Infosys: Transition at the Top

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The case "Infosys: Transition at the Top" is an interesting read for many reasons. The case not only chronicles the journey of Infosys in adopting governance standards that were clearly ahead of the prevalent industry norms in India, but also describes how such a successful company grapples with changes associated with transformation in governance structure. The case successfully highlights the associated tradeoffs that a company may go through while adapting to new and advanced corporate governance mechanisms. To explain such tradeoffs and the effects thereof, the case anchors itself to the interesting story of the recent change in leadership from the founder member Mr. N.R. Narayana Murthy to a non-founder professional Mr. K. V. Kamath. However, what interests me more in the case, in addition to the processual aspect of the leadership change,are the tacit but important tradeoffs associated with this change. Primary among them are the trade-offs between (a) the organizational knowledge and dependability of founder leaders vs. the potential expertise of professionals, (b) the concurrence to existing organizational ideology by founder leader vs. the best practices and changes that an outsider professional may bring, and (c) the control and associated efficiency of a homogenous owner dominated board vs. the diversity and inclusion of a heterogeneous stakeholder's board.

To discuss these tradeoffs in context of Infosys' thirty years of transformation, we need to go to the core of corporate governance literature. Like many other management concepts, now applied to the real world organizations, the concept of corporate governance finds its root in few established theories of management such as resource dependence theory, stewardship theory, agency theory, and stakeholders' theory. The importance of theories in the context of a real world phenomenon such as Infosys' transition is not only because of the clarity of understanding and the generalizability they provide but also because we can use such theories as frame of references to reassess the relative value of tradeoffs.

Resource dependency theory, in the context of corporate governance, highlights the role of board of governors and that of leaders in providing access to resources which may be critical to a firm's existence and growth (Hillman, Withers, and Collins, 2009). These resources may include domain knowledge, expertise, access to factor market and/or consumer market and so on. In the context of Infosys it is interesting to note how the type/characteristics of resources that the firm needs have gone through drastic changes over thirty years. The provision of resources those enhanced organizational functioning and stability, facilitated its rapid growth in the software services sector, established its credibility in and out of a developing country, and nurtured a new knowledge based industry in 1980s and 90s are surely different than the resources needed to take Infosys beyond 2010. And here lies the crux of the transition from Mr. Murthy to Mr. Kamath which is also highlighted by the fact that Infosys has changed its name from Infosys Technologies Ltd. to Infosys Ltd.

The change in relative importance of resources over thirty years also relates to the change in board structure of Infosys in the context of its predominantly non-domestic consumer market and the importance of credibility as a resource. This aspect of the case, seen from the overall context of Indian software industry and its transition, and from the operating context of Infosys in specific,makes the case interesting from resource dependency point of view. However at this stage a few questions are pertinent: Do the benefit in terms of resources that professionals may bring outweigh the disadvantage associated with parting of resources that an insider or founder leader provides in changed circumstances? And if both of them are necessary, how a company may innovate a governance structure that facilitates complementarity of resources that these

individuals may bring? In this context, is the present governance structure of Infosys (including the triumvirate arrangement) ideal?

While the agency theory deals with possible dissonance of interest between principals i.e. shareholders and agents i.e. executives, the stewardship theory highlights the fact that a steward i.e. executives, "protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized" (Davis, Schoorman, Donaldson, 1997). Though the assumptions about the nature of executives are different in the above-mentioned theories, Infosys case provides a meeting ground for application of the two theories. If the principal is the agent, as for a substantial period in Infosys, does principal agent problem arise? If a founder member is the CEO and reluctantly the effect of principal-agent problem is subsidized, will it not lead to principal (major) - principal (minor) problem? What kind of board structure is necessary to neutralize both? On the other hand, when can a firm assume that the executive actually works like a steward and what kind of governance structure may facilitate such behavior? A related question in this context will be, if adherence to ideology ensures stewardship behavior and if length of tenure is an indicator of ideological adherence, how does one facilitate entry of external talents and new expertise critical to build an open organization? There are no easy answers to these questions.This case highlights such paradoxes and that is one of the strengths of this case.

The composition of Infosys board, where till 2010, founder directors always outnumbered non-founder directors (among executive directors), and the opinion of one of the erstwhile board members to have a more social inclusive board takes us towards the third major tradeoff: homogeneity leading to control vs. heterogeneity leading to inclusion. Given these tradeoffs, probably the best way out was to seek a compromise: a person who has exposure to Infosys' organizational values and is endowed with industry credibility, external expertise, and founder's faith. However, the best outcome might not necessarily come out of the best process. The case highlights this truth while explaining the nomination process, readers of the case may easily find out. This leads us towards a more philosophical question. Is process important or the outcome? In most of the situations or cases it seems outcome is important. And outcome indeed is important. But isn't corporate governance about establishing a process that is fair?

References

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