



**Mr N R Narayana Murthy's Address to Industry & Government
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Distinguished persons on the dias, ladies and gentleman, I do not see too many ladies. First of all, it is a great privilege to come to Calcutta, the intellectual capital of the country. It is also a great privilege to come to the land of Tagore, the land of Amartya Sen, and of course the land of Tarun Das because all of us who have known him well, worked with him, have realized one thing that he is a man who says what he means and he means what he says, and we have a true and honest relationship. If there is any issue on which he does not agree with what I say or I do not agree with what he says, we say it and then we agree to disagree and move on. So, thank you very much Tarun for this invitation and thanks to the CII that I am here.

I have been asked to speak on making India globally competitive. It is a daunting subject. I am not so sure I am the right person to comment about it, but all that I can say is, I will just talk about my own experiences in running Infosys; a small company by global standards, but certainly a company that has some presence in this country. The first one is what do we mean by a globalized company? What do we mean by globalization? I define globalization as sourcing capital from where it is cheapest, producing where it is most cost effective, and selling where it is most profitable; all without worrying about national boundaries. In my lexicon, globalization differs from multinationalised operation in the sense, that generally multinational operations are limited by the territory in which they operate. For example, Levers generally produces and sells in India. It generally sources capital from India. Similarly ITC, produces and sells in India. On the other hand, take a company like Reebok or take a company like Texas Instruments or Infosys or VeriFone. Infosys sourced capital not just from India, even from United States, Europe, when we went to NASDAQ. Our production is all in India because that is where we have the best value for money. Thanks to all global delivery model we sell in G7 countries, where the profits are maximum.

Now the corollary of that is, there would be other people from different parts of the world who will move to countries like India because these are supply-efficient nations; and when there is a supply-efficient nation or a supply-efficient community, then more and more people will come and leverage that power. So, globalization automatically means competition, not just outside our own country, because obviously in selling our products and services we have competition outside; but in so far as our own supply position is concerned we have competition inside; and in some other cases, because in a globalized phenomenon the markets get opened as had happened in India, we do have people from outside selling in India. Whether it is Hewlett-Packard, whether it is Mercedes-Benz, whether it is Bose Speakers, it does not matter what you talk about. Now, we have the Indian manufactures of consumer goods, you know, and various other products have tremendous competition from outside. So, globalization automatically means competition in every dimension.

Now, should India become more and more globalized?; in other words, on one hand should it become more focused on exports?, and on the other hand, should we face competition from within by all these foreign corporations? The answer to both for me is yes, because one, the contribution of our exports to GDP, if you do not include invisibles to the gross domestic product, is somewhere around 10%. Now, if you look at our competitors like China or Brazil or Mexico, which are in some sense in similar position, especially, Mexico and China, the contribution of exports to their GDP is somewhere around 25%. If we have to create more and more jobs for our young men and women; if we have to de-risk the Indian companies due to the secures of the local economy, then it is imperative to go and export more and more.

On the other hand, there is a clear rationale as to why we should welcome competition from foreign companies. As far as our manufacturing is concerned, as far as our supply side is concerned, as far as our efficiency of production is concerned, as far as effectiveness of our production is concerned and that is simply because, in the medium to long term every Indian corporation has to bring the same level of service to the customer as the best of the multinational corporations; because these corporations have had a longer history than us. They have had much more resources, they have operated in more sophisticated countries, and they are in competition with us; and then the ultimate reason is that if we have to even serve our export clients, we have to make sure that our products are better, quality is

better, response time is better, our customer service focus is better. So, on all counts, we have to agree that globalization is very important and we have to become globally competitive.

Now, what are the instruments that we have to become globally competitive? The first instrument, in my opinion is raising the aspirations of our people. Because in some sense we have been protected for 44 or 45 years and then we are slowly coming out of it. This is the time for our people to dream big. This is the time for our people to say, "We will conquer the world." This is the time to say, "We will compete with the best and the brightest." So, the task of raising the aspiration is extremely critical because if you raise the aspiration, you raise the confidence of the people, you raise their dreaming power, you raise their vision, you make them much better human beings, you make them much better contributors to your own corporations. Now, who does that? Who is responsible for raising the aspirations?

There is no doubt at all that if there is one responsibility of leaders of corporations like you is and that is, raising the aspirations of people; because leadership is all about raising aspirations, leadership is about making people more confident; leadership is about making people do the impossible, etc., etc. You know, in some sense the best definition of leadership could be from the words of George Bernard Shaw, which was taken by Robert Kennedy; he said, "Most people see things as they are and wonder why. I see things that never were and say why not?" I think that is one nice compound sentence that represents what leadership is all about. So, I think the fundamental responsibility for raising the global competitiveness of Indian firms rests with the senior management of the company, the CEO, COO, members of the board, and the senior management; because once you do it, the rest is all very simple.

[Now, what are the instruments that leaders have in raising the aspirations of people?](#)

In my opinion, the first and the most important one is to create a vision, a vision that is long lasting, a vision wherein everybody in the company can get infused about, a vision where everybody can contribute. For example, our vision at Infosys, is to be a globally respected corporation, delivering best-of-breed business solutions, liberating technology, and employing best-in-class professionals. Now around 10 years ago, about 200 people sat down. At that time, probably there were 400 people in the company; and all the people that were available over a period of week or so sat down. It included everybody at all levels; we sat down and some professor from outside conducted this. He was the anchorperson and he asked, "What is it that all of you aspire? What is it that is most precious to you people?" He said, "Of course, it is given that this cooperation has to grow, there is no doubt at all; it is given that this corporation has to make more and more revenue and make more and more profits, but the instruments that you choose; the fashion in which you would do this has to be unique." You know, you may not believe this, but out of 200 people about 190 people or so said respect is most important to us. Then he said do you want respect in India or do you want respect outside India? We said we want to be respected globally. That is how we said we want to be a globally respected corporation.

Then he said, how do you get respect in your business? We said obviously, if we satisfy our customers by delivering best-of-breed solutions, if we make sure that we do not shortchange them, if we make sure that it is all done properly, and in order to satisfy customers obviously we cannot take any shortcuts. Obviously, we cannot shortchange any stakeholder and that is how we put the best-of-breed solutions. Then he asked what is the instrument that we have. We said look technology is an important differentiator. That is why you will find Infosys today as a company, which spends the highest percentage of its revenue on technology. Last year we spent 9% of our revenue, which means we spent approximately about 60 million dollars, which is about approximately 300 crores purely on technology, and I am very happy to say that we are more advanced in technology than almost all our competitors. I do not want to say all because there may be somebody who is doing something leading-edge research, he or she may have something more. But let me assure you, and there is no doubt at all in my mind that when it comes to Indian companies, we are certainly much more advanced technologically than anybody else.

Just to give you a small example, I am an engineer, I use data. When Microsoft introduced their Windows XP, we were the first corporation in the whole of Asia including Japan to buy 11, 000 copies of Windows XP before it was announced. At that time, we had 10,300 people. That sent two messages. One, we want to be ahead of everybody else, even our customers in technology and second, we want to be absolutely legal and ethical because we do not want to pirate any thing.

Now that brings me to the next issue. The instrument that leaders have in raising the aspiration, in energizing people, in making them contribute very effectively towards a collective vision is a value system. Value system really is what brings energy and enthusiasm to people in their moments of dilemma; in their moments of tribulation, in their moments of conflict. Value system inevitably translates to cost. I don't know of any situation where you can say, I have a value system, but I did not sacrifice something. Almost in every situation at Infosys, we have seen that in the short term we have to make a certain

sacrifice because of certain belief, because of certain conviction; but in the long term that gives a large multiplier. So, value system is extremely important.

The next thing is that, if we want to be globally competitive, especially in today's market, we must all accept that the only security we have, the only security all of us have, companies in Calcutta, companies in Delhi, Bombay, Bangalore anywhere, or in New York, it does not matter, and that is the ability to grow and the ability to adapt. If you do not grow, if you do not adapt, there is no other security. You will all disappear like dew on a sunny morning. Obviously, you have to grow ethically, you have to grow legally, you have to make sure that you do all the right things. But at the same time unless you grow, unless you adapt yourself, there is no hope, and as Charles Darwin once told, "It is not the strongest that survives, it is not the most intelligent that survives, it is only those who adapt that survive." So, not just growth but adaptability becomes extremely important.

Now, what do you mean by growth? What is the meaning of growth?

Obviously you need more revenues, you need more profits, etc., and all of that comes from only one entity and that's the customer. I think the primary difference I have seen between corporations in the western markets and the corporations in India is in customer focus. So, if we want to become globally competitive, we at Infosys have realized that we have to have customer as our ultimate focus. We have to have champions within the company who will play the role of the customer saying that look your cost is high, your quality is poor, your response time is slow; and we have to make sure that year after year, in fact, we do two customer services a year and we get all the inputs, and we make sure where we were last year, where we are this year on those parameters and then we constantly improve. So the customer focus then becomes extremely important.

Now, in improving, in becoming more and more customer focused, I have realized in the last 21 years that there are only six instruments that we have, and they belong to different dimensions.

The first one is speed, imagination, and excellence in execution. That is, as long as you, the CEOs, encourage people to use more and more imagination day after day, more and more creativity day after day. If you start measuring where was my creativity level last year, where is it this year, or where was it last quarter, where is it this quarter; and then you say where was my speed last quarter, where is my speed this quarter, that is, did I do something faster this quarter compared to last quarter; and finally while you generate ideas with tremendous imagination, you use greater and greater speed in executing ideas faster and faster. Unless you can translate those ideas by excellence in execution, it has no value, at least that is what we have realized. Speed, Imagination, and Excellence in execution, these are in my opinion three time-invariant and context-invariant attributes for a corporation any where, doesn't matter what part of the world it is.

At this different level, I do believe that the most important asset for any corporation, whether it is services, in which case it is self-evident; whether it is agriculture, or whether it is manufacturing, whether it is government, doesn't matter. The biggest differentiating factor is the quality of your people. Unless you can attract the best and the brightest, unless you can create an environment where these best and brightest can become more and more enthusiastic, more and more energetic, I don't think that organization will grow, or will go too far. So, if you want to attract the best and the brightest, if you want to make them more and more energetic, enthusiastic, then we have to create three fundamental attributes in the organization and they are- when every person must say "I have tremendous opportunity to learn in this organization, that is, I have new challenges everyday, I have new paradigms to look at, I have access to knowledge, I work with people with whom I can communicate on to an intellectual level, I have freedom, I have openness to show my stupidity, etc"., that is what it is, what is the learnability environment of your cooperation, and that is the most important thing.

Let me give you a very interesting example. My wife was a postgraduate engineering trainee at Telco in 1974. At that time another trainee was there. My wife had done her Masters from Institute of Science and Engineering. He had done from IIT Bombay. Later on he joined a very famous company, as the number one person in the South. When he went to a factory in Northern Karnataka, and as he was going around the factory, of course he was being introduced to all the people, he just went to a very old man, probably not too old, I mean 50, whatever it is and he asked him, "What you think we can do to improve this factory?" That man started weeping. He was operating one of the machines. That man started weeping. So my wife's friend got worried. He was from Kashmir. He said, "Did I say something wrong?" He was speaking in English and got it translated in Kannada and the person (translator) asked the old man, "Did this person say anything wrong?" He said, "No, he said nothing wrong. But for the first time in 30 years of my life in this company, somebody realized that I not only have a pair of hands but I also have a brain, I also have a mind which I was willing to give it free. I would not have charged any extra money all the years, but the organization somehow reduced me to an animal just with hands and for the first time somebody has asked me." See the importance of leveraging the power of mind. See the

importance of creating an environment where even a person who operates a sleigh, says let me say how I can become efficient today. Let me contribute some ideas whatever I can make. So, if you want to do that learn ability is one.

The second thing is we need to create an environment where everybody sees competence with the boss, competence with the peers and competence with the subordinates. Unless they see competence at different levels, they will not have an incentive to learn more and more. That is the way we have conducted many an experiments. We have put a bright person in a group, where the boss and the subordinates and peers are not that smart, because we thought that this man could bring some change in that group. Actually, we failed for two reasons. One, we did not realize that while this man was fantastically bright, he did not have the leadership qualities. He did not have the ability to communicate effectively. He did not have the ability to pull people together. With the result, he also became average. On the contrary, we took average people and moved them to an environment of bright people, where everybody is competing in a healthy way and then this person, this girl also started performing. So, I think the key thing is that put competent people, make sure the bosses, the subordinates, and the peers are competent.

And the third and the most important instrument in this dimension is, which we have realized is that wherever we created an environment of openness, environment of fairness, environment of justice, environment of confidence, and environment of lack of fear, in those environment people grew. People contributed more and more. On the other hand, wherever there was hierarchy, wherever age translated to IQ or age translated to wisdom, or wherever the boss try to suppress subordinates from demonstrating that the subordinates were smarter than him or her, then those groups suffer over a period of time. So, on one hand speed, imagination and excellence in execution, and on the other hand learnability, competent environment, fairness, openness and justice are very very important.

Another thing that we have learned over 21 years is Model. Unless you are in a position to understand your business very well, you will not be able to succeed and unless you can create a model of the business. What do you mean by model of business? It means that you understand what are the revenue drivers. You understand the expense drivers. You understand the gross margins, the operating margins. You understand the net margins and you also understand what is the sensitivity of each of these to the total revenue, to total expense, to the total profit, etc., and then unless you can do an in-depth analysis, it is difficult to understand the business well. The person who does not understand the business well, he or she will fail in business. I have talked to lot of CEOs in my own industry, not too many people seemed to understand their business very well, and I can tell you without exception; those businesses that have failed were have the simply because the CEO & others did not understand the business well or did not have the desire to understand the business well.

So I would say that first we all need to do, if you want to be globally competitive, is to create a model of business which you can run it through for five years or so. Then you may say, things are changing. That is all right, as the change comes through you quickly put it in the model. Like we have a planning group, which has a five-year model. There are known as the five-year model and every week they update the model. What do they update? For example, the rates, the number of customers in different countries, the number of defects when we introduce any new kind of system, and then the impact of it. All of these go into that model. Eventually we can say, for example, we can ask a question, what happens if there is a delay of one month in recruitment? Lets say instead of three months, if it goes to four months, what will be the impact on PNDL not just this year, but on next year, and year after?

I think that is the other thing we have, and I have discussed with most CEOs, at least in my industry is that they are not used to quantify or use quantifiable paradigms. In fact, I sometimes get surprised even when some of the CFOs, when you ask them, how is the business, they will say, oh! It is better than last year or more or less all right. You know if you look at the statements of American or European CEOs and then compare them with the Indian CEOs, those guys are much more oriented towards quantifiable measures compared to the Indian people. So, I think we need to learn to quantify, that is, if you want to improve. You have to measure and if you don't measure, there is no way you can improve and if you want to measure, you will need to get to a quantifiable measure. This is the other thing that we have done.

Next thing that we have done right from beginning is that we have said that, because we want to be respectable, we wanted to be global; we realized that unless we adhere to the highest degree of corporate governance, then there is no hope for us to become respectable. That is not to mean that we do not make mistakes, that we are the ultimate smart people. No that is not corporate governance. Corporate governance is not to create an asymmetry of benefits; any asymmetry of information between owner managers and the employees or the insiders of the organization and rest of the world, while of course enhancing the shareholder value. That is the primary definition of corporate governance. What I meant to say is that no body in this company will fail in one his or her duties. Corporate governance is not to say that no one in the company will not be accused of sexual harassment. Let us be very very clear.

Corporate governance is how quickly you disseminate that information to the outside world, and number two, how you make sure that nobody inside has taken advantage of any benefits that arose because there was asymmetry of information between the insiders and outsiders. Our philosophy at Infosys has always been the in a clear conscience. Number two, we say, when in doubt disclose. In the short term you lose a lot, but in the long term you will be a winner. There is no doubt at all.

You know, I am a great fan of Levers, I am a great fan of ITC, I am a great fan of Philips, I am a great fan of IBM, GE etc.. You know why? The reason is the best index of any corporation is in its longevity. Because if you have existed for a long time. You have gone through several business cycles and if you have gone through several cycles, you have built up your character, you have made tremendous sacrifices, you become strong and for me that is the best index. We have learnt that, if you want to show longevity over a period of time, then you cannot shortchange any stakeholder and still survive and succeed over a long time. That is a very clear message that we have learnt.

I operate on a model called PSPD. I believe that the primary job of a CEO, I am not the CEO today, but till 31st March, when I used to be a CEO, from 7th July 1981, when we founded the company, I used this model. I said that my job is four-four.

The first P stands for predictability. You need to create predictability of business, predictability of revenues. You must have a good forecasting algorithm and that forecasting algorithm must derive data from the trenches. It must derive data from the real world. It's not a spreadsheet exercise. It is something that is reflective of what's happening at the ground level. So that is the first predictability. Let me give you a very simple example of the predictability.

Last year, you know that is 2001, 10th April, prior to that about, for about a month or so, we conducted 16 surveys of customers, prospects, pundits, academicians, economists and we have a few of them on our board, outsiders, all of that and most importantly data from the sales people in the trenches, who are in constant touch with customers. There were 16 surveys for a period of 34 or 35 days because we knew the economy was going to get into trouble and in every one day or two days we got new data and on the 9th evening, the last set of data came and we had a big discussion up to 12 or 1 o'clock in the morning that day and then we said, now we will stand upon and say we will grow at 30%. All of you know that day. The whole industry was upset with us. The whole economy was upset with us. Some of the analysts and fund managers, they called us names, they said these guys don't know what's happening there. They said all kinds of things. How can they say they will grow only at 30%? Our own industry NASCOM, stood up and said no, no, no, it's not right, Infosys is not right because they are going to grow at 45%, and some other companies went on said they will grow, CEOs and chairmen, they went on saying they will grow even better than that. That was on 10th of April 2001. Let me roll forward now and come to 10th of April 2002. We had said we will grow at 30% and we grew at 32% in dollar terms. On the other hand, the industry grew at 22% in dollar terms, if you included the IT enabled services; otherwise it grew at 18%. Just the software services in which we are operating grew to only 18%. That is, when people in the industry said 45%, they actually grew at 18% and we grew at 32%. The point I am making is not how smart Infosys is. The point I am making is how it is important for every one of us to have a good forecasting algorithm, which derives real-life data.

After you have done that the next is sustainability. As a CEO, once you have forecast some revenues, once you have made a commitment to your investors saying that this will be our top line, this will be our bottom line, earnings per share is so much, etc., it is your responsibility to make sure that your sales, people go, bid the payment and make that sale happen. Your manufacturing people go and actually deliver what was sold on time with the requisite quality, and your finance people actually raise invoices, and most importantly, your sales people or finance people, I don't know whosoever in your company, actually went and collected the money. I personally believe that profit is an opinion. The only real thing is cash in the bank. Unless you can make money, unless you can actually collect money, there is no point in running a business. For example, we have the lowest base sales outstanding in the entire software service industry worldwide, not just India. The only reason is because we make sure that we place adequate emphasis on sustainability.

Third is P. The second P is, that is, I covered predictability, I covered sustainability, next is profitability. P, second one is profitability. I personally believe that, there is no point in running a business unless you can make good profits. You have to become the best option for your investors. You have to have enough money in the bank. You know, today for example, we probably have, you know, more than a thousand crores in the bank. A lot of people ask me why is it that you have and my answer is simply this. One, if we see a great opportunity we can seize it because we have money in the bank. We can leverage that also. Number two; that gives a tremendous strength of confidence to all our people. I can run our business for 8 to 9 months without any revenues, that is, you know today Microsoft has something like 40 billion dollars of cash. Their profits last year were 7.46. Forty billion dollars of cash! Can you believe that? India has 60 billion dollars of foreign exchange business when Microsoft as a company has 40 billion

dollars of cash. See the power they have. So, I do believe that you must make good money. You must make good profits and collect them on time.

Then the last one is D, a good derisking model. In fact, failures of most companies all over the world and more, I mean, as much in the United States as in India is simply because the CEO did not have a good derisking model, that is, don't depend too much on one customer. Don't depend too much on one technology. Don't depend too much on one geographical area. You know, they look at the possibility of top people leaving the company, there could be alteration, or a war. At Infosys, we have about 129 risk parameters that have been identified, and we have a risk group, consisting of two extraordinarily bright MBAs, from IIM; and these people measure where we are on each of these 129 parameters and also add new parameters, drop some. Because once we know what risk we are running, at least we can stand up and say, look friends, I don't think we will grow or I don't think we can meet our numbers. And number two, we can also take adequate or appropriate steps quickly. So, I would say that if we want to be globally competitive, it is very very important to have a good PSPD model because that's how most companies outside India operate. I mean, I can go on and on.

But let me finally say one thing and that is, I think we need to create brand. I think Tarun and CII are working on this. Today, there is not a single global brand from India, not one. We need to create that. True, among ethnic groups there may be, you know a Tendulkar may be famous, you know, for Indians outside, that's really nowhere. The important thing is, tomorrow if a CEO of a Fortune-500 corporation were to ask, which company do you want to work with, you know, in this particular software project and if he were to name Infosys among the top three. To me that is a global brand. But today it's not that. We are working very hard. We have, you know, done lot of interesting things. But I think every one of us, if one wants to be globally competitive, will have to create a global brand and that's very expensive, that's not easy. But I think it's much better because the returns there are tremendous.

And finally, one point I will make and that is, I am convinced that if we want to be a corporation that demonstrates tremendous longevity, then we have to live in harmony with the society. We cannot, unless we become willing partners in making a difference to our context. I don't think we will survive in the long term, particularly in a context like India where the chasm between the haves and the have-nots is so large; where the poverty levels are so stark, where people are dying of hunger; we can't afford to have, you know, inside the company taking, you know, crores and lacs of rupees of salary. That's okay, doesn't matter, you know that's is another issue, but at least we have to be sensitive and after you make your profit, I am not saying for heaven's sake, don't ever compromise your corporation's philosophy of, you know, operating efficiently. Don't recruit somebody just because you want to create job. That philosophy has never worked. We have all seen how it has created problems in public sector. What I am saying is, out of the profits that you make, I think it is important that we keep aside a small part of it at least so that that can make a difference to the context around.

I can go on and on and on but, you know, basically I would say these are some of the lessons that we have learned in trying to have a global focus.

Thank you very much.