had a market capitalization of over \$45 billion. Infosys was invited to set up a campus in China by Zhu Rongji in 2002. Since then, China was a growth market for Infosys, along with Europe and North America.² Its top global competitors included IBM, Accenture, Capgemini, TCS, Wipro,³ and Deloitte⁴ among others. It had achieved some major milestones, growing from the capital of US\$250 to enjoying a market capitalization of approximately US\$47.7 billion⁵ and owns some beautiful campuses around the world, like below:

This case has been written based on published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Infosys or any of its employees.



THE JOURNEY OF INFOSYS

Infosys began its journey in 1981 in Pune, India. It was founded by a group of IT professionals: N. R. Narayana Murthy (Murthy), Nandan Nilekani, N. S. Raghavan, S. Gopalakrishnan, S. D. Shibulal, K. Dinesh, and Ashok Arora,⁶ with an initial investment of US\$250.⁷ Murthy borrowed the sum from his spouse, Sudha Murthy. The drawing room of Murthy's home was the company's first office. Infosys did not have a computer until 1983 because Murthy could not afford to import the option he liked, a Data General 32-bit MV8000.⁸

In 1989 when one of its founders, Ashok Arora quit, that was when Murthy stepped in. "If you all want to leave, you can, but I am going to stick (with it) and make it," Murthy told the other founding members.⁹ Nilekani, Gopalakrishnan, Shibulal, Dinesh, and Raghavan decided to stay on. They all provided the impetus to the growth of Infosys.¹⁰

Headquartered in Bangalore, the *Silicon Valley of India*, Infosys touched US\$100 million in sales in the year 1999. It also became the first IT Company from India to be listed on NASDAQ. At that time, Infosys was among the 20 biggest companies by market capitalization on NASDAQ. In 2011, it had a global footprint with 64 offices and 63 development centers across the United States, United Kingdom, India, China, Australia, Japan, and the Middle East among others. While promoters had a 16.04% stake in the company, other shareholders included Life Insurance Corporation of India

(4.28%), Oppenheimer Developing Markets Fund (2.19%), and Abu Dhabi Investment Authority (1.93%).¹¹ By 2018, from the capital of US\$250, it had grown to become a US\$11.8 billion (FY 19 revenues) company with a market capitalization of approximately US\$35.4 billion¹² (<https://www.youtube.com/watch?v=4IuqHUA2mQY>). Exhibit 1 shows the market cap of the company in US\$ billion, from FY 06 to FY 19,¹³ and Exhibit 2 shows the change in Infosys's stock price over the years (from March 2000 to March 2020) at the New York Stock Exchange (NYSE). From its inception to date, Infosys had been led by capable leadership. Exhibit 3 represents the top leadership of the company and their tenure right from the company's inception to date.¹⁴

THE FOUNDERS' WAY

Known to be a humble person with a global vision, Murthy remained the anchor of Infosys for two decades after its inception in 1981.¹⁵ He served as the company CEO for 20 years between 1981 and 2002 and as the executive chairperson of the board from 2002 to 2006. He retired from his executive position at Infosys on 20 August 2006 after which he was the non-executive chairman of the board and also the chief mentor of the company till 2011. Murthy articulated, designed, and implemented its global delivery. He also contributed to key corporate governance initiatives in India. He believed in leading a very simple life.¹⁶

Infosys's HR practices were the reflection of its founders' vision and simplicity. It became the first company in India to offer stock options to employees in 1993, the year it went public. A total of 16,237 employees benefited until employee stock option plans (ESOPs) were halted in July 2003. It was also the first in India to report quarterly financials, issue guidance against insider trading, came up with the concept of a lead independent director, and had directors assessed by peers. The halo came from stock options that gave exceptional returns. There was a lot of employee pride and people clamored to be part of the organization.¹⁷

Infosys established the *Infosys Leadership Institute* in 2001, with the aim of grooming leaders. But it had been on the back-burner since its former leader Matt Barney quit in 2013 to start a consulting venture called LeaderAmp.¹⁸ Infosys also created the Infosys Instep global internship program (<https://www.youtube.com/watch?v=pKOP8o4ItBc>; https://www.youtube.com/watch?v=2KZnvRMjPI&list=RDCMUCypQjdd_Mz0yX7M7rekN4Bw&start_radio=1&t=66) in the year 1999 to nurture young talent, which was recognized as the “best overall internship program in the world” by *Vault.com*, a career intelligence organization.¹⁹ In 2017, Infosys restarted its internal leadership institute to develop its executives based on succession planning. They also created a new leadership framework and asked executives to nurture talent from within, as senior leadership opined that dependence on outside talent could lead to building a mercenary culture.²⁰

After Murthy stepped down as CEO of the company, Nandan Nilekani assumed the mantle as the new CEO in March 2002.²¹ In 2004, the annual revenue reached \$1 billion after 23 years of existence and to \$2 billion in 2006, only in the next 23 months.²² Nilekani stepped down from the position in April 2007 to make way for Kris Gopalakrishnan, another founding member. In 2011, S. D. Shibulal, another founder and Chief Operating Officer (COO), took over as the CEO from Kris Gopalakrishnan. In the same year, Infosys crossed a \$6 billion revenue mark.²³

APPOINTMENT OF VISHAL SIKKA

Vishal Sikka, born in May 1967 in India, obtained his bachelor’s degree in Computer Engineering at Syracuse University and went on to complete his doctorate from Stanford University in 1996. After initial stints at his startups, Sikka joined SAP in 2002. In April 2007, he was named as SAP’s first-ever Chief Technology Officer (CTO), reporting to then CEO Henning Kagarmann.²⁴ In 2008, Sikka envisioned “Timeless software” — software that did not cause disruption

to the user as technology landscapes evolve — as a key pillar of SAP's future development efforts.²⁵ Sikka actively advocated *high-performance analytic appliance (HANA)*, SAP's new in-memory database technology. He was on the vanguard of the development of HANA since his appointment as CTO, with support from Hasso Plattner, co-founder of SAP.²⁶ Sikka was appointed on the SAP board in 2010.²⁷ On May 4, 2014, Sikka announced his resignation from SAP for personal reasons.²⁸ In 2020, Sikka served on the board of directors of Oracle,²⁹ supervisory board of BMW Group³⁰ and as an advisor to the Stanford Institute of Human-Centered AI.³¹

He took over as a CEO of Infosys from S. D. Shibulal in August 2014 and Narayana Murthy said,

"I am pleased with the selection of Dr Vishal Sikka as our new CEO. Vishal brings valuable experience as a leader of a large, global corporation. His illustrious track record and value system make him an ideal choice to lead Infosys."³² (<https://www.youtube.com/watch?v=uAum1pbdwIU>)

In December 2014, some of the Infosys founders, Narayana Murthy, Nandan Nilekani, Shibulal and K. Dinesh sold the shares worth \$1.1³³ billion, cashing on the 20% gain in the stock price of Infosys since Sikka's appointment.³⁴

SIKKA'S LEADERSHIP

Sikka targeted the revenue of \$20 billion with a 30% operating margin and \$80,000 revenue per employee by 2020. Out of the \$20 billion, \$16.5 billion was supposed to come from existing business, \$1.5 billion from acquisitions, and \$2 billion from new businesses.³⁵ Sikka focused on new ways to handle business; from frugal salaries and low-key lifestyles to globally benchmarked compensation and severance structures; from innate skepticism of buying growth to aggressive acquisitions.³⁶ Under Sikka's leadership, Infosys' revenue crossed 500 billion rupees. The Board of Directors decided to increase the dividend payout ratio to up to 40% of post-tax profits. Cash and cash equivalents (including available-for-sale financial assets and certificates of deposit) crossed

\$5 billion. In 2015, Infosys acquired Noah Consulting LLC, a leading provider of advanced information management consulting services for the oil and gas industry in an all-cash deal, with an aggregate purchase consideration of US\$70 million. In 2015, the board decided to increase the dividend payout ratio to up to 50% of post-tax profits. In 2015 only, Infosys acquired Skava, a leading provider of digital experience solutions for the retail industry for \$120 million, and Panaya, Inc., a leading provider of automation technology for large-scale enterprise software management for \$200 million. In the same year, Infosys announced a \$250 million “Innovate in India Fund” to support Indian start-ups.³⁷ Sikka, since the beginning, spoke about a dual strategy — to renew the traditional business with automation and develop new businesses around the new digital technologies such as cloud, artificial intelligence, machine learning, analytics, big data, and internet-of-things.³⁸

In a filing to stock exchanges, in 2016, Infosys extended Sikka’s tenure as CEO following the company’s stellar performance, beating its rivals from 2019 to 2021.³⁹ The board lauded Mr. Sikka and emphasized their belief in his leadership to achieve goals for revenue, margins, and people productivity for the financial year 2020⁴⁰ and revised its compensation.⁴¹

MURTHY’S RETURN

Though Murthy retired as CEO in 2002, in the same year, he was appointed as Chairman and Chief Mentor. In 2006, Murthy stepped down on turning 60. The Board, however, appointed Murthy as an Additional Director and continued him as Chairman and Chief Mentor of Infosys.⁴² In August 2011, on attaining the age of 65 years in compliance with the retirement policy he had laid down for co-founders at executive posts,⁴³ and he handed over the baton to K. V. Kamath as the chairman of Infosys Technologies.

In 2013, K. V. Kamath played a key role in bringing back Murthy at the age of 67 years in violation of Murthy’s

own retirement policy, to steer Infosys through a period of leadership transition and stabilization for five years.⁴⁴ Murthy was joined by his son, Rohan Murthy. That raised a lot of eyebrows as Murthy had held that no family member of a founder could ever come to work at Infosys. That was the rule he had set himself and all those years he had taken great pride in living by it.⁴⁵ On June 1, 2013, Murthy mentioned in a press conference that Rohan had come in to help him, and that he was not given any leadership role at Infosys and would not even draw a salary. As his executive assistant, his job was merely to make Murthy work more efficiently and effectively.⁴⁶ On this, one of the employees was quoted saying,

“We had a good laugh at this. The compensation (Rohan takes a token Rs 1 as annual pay) is immaterial. It is sad to see Infosys in such a state that it succumbs to every condition of NRN (Murthy).”⁴⁷

The earlier assumption was that Infosys would have Kris Gopalakrishnan as chairman and Shibulal as vice chairman after the latter retired. And there would be an MD & CEO from among the following three: B. G. Srinivas, V. Balakrishnan, and Ashok Vemuri. Murthy’s five-year tenure as executive chairman changed that equation.⁴⁸

Murthy’s return helped the beleaguered company double revenue growth to 11.5% in dollar terms in fiscal 2013–2014 and improve their operating margin. However, its human capital took a beating with the exit of a dozen senior executives, including a couple of directors on the board and over 36,000 lateral and junior techies during the fiscal year 2013–2014.⁴⁹ The appointment of Vishal Sikka as the global software major’s first external chief executive from August 1, 2014, made Murthy call it quits, cutting short his five-year tenure.⁵⁰

However, asserting that he brought the company to shape from where Sikka would be able to carry on, Murthy said he had the satisfaction of doing the job to the best of his ability and fulfill the mandate the board had given a year ago in 2013. Murthy became chairman emeritus again from October 11, 2014.⁵¹

In 2015, R. Seshasayee, vice chairman at automobile manufacturer, Ashok Leyland, was appointed as its non-executive chairman, in place of K. V. Kamath. Seshasayee's appointment was another important leadership transition for India's second-largest software exporter that undertook the biggest organizational and strategic overhaul in its 34-year-old history under its first non-founder CEO Vishal Sikka.⁵²

THE CONFLICT

On April 15, 2014, Infosys named Venkatesan as co-chairman and appointed a three-member panel to "support and advise" Sikka, in executing strategy.

A whistle-blower alleged that the people close to Sikka had significantly benefitted from the Panaya deal. The allegations were as follows:⁵³

- Relatives of top Infosys officials had invested money in Panaya through an investment fund to avoid conflict of interest. However, top Infosys officials stood to gain if Panaya was acquired at a hefty valuation.
- CFO Rajeev Bansal suddenly left the organization. He was offered a hefty severance pay. This was against the norm. As a result, speculations became rife that Rajeev Bansal had uncovered some incriminating details relating to top Infosys officials. Hence, the severance pay was actually "hush money" to allow the scam to go undetected.

Sikka defended the acquisition as a key step in renewing and differentiating Infosys's service lines. He went on to say that it would help amplify the potential of employees, freeing them from the drudgery of many repetitive tasks. So, the organization might focus more on the important, strategic challenges.⁵⁴

On June 23, 2014, after an investigation, law firm *Gibson, Dunn & Crutcher* submitted a report to the board, concluding that there was no evidence that any Infosys executive had profited from the company's decision to buy Panaya in February 2015. A day later, Sikka was overjoyed at the feed-

back from some retail shareholders.⁵⁵ But the victory was short-lived. Infosys co-founder, N. R. Narayana Murthy, also a large shareholder, asked the organization to disclose the full report on the Panaya acquisition. Sikka took it personally and felt it was a direct attack on him. He also expressed his unhappiness at Infosys's Palo Alto office.⁵⁶

FRAYED RELATIONS

The further sign of frayed relations emerged in 2015 over the induction of Punita Sinha, wife of Union Minister Jayant Sinha, as an independent director. Murthy abstained from voting on her appointment. While emphasizing that he had great respect for her as a professional, he grounded his objection to the fact that the organization had never invited the spouse of an active politician to the board. Sikka and the board argued that she was eminently qualified — having been a fund manager with *Blackstone and Oppenheimer*, among others — and that the decision was taken on merit.⁵⁷

Another friction point was over executive compensation. For many years, Infosys followed Narayana Murthy's philosophy on "Compassionate Capitalism," where the ratio between the highest compensation in the firm and the median salary was ideally around 50–60. The founders' biggest concern was the 55% increase in CEO compensation when average salary hikes had hovered in the single digits of 6%–8%. Murthy along with three other co-founders, Kris Gopalakrishnan, S. D. Shibulal, and K. Dinesh, abstained from voting on this resolution of the board on account of "Moral Dilemma." Only Nandan Nilekani, also a co-founder and Sudha Murthy (spouse of Narayana Murthy), voted in favor of the resolution. Infosys said that the cash component of the salary had actually come down for Sikka with most of it in restricted stock units (RSUs) against extremely steep targets. Sources close to Sikka said that he actually earned less than he had when he was CTO at SAP.⁵⁸

High severance packages to departing top executives such as CFO Rajiv Bansal and legal counsel David Kennedy

also contributed to the rift. Tom Reuner, MD of U.S.-based HFS Research said, "Sikka's honeymoon period was clearly over."⁵⁹ T V Mohandas Pai, former board member and head of Human Resources, who had resigned from Infosys in June 2011 after serving for 17 years,⁶⁰ backed Narayana Murthy on the rift with the Infosys Board regarding executive compensation. He felt that Sikka had misguided or forced the board to increase his salary from \$7 million to \$11 million without any justification as the compensation of the software engineers were not revised from time to time.⁶¹ The strategy of growth through acquisitions also contributed to the disagreement. Sikka believed companies need to innovate and offer value-added services. This move also demanded significant acquisitions⁶²

(<https://www.youtube.com/watch?v=kex0qE3UKA>; <https://www.youtube.com/watch?v=UtPTFwzxnTo>).

THE SUDDEN RESIGNATION

On August 18, 2017, the media was buzzing with the news of the resignation of Vishal Sikka, a dynamic CEO of the Indian IT giant, Infosys. It was very sudden even though there were reports of differences between Sikka and the founders of the Infosys. But it didn't take time for the market to become unstable, as the news spread like wildfire. The resignation not only brought up questions but also stirred up the *Sensex* (Bombay Stock Exchange Index). "The Board of Directors has accepted the resignation of Vishal Sikka as the Managing Director and Chief Executive Officer with immediate effect at its meeting held on Friday," said the IT major in a statement.⁶³ The Board, however, appointed the 50-year-old Sikka as Executive Vice-Chairman and asked him to hold the office until the new CEO and MD could take charge by March 31, 2018. The Board also appointed Chief Operating Officer U.B. Pravin Rao as the interim CEO and MD, who would be reporting to Sikka under its overall supervision and control.⁶⁴ Sikka's resignation mentioned "the repeated false,

baseless, malicious and increasingly personal attacks ... Allegations that have been repeatedly proven false and baseless by multiple independent investigations. But despite this, the attacks continue, and worse still, amplified by the very people from whom we all expected the most steadfast support in this great transformation.... Addressing the noise by itself is damaging; hundreds of hours of my own time has gone into this recently. But the structural challenges this engenders within the organization has a very damaging effect on our ability to carry out any kind of a transformation, especially one that is as fundamental as transforming from a cost-oriented to an innovation-oriented value delivery to clients. Therefore, I have come to this moment and the end of this journey⁶⁵ (https://www.youtube.com/watch?v=TabnFZ_9pX4).

Murthy refused to budge. He stated that he had an issue about the governance standards at Infosys and not about Sikka's work as a CEO⁶⁶ (https://www.youtube.com/watch?v=HW3f_mxXGGc; <https://economictimes.indiatimes.com/tech/ites/watch-nrn-murthy-refuses-to-back-down-says-problem-is-with-governance-at-infosys/videoshow/60120184.cms>).

Soon after completing his three years as a CEO, at Infosys, Sikka resigned as a culmination of an unending tussle between the company board and founder-shareholders, especially N. R. Narayana Murthy, over issues of governance. Ten of the sixteen senior executives Sikka had hired from his previous organization, SAP, to further innovation, also quit. The \$10-billion organization's growth slowed down sharply after having risen in Sikka's first two years.⁶⁷

The investors were wondering what was happening to Infosys. The organization known for its HR practices was not able to internally develop a successor to the founders. Therefore, Vishal Sikka was brought in from SAP with a lot of fanfare. Now just in three years, the CEO's position was vacant once again.

Sikka pointed out "distractions and negativity over the last several months/quarters, inhibits our ability to make positive change and stay focused on value creation," in his resignation letter.⁶⁸ This was seen as a direct attack on Narayana

Murthy and created a public storm. The Company's board also came out in support of Sikka. It issued a statement that founder and former chairman Narayana Murthy's continuous assault was the main reason for Sikka's resignation. Narayana Murthy in the past had criticized the company's leadership over executive pay packages. According to media reports, Murthy in a mail quoted some Infosys independent directors as saying that Sikka was "not a CEO but CTO material."⁶⁹

Sikka's resignation spooked the Infosys' investors and the shares plunged to 13%, closing at Rs 923.10 on the Bombay Stok Exchange,⁷⁰ marking a three-year low.⁷¹

MOVING FORWARD

People close to the board — a majority of whom were said to be backing Sikka — felt that most of the founders were still attached to a business model that was facing an existential crisis and were wary of aggressive acquisitions that were necessary to grow the company. "They are just too conservative when it comes to investing in the future," said a young Turk.⁷² There was also a perception among the new generation that somewhere deep down, the "old guard" did not want to "let go" of a company they built from scratch.⁷³

Also, Mohandas Pai reportedly criticized the selection process for the CEO at Infosys. He was quoted as saying that the board should assess a prospective candidate on whether he had the energy and fresh thinking required for the job and not just on experience.⁷⁴

While the board was perceived as being soft and supportive of Sikka, it seemed to have hardened its stand against Murthy — at least a majority, if not the entire board. It had accused Murthy of being a bully who forced Sikka's resignation and being factually incorrect, dashing hopes of a quick reconciliation. It had also indicated that it would not welcome him back on the board.⁷⁵

Mr. Salil Parekh joined Infosys as CEO⁷⁶ in 2018, once again an "Outsider" (former Capgemini executive).⁷⁷ Soon after, one of the Infosys top executives, Mr. Rajesh Murthy,

resigned, citing personal reasons. He had served Infosys for over 25 years and was promoted to president in 2016.⁷⁸

Parekh was the second non-founder chief executive at Infosys. He set a three-year roadmap to transform the organization. In the Q3 FY 19, the organization stated that it was winning large deals and had maintained its top-end guidance for the year ahead. In November 2019, an anonymous whistle-blower group, calling themselves Ethical Employees of Infosys, accused Parekh of financial improprieties in letters written to the Infosys board and the US Securities and Exchange Commission. The group accused the senior executives of adopting aggressive accounting practices and advising their team not to disclose large deals to the company's board. However, Parekh denied all the allegations.⁷⁹

Some questions arise from this entire episode: What course should the Infosys board have followed after Sikka's departure? Was succession planning and leadership development within Infosys an Achilles' heel for the organization? Should an outsider lead Infosys or should it search for internal leaders to build on its legacy? Should the organization move away from its proven business model established by its founders and chart a bold new course to navigate through a challenging business environment to fuel further growth?

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Exhibit 1

Market Capitalization of Infosys (from FY 06 to FY 19)



Exhibit 2

Infosys Historical Annual Stock Price Data (US\$)

Year	Average Stock Price	Year Open Year High Year Low			Year Close	Annual % Change
2020	10.4158	10.29	11.41	7.35	7.35	-28.78%
2019	10.6247	9.61	12.07	8.93	10.32	8.40%
2018	9.38	8.145	10.61	8.025	9.52	17.39%
2017	7.5274	7.37	8.11	6.795	8.11	9.37%
2016	8.4522	8.12	10	6.945	7.415	-11.46%
2015	8.5339	7.975	9.72	7.655	8.375	6.48%
2014	7.3047	6.9413	8.7338	6.3438	7.865	11.17%
2013	6.1358	5.3575	7.2813	4.9013	7.075	33.81%
2012	5.9133	6.6813	7.5125	4.7713	5.2875	-17.67%
2011	7.5928	9.6913	9.6913	5.8763	6.4225	-32.47%
2010	7.7422	7.095	9.5513	6.3363	9.51	37.65%
2009	4.7625	3.1438	6.9988	2.8475	6.9088	124.95%
2008	4.6057	5.5538	6.1713	2.6388	3.0713	-45.83%
2007	6.3163	6.9775	7.5688	4.8325	5.67	-16.86%
2006	5.3034	5.0281	7.0625	4.1069	6.82	34.95%
2005	4.4322	4.3225	5.1581	3.5375	5.0538	16.66%
2004	3.1589	3.1031	4.5	2.2647	4.3319	45.30%
2003	1.9687	2.1606	2.9813	1.2578	2.9813	37.17%
2002	1.9415	1.8425	2.6847	1.4828	2.1734	12.18%
2001	2.1228	2.7306	3.9	1.0319	1.9375	-32.79%
2000	5.3911	5.7672	10.7813	2.8828	2.8828	-44.09%

Source: <https://www.macrotrends.net/stocks/charts/INFY/infosys/stock-price-history>.

Exhibit 3

Top Leadership of the Company and Their Tenure Right from the Company's Inception Till Date

S. No.	Name of the CEO	Start Year	End Year	Picture	Growth in Revenue ⁷⁹
1	Narayana Murthy (Founder)	1981	March 2002		From the capital base of US\$250 and revenues \$0 to US\$500 million
2	Nandan Nilekani (Founder)	March 2002	April 2007		From US\$500 million to US\$2 billion
3	S. Gopalakrishnan (Founder)	April 2007	August 2011		From US\$2 billion to US\$6 billion
4	S. D. Shibulal (Founder)	August 2011	July 2014		From US\$6 billion to US\$7 billion
5	Vishal Sikka (External)	August 2014	August 2017		From US\$7 billion to US\$10.2 billion

Exhibit 3 (Continued)

S. No.	Name of the CEO	Start Year	End Year	Picture	Growth in Revenue ⁷⁹
6	UB Pravin Rao (Interim CEO (within Infosys))	August 2017	January 2018		From US\$10.2 billion to US\$10.9 billion
7	Salil S. Parekh (External)	January 2, 2018	To date		From US\$10.9 billion to US\$11.8 billion (2019)