

"The Indian manager has to become much more technology savvy"

Special Interview, IIMA Alumnus, Volume 31, Issue 01, Jan-Feb 1999, Pg. 16-18.

SPECIAL INTERVIEW

"The Indian manager has to become much more technology savvy" : Mr N.R. Narayana Murthy, Chairman and Chief Executive Officer, Infosys Technologies Ltd.

Mr. Murthy what is the kind of management required by Indian companies in facing the new challenge of globalisation?

I would define globalisation as producing where it is most cost effective to produce and selling where it is most profitable to sell without worrying about national boundaries. Now that is easier said than done because of tariff and non tariff barriers that nations erect when they see threats from those countries which have an inherent competitive advantage. Any management that operates in a globalised operation has several challenges. First one is how do we recognize the competitive advantage of nations and leverage them. For example, today a company like Reebok has production of shoes mainly in Asia, Taiwan, China, to a small extent in India, Thailand, Indonesia, etc. So it has to look at the entire globe as its arena.

The second challenge faced by a globalised corporation is to be truly multicultural because in a globalised corporation you have people from different nationalities who are interacting on a day-to-day basis unlike in a multinational. In my definition a multinational is a large corporation with responsibilities for production and sales in a specific country. For example, Hindustan Lever's main charter is to produce consumer and health products in India and then sell them in India itself. That is their primary *raison d'etre*. On the other hand in one globalised corporation, its software design is done in Paris and Bangalore in India, hardware design is done in California and in Hawaii, hardware manufacturing is done in Taiwan and its market is primarily in the US. So because of this borderless operation and because of the high density of interaction in a globalised corporation, it has to learn to be multicultural. This means that it has to understand the aspirations of people, to synergise the aspirations of the different constituencies in reaching the goal of the corporation. The other aspect of a globalised corporation is that it has to be much more nimble. By definition because a globalised corporation produces where it is most cost effective and sells where the markets are not necessarily most profitable – though ideally it should be so – it has to be in a position to



shift markets and to be able to shift production centres or add new ones. So it has to be that much more nimble and open.

Thirdly, a globalised corporation does not have a head quarter in the traditional sense like a multinational. The centre of gravity of a globalised corporation is really not at a given place. It is somewhere in between the various nations that it is involved in. In fact, AVB is in some sense an example how they have reduced the size of their headquarter. Everyone in a globalised corporation has to say that the world is my dream. I will source human resources, capital, raw materials from all over the world and look at markets all over the world as long as they are profitable.

Coming a bit more specifically to the IT industry, what scenario do you see for the software IT companies of India in some 5-10 years from now?

The Indian software industry is primarily service based, which means that they take up development of customised software, maintenance of software, and they also operate what we call offshore software development centres. Now, the market for this kind of opportunity is about 20-25

billion dollars today. We have approximately 10% of that market. In my opinion, given the conditions that exist in the country today and given my own view of where these things will go, it is very likely that India will continue to be primarily a software services nation. I think what will happen is as we move forward, India will become a significant player in the world software services industry. As against 10% hopefully, we will have 30% of the world market, which is a very good thing.

Now, most of the Indian companies which are today 95% services in their revenue will, perhaps, graduate to being 75% services in terms of their revenue and perhaps 25% for products. So, we will essentially remain a services company. The Prime Minister has said that we need to become a 30 billion dollars domestic industry and a 50 billion dollars export industry. This means that as against 2.5 billion dollars of exports this year and 1.5 billion dollars of domestic industry, the Prime Minister wants us to go from 4 billion dollars today to 80 billion dollars in the next 10 years. We will have to maintain a hectic pace of growth and to manage this growth is not going to be very easy. Now it is one thing to add more and more people and continue to grow but that itself has several problems – where do we find all these people who are competent and trainable. Even if you are able to find such people you have to mount infrastructure, both, physical and technological to manage these people or leverage their strength.

The problems of a 100% organization are not linearly related to the problems of a 50% organisation. Its geometric proportion in terms of the numbers and the concomitant problems is 4 times. So we have to learn to move towards decentralised operations, to manage multiple small units, and to learn new paradigms of development. We have to look at establishing development centres outside India because of various reasons.

Infosys is the first company in India to talk about the concept of a 24 - hour productive day or continuous work day. This is good in traditional areas of development and maintenance where you can run relays, but as you go to the new paradigms of development, you need a much larger bandwidth of interaction between the customer and the company. What we need to do is to set up development centres in time zones that are very similar to those of our customers, which necessarily means that we have to move out of India in terms of development.

Secondly, Indian salaries are growing at 25-30% every year. Now given the fact that they form about 15% of the total revenue and 20-25% constitutes foreign travel, etc. and these costs are rising at 10% every year, we are already looking at 75% of revenue. Our overheads are about 10-15% and they are growing at 10% though the government is saying that it is sub 10. Looking at 8.5%

of your revenue going up year after year during inflation, unless you can increase your per capita productivity by 8.5% year after year, you will start eating into your margins. The only solution is to enhance the per capita revenue productivity from 2 sources; first by improving your work productivity, that is you take 5% less time as compared to last year. Second, you go to the customer and get a 5% increase in your rates. Now both are possible. I think that is a big challenge. Added to this, if we truly want to become billion dollars companies then there is no doubt at all that we have to enhance our capita revenue productivity from the current \$ 35-40000 to perhaps \$ 75-80000. Otherwise what will happen is that the growth in numbers would be linear with the growth in revenue and we can't afford to do that. So that is the other challenge. As we go towards the next millenium, in the next 10 years – Indian companies have to reckon with that.

Besides, if they have to attract talent outside India as they start growing, they must create appropriate instruments. In the US unless you can give attractive stock options, you cannot attract talent. To get listed outside India you must be worthy of those markets, i.e you must conform to US GAP – Generally Accepted Accounting principles -- and have a high level of transparency to ensure that you are the company of choice for investor's out there. In other words you have to compete for global capital with those companies. I would say all those things will happen as we move forward in the next 10 years.

What do you see as the major issues and problems in corporate governance in India ?

In my opinion the only objective of any corporation is maximising share holder value. Once you have done that there could be several sub objectives, like creation of wealth – legally and ethically. Now, what is happening in the Indian context is that thanks to a certain feudal mindset, a colonial past, license Raj, etc, we have come to a stage where the family influenced companies – not family owned companies – who may own only 9 per cent of a company believe as if they own the company 100 per cent. The question is that if we have to operate like a modern company, a company of the 1998-99, how do we ensure that we change the mindset of the owners, the management and the board of directors so that our Indian companies can bring maximisation of shareholder value?

When we talk about corporate governance it is not just limited to the investors alone. Customers, employees, government, etc. are the various constituencies. Corporation governance is conducting the affairs of the company in interfacing with each of these constituencies in a legal and ethical way to maximize the objective of the corporation. Because of liberalization the competition is increasing for customers and also human resources. In fact, the Director of IIMA was telling me yesterday that

last year 34-35 students took jobs outside India. So it means there are a lot of companies outside India who are coming for talent here. Which means we will have to compete with global demands for human resources. So we will have to show the highest level of fairness and transparency in dealing with our employees.

As our country does not have enough capital for all its growth, we have to necessarily source capital from outside. In that case because global investors have multiple choices across various countries, we will have to live upto the highest standards of corporate governance and transparency vis-à-vis investors. In its desire to make the life of the corporations easier, the government has liberalised most of its rules and regulations. It has brought down taxes from 97% to a very attractive 35% today, which is much less than many European countries. Now because the government has shown its willingness to come forward, it is our duty to make sure that we live up to the expectations of the government by paying our taxes properly.

Next, because these are the days of mega collaborations, we need to be very fair to our vendors. Unless there is fairness to them, we will not be successful in the long term. So, we need to show corporate governance principles in respect to our vendors.

Finally, in developing countries like India, the chasm between the haves and havenots is increasing. If a corporation has to exist in peace and harmony with its environment, it has to learn to relate to the environment. This means that we adhere to the highest principles of corporate governance vis-à-vis the society. Whether it is polluting the environment or displacing tribals, we have to keep in mind society as a constituency.

What role can IIMA play in helping Indian companies in globalisation, and improvement of corporate governance?

I think the manager of the next millenium will no doubt have to come necessarily from institutions like IIMA. Now, these institutions have to obviously look at the context of the next millenium and change the curriculum to produce the manager of the next millenium. First of all the future managers will have to be taught the scenario that is going to exist in the next millenium. How there will be compression of time cycle, reduction of cost, impact of internet, new economics of electronic commerce, implications of globalization and liberalization taking place in India? What would be the market place in India and outside India in the next millenium,

how to compete in those market places, and how to create successful strategy in those market places ?

The second thing that IIMs need to do is to teach the principles of managing multicultural workforce because the only way this country can succeed in the coming millenium is by creating many multinationals. We have not created a single multinational from this country so far. That has to be the vision for the next millenium and we have to see how IIMA can take part in that. The other thing is that as we become more and more globalized and liberalised, we become more and more riskprone. So I would expect out future managers coming from IIMA to be trained in the area of risk management, modelling capabilities in international negotiations, etc. We need to move forward in extending the Indian GAP -- Generally Accepted Accounting Principles - to be on par with the best in the world if we have to attract global talent and if our managers have to become global. I think considerable research needs to be done in taking the Indian GAP to beyond the world standard. It is institutes like IIMA along with, of course, the Institute of Chartered Accountants that need to hold seminars, do research projects and then teach the boys and girls the new accepted standards.

The next issue that I can think of is that the Indian Manager has to become much more technology savvy. He or she must be able to use technology in general and information technology in particular in making their organizations much more successful in the market place. Compression of cycletime, reduction of cost, increasing productivity, increasing customer comfort are imperatives that every business has. Our boys and girls must learn to use IT towards doing this.

What would be your message to the students and alumni of IIMA about the role that they should play in India?

I think never before in the history of this country have we had an opportunity where creation of wealth by legal and ethical means was possible like it is today. Be it by way of taking part in the success of a large corporation or by entrepreneurship, speed and imagination are two time - invariant and context - invariant attributes of success. I would like every young boy and girl in this institute to use speed and imagination in everything they do in making sure that they bring value to the table, in making sure that they become more and more proactive players in enhancing the fortune of whatever endeavour they are called of.

"INTEGRATING TECHNOLOGY AND STRATEGY IS THE WAY OF BUSINESS"

Special Interview, IIMA Alumnus, Volume 34, Issue 01, February 2002, Pg. 19.

SPECIAL INTERVIEW

"Integrating technology and strategy is the way of business"

Mr. Narayana Murthy

How could an institute like IIMA play a significant role in IT?

- Demystifying technology
- Creating ventures focussing on technology
- Integrating technology and strategy -- this is the way of the business
- Starting research on technology for the masses relevant to conditions
- Attempting to change life of people through the use of technology
- Use technology within the institute to ensure people get comfortable with it
- Attempt to predict discontinuities
- Consulting on what should Indian corporations do to reach world scale and world class in terms of productivity
- Quality and how technology enables that
- Building or promoting technology clusters
- Influencing government policy and promoting e-governance

What should be the thrust area for IIMA to keep pace?

- Promoting integration of technology and strategy
- Consulting on what Indian corporates should do to reach world class and scale through technology
- Research on relevant technologies for the future

What are the issues of tomorrow that will matter the most?

- How to prevent a digital divide or reduce it?
- How to integrate technology in education at the grass roots level?
- How does the common man benefit from technology?
- How can the productivity of the nation change through the use of technology? e-governance?
- Can we as a nation go on a long economic upturn with low inflation through technology (like the 1992-2000 period in the US)?



Do you feel through this exercise, IIMA can refocus its goals in academics and other regions?

- If you are talking about a technology policy or framework for the Institute - I think the answer is that IIM A should refocus its goals.
- Can technology enable more affordable education for more people?
- Can we aim for 100% literacy through technology in 10 years?
- Can we aim for 50% computer literacy in 20 years?

How do we ensure this entire activity becomes proactive rather than reactive?

- Technology committee
- Clear goals with milestones
- Strong leadership

What role can alumni play in this exercise?

- Part of technology committee
- Sponsor certain types of research
- Visiting faculty
- Influence change in society
- Technology mentoring for incubation centers Venture capital

"We need managers, rather than administrators"

38th convocation speech, IIMA Alumnus, Volume 35, Issue 02, June 2003, Pg. 8

CONVOCATION

"We need managers, rather than administrators"

..... Mr. Narayana N.R. Murthy



"All of us desire to see India take her rightful place among the comity of nations, as a First World Nation" Narayana N.R. Murthy, Chairman, Board of Governors, IIMA said in his welcoming address at the Convocation ceremony.

"It is a special day for IIMA as the President, a highly acclaimed academician himself had agreed to deliver the convocation address," he said welcoming the Honourable President of India, Dr. A.P.J. Abdul Kalam along with other distinguished guests, parents, faculty members, members of the Governing Board and graduating students.

Mr. Narayana Murthy exhorted the students to be worthy citizens. He said, "Your teachers have taught you a number of things; I have nothing to add in terms of academic lessons. However, let me urge you to become world-class business leaders and worthy citizens of whichever country you choose to live in and uphold the image of India.

Quoting Russian author Alexander Solzhenitsyn: The line separating good and evil passes not between states nor between classes, but through the middle of every human heart, he asked students to stand for their beliefs. "There will be times when your secular values are put to test by a minority of misguided people in each community. It is these people who try to create hatred and bigotry. Always stand up for secularism and integrity," said Mr. Narayana Murthy.

Commenting on the country's strengths and weaknesses, he said, "India is a paradox in many ways. While it is rich in natural resources, possesses a thriving industry and has a large pool of technical manpower, a large majority of its people are illiterate and poverty-stricken."

Focus on resource utilisation in the best manner is imperative nowadays in every sphere of activity - public sector, private sector, the NGO and government - Mr. Narayana Murthy said. Hence, we need managers rather than administrators.

"The Institute realised that its role went beyond business management," he added. It has contributed to training and pioneering research in various fields through the Centre for Management in Agriculture (CMA) and the Public Systems Group. It has worked with the government in strengthening the policy framework in several spheres.

"Based on the Institute's philosophy, our faculty has made the problems of the practising world, the central foci of their academic pursuits. They make use of their immense knowledge and analytical skills. Most importantly, in studying these problems, the faculty has scrupulously avoided the "analysis-by-paralysis syndrome," pointed out Mr. Narayana Murthy.

Forces of globalisation and technology are continuously reshaping the world. "The Institute could prepare our managers to address the opportunities and threats that our companies face," he emphasised.

Further, the Institute had to play a large part in clarifying role of the government in raising quality of governance systems. This was more so, in the wake of the corporate scandals that have rocked the world, opined Mr. Narayana Murthy.

IIMA had to ensure that the alumni upheld the highest principles of corporate governance. Students should have frequent interactions with people from the industry for real-life experiences. "In fact, we have to make use of the Institute's strong alumni network to provide mentoring and other support," he felt.

Dwelling on the philosophy of IIMA, he said that we must pay tribute to the founders for not restricting the Institute's field of activities. In this context, the founders of IIMA had proclaimed that it is an institute of management and not just an institute of business management. In fact, management is all about optimal utilisation of resources.