CASE COMMENTARY

Infosys: Transition at the Top

Arun Kumar Tripathy

The case describes the history of corporate governance at Infosys, a leading Indian multinational company that has always stood for achieving the highest standard of corporate governance in India. Impressed by its corporate governance policies, SEBI appointed Mr Narayan Murthy (one of its founder and former chairman) to chair a committee (in 2006), which recommend enhancements in corporate governance practises in India. This case highlights some of the good corporate governance practices that should be followed by founders.

The case brings to fore the various aspects of corporate governance, from board composition, nomination of board members, role of independent directors, role of Chairman and CEO, to executive succession planning. Infosys has successfully put in place the best practices and it reflects the company's corporate governance philosophy to satisfy the "spirit of the law".

The example of Satyam by contrast, subtly brings out the consequences of not having good corporate governance practices. More importantly, the example highlights how organizations try to satisfy "letter of the law" (like Satyam had a majority of independent directors, divided roles of Chairman and CEO) rather than the "spirit of the law". Satyam was able to fool the experts of UK-based World Council for Corporate Governance, to bag the prestigious "Golden Peacock" award for Corporate Governance in 2008, clearly highlights the magnitude of the problem.

The Board of Directors is at the core of corporate governance practice. Hence, its composition and succession planning are crucial elements of a firm's strategy. The nominations committee normally tries to find an optimal mix of continuity and change. The effect of the policies and practices put in by the founders (like not appointing their son / daughter on the company's board, retirement age of founders at 60) can be seen in the long term. For example, now after 30 years, non-founder directors outnumbered the founder directors. Chairman of the board of directors is also not a promoter. It is the strong corporate governance practices at Infosys that created aspirations for a non-founder executive director Mr Mohandas Pai (as reported in media) to become a CEO, inspite of the presence of senior founder member directors. Not to profess that age should be a criteria for selection of a CEO but as per company records of 31st March 2010, age of Mohandas Pai was 51 years and that of founder directors Gopalakrishnan and Shibulal was 55yrs. World over, examples of promoters being ousted (exceptions include Steve Jobs from Apple Computers), from the companies they founded are rare. Founders of Infosys have already put in place some good corporate governance practices (like retirement age, non-involvement of family members etc.) and it would be too much to expect, that they relinquish their executive position just because they are the founders, that too when the company is doing well.

One of the reasons for Infosys to charter a new path lies in the way it has transitioned at the top. However,a recent study by Quigley and Hambrick points at the pitfalls of retention of the former CEO as board chair, which has been the practise at Infosys and also at other leading Indian organizations. Executive succession is often viewed as an occasion for strategic realignment. It stands to reason that new CEOs can guide their firms in new directions to the extent that they have discretion to do so. The issue becomes more important in the presence of founding members of the organization. The predecessor retention can stem from a desire for continuity, but it restricts a successor's discretion. It has been found that predecessor retention dampens several types of strategic change in organizations: particularly in resource reallocation, divestitures, and executive replacements. Moreover, the company performance tends to adhere to pre-succession levels as long as the predecessor remains. Therefore, in the current environment, where the growth of Infosys is not at the same pace as the other leading players in the industry (TCS and CTC), it is important that the new CEO has no constraints. Given the philosophy of the founders, it would not be surprising to see Infosys get back to its winning ways.

Reference

Quigley, T. J., &Hambrick, D. C. (2012). When The Former CEO Stays On As Board Chair: Effects On Successor Discretion, Strategic Change, And Performance. *Strategic Management Journal*, 33(7), 834-859.

Arun Kumar Tripathy is a faculty in the Strategic Management Area at Indian Institute of Management Lucknow.