

Infosys Technologies Limited

MarketBuster

Summary

Infosys is one of the fastest growing and most admired companies in India, yet it earns 98.1% of its revenues outside of India.¹ The company has relied on overseas business since it started in 1981 with seven engineers and \$250 US. Infosys faced significant barriers because it operated in a bureaucratic country that was closed to outside investment. In addition, entrepreneurship was unheard of in India where most companies were large, family-owned conglomerates. Despite these challenges, Infosys saw an opportunity to offer low-cost technology services and was able to exploit value chain shifts in foreign markets while capitalizing on the shifts in government regulations at home. It became the first Indian company listed on the NASDAQ in 1999 and today has over 35,000 employees and annual sales over \$1.5b.²

The Story

The chances of success were very low for this company that was started by a small group of entrepreneurs with no connections to government officials and very little money in socialist India. Yet these entrepreneurs were confident that they could survive in the hostile environment and were determined to create a company that would compete with the best US and European companies.

In order to compete with the best, the founders of Infosys realized that they would need to differentiate their company from other Indian companies. Infosys voluntarily adopted stringent accounting principles such as the US GAAP while most Indian companies used opaque accounting practices.³ (Starting in 2003, Infosys reported financial performance in compliance with accounting principles in 8 countries: Australia, Canada, France, Germany, Japan, UK, US, and India.⁴) It distributed ownership of the company among its employees while most Indian companies were controlled by a few powerful families. In addition, it gave employees benefits such as stock option plans, a health club, and a clean working environment—all things that were unheard of in the traditional Indian company.⁵

MarketBusting Moves

Infosys used the following MarketBusting moves as it navigated the complex environment in which it operated:

- #25: Capitalize on second-order effects or shifts in constraints
- #30: Exploit a shift in the value chain
- #10: Add compelling parallel offerings

#25: Capitalize on second-order effects or shifts in constraints

Infosys' early growth was slow due to the nature of the Indian government. It took a few years and about 25 visits to Delhi to obtain a license to import a computer. The company waited a year to get a telephone connection and at least 15 days to get foreign currency to travel abroad.⁶ India was not a friendly market for business until 1991 when the government began to

¹ 'Infosys—Investors: Operating Metrics', 2005.

² Trivedi & Singh, 1999, p.15.

³ Pfeiffer, 1999, p. 21.

⁴ Garud & Kumaraswamy, 2003.

⁵ *Ibid.*

⁶ Bernhut, 2001.

introduce a number of measures to combat the economic and financial difficulties the country had been facing. The goals of the new policies were to stimulate investment and foster the growth of the Indian software industry. Import duties on hardware were relaxed and companies that earned income from software exports received tax breaks.

Infosys was perfectly positioned to take advantage of these regulation changes. According to Narayana Murthy, one of the founders of Infosys, "We were very, very lucky. But then chance favors the prepared mind and we were preparing ourselves for this day for a long time, almost 11 years, and when it happened, we seized it with both hands."⁷ Indian companies were now able to export and operate more freely in international markets, but many were not prepared to compete with large, established companies in markets such as the United States and Europe. Infosys had known from the beginning that the only way to succeed was to have an external focus, outside of India. It adopted western business practices so that it could benchmark what it did against a global standard, not just an Indian standard. As a result, it was able to thrive once government restrictions were lifted and it could operate with increased freedom.

#30: Exploit a shift in the value chain

As India was easing its strict business regulations, trends in the technology industry were creating opportunities for eastern companies to offer low-cost solutions to financially strapped western companies. The following trends led to an increased demand for outsourcing and thus an increased demand for Infosys' services:

1. Backlog: demand for software applications was growing faster than programmer productivity
2. Insufficient resources: many firms lacked the resources need to design, install, and integrate diverse and sophisticated hardware and software applications.
3. Cost advantages: developing countries and offshore locations had a significant cost advantage over developed countries
4. Improved technological capabilities in telecommunications: conditions improved greatly in the 1990s allowing for faster data transmission and easier international communication⁸

According to Infosys' 2004-2005 Annual Report, much of its success came from the shift in power in the technology industry. In the past, those who provided the technology were the powerful ones, but the balance shifted towards those who could put it to use for the maximum business advantage. Infosys' focus on service put it in the right place to provide what companies all around the world needed—low-cost, high quality, technical services.

#10: Add compelling parallel offerings

Infosys believes in working with the customer to determine the best way to meet each individual customer's needs. It uses its Global Delivery Model to organize which parts of the project will be completed close to the consumer and which parts will be executed offshore. The activities that require Infosys to be close to the customer include defining the project and helping the customer install and use software once it is developed.⁹ Most technology tasks are performed in development centers, most of which are located in India where they can be operated cost-effectively. Employees engage in function design, technical design, database design, programming, testing, creating documentation, and long-term maintenance services at these centers.¹⁰ In addition to providing software and the services associated with implementing it, Infosys has expanded into the higher margin businesses of service and consulting.

Key Lessons

Infosys was able to capitalize on industry trends and on the changing regulatory environment to become one of the most successful companies in India. It was not clear when the

⁷ Trivedi & Singh, 1999, p. 14.

⁸ Ibid. p. 20.

⁹ Kumra & Sinha, 2003. p. 45.

¹⁰ Ibid. p. 50.

Indian government would begin making laws that favored businesses, but Infosys was prepared when the time finally came. Infosys was not able to perfectly predict the explosion in outsourcing technology, but it was ready to take advantage of the opportunity when it came. Infosys' success is not only a function of change in the political sphere and technology industry, though. The company worked hard to develop an organization that adhered to high standards of quality, that put its customers first, and that provided an excellent work environment for its employees. According to one of its founders, "Each time we encountered a fundamental challenge, we viewed it as an opportunity to transform the company. We know that the future will pose new challenges. We don't know which capabilities we might need. But, we are confident that we will be able to develop these capabilities and meet these challenges."¹¹

¹¹ Garud & Kumaraswamy, 2003.

DRAT Table, Infosys**SOURCE**

External

Powerful Incumbents	Powerful family run conglomerates in India and large, established western companies
Opposition from advocacy groups	NA
Risk to key external stakeholders	NA
Inertia	Must continue to develop high quality software that is competitive in the industry
Disruption of customer's system or process	Consumers must learn to trust an Indian firm with important activities and feel comfortable relinquishing control of some aspects of the business.
Changes in standards or regulations required	Changes in Indian regulations gave the firm more freedom to operate. Must be aware of laws or limitations in offshoring from foreign markets.

Internal

Internal political maneuvering	Company is transaction-based and its management focuses on what is best for the company regardless of individual personality issues.
Reluctance or resistance by those needed for active implementation	NA
Resource Constraints	Must continue to attract the top talent in India by providing sufficient compensation and benefits.

Platform changes required

Human resource and skills platforms	Attract and retain top employees.
Logistics platforms	Global Delivery System must provide a cost advantage for the business.
Distributor platforms	NA
IT and database platforms	Must stay on the cutting edge of technology.
Technology platforms	Must stay on the cutting edge of technology
Assets, operations, and systems platforms	NA

Marketbusting Kite

Element	Needed to Support the MarketBusting System
Agenda The key things that the critical people spend time on	1. Defining problems rather than solving problems 2. Becoming more multicultural 3. Identifying trends in the industry 4. Diversifying the business
Norms What principles and behaviors are valued?	1. High quality 2. Information sharing 3. Productivity
News What information and measures are paramount?	1. Quality standards 2. Revenues 3. % of revenues from different geographic markets
Allocations What gets resourced and how are people rewarded?	Resources go to 1. International expansion 2. Employee recruitment 3. Developing high quality work environments Rewards and recognition for successes go to 1. Employees with high productivity and quality
Structure Power, authority, responsibility structure	1. Flat organizational structure
History Key routines that have developed and drive activities	1. Three principles were set forth when the company was founded and are still adhered to today: -Being transaction-based, not personality driven -Focused on the long term in compensation and planning -No blurring of the boundary between corporate and personal resources

Sources

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