Infosys: Transition at the Top

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Strategic practices in succession management are emerging with renewed interest, with focus shifting from merely talent replacement to strategic orientations of organisations. Depending upon whether the organisation is aiming for continuity or reinvention or some other vision, various systemic alternatives to the planning and execution of the succession process are being suggested and followed.Thus, this case takes up a very topical subject to demonstrate how a "poster boy" organisation struggles to come out of the halo of its distinguished but outgoing Chairman without affecting corporate continuity, shareholder confidence and employee trust. The other aspect that the case highlights is on professionalism taking precedence over lineage. In a country that is dominated by family businesses, where succession planning is not much different from family planning, Infosys provides that rare opportunity to explore how Indian succession systems conform to best practices followed around the globe.

Infosys had been continually relying on its co-founders to fill the top job. The vision was to grow, while maintaining continuity in the corporate value systems. It is only now that the company has engaged Mr. Kamath, an outsider to become the Chairman of the company. Bower (2007) points out that both insiders and outsiders have strengths and weaknesses in taking up leadership positions in an organisation. While insiders know the company and its capabilities well, they are conditioned into the already traversed path of growth. New ideas, however, come from the outside, but the new manager may fail to weave those ideas into the existing fabric of the company's workings, thereby being unable to implement his ideas, and falling short of his mandate. This case reveals that the overall performance of Infosys as well as shareholders' satisfaction has remained upbeat over the years, although the founder directors have always outnumbered non-founder directors at the Board. During this time, Infosys made incremental changes in its business model, for instance it slowly distant itself from the Applications Development and Maintenance space. However, when faced with a strategic transformation in business - "from being a mere technology provider to becoming a business partner for its clients", Infosys opts for an outsider as its Chairman. But to ensure continuity and investor confidence, it also retains Mr. Murthy as Chairman Emeritus. This is an important anecdotal contribution that the case makes in the area of succession management during periods of upheaval or reinvention of an organisation.

Corporate governance issues involved in succession planning, is the other aspect that the case highlights. Anglo-Saxon literature describes the principal-agent problem as a conflict between manager and shareholder owners. The alternate form of governance concern is known as the principal-principal problem between the large shareholder and minority shareholders. However, in emerging economies, a more factual picture would be to present a triad - the principal-principal-agent problem between the promoter, external shareholders, who need not be a minority, and managers. In this triad, managers derive traditional private benefits of control which come at the expense of profits, while promoter derives non-pecuniary benefits of control which does not affect profits. Succession in this scenario has been shown to depend on the level of legal protection of outside shareholders (Burkart, Panunzi and Shleifer, 2003). In countries where such legal protection is strong, there is no need for monitoring and the founder promoter can sell out in the stock market, create a widely held firm, run by professional managers. This is predominantly the case in developed economies. On the other hand, when legal protection is weak, the founder cannot control agency problems, and hence keeps management within the family, although family successors may not be as talented as outside managers. Finally, where legal protection is moderate, it can be beneficial for the promoter to hire a more talented, external professional manager but stay on as a large shareholder to monitor him. This last outcome is observed to be played out in Infosys, as is the practice with most large, listed firms in India. While the case does not discuss much about the strength of legal frameworks existing in India, we know that the Securities and Exchange Board of India (SEBI) does keep a close watch over the rights of outside shareholders, although our judicial system still needs a lot of reform. Accordingly, we find that, when Infosys brings in Mr.Kamath, whose professional record is exemplary, its founder members still retain some control over the board, with Mr. Murthy staying on as a mentor, and possibly, as a monitor. Again, the case provides very apt anecdotal evidence on theories of ownership structures and optimal succession practices within corporate governance, consistent with extant view.

One of the areas that the case remained wanting was its reliance predominantly on secondary data. It would have been more enriching to have a first person account from one or two Board members of the company on the strategic and organisational considerations that led to the decision of engaging an external professional as the Chairman of the Board. Also, some indicators of stock market performance would have corroborated Infosys' standing amongst the corporate honchos in India. Barring these minor limitations, the case has been comprehensively written with clarity, objectivity and the occasional humour, which makes it a very interesting read.

References

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