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Leadership Role in Corporate Facing VUCA: Case in India

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Abstract

In “The World is flat”, Thomas Friedman notes that the rate of change today is much different than it was in the past. The fate of many leading company failed to navigate the rapid changes brought about in its business environment and some corporates are on its last leg of existence. It has cordoned a warning signal that are facing inevitable, unpredictable changes not because the companies are not aware or smart but they have slowed up the speed of change-VUCA. The V in VUCA denotes volatility referring to nature, speed, volume and magnitude of change that does not move in a predictable manner. U is for uncertainty-lack of predictability in issues and events, C is complexity -there are numerous difficult to understand causes and mitigating factor in global business environment. The research paper explore a case in Indian scenario facing VUCA. As the topic of the research addresses the question of VUCA of Indian corporate, it is quite logical to employ case study method wherein a case is studied where effect of VUCA is seen. The case focus on the VUCA changes in the leadership crisis in Infosys.

Keywords: Ambiguity, Complexity, Leadership, Uncertainty, Volatility.

1. Introduction

In a world where business leadership has not yet changed its mindset to the new realities, failures are bound to happen. In this gloomy and hostile situation, leaders should not only just survive, but also thrive. Is require shedding old assumptions and acquiring new mindsets, being more agile and developing the ability to quickly bounce back from adversity .Behavioral changes rather than just acquiring new competencies and skills, must be emphasized. Resilience and agility cannot be taught but can be learnt. What better way to learn to manage in the VUCA world than to learn from those who failed to do so as failure can teach more than success. VUCA stands for *volatility, uncertainty, complexity, and ambiguity*.

2. Literature Review

The Boston Consulting Group study concluded that organizations today must shift their business models-and their leadership skills-to become “adaptive firms.” Adaptive firms can adjust and learn better, faster, and more economically than their peers, giving them an “adaptive advantage.”

Roland Smith, senior faculty at the Center for Creative Leadership described the new environment as one of perpetual white water. His notion of increased turbulence is backed up by an IBM study of over 1,500CEOs These CEOs identified their number one concern as the growing complexity of their environments, with the majority of those CEOs saying that their organizations

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are not equipped to cope with this complexity. Professor Sattar Bawany, Managing Director & C-Suite Master Executive Coach with Executive Development Associates (EDA) in Asia Pacific concluded that managers often fail to appreciate how profoundly the organizational climate can influence financial results. It can account for nearly a third of financial performance. Organizational climate, in turn, is influenced by leadership style-by the way that managers motivate direct reports, gather and use information, make decisions, manage change initiatives, and handle crises. There are six basic leadership styles. Each derives from different emotional intelligence competencies, works best in particular situations, and affects the organizational climate in different ways.

The ability to create a vision and engage others can be developed through mentoring and coaching. The “hands-on” approach of mentoring enables leaders to observe what someone who has mastered these important skills does, and to solicit advice, input, and coaching on how to transfer what they have observed into their own work. It may be more challenging to find a mentor who also has top notch, highly developed cognitive readiness skills, so being mindful of the mentor’s skillset will be a key to success.

3. Purpose of the Research

The major objective of the research is:

1. To study the case where VUCA has affected the leadership (founder/board) pattern.
2. To study the role of management / board affecting the internal environment.

4. Methodology

The methodology adopted for the research would be CASE STUDY METHOD. The researcher would study a case to explore how volatility, uncertainty, complexity and ambiguity of the external environment has affected the leadership and influenced the internal environment of the company. Case study research is conducted to gain in-depth understanding of a case set in real word context. The case study method may be defined as follows:

“An empirical inquiry about a contemporary phenomenon (e.g., a “case”), set within its real-world context-especially when the boundaries between phenomenon and context are not clearly evident (Yin, 2009)”. The word empirical means information gained by experience, observation, or The central theme in scientific method is that all evidence must be empirical which means it is based on evidence. The Empirical data is produced by experiment and observation. In real case scenario, the collection of evidence to prove or counter any theory involves planned research designs in order to collect empirical data. Several designs have been suggested and used by researchers.

Case studies are pertinent when a research is either descriptive or explanatory. The research is said to be explanatory when it aims to explain a phenomenon and attempts to find why or how a thing happened. As the topic of the research addresses the leadership role in corporates facing VUCA, it is quite logical to employ case study method where in one case would be studied showcasing the role of top management as seen with regard to its role on the internal environment.

5. Case: Inside Story of Infosys

Problem Statement

- The concern issues for Infosys which created a furor between the board of members and founder members include compensation, severance packages, and shifting value systems.

- Governance is the basic issue from founder's side as the company is facing volatile, ambiguous, uncertain and complex internal and external environment.
- A whistleblower letter sent to media houses and SEBI with an allegation against board and CEO.

Background

An inappropriate moment for \$10 billion, Indian IT service Infosys faces with the volatile and complex environment, it is in decade that the problem has erupted in the company which has built up the image and identified itself as one of the major company of India. The ambiguity lays in clash of culture at Infosys the old one with vs. the new, frugal salaries, the low key lifestyles compared to globally benchmarked compensation. The clash of severance structures, innate skepticism of buying growth vs. aggressive acquisitions. The new Turks in the company believe that founders are too conservative to invest in future and that the founders do not want to "let go" of a company they built.

Infosys CEO, Vishal Sikka is targeting Infosys to be \$20 billion company with a 30% operating margin and \$80,000 revenue per employee by 2020, out of @20 billion, \$16billion is to come from existing business, \$1.5 billion from acquisition and \$ 2 billion from the new businesses. In the midst of a big technology transformation wave, where many low end jobs are automated, the overall external environment has been volatile and uncertain on account of the change in regime in US.

The frayed relation between founders and members of board appeared over the induction of Punita Sinha, wife of Union minister Jayant Sinha, as an independent Director. Mr. Murthy abstained from voting for her appointment, he grounded his objection that never in the history of Infosys the company invited spouse of any active politician to the board.

This friction though started with the internal recruitment, it carried on to executive compensation where the Murthy's philosophy of compassionate capitalism where the ratio between highest compensation in the firm and the median salary should ideally be 50 to 60, their biggest concern was 55% increase in CEO compensation that appears large where average salary hike was single digit of 6% to 8% at the company. Murthy chose to abstain from voting on the resolution.

Three cofounders Krish Gopalakrishna, S.D Shibulal and K Dinesh followed the suit in abstaining; only Nandan Nilekani voted in favor of the resolution. Sikka's compensation saw a sharp increase, though he actually got less cash than he was chief technology officer at SAP. The issue of concern was also the high severance packages to departing top executives CFO Rajiv Bansal and legal counsel David Kennedy.

Infosys under founders has traditionally been wary of large acquisition, as the biggest acquisition with Lodestone did not panned out well, Urich based consultancy firm has been point of conflict also. Under Sikka, Infosys share price rose 18% (In December 2016 while that of TCS fell around 9% and Wipro 14%). Infosys founders have also opposed the use of private jets by CEO.

Concern Deviations for the Governance in Infosys (Breakdown in Governance Value System): Issue Reflected by Board Members

The concerns are largely due to a transition from a hands-on executive board to an independent one. The founders collectively have around 13 per cent of the stake in Infosys, Life Insurance Corporation has 7 percent.

Firstly the governance issue means following resolutions and processes, according to the board it has followed them (issue here: Punita Sinha's appointment/Sikka's salary/Jeffrey Lehman's extension). Secondly, Sikka's payment to be higher than before does not thoroughly indicate breakdown of value systems, it is largely linked to performance and the type of goals the company is giving to Sikka. If he is pulling out well, he should deserve the best package (the right rewarding practice followed by the company).

Thirdly, there is nothing wrong in adding more members to the board, as the board required to be expanded as adding of such members can be credited to bring in more value to the table as well as the point to be noted is that the person has to be worthy of being in the board .

Concern Deviations for the Governance in Infosys (Breakdown in Governance or Value System): Issue Reflected By Founder Members)

- According to N.R Narayan Murthy, co-founder and first chairman of Infosys “the issue is not with Vishal Sikka but with the quality of governance at the board. It has slipped.”
- The red flagged governance and the odd with board members started with the exit of Legal and Compliance Head who had an exit with severance pay of 12 months (when the norm is of 3 months). He was concerned at the hefty payments for senior executives, it was the work of remuneration committee.
- Employees at various levels became unhappy as the founder got 1,800 mails expressing the concern of dissatisfaction on the particular payment issues. The question raised was that is it fair that they get 80% of the variable part of compensation while someone who has left is been given a compensation which is 100% variable for the next two years after leaving(former CFO Rajiv Bansal he have got 30 months' severance pay, that's 10 times the norms in the company).
- The founders were critical about the Rs. 17 Crore severance package to former CFO Rajiv Bansal, the issue was raised with the board that why the earlier senior executive who has left before Rajiv Bansal had not received any such severance package. The blame was with the head of remuneration committee for not going through due processes.
- Executives are unhappy that CEO brought 13 senior executives from SAP at the rank of VPs, SVPs and EVPs though the company boast of building leaders from within.
- This is in contrast with the philosophy of “under promise and over deliver” of Murthy, who built the company with this culture over three decades ago. Sikka, hired from business software maker SAP, has also used private jets for official travel, contrary to the spirit of thrift adopted by the conservative founders.

Rectifying the Volatility, Uncertainty, Complexity and Ambiguity (Breakdown in Governance and Value System): Issue Reflected by Founder Members

- Infosys appointed law firm of Cyril Amarchand Mangal Das, to evaluate and make recommendation regarding inputs received from the promoters and stakeholders (the board members had to fully aligned with strategic direction of the founders).
- The board has to take inputs from various stakeholders including the company's promoters, giving serious consideration to all the inputs.
- Infosys founder members was discontent with matters of governance as such they realized changes on the board to avoid complexity. There was appointment of a co-chair and replacement of the head of nomination and remuneration committee (proposal for NYU Stern School of Business Professor Maru Subrahmanyam as Co-Chair and D.N Prahlad to replace Prof Jeffrey Lehmanas head of remuneration committee).

- The company was of the view that it will focus 100% on shareholders' value. The focus was on realizing the volatility of the company where the governance crisis is with the board members. There is a need for the change of methods adopted by the board.
- Infosys has hired law firm Cyril Amarchand Mangaldas to engage with stakeholders, including the founders, and take suggestions to recommend to the board, even as it independently engages with them as large investors.

Rectifying the Volatility, Uncertainty, Complexity and Ambiguity (Breakdown in Governance /Value System): Reflected by Board

- The company released the statement where they said that the board appreciates inputs from the founders; it is committed to fulfilling fiduciary responsibility to act independently and in the interest of shareholders.
- Jeff Lehman, senior most member and of Infosys, board and chairman of the nomination and remuneration committee comply that board has full confidence in leadership of Chairman.
- The board is of the view that the process of formidable transformation is an initiative that the board members are taking, it is resumption of company regarding ambiguous and complex external situation where digital has not only become digital fad, but because every aspect of lives is disrupted by technology which politically and economically been volatile with reference to change in governance and administration.
- The other major shareholder are unlikely to go for any dramatic changes as the company is doing good performance under Sikka .Oppenheimer Developing Markets Fund ,a major shareholder was of the view that Sikka has achieved much in the tenure as the first non-founder CEO.
- On the appointment of Punita Sinah as independent director the board member are clear on her appointment as per her qualification and not on her husband's political affiliation.
- On D.N Prahlad's appointment as independent director, it was suggested by board that Prahlad will bring rare IT understanding to the company business.
- The compensation given to Sikka was a fixed component which came down to \$4 million and not \$11m (as quoted by media), it is in line with global standards and linked to ambitious targets. There was shareholders' approval for Sikka's compensation.
- The board is on with the legal process with respect to Rajiv Bansal's Rs.17.38cr severance pay. The exit issue of Rajiv Bansal was more related to the alignment with other board and it was a mutually agreed separation.
- On whistleblowers mail on Panaya acquisition at \$200m, the board is very clear that they have followed the process laid down while the Deutsche Bank did the valuation whereas the final acquisition price was determined within the band.
- On CEO Sikka's use of private jets, the board was of the view that these costs cannot be viewed in isolation from the value they bring to the company.

6. Conclusion and Suggestion

The business environment will always remain volatile and the future uncertain, ambiguous and complex (internal and external environment). The VUCA have been accentuated by change of demographics, customer profile, localization, and innovations with pressure on sustainability, strategy and Innovation, models of talent management, verticalisation and horizontalisation of organizations as well as fast pacing technological changes. In complex & large organizations (Infosys) in the modern world, interconnections of systems, geographies & products and services, leadership has assumed totally new set of contingencies.

The board and management are making sure that there is no impact of the ongoing face off with founder members and the company's obligation to client is unaffected. The board and management are looking into the proposals which are being made by promoters and will be bound to act upright for the company as they have fiduciary responsibility to 100%shareholders and not that it will do what will be best for the business founders who have 13%shareholders.

The organizational strategies for leadership should get more attention of top Management to use Empowerment, Enrichment, Delegation, Autonomy, Positive Psychology & Talent Management tools (e.g. developmental conversation, Mentoring, Executive Coaching, and MDP etc.).

In the changing business and global environment, the VUCA world is putting more challenges and opportunities before the business leaders than what was seen before. In Emerging markets as growth opportunities exist, the CEOs/CXOs/Founders/Board/Mentors and other business leaders have to constantly work on finding more innovative and strategic ways to strengthen and sustain competitive edge within the organization which should result in satisfying ever-increasing stakeholder expectations.

In the VUCA corporate (the case as taken) shows heterogeneity. The leadership issue is becoming quite apparent, relatively the relationship among founder members/stakeholders/board members has receded in the present internal environment reflecting the matter and making it debatable in the business fraternity. The expectations from high rated companies like Infosys have an image which has been created through mentors and employees and depicts in its work climate and organization culture. Presently the issue is to maintain it and focus on building corporate governance through channelizing better communication and understanding among the various stakeholders and founder members.

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