

INTERVIEW | N. R. NARAYANA MURTHY

SEBI MUST SET UP A SCHOOL TO TEACH GOVERNANCE TO THOSE WHO WANT TO BE INDEPENDENT DIRECTORS



In celebration of its 50th Volume, the BCAJ has brought a series of interviews with people of eminence, those whom we can look up to as outstanding professionals.

*The fifth interview in this series features Mr N. R. Narayana Murthy, co-founder of Infosys, one of the top ten Indian companies by market capitalisation. Mr Murthy is known for his entrepreneurial journey of setting up a hugely successful IT company in the times of anti-business government controls. He is perhaps better known as a fine human being and someone who brings ideas that India needs the most. He guides several companies as Board member and numerous educational and philanthropic institutions such as INSEAD, Cornell University, etc. He is well known for a committee he headed on Corporate Governance. Integrity, character, simplicity and discipline are some of the values his life exemplifies. He was awarded **Padma Vibhushan**, the second highest civilian award for 'exceptional and distinguished service'. He continues to inspire professionals, entrepreneurs and youth. Considering his time constraints, BCAJ sent him five questions to receive written answers from him. We hope you enjoy these pearls from this oyster of a man..*

Q Values in Business: If you can tell us about the factors that helped build a strong value system personally and at Infosys. Were there instances in your formative years that left a strong impression? What steps did you take to ensure that it stayed deep and strong?

A A community makes the desired economic progress with equity and dignity for all only when every member of the community follows a certain code of conduct agreed upon after detailed consultation with experts in a society. Such a set of norms for behaviour is what is termed a value system. Such a set of norms enhances the trust and confidence of each member of the community in every other member of the community and in the value system. When there are lacunae in this set of norms, it is the duty of the elite, the rich, the powerful and the influential people to fight and change the norms. This task cannot be taken up by the weak, the poor and the marginal people.

When confidence and trust are high in the set of norms in a community, then such a community faces no bottlenecks to progress like corruption, nepotism, and inefficiency. Therefore, progress is likely to be fast in such a community.

There were several events which taught us, at Infosys, the importance of values. We learned from each instance and bettered ourselves.

The best instrument a leader has to instill a good value system is leadership by example, walking the talk and practising the precept. Employees are watching a leader every minute they are in contact with him or her. They want to imitate him or her since he or she is a powerful role model for them. It is very important for our corporate leaders to demonstrate their compliance with the agreed

upon values in every transaction. It is also necessary for the leaders of capitalism in India to practice self-restraint in arrogating for themselves a disproportionate percentage of the fruits of labour in a corporation.

Fairness, transparency and accountability in senior management compensation are a must. They have to lead an austere life shunning vulgar display of wealth and power if they want capitalism to become strong in India.

The leaders have to tell stories from their own company where they ensured that good values indeed succeeded and how they made sacrifices to overcome huge problems they faced using the right methods.

Q Financial Figures: As a leader of Infosys – you would have to deal with numbers all the time – what was it that you always looked at from what may seem like a maze – your tools and rules?

A Being an engineer, I have been a numbers man all my life. I am also comfortable in connecting the 50,000 feet bird's eye view of the world with the ground level worm's eye view of the world. In other words, I am comfortable both with strategy formulation and overseeing a detailed execution plan to achieve the strategy. That is why our annual strategy conference has been called (right from the early days) as STRAP (Strategy and Action Plan). Strategy takes a week to formulate but implementing that strategy successfully takes 3 years.

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Therefore, in running a company, it is first important to decide what your strategy is. My strategy has always been to bring innovation in every function of the organisation to differentiate ourselves from our competitors to provide a better value to our customers, charge 20% to 25% higher prices, and obtain industry-leading operating margins (this was true as long as I was the Executive Chairman of the company till 2011; I do not know what it is now). Every business has about 5 to 7 levers that you can tweak to achieve your objectives. I focused my attention only on the US GAAP figures since our revenue was 98% from abroad. Some of the parameters I looked at were: revenue growth (on-site and off-shore), utilisation of professionals (on-site and off-shore), ratios of the number of senior, middle and junior people on-site and off-shore, spend on



sub-contractors, gross margins (on-site and off-shore), cost of business enabler functions as a percentage of revenue, per-capita revenue productivity, per-capita after-tax dollars added, number of innovations added, cost per innovation and ratio of after-tax dollars to cost in dollars of such innovation, attrition, brand and compliance.

Q Corporate Governance: You headed the SEBI committee. In light of all that is going on (IL&FS, ICICI, NPA mess, economic offenders getting away) – How do you see the state of Corporate Governance in India today? More specifically the role of Executive Directors, Independent Directors and Auditors in particular – what are we still missing?

A While SEBI has done a good job in attempting to improve corporate governance standards in India, the



Indian culture has not allowed their efforts to succeed as much as they would want. The primary requirement for sustainable Indian economic growth to ensure that the poorest child in the remotest part of the country has decent access to education, healthcare, nutrition and opportunity for betterment is the cultural transformation of the country. This country has made a science of lack of integrity, nepotism, ignoring meritocracy, poor work ethic, lack of discipline, corruption, putting the interest of an individual ahead of the country, and not caring for the commons. Unless a leader like Mahatma Gandhi emerges to lead cultural transformation, I do not see India can redeem her pledge to the founding fathers.

The value of independent directors and success of governance depends on a courageous, value-based, tough, intelligent, detail-oriented and hard-working chairman who leads by example. Such people are rare in this country. Unless there is a non-executive chairman who has the attributes that I spoke about earlier and whose stature is high enough that the CEO operates under his or her governance instructions, governance is unlikely to succeed. The companies where the board is subservient to the CEO will sooner or later fail as we have seen what

happened in many well-known companies in India.

How do we improve the quality of independent directors? There must be a school established by SEBI to teach the basics of governance and business (various sectors of the economy) to those who want to be independent directors. Only those who obtain 80% marks in an examination conducted by an international professional body should be given licence to practice as independent directors. This certification should be valid for just five years and the independent directors should be recertified once in five years. When there is an issue of misgovernance in a company, the certificates of all the independent directors including the chairman should be withdrawn for ten years and they should be punished very severely. Those directors who are found not guilty should get recertified.

Q Success: How do you define and see success? Has it changed over the years and how?

A Success to me is the ability to bring a smile onto the face of people when you enter a room. They smile not because you are rich, powerful, beautiful but because you are for them. I follow the following words of Ralph Waldo Emerson :

"To laugh often and much; to win the respect of intelligent people and the affection of children; to earn the appreciation of honest critics and endure the betrayal of false friends; to appreciate beauty; to find the best in others; to leave the world a bit better, whether by a healthy child, a garden patch, or a redeemed social condition; to know even one life has breathed easier because you have lived. This is to have succeeded."

Q If one were to find you on a nice and easy day – what would you be doing at home, Sir?

A I would be reading a book on mathematics or physics or computer science and listening to music – Western classical, Carnatic classical, Hindi and Kannada film songs. ■

My success will not depend on what A or B thinks of me. My success will be what I make of my work. — Homi Bhabha, Father of India's Nuclear Programme