

## iGATE AND THE CEO: A BREACH OF AGREEMENT<sup>1</sup>

*Nidhi S. Bisht and Parul Gupta wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Version: 2018-01-29

In March 2014, U.S.-based information technology (IT) services company iGATE Corporation filed a lawsuit against its former president and chief executive officer (CEO), Phaneesh Murthy, seeking compensation for the damages the company had suffered due to Murthy's behaviour. In May 2013, Murthy, who had been credited with reinvigorating iGATE, was forced to resign from the organization for violating iGATE's policy and employment agreement amid allegations of sexual harassment. In return, Murthy contested his termination and filed a lawsuit accusing iGATE of breach of agreement and defamation. Murthy maintained that iGATE unjustifiably terminated his contract "for cause," which allowed iGATE to withdraw from its contractual obligations to Murthy and withhold his vested shares, severance payments, and retirement benefits.

Could iGATE prove that Murthy's termination was for cause and justify withholding Murthy's vested shares and other benefits? Why was it important for organizations like iGATE to understand the implications of terminating employment contracts with senior executives for cause?

### iGATE CORPORATION

iGATE (formerly Mastech Corporation) was formed in 1986 in Pennsylvania, United States, by Sunil Wadhvani and Ashok Trivedi. The company performed decently in its initial years and in 1996 was listed on the NASDAQ.<sup>2</sup> In 1993, iGATE established a base in India with Mascot Systems, a 100 per cent subsidiary of iGATE. The Indian-based company was renamed iGATE Global Solutions Limited (iGATE Global) a decade later.

With its principal headquarters in Fremont, California, iGATE delivered an array of IT services through its globally integrated offshore and onsite delivery locations. The company provided e-business solutions, application maintenance outsourcing, data warehousing solutions, and enterprise resource planning (ERP) package implementation services, among other services.<sup>3</sup>

Despite its healthy start, the company struggled after the dotcom bubble ended.<sup>4</sup> In 2003, iGATE Global acquired a controlling stake in Quintant Services Ltd., a business service provider company started by Murthy and two others. Murthy was appointed CEO and managing director of iGate Global.<sup>5</sup>

## MURTHY'S JOURNEY WITH IGATE

After arriving at iGATE Global, Murthy implemented transformational strategies to position the company as a competitive player in the market. He created a unique iTOPS (Integrated Technology and Operations) framework, where clients were charged for business outcomes contrary to the conventional outsourcing model, according to which clients had to pay on the basis of billable hours.<sup>6</sup>

As a result, the company was soon able to make a mark in the constantly evolving market. In March 2006, Murthy was appointed a director of iGATE Corporation. Soon after, in April 2008, he was promoted as the president and CEO of the corporation.<sup>7</sup>

Murthy played a key role in spurring iGATE's growth. Among his initiatives, he challenged the industry's billing model of charging clients based on the number of hours engineers put in on the projects, and, instead, spearheaded a model of charging clients based on outcomes. His outcomes-based pricing model attracted price-sensitive customers.<sup>8</sup>

Under Murthy's stewardship, iGATE came a long way. He played a significant role in improving financial metrics of the company. For the year ending December 31, the operating margin grew from -0.2 per cent in 2006 to 18.9 per cent in 2010. Likewise, return on equity rose from 1.5 per cent in 2006 to 23.6 per cent in 2010.<sup>9</sup> He was credited for iGATE's transformation from a staffing firm to a globally visible software services provider.<sup>10</sup>

## ACQUISITION OF PATNI COMPUTER SYSTEMS

The highest point of Murthy's career at iGATE was the acquisition of an Indian rival, Patni Computer Systems, which, at the time, was nearly three times the size of iGATE (see Exhibit 1). The leveraged buyout of Patni in 2011 was a bold move by Murthy. He partnered with Apax Partners to acquire Patni for US\$1.22 billion,<sup>11</sup> making iGATE a billion-dollar entity.<sup>12</sup>

Murthy assumed the role of CEO of the merged entity.<sup>13</sup> "We believe the threshold of a billion dollar revenue will facilitate faster adoption of our iTOPS for Business Outcomes model. We also believe that the combination will help customers get better service, access to more service lines and deeper pools of expertise," said Murthy.<sup>14</sup> His vision was to derive synergies by cross-selling solutions to a broader client base and to improve service delivery and operational efficiency.<sup>15</sup>

After the Patni acquisition, Murthy received a compensation of \$8.82 million for 2011—an increase of 181 per cent over the previous year's \$3.14 million.<sup>16</sup> Also in 2011, Murthy received a performance bonus of \$880,000 against his annual performance-based target of \$500,000—a recognition of "achieving the targets set by the committee."<sup>17</sup> The bonus had been determined by iGATE's compensation committee based on Murthy's successful integration of Patni and the achievement of targets for revenue and earnings per share.

Murthy continued to steer the idea of an outcome-based pricing model to create a niche for iGATE.<sup>18</sup> In response to this business strategy, Murthy's performance-based incentives were raised to \$600,000 in 2012.<sup>19</sup> The compensation committee also approved an increase in Murthy's severance notice period from six to 12 months.<sup>20</sup>

The board seemed to be in complete awe of Murthy. Wadhwani, co-founder and co-chairman of iGATE declared, "There are two kinds of CEOs, those who understand the big picture and others who are good

with details. Phaneesh is one of the rare few who can combine both.” iGATE was seen as a “complete one man show” with Murthy the only star in the company.<sup>21</sup>

In March 2013, Murthy’s employment agreement was amended again to award him a 200 per cent excess on his annual performance bonus of \$600,000 at the compensation committee’s discretion, based on predetermined performance targets.<sup>22</sup> Murthy enjoyed considerable power on the board; as a result, he was also able to negotiate an additional health insurance provision in yet another amendment made to his agreement on May 1, 2013. According to this amendment, should Murthy’s employment end, iGATE would pay long-term health insurance premiums for his spouse and dependents, irrespective of the reason for termination.<sup>23</sup>

### **FIRING MURTHY: INFOSYS TECHNOLOGIES REDUX**

On May 20, 2013, iGATE terminated Murthy’s employment as president and CEO. The company issued the following statement from its headquarters in California:

The board’s decision was made as a result of an investigation by outside legal counsel, engaged by the board, of the facts and circumstances surrounding a relationship Mr. Murthy had with a subordinate employee and a claim of sexual harassment. The investigation, which is ongoing, has reached the finding that Mr. Murthy’s failure to report this relationship violated iGATE’s policy, as well as Murthy’s employment agreement. The investigation has not uncovered any violation of iGATE’s harassment policy.<sup>24</sup>

iGATE’s policy stipulated that if two employees in the organization became involved in a romantic or sexual relationship, the employee in the higher position of authority must notify his or her supervisor, the human resources department, or the head of the board of the company. The provision allowed the company to make whatever supervisory or assessment changes were necessary.<sup>25</sup> Wadhvani reported that in Murthy’s case,

The board deliberated extensively on this matter. We recognize the significant contributions Mr. Murthy has provided over the past 10 years in helping to establish iGATE as a leader in the IT industry. He has worked hard to improve the value of iGATE, and we greatly appreciate his efforts. However, as a result of this violation of iGATE policy, we asked Mr. Murthy to step down.<sup>26</sup>

This was not the first time Murthy faced these allegations. In 2002, under similar allegations of sexual harassment, Murthy was forced to resign as director and head of global sales and marketing of Infosys Technologies in Bengaluru, India.<sup>27</sup> However, his controversial exit from Infosys had been overshadowed by his triumphant return to the industry with iGATE.

Gerhard Watzinger was appointed as the interim CEO of iGATE with immediate effect.<sup>28</sup> Watzinger had previously served iGATE as an executive from 1998 to 2003 in various roles, including CEO of iGATE Global. To contain the damage, iGATE also sent an email to its employees in India to explain the situation and request that they refrain from discussing the issue on social media or to journalists. The message was supplemented with a web-based “town hall” for iGATE employees, which included an audio message from the founders, Trivedi and Wadhvani, explaining details of the case.<sup>29</sup>

Having been so highly regarded within the company, Murthy’s termination unsettled iGATE’s employees. Many expressed concerns about the company’s growth, which up to that point had been largely tied to Murthy’s vision and strategy.<sup>30</sup> Some employees came to Murthy’s defence: “Having a

relationship with a subordinate is nothing new. In this industry there are many cases, some are reported while others are not,” said an employee working at the White Field office on the outskirts of Bangalore.<sup>31</sup>

After the news of Murthy’s firing broke, iGATE was criticized widely and its shares fell around 13 per cent. iGATE shares dropped \$1.58, a loss of 9.6 per cent, to end the day at \$14.82—a bit of a rebound after hitting an 18-month low of \$14.25 in intraday trade.<sup>32</sup>

### MURTHY’S IMMEDIATE RESPONSE

A few hours after being terminated, Murthy organized a teleconference with journalists in India. He stated that his termination came as a complete surprise and that he had not been informed of it until after office hours.<sup>33</sup> He admitted to being in a personal relationship with a subordinate, a woman named Araceli Roiz, calling their relationship “more than a friendship” that had lasted a few months. He vehemently denied the claims of sexual harassment:<sup>34</sup>

Recently, I learned that a lady called Araceli Roiz, who is the investor relations head of iGATE, has filed charges against me claiming sexual harassment. She has not filed any case in a court. She just sent a letter to the company, claiming sexual harassment. I do believe the charges are completely false. But it is pursuant to a relationship I had with her.<sup>35</sup>

Murthy continued, “I haven’t spoken to my lawyers or advisers yet. All this happened a few hours after the close of day in California yesterday. I was not given an opportunity to present my case.”<sup>36</sup>

Calling it a “clear case of extortion,” Murthy conveyed his intent to fight the case should it go to court.<sup>37</sup> He referenced the first claim of sexual harassment, made against him in 2002 by his then-secretary, calling it a way to extract money for an ostensible reason.

Murthy maintained that he had not violated company policy because he had informed Wadhwani of the relationship with Roiz after Murthy and Roiz ended the relationship. When asked what made him speak to the chairman, Murthy said that “there were a variety of reasons.” Murthy noted that “the timing of the information to the chairman is I believe what they considered as the grounds for my termination. I had informed the chairman many weeks ago. Perhaps I should have informed earlier than when I did.”

When questioned whether he regretted having the relationship, Murthy responded, “Now that all this has happened, everything is regret. No question about it.”<sup>38</sup> The following month, Murthy was removed from the board for cause with the majority of the shareholders giving their written consent.<sup>39</sup>

### MURTHY V. iGATE

In December 2013, seven months after being fired, Murthy filed a lawsuit with a California court, accusing iGATE of breach of agreements (employment agreement, stock option agreement, and agreement of good faith and fair dealing), making false promises, withholding wages, and defaming Murthy by justifying the company’s actions.<sup>40</sup> He disputed iGATE’s claims of not knowing about his relationship with Roiz, asserting that despite knowing about the relationship, iGATE “improperly” used the policy for reporting relationships to terminate him. As proof, he claimed to have a signed letter from an independent director that stated the board had known about the relationship between Murthy and Roiz since January 2012.<sup>41</sup>

In his suit, Murthy charged iGATE with withholding his more than 500,000 vested stocks, valued then at about \$18.3 million, termination benefits of \$1.6 million, and monthly medical benefits of \$6,000, which he was entitled to receive for 15 years.<sup>42</sup> “As per the employee agreement, I’m eligible for the vested stock . . . and it is my life savings. I did not sell the stocks [because] the board requested me not to sell saying it would send a negative signal.” Murthy went on to say that “employment agreements are sacrosanct. I have put in [a] lot of hard work and created value for the firm and still if they do not honour the agreement; it is not a good thing. This will not stand in the U.S. court.”<sup>43</sup>

Murthy reported that after his termination from iGATE, he was told that he would retain his vested stocks and that the company would consider expediting a vesting schedule for his unvested stock options as a part of his severance package.<sup>44</sup> Contrary to this promise, Murthy was not allowed to operate his company-sponsored trading account, preventing him from executing his vested stock options.<sup>45</sup>

Murthy also claimed compensation for the damage caused to his reputation by repeated defamatory statements made by iGATE to iGATE investors and the public.<sup>46</sup>

### IGATE V. MURTHY

Following Murthy’s termination, iGATE encountered several obstacles that inhibited its growth. The company also lost a recently won \$200 million outsourcing agreement due to management uncertainties and delays in starting the project.<sup>47</sup>

Murthy’s employment agreement required him to “indemnify the company for any loss suffered as a consequence of a breach” of iGATE’s policies and regulations.<sup>48</sup> Thus, in March 2014, iGATE filed a countersuit against Murthy, seeking compensation for damages that resulted from Murthy’s actions and irresponsible behaviour. The company also claimed legal fees and other costs iGATE incurred to resolve Roiz’s claims against Murthy and the company.<sup>49</sup> The indemnification clause had been allegedly added to Murthy’s employment agreement due to his history of sexual harassment.<sup>50</sup>

iGATE claimed that Murthy attempted to hide his relationship with Roiz, even when Goran Lindahl, chair of the Corporate Governance Committee, brought the matter twice to Murthy in 2011 in response to anonymous Internet postings. Murthy allegedly dismissed the question outright, saying that “anyone can write what they want on Internet posts.”<sup>51</sup> iGATE also claimed that Murthy entered into secret mediation with Roiz without notifying the company, only informing Wadhwani of the consensual relationship with Roiz and her intent to bring a claim against him and the company after the mediation failed.<sup>52</sup>

Seemingly unaffected by iGATE’s complaint, Murthy stated:

It is quite the norm to file counter-complaints, so this was anticipated when we filed the lawsuit. Like I told you earlier, I had put in years of hard work to turn around the company. I do think it was a wrongful and unfair termination and hence I am entitled to the vested stocks and the medical benefits. I am confident that the truth will come out in court.<sup>53</sup>

The case garnered significant media attention, with audiences wondering which party would be able to prove their claims in court.

**WAS IT FOR CAUSE?**

Was Murthy terminated “for cause,” as claimed by iGate, and if so, what were the implications for his severance payments? Regardless of the outcome, Murthy’s dispute with iGate was a caution to other companies. How could they draft their employment agreements, especially with chief executives, to avoid post-termination lawsuits?

**EXHIBIT 1: COMPARATIVE FINANCIALS, EMPLOYEE STRENGTH, AND CLIENTS  
FOR THE 12 MONTHS ENDED SEPTEMBER 30, 2010**

	<b>Patni</b>	<b>iGATE</b>
Revenues	\$689 million	\$252 million
Net profit	\$134 million	\$45 million
Employee strength	More than 16,000	6,910
Clients	282	82

Source: Created by the authors based on Sridhar K. Chari, "iGATE Seals Patni Deal at \$1.22 Billion," Livemint, January 11, 2012, accessed November 24, 2017, [www.livemint.com/Home-Page/UfcUxcTd98HifUDrgP3CYL/iGate-seals-Patni-deal-at-122-billion.html](http://www.livemint.com/Home-Page/UfcUxcTd98HifUDrgP3CYL/iGate-seals-Patni-deal-at-122-billion.html); Sumeet Chatterjee and Bhargavi Nagaraju, "iGate, Apax to Buy Majority Stake in India's Patni for \$1.2bn," Reuters, January 10, 2011, accessed November 24, 2017, <https://in.reuters.com/article/idINIndia-54042020110110>.

## ENDNOTES

<sup>1</sup> This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those Phaneesh Murthy, iGATE Corporation, Capgemini SE or any of its employees.

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<sup>3</sup> "Capgemini Technology Services India Ltd.: Company History," *Economic Times*, accessed March 12, 2017, <http://economictimes.indiatimes.com/capgemini-technology-services-india-ltd/infocompanyhistory/companyid-3695.cms>.

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<sup>6</sup> Dan Woods, "iGATE's Recipe for IT and Business Alignment," *Forbes*, June 15, 2012, accessed October 12, 2017, [www.forbes.com/sites/danwoods/2012/06/15/igates-recipe-for-it-and-business-alignment/#3ad78bf68cfa](http://www.forbes.com/sites/danwoods/2012/06/15/igates-recipe-for-it-and-business-alignment/#3ad78bf68cfa).

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<sup>9</sup> iGATE Corporation Annual Report, 2010, accessed November 23, 2017, [http://files.shareholder.com/downloads/IGTE/0x0x458985/0E875DC1-EF15-4BE4-A06A-19A572313807/iGate\\_2010\\_Annual\\_Report\\_117432.pdf](http://files.shareholder.com/downloads/IGTE/0x0x458985/0E875DC1-EF15-4BE4-A06A-19A572313807/iGate_2010_Annual_Report_117432.pdf).

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<sup>11</sup> All dollar amounts are in US\$ unless otherwise stated.

<sup>12</sup> Mitu Jayashankar, "What Now for iGate—Patni?" *Forbes*, February 9, 2011, accessed February 12, 2017, [www.forbes.com/2011/02/09/forbes-india-phaneesh-murthy-newly-formed-igate-patni-company.html](http://www.forbes.com/2011/02/09/forbes-india-phaneesh-murthy-newly-formed-igate-patni-company.html).

<sup>13</sup> "iGate Completes Patni Acquisition," *Business Standard*, May 13, 2011, accessed August 18, 2017, [www.business-standard.com/article/technology/igate-completes-patni-acquisition-111051300074\\_1.html](http://www.business-standard.com/article/technology/igate-completes-patni-acquisition-111051300074_1.html).

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<sup>19</sup> Mishra, "iGate Top Bosses," op. cit.

<sup>20</sup> "Amendment Agreement to the Senior Executive Employment Agreement Dated 1st January 2010 [Amendment Agreement]," EDGAR Online, March 29, 2012, accessed May 12, 2017, [www.sec.gov/Archives/edgar/data/1024732/000119312512143011/d324727dex101.htm](http://www.sec.gov/Archives/edgar/data/1024732/000119312512143011/d324727dex101.htm).

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<sup>22</sup> "Amendment Agreement," op. cit.

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