



## Infosys: Wanting to Be a 'Transformation Partner' While Undergoing Its Own Transformation

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It took Indian IT giant Infosys Technologies, founded in 1981, 23 years to achieve the revenue milestone of \$1 billion. The next billion came in just 23 months. Infosys recently achieved another landmark of \$1 billion -- this time in net profits for the year ended March 2008.



Unlike Wipro, its competitor, which has stated its corporate goal to become one of the top 10 global IT services companies by revenues in the next three years, the \$4.18 billion Infosys has not announced any such ambitions -- at least not publicly. Infosys likes to talk in more strategic terms. Says N.R. Narayana Murthy, chairman and chief mentor: "Our desire is to be the trusted transformation partner for our customers."

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As far as the 'trusted' part goes, Murthy is confident that Infosys has achieved its vision of being seen as an organization with values, one that delivers on every promise of time, cost, quality and predictability. "We are trusted. That is not an issue," he says. On its journey to becoming a transformation agent, however, Infosys, he says, is still in its early stages.

"Transformation is about big-ticket change, and that has to be in business, it cannot be just in technology," explains Murthy. "As we move forward, our desire is to enhance more and more business value for our customers through our knowledge of technology, through our domain knowledge and through our consulting experience." S. Gopalakrishnan ('Kris'), chief executive officer and managing director, adds: "We want to be more proactive and prescriptive. We want to anticipate and identify industry problems and go with solutions even before the clients start thinking about them."

In a step towards becoming a transformational player, Infosys recently announced a big-ticket acquisition. In the largest-ever deal by an Indian IT company, Infosys is acquiring the U.K.-based Axon Group -- a SAP consulting services firm with 2,000 employees -- for some \$753 million. According to Gopalakrishnan, "Many of the transformation programs are leveraging technology and platforms like SAP. We expect the acquisition of Axon to strengthen our capabilities because it helps us create a much larger SAP consulting practice. It allows us to compete better for large transformational deals using the SAP platform."

Sudin Apte, a senior analyst at Forrester Research, notes that the deal marks the aspirations of top Indian firms to play a major role on the global IT services scene. "They are re-building themselves as their age-old selling proposition based on low-cost, quality and process superiority gets commoditized," he says. "This deal is the first yet substantial step towards building superior business transformation capability to match traditional back office services such as application development and maintenance."

Infosys's new positioning is driven by the way the role of technology has evolved in recent years. In a competitive market, customers want improved products and services faster and at lower costs. In order to meet these demands, corporations are being compelled to focus on their core competencies and are turning to outsourced technology service providers to help improve productivity, manage operations more effectively, reduce business risks, develop new products, and so on. The ability to use technology

to address business and customer needs is therefore becoming a competitive advantage for corporations.

Sabyasachi Satyaprasad, senior director at offshore advisory firm NeoIT, points out that in the past, the differentiation between the top Indian IT services companies was how well they created technology solutions for their clients, but now that is becoming commoditized. "Remaining ahead of the curve requires creating differentiation by deep understanding of the customer's business and becoming a business restructuring partner," says Sabyasachi.

Ravi Bapna, associate professor and executive director of the Center for IT and the Networked Economy at the Indian School of Business (ISB) Hyderabad, sees Infosys's move as imperative. "In order to jump to the next level, Infosys needs to start creating new IP and products," he says. "The company needs to use its domain expertise and insights to solve the bigger business problems that face their clients -- such as creating seamless supply chains, integrating their customers more efficiently, etc." Bapna, who has been working closely with Infosys on some of its education and research initiatives, considers Infosys's biggest strength to be its leadership.

### **Role of Leadership**

Infosys's leadership is widely regarded as one of the company's most striking aspects and its role in shaping the organization has been written about extensively. Pratik Kumar, executive vice-president of human resources at rival Wipro, describes Infosys as a very 'aspirational story.' "This success," says Kumar, "has come through its set of leaders with strong values and teamwork." Infosys is also however considered by many both within and outside the organization as being "founder-led." In a move to perhaps dispel this notion and to strengthen its next generation of leaders, a few months ago Infosys constituted a new executive council and has brought more non-founders into the core management of the company.

Infosys has a lot going for it as it ventures into transformation partnering, says industry veteran Ashok Soota, chairman of MindTree, a Bangalore-based consulting firm. "In order to transform the client's business one requires a huge understanding of their business and deep domain knowledge," he says. "Infosys has built a lot of domain capabilities over the years and the consulting capability that they started a few years ago helps to provide an end-to-end engagement with the customers." Sudhir Sethi, chairman and managing director of venture fund IDG Ventures India, adds: "I am certain that Infosys can move up the value chain to become a business transformation partner."

Other industry players, however, sound a note of caution. According to a competitor, "None of us has demonstrated transformational capability in significant terms, so the jury is still out. But this is a direction in which we are all moving."

This, however, does not mean that Infosys will be active just in the transformation business. But industry observers point out that the ability to drive change for its clients could help Infosys sell more services across its portfolio, and also to win larger outsourcing deals. According to Forrester's Apte, large corporations are just getting out of the trauma of their global ERP deployments and they are not really looking for massive changes. Still, he sees business transformation as a "good go-to-market story" for Infosys.

A key element of Infosys's strategy over the years has been building strategic boardroom relationships. Murthy and co-chairman Nandan Nilekani have built such relationships through their participation in organizations such as the World Economic Forum and the Bill Clinton Foundation. Their goal has been to engaging with boards of global institutions and Fortune 500 firms and to build the Infosys brand at the topmost management levels.

This is critical for Infosys as it competes not just with other Indian firms like TCS and Wipro but also

with global players such as IBM, Accenture, CSC, HP-EDS and Capgemini. These firms not only have strong front ends with high-end consultants, domain experts and long-term client relationships, but they have also been adopting the global delivery model pioneered by Indian companies. In short, what is happening is that both the Indian offshore players and the traditional global firms are now trying to create an integrated model which has more high-end value-added services combined with the global delivery model.

### **Converging Business Models**

Infosys's chief financial officer, V. Balakrishnan, believes that the future will bring more intense competition between the business models of Indian IT firms and their global rivals. "We have to see how these will converge and who will be able to handle the convergence better." According to Balakrishnan, as these business models converge in the next four to five years, three or four large global players will emerge in the industry including at least two from India. "We have to make sure we are one of them," he says.

In anticipation of changes in the global IT industry, in November 2007 Infosys restructured its organization. A company document on the changes says: "This re-organization will help us enhance the 'One Infy' experience (offering more integrated solutions) and will, in turn, deepen our transformational capabilities. It will also help us to broaden our customer base and strengthen our current portfolio through scale benefits."

In many ways, Infosys has been transforming itself over the years. While the company started out as an applications development and maintenance firm, over time it has evolved into a full-service provider. It has been steadily adding new service lines like consulting and package implementation, business process outsourcing, infrastructure management, testing and systems integration. These now account for half its revenues and are expected to be the growth drivers for the future. Last year, Infosys added Learning Services -- a new offering that addresses business problems that require a focus on the underlying learning needs of an organization.

As part of the recent restructuring, Infosys has now realigned its organization to form six vertical industry business units and six horizontal business units that cut across the verticals. Its European business, formerly a separate division, has now been divided into the various verticals. In addition, Infosys has consolidated its consultants who were previously embedded within various verticals under one umbrella of consulting solutions. Going forward, scaling this group, which currently has some 700 people, is one of the key priorities. Says chief operating officer S.D. Shibulal: "The people that we have are as competent as those in the global companies, but we do still have a long way to go in terms of the number of consultants and the number of verticals in which we have consultants."

T.V. Mohandas Pai, director and head of administration, human resources, education and research, notes that in order to build stronger relationships with customers, Infosys needs to build a more global workforce. Says Pai: "That's an area where we've had limited success until now. But that is a focus area, and it will transform this company further." At present, less than 5% of Infosys's total workforce of 91,000 is non-Indian. In the next five years, Infosys would like to increase this to 30% to 35%.

### **Balanced, Non-linear Growth**

In order to minimize the company's dependence on any single region of the world or on a single currency, Infosys is trying to balance its revenue distribution. In the past, the company depended primarily on the North American market, but now Europe accounts for 28% of revenues while the rest of the world brings in 10%. Infosys has formed a "new growth engine" unit to expand business in markets like Australia, China, Japan and the Middle East while a separate business unit has been formed to focus on the India market. Says Gopalakrishnan: "In the next three to five years we would like to increase the contribution from Europe closer to 40% and from the rest of the world to 20%."

Another focus at Infosys is non-linear growth. This includes developing more intellectual property and increasing its content in the various solutions and also introducing new pricing models. Says co-chairman Nilekani: "At present our engagement with clients is effort based. We now want to move to value based pricing, and we see more and more different ways of delivering that value." For instance, Infosys is now

creating offerings on a software-as-a-service model. It has also recently introduced a platform based BPO solution for procure-to-pay services. New pricing models have also recently been introduced for applications maintenance and infrastructure management. Infosys has not set any hard targets regarding the percentage of its business that will come through new business models. It wants to offer different choices to clients and then let them decide how these will grow and pick up.

As Infosys goes through its own transformation, the biggest challenge it faces is on the people front. As Nilekani puts it, "While all the market factors are aligned in our favor, it is really how well we execute that will make a difference. Customer expectations are going through the roof and getting the whole organization to rise to that expectation level is very critical."

As market shares go, Infosys -- and the entire Indian IT industry -- has a very small part of the global IT services pie. Their share, however, is increasing rapidly. A recent Gartner report points out that the top six India-based IT services providers -- referred to as the SWITCH companies (Satyam, Wipro, Infosys, TCS, Cognizant and HCL Technologies) -- outpaced market growth in 2007, both collectively and individually. In 2007 the SWITCH companies had 2.4% of the total worldwide IT services market as compared to 1.9% in 2006. According to Arup Roy, senior research analyst at Gartner: "With such strong growth rates that exceed the overall market, the India-based service providers are increasing their competitiveness and taking market share from the rest of the market. Increasingly they are competing in larger outsourcing deals."

Sabyasachi of NeoIT notes that the difference between large global players such as IBM and Accenture and the Indian IT firms is diminishing. Both IBM and Accenture have set up massive operations in India and a lot of the IT solutions the global companies offer are actually executed out of India. As a result, their responses to RFPs (requests for proposals) look fairly similar to those of the Indian IT companies. Sabyasachi adds that Indian firms have limitations when it comes to offering integrated solutions, and they are also still conservative about taking ownership of asset transfer. Says Sabyasachi: "Indian firms still go largely with the approach of leveraging the global delivery model, economies of scale, remote management, etc., whereas the multinationals [such as IBM and Accenture] adopt the total outsourcing and transformation approach. The mindset is still a big differential between these two sets of players."

Nilekani argues that many clients are moving to an offshore Indian provider like Infosys because there is a lot of dissatisfaction with legacy players. Says Nilekani: "We have created a superior business model which is faster, cheaper and more innovative. It provides better quality, more discipline and more reliability." In February this year, Cummins, a global power firm with \$13 billion in annual revenues, named Infosys as one of the three global preferred vendors for its IT application outsourcing and business consulting services. In addition, Canadian Pacific Railway has signed on Infosys for a multi-year modular global sourcing agreement for IT services.

Despite its recent takeover of Axon, one area where Infosys is seen as lagging behind is in acquisitions. While analysts and competitors agree that mergers are not the only way to grow and that they have their own challenges, they also believe that acquisitions have a role to play in building a competitive edge. Infosys is believed to be risk averse in this regard -- and not as strong as it should be in the ability to assimilate organizations with different cultures. Similarly, Infosys is viewed by some observers as lacking a significant presence in the domestic Indian market, which has also been expanding rapidly.

KPMG Advisory Services executive director Narayanan Ramaswamy adds another note of caution. According to him, given its stature and capabilities, Infosys could have played an industry-defining role in new areas like BPO, for instance. Its foray into consulting, he adds, has not yet yielded the kind of results it expected. Says Ramaswamy: "Infosys needs to look at new hunting grounds. It is a player and a leader in the industry but it is not a market creator. If it wants to leap into the next league, it is imperative that it starts framing the rules rather than just playing by the rules."