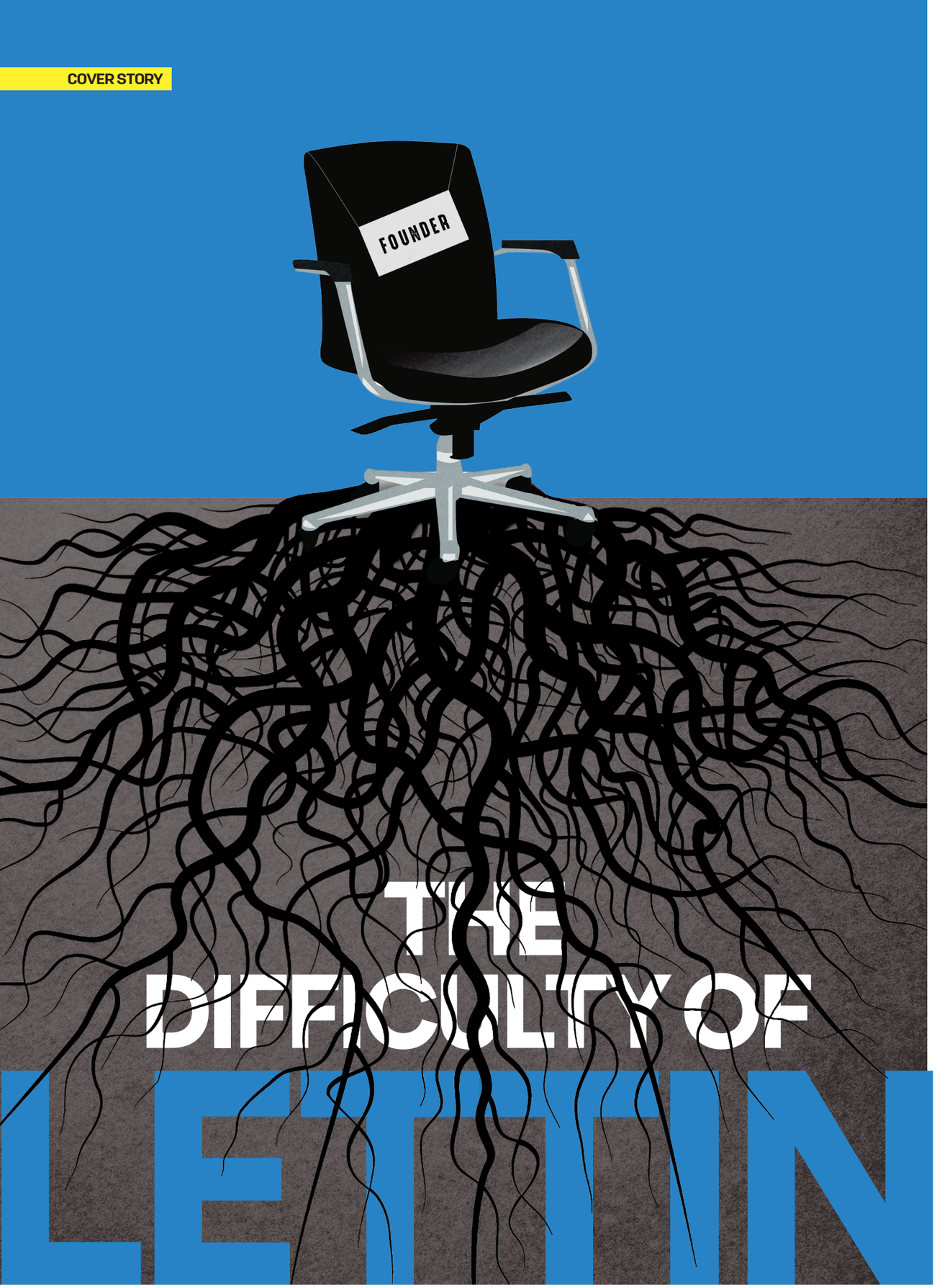


THE DIFFICULTY OF LETTING GO

It's hard for founders, but it must sometimes be done. As the case of Infosys illustrates, their interests might be better served by placing their trust in the market

By ARESH SHIRALI

NOBODY WANTS TO be NR Narayana Murthy right now. Not that there is any dearth of empathy with the infotech magnate whose eminence takes up space by the gigabyte on the internet. Must a man who had his leftism knocked out of him by the brute excesses of communism—he was bundled off a train once into prison for 72 hours by Bulgarian guards just for asking a co-traveller what life is like under red rule—now suffer the brute excesses of capitalism 42 years on? Must the co-founder of a great enterprise, one that has striven to redeem business of all its alleged ills, endure intimations of his own irrelevance to his life's legacy? Must his voice be swiped off handset screens, his values admired more than adhered to, his presence reduced to that of a symbol?

Globally, far worse is known to happen, with Hollywood portrayals of America Inc offering us only the saddest of stories. It takes a hard heart not to wince as you watch Mac McDonald collapse on getting an earful from Ray Kroc in John Lee Hancock's *The Founder* (2016), the wily salesman having grabbed control of McDonald's 'crazy burger ballet' from its actual founders through a devious real estate ploy. And it takes some restraint to keep your eyes dry as the creator of Apple is fired in Danny Boyle's *Steve Jobs* by John Sculley, the professional CEO he himself had picked, for being too much of a nuisance to his own creation. Of course, Jobs' return and Apple's revival is a tale that has long achieved epic status.

Either way, in triumph or tragedy, entrepreneurs are always heroes—keepers of the halo they endow their companies with.

The trouble with that, though, is that the same glow of the past could just as easily paralyse prospects of prosperity under fresh leadership. And in a country that has

never been one for shock therapy—be it the transition of an economy or a company—effecting a genuine shift in top-level authority is all the more difficult.

That Infosys would pull it off well was once taken for granted. No longer, not after Narayana Murthy's recent outburst. At 70 now, he rarely betrays emotion, as you'd expect of a man who talks Quantum Mechanics with the software major's current CEO Vishal Sikka, but his quiet ideals are still loud and clear: his austerity, his egalitarian outlook on pay scales, his modesty with financial projections, and his overt emphasis on corporate culture and ethical governance. While the whiff of a possible 'hush money' scandal may have prompted his open confrontation with the company's Board and CEO, much else has evidently been grating on his nerves, worsened perhaps by the fact that the promoters on whose behalf he speaks own less than 13 per cent of Infosys, while institutional investors have the majority clout needed to call the shots. In 2014, reportedly, he'd wanted to be relieved of all legal liability as a 'promoter'. It didn't happen.

Is Sikka's pay packet of $11 million way too high? Was former CFO Rajiv Bansal's eye-popping severance deal of Rs 17.4 crore a sign of something rotten in Infosys? Has the company got something to hide? The CEO and Board have denied it, offered explanations, expressed regret over Bansal's payout—now deemed a lapse of judgement—and agreed to codify all compensation contracts. Meanwhile, big investors have rallied to Sikka's defence. The prospect of a Tata style shake-up has blown over.

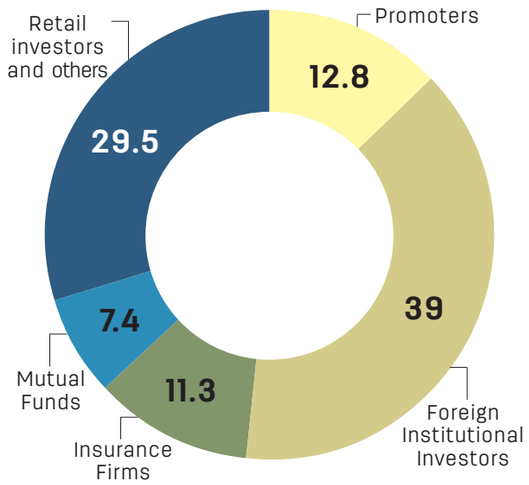
Narayana Murthy is still grumpy, however, and his other criticisms linger in the air. No CEO, he insists, should be paid more than twice as much as the next highest executive. Plus, the top guy's pay should not to be 2,000 times that of an entry-level recruit, as he claims the Infosys ratio now is. He also quotes Peter Drucker as once having told him that "culture eats strategy for lunch", that the *way* a company works is its real basis for success.

Such admonitions get eye-rolls these days. The more he wags his finger at a company in the throes of a strategy shift in fierce rivalry with other global software players, the more outdated his views sound. Sikka's salary, for instance, is not only well in line with global norms, it's simply what the company wants to wager on a man who promises to double its revenues to $20 billion by 2020. To hit this goal, Infosys is going all out for automation, artificial intelligence and other daring bits and bytes. It's a high-risk game with high rewards, Sikka's record so far suggests he's got what it takes, and big investors are cheering him on.

Narayana Murthy (left) with Vishal Sikka

WHO OWNS HOW MUCH

Infosys shareholding pattern



Figures in per cent

"The Infosys case is partly a culture clash about how much compensation inequality between senior managers and the rest of the employees—and especially frontline ones—is good for the company in the long run," observes Jagdish N Sheth, the Charles H Kellstadt Professor of Marketing at the Goizueta Business School of Emory University. "In this instance, it is also an issue of the 'hands on' culture of its founders. It is difficult for such successful leaders to watch events passively and from the sidelines."

That entrepreneurs are often dismayed by what their successors do is no surprise. Their reward, typically, is what they have set up—the very business in which they've invested so much more than money. The hired CEO, however, has a daunting job to do, and taking it up has to be financially worth his career risk, a point often lost on founders. Notably, if a firm fails to generate internal leadership, it has fewer options than an outsider being lured does; and with hotshot executives being fought over out in the market for bosses, the notion of a 'pay cap' is woefully out of sync with modern reality. "Companies are trying to leapfrog while harnessing growth opportunities, or trying to battle disruptive trends, and so there is a call for special talent to step up and shoulder disproportionate responsibility, especially on the strategic front," says Sachin Rajan, managing director, Russell Reynolds Associates India, a leading global executive search and assessment firm. When an outsider is called upon, he adds, compensation is usually a lengthy part of the negotiations. "This is actually healthy because it helps align expectations, even on subtle cultural considerations, early on," says Rajan, "The situations that lend themselves to unravelling quicker are the ones where there is either a 'blank cheque', rare these days, or where there is a highly attractive exit package, given that there will invariably be flashpoints as well as overtures being made to the executive from the external market in the early days."

Even so, multimillion-dollar hires do leave other managers in a sulk. While top salaries in India have gotten globalised, those of lower-level employees haven't. This is deeply resented. "Compensation variance often results in passive resistance or open revolt. It is becoming even more critical with outrageous compensations of the CEO and top leaders. This is especially important for listed

FOUR FOUNDERS AND A GAME CHANGER: CEOs AT INFOSYS

NR NARAYANA MURTHY
1981-2002
Had the longest and most impactful tenure on top. The company went public and achieved big time under him. In 2009, he turned venture capitalist with Catamaran

NANDAN NILEKANI
2002-2007
A co-founder who held various posts at Infosys before taking the hot seat, he's now best known as the brain behind Aadhaar. He contested a Lok Sabha seat in 2014

S GOPALAKRISHNAN
2007-2011
Popularly known as Kris, this co-founder had served at an overseas joint venture in Atlanta and was widely seen as a leader well versed with the company's values

SD SHIBULAL
2011-2014
The last co-founder to head Infosys, his tenure saw a chorus arise among investors asking for a switch to professional leadership. He now runs a family-held investment firm

VISHAL SIKKA
2014-present
A Silicon Valley man who earned his spurs with SAP, an enterprise software firm, before joining Infosys to address new challenges in a fast-evolving marketplace

companies," says Professor Sheth. "The most important standing committee is the one for compensation and not audit because the latter has an outside auditor for governance," he adds, referring to his own experience, "As a Board member in several US companies, my task was very difficult when I chaired the compensation committee as compared to the audit or succession planning ones."

Fat severance packages are also *de rigeur* in the corporate world. As clauses in job contracts, these are justified as money for the risk of taking a high-profile new job only to find it's not working out. Elaborates Rajan, "The executive would like to be valued for his track record and potential to perform, placing the onus of failure-risk largely on future circumstances, new information on company culture, the existing talent bench, and unknown or unclear aspects of past performance." It's not unusual for senior executives moving from the West to ask for a year's salary in case they're asked to go. The terms have been fluid, of late, and so long as job contracts are kept confidential by companies, there's no saying what pay-out sum ought to raise eyebrows.

None of that, however, has quelled rumours at Infosys over Bansal's abrupt departure in 2015, and Whatsapp whispers of a shady acquisition are said to be going against the corporate cohesion it has been so proud of. Might an open culture fostered by the founders yet get the better of its big Sikka bet? Tough question.

In general, says Professor Sheth, "I agree that culture is more important than strategy in positioning the future of a company. Therefore, one needs to articulate a strategy which will reposition the company without changing its culture." He cites Monsanto and 3M as examples of 'cultural DNA' having been put to good strategic use, with Microsoft and Google doing fine jobs of it lately. "The only time strategy is more important than culture is when the company is in crisis and is taken over by a private equity firm. This is the struggle that Sears Holdings is going through today, and what HP underwent recently."

The business guru also endorses Murthy's old mantra of 'under promise and over deliver' (on revenue targets): "Shaping expectations of investors or customers or employees is the real art of leadership. Unfortunately, many leaders simply respond to investor demands rather than confront or shape expectations. Ultimately, what makes a difference is selecting the right set of investors who believe in the company, its culture and strategy. The problem with investors today is that they are more traders than investors, especially those from hedge funds and large brokerage companies."

Sikka's goal of $20 billion by 2020 may sound a bit too pat, even bombastic to those accustomed to the decimal diligence of its old 'guidance' issuances, argue his backers, but it wasn't exactly pulled out of a hat. Infosys has spelt out a credible gameplan and its numbers are under the watch of fund managers who will hold him to it. So far, to Sikka's credit, the more vocal among them have given him a huge thumbs-up. Get on with it, they say.

It's hard for a legendary leader to admit that his life's big burden is now for others to bear. Nor is handing over charge to a professional chief an exercise for the faint of heart. Not only do fuzzy issues tax the promoter's nerves, he may find it hard to resist comparing the new leader with himself, little realising that this is unfair: no matter what, a professional boss will always earn a helluva lot more for achieving a helluva lot less.

There are no clones for hire.

"In theory," says Professor Sheth, "the founders want to let go if they find a successor with the same leadership DNA. This, however, is often not the case. Both the mission and style of leadership are often different between founders and professional leaders. This results in conflict."

Subodh Bhargava, a former president of CII who is on several corporate Boards, outlines two broad challenges in any such transition of leadership. "The promoter has a right to lay out boundaries on processes and values, and set targets. Professionals need to accept that. So challenge Number one is a mutual agreement on values and the guiding principles for the business," he says. "The second is clarity on why the promoters are handing over. It's important to have an 'exit policy' for the promoter and clarity on what he will do. If it's not clear, there could be some heartburn..."

> **"The Infosys case is partly an issue of the 'hands-on' culture of its founders. It is difficult for such successful leaders to watch events passively and from the sidelines"**
>
> **JAGDISH N SHETH** business guru

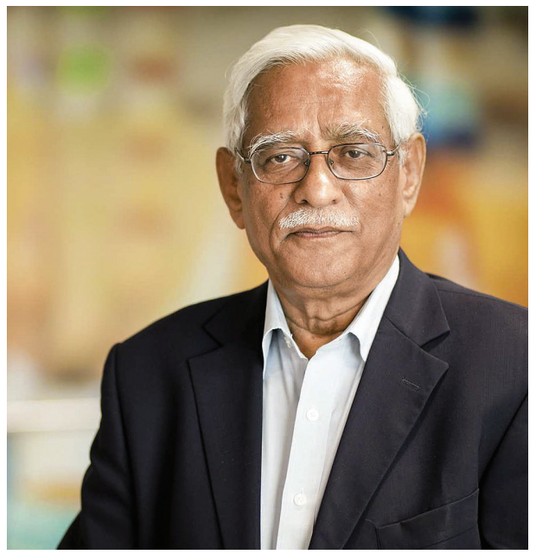
Even before the recent ouster of Cyrus Mistry from Tata Sons, India Inc had seen a series of unhappy partings between owners and their top recruits. At Britannia, Vinita Bali's 2014 exit was viewed by many as a sad comment on how uneasy such relations remain; Varun Berry has taken over since. Similar concerns have made the goings-on at Godrej Consumer Products Ltd under Vivek Gambhir the stuff of speculation. Of no less curiosity is the odd case of Cipla, which saw its market value double under Subhanu Saxena, a professional, before things went awry with the company's owners; he was succeeded by Umang Vohra last year. In all these, 'the family' has loomed large.

As Rajan sees it, a workable succession model that has emerged for family businesses entails the recruitment of a chief on the explicit understanding that the family's next generation will take over the role at some stage. The high-anxiety cases are usually those which envision a complete handover. Either way, he says, clarity on both sides over whether the top recruit is meant to be a 'game-changer' CEO or more of a business caretaker can set the transition up for success. Expectations matter. "A professional CEO is very challenged at the onset to replicate the performance that an iconic founder delivered, at least over the short to medium term," says Rajan, "If it were easy, they would have set up their own companies and created wealth independently."

Thankfully, there are several success stories of clear handovers, with the Max Group, Wipro, Marico and Dabur frequently cited as examples. In the US, The Coca-Cola Company, Playboy and Disney are held up as stellar cases.

"It all depends on promoters empowering professionals," says Bhargava. It's not that hired managers lack that fire in the belly or are too shy of risk, in his view, it's just that they are accountable to a senior figure and operate accordingly. How much freedom a new CEO is granted could make all the difference, then, and a realistic approach could be to calibrate the transfer of authority over an agreed period. "Patience and governance guard-rails are critical over the medium term," says Rajan, "but unfortunately, it's all too easy for either party to blink in the early days."

> **"Why promoters are handing over should be clear. It's important to have an 'exit policy' for the promoter and clarity on what he will do after that. If it's not clear, there could be some heartburn"**
>
> **SUBODH BHARGAVA** former president, CII



What makes Infosys exceptional is that it is not closely held. Its ownership not only spans the globe, its very diversity is an assurance that no individual or family exercises more than a sliver of control. The bulk of its shares are with FIIs, no doubt, but no single institution can have its way with it. Any move to overthrow the *status quo* would need multiple minds to agree. In other words, it's as close as a business gets to the modern ideal of an entity governed by the collective will of a vast group with little in common but an interest in its well-being. Terms like 'shareholder democracy' have always been premature in India, but the fact that the Infosys spat has played out so openly could augur well for its future. First the Tata affair, and now this—for once, even investors with only a few modest shares are taking a closer look at how their companies are run.

"Investor activism is likely to grow due to the rise of social media," notes Professor Sheth, "Today, a company and its leaders are all fish in a digital aquarium. Everyone is curious about what they do. And often, a non-stakeholder becomes an activist and agitator. In this era of social acrimony, I expect greater shareholder activism across the globe and especially in emerging markets where there is less trust in regulators or public governance."

Regulatory action, of course, doesn't enter the picture unless actual rules are flouted. Scraps over direction and culture are matters only for those whose money is at stake. It's here that founders who turn their companies over to professionals might do themselves a favour by displaying a little more trust in the market to do what's best for all concerned. If a firm is badly run, or finds itself at war with itself over values, it's bound to hurt at some point; and once it shows up in the results, investors will flee and calls for the CEO's scalp will arise with brutal efficiency. While elderly advice should always be welcome, the convergent opinion of many ought to prove better for a company than the weighty voice of a few. Willy-nilly, that's the secret of capitalism's success. ▯