Case

Role of Leadership and Corporate Governance: The Case of Tata Group and Infosys

FIIB Business Review
7(4) 252–272

SAGE Publications
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DOI: 10.1177/2319714518813589
http://journals.sagepub.com/home/fib
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Abstract

Is your job secured? Do layoffs happen? How long do you plan to work in the same organization? How is your performance rated? These are the set of typical questions asked to bottom-level employees working in multinational corporations. Possibly, gone are the days when an employee used to engage with a firm for a long period of their career. Attrition rate is becoming higher in many firms due to endless reasons. But how far do such trends apply to top-level or C-suite employees? Are they equally impacted such as middle- and bottom-level employees in various circumstances or taken care well by founders and boards of the organization? In this case study, an attempt was made to see if we can get some answers to these questions by considering the recent issues that happened in Tata Group and Infosys during recent times. Expulsion of Cyrus Mistry from Tata Group in 2016 and Infosys 2017 saga rocked the Indian corporate image worldwide and raised issues concerning corporate governance practices. The journeys of an insider chairman of a conglomerate and a technocrat CEO were cut short by two business tycoons Ratan Tata and Narayana Murthy in a much unexpected manner which brought a bad reputation to them. It raises issues regarding leadership styles and roles in such business empires. Transparency, accountability and security are the three pillars of corporate governance, which seem to have failed in these two organizations. It also raises a serious question of credibility, integrity and business ethics of leaders in handling these two issues with the verbal criticism which continued for days in public forum.

Keywords

Corporate governance, conglomerate, credibility, ethics, integrity, technocrat

Decoding Cyrus Mistry and Vishal Sikka Life Path

Cyrus Mistry: Inherited Family Businessman

Cyrus Pallonji Mistry was an Indo-Parsi born to a business family with generations of corporate relationship with the Tata empire. On the education and advisory portfolio, Mistry graduated as a civil engineer in 1990 from Imperial College London. In 1997, he received an MSc degree in management from London Business School. Mistry serves as the co-chair of India–USA CEO and India–UK CEO forums. He is also the member of presidential CEO advisory board, Massachusetts Institute of Technology (MIT), USA.

Cyrus Mistry started his business career from his father's image and base. In 1991, Mistry joined the board of Shapoorji Pallonji and company as director and later in 1994 was appointed the managing director of the group. His father was the chairman of Shapoorji Pallonji Group and was also on Tata Group board then. During Mistry's helm, Pallonji Group's international construction business expanded its presence to more than 10 countries. He led the diversification of the company from construction to designing and building complex projects in the marine, rail sectors, oil and gas. He ushered a new era of business growth in the Pallonji Group.

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Tata empire is a huge conglomerate from salt to software manufacturing, with massive underlying structure (see Figure 1). Tata Sons is the holding company of the group with two-thirds of shares held by various Tata family trusts. Mistry's father Shapoorji Pallonji is the second largest stakeholder in the Tata Group with 18.5 per cent share in Tata Sons making them the largest individual shareholder in the holding company of the Tata empire.

From 1990 to 2009, Mistry served as the director of Tata Elxsi Limited and Tata Power until 2006. On 1 September 2006, he joined the board of Tata Sons, after his father's retirement from Tata Group. He was named the director of several Tata companies in addition to his duties with Pallonji Group. In 2010, Mistry was tasked to find the successor for the position of chairman held by Ratan Tata as he decided to retire a year later. Ironically, the choice was a big surprise as Cyrus Mistry, being part of the selection committee, was appointed as the successor to Ratan Tata. It was announced as an anonymous and favourite choice by Ratan Tata (*Hindustan Times*, 2016). It was announced that Mistry would takeover as the chairman a year later, thus completing the entire transition process.

The transition phase started from Ratan Tata to Cyrus Mistry in November 2011, with Mistry being appointed as the deputy chairman of the Tata Group. Slowly one after another Tata companies appointed Mistry as their chairman in 2012 prior to his appointment as the group chairman. It started on 8 November 2012, with the appointment as the chairman of Tata Power; then on 20 November 2012, he took charge as the chairman to Tata Global Beverages. Later, he became the chairman of Tata Teleservices, Tata Industries, Tata Sons, Tata Steel, Tata Chemicals, Tata Consultancy Services and Tata Motors.

Finally, on 28 December 2012 Cyrus Mistry was appointed as the sixth chairman of India's oldest business empire the Tata Group at the age of just 44 years old, after a long stint with Tata's since the 1990s (see Figure 2). Mistry was the only second non-Tata person to head the group as the chairman after Nowroji Saklatwala's (1934–1938) stint. Although Ratan Tata appointed Mistry as his successor, the former still had significant influence over Tata Sons. He headed the Tata Trusts, which has 66 per cent shareholding, and hence controlling interest in Tata Sons. The Tata Group had revenue of US$100.09 billion in 2011–2012 Financial year (FY); it grew to US$103 billion in 2015–2016 FY under Mistry's tenure.

Vishal Sikka: The Advanced Technocrat

Vishal Sikka, an Indo American and the first non-founder to head Infosys from 1 August 2014, was aged just 47 years. He had earlier worked in two start-ups, then at Peregrine Systems as the vice president of platform technologies division. Later in 2002, Sikka worked in SAP company as the chief software architect and was promoted as the senior vice president of architecture domain. He was then named as the chief technology officer (CTO) of SAP in 2007. In 2010, he went one step ahead as the co-CEO of the company. Finally, Sikka quit SAP in 2014 to join Infosys as the CEO.

On education and research ranks, Sikka received his bachelor's degree in computer science from Syracuse University. He holds doctorate in computer science from Stanford University. He was well known for research in emerging technologies such as artificial intelligence (AI), intelligent systems, information management, programming languages and models at Xerox Palo Alto Labs, Stanford University (CIO, 2017).

He was a modern and visionary technocrat who demonstrated the driverless car in posh Mysore Infosys campus, encouraged employees to deep dive into advanced technologies such as Artificial Intelligence (AI), Big Data, Internet of things (IOT) and Machine Learning. He believed in innovation as the path to excel and launched many new programmes such as *design thinking,* an innovative problem-solving protocol popular at Stanford, *zero distance,* a 5-point road map to jumpstart innovation based on design thinking principles, *automation* to cut cost by the robotic process automation at projects and *zero bench* concept to utilize employee contribution effectively. Unlike his predecessor CEOs (see Figure 3), Sikka ran Infosys from Palo Alto, the USA, in close proximity to Silicon Valley, although Infosys is a Bangalore-based Indian IT firm. It was felt, a base in Silicon Valley will help Infosys transform into a next-generation company with high-performing computing platforms, new products and enterprise solutions (*Livemint,* 2017a, April 17).

His performance as CEO was glorious, as numbers rose to positive heights. There was a 13.3 per cent revenue growth in the 2015–2016 FY, compared to 7.1 per cent in 2014–2015 FY. Attrition rate dropped to 12.6 per cent from 18.9 per cent in 3 years. The company added 325 new clients, which is more than 200 clients acquired in past 5 years and cumulative value of large deals rose from US$1.9 billion to US$2.7 billion. The year 2014 was a major disruption year for the IT sector with slow growth and high employee layoffs at IT companies, but Sikka painted a different picture to Infoscions. Sikka continued to employ many innovative ways of running the service-oriented IT giant, delivering better solutions to clients worldwide, building good relationship and business engagements with new and existing clients, and grooming employees in the right direction with high spirits.

Sikka announced his ambitious US$20 billion revenue target by 2020 from the current revenue of US$8.7 billion on above strong numbers. For which Infosys needs to grow at a compound annual growth rate (CAGR) of 18.11 per cent year over year (YoY). Later, Infosys board itself felt that it was impossible to achieve such high target with the IT sector facing a high uncertain future.

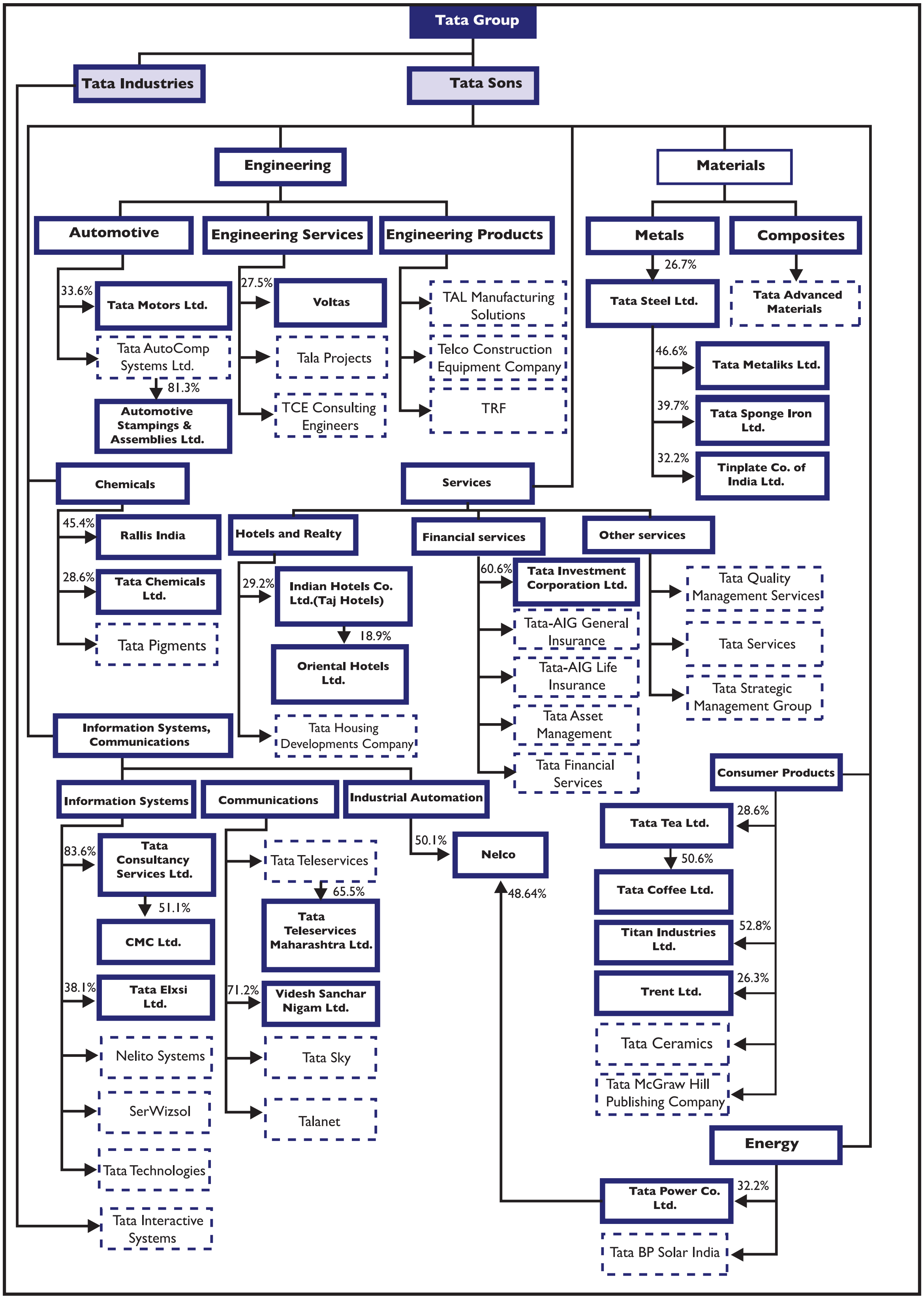

Figure 1. Full Structure of Tata Group of Companies

Source: Indian Firms.

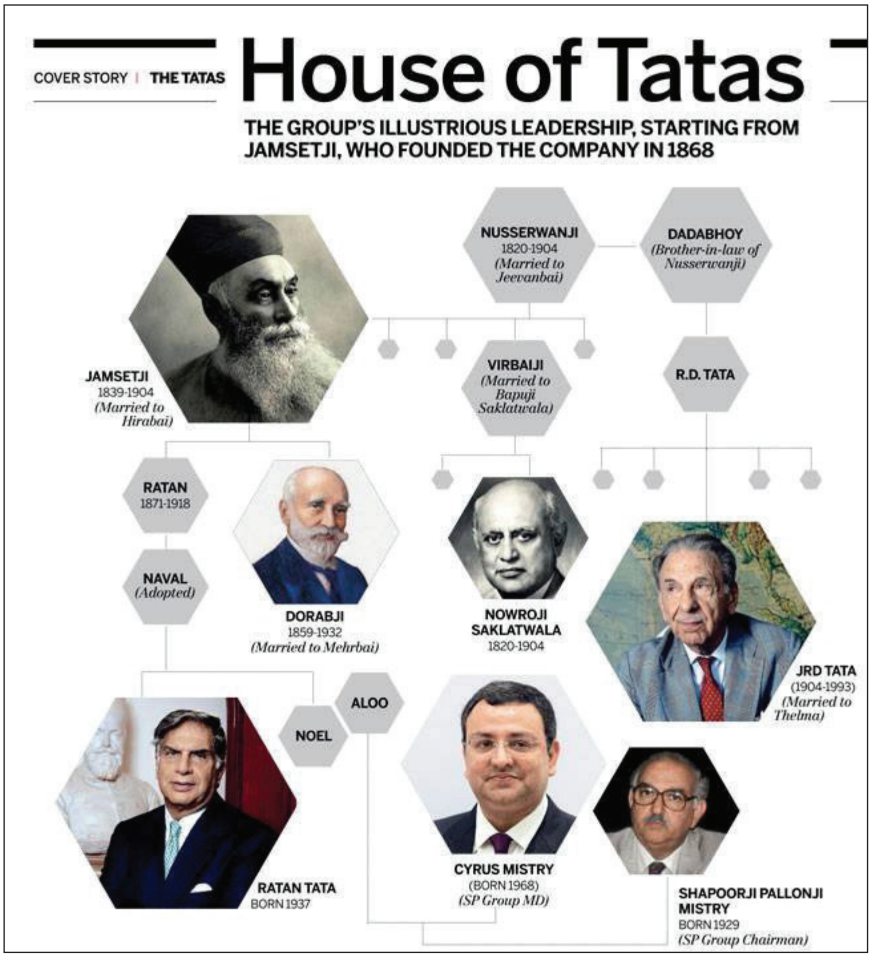

Figure 2. Timeline and Family Tree of Six Tata Group Chairmen

Source: *India Today* (2017).

Disclaimer: This image is for representational purposes only. It may not appear well in print.

Figure 3. Year-Wise CEOs of Infosys

Source: *CNN-IBN* (2017).

Allegations and Breakup

Performance and Conflict of Interest Issue

In Cyrus Mistry's case, Tata's sacked Mistry from the position of group chairman on 24 October 2016 after a stint of 45 months, without any explanation at that moment. It was a big surprise and a shock wave to the corporate world, even to Mistry himself. The picture at Bombay House, Tata Headquarters, was unique with sudden burst of this news, where this decision was taken. The resolution to sack Mistry was decided in minutes at the cold meeting held at Bombay House. Stock markets tumbled next day with this sudden ouster news (*The Economic Times*, 2016b, October 25). Later Mistry was sacked as chairman of all Tata Group of Companies. All his close associates were also sidelined and forced to step down from their ranks across the Tata Group. It led to a full-scale collision between Ratan Tata Group and Mistry faction. It was a deep mystery to Mistry on why suddenly the tables turned against him on a fine day (*Livemint,* 2016b, October 25).

Everything was kept internally until the news exploded on 24 October 2016 (*The Economic Times*, 2016a, October 25). Tata's explained that the growing trust deficit, repeated departures from culture and the ethos of group were the reasons behind Mistry's removal. The board also named Ratan Tata as the interim chairman of the group. A new panel was set up to find the next chairman in 4 months. Later, in January 2017, Tata's appointed N. Chandrasekaran as the group chairman. He was with Tata Consultancy Services (TCS) for three decades. He was appointed to the Tata board in October 2016 only.

Mistry replied to the Tata board on his sacking by saying, 'shocked beyond words' and 'unparalleled in the annals of corporate history (*India Today,* 2016, October 27).

He further added:

> The sudden action and lack of explanation has led to all manner of speculation and has done my and the group's reputation immeasurable harm.

> The letter is to emphasise the total lack of corporate governance and a failure of the directors to discharge their fiduciary duty to stakeholders of Tata Sons and the group companies.

It was later acknowledged publicly by Ratan Tata that the key reason for the fallout and the big decision was Mistry's style of functioning, poor governance and conflict of interest.

The friction started way back in 2014 with Mistry's solo decision-making style, ignoring the Tata Sons board. Several of Mistry's business decisions, such as the sale of Indian hotels in overseas and the move to shut down the UK steel operations, did not go well with Ratan Tata. The move to shut down the UK steel business was highly criticized in Britain and was seen as a set back to Ratan Tata. These were considered as Ratan Tata's legacy which he undertook during his stint as group chairman. Tata's wanted to turn around the loss-making business than selling it, but Mistry had different plans altogether.

During Mistry's tenure as an executive chairman, dividend income (apart from TCS) declined continuously, but staff costs doubled. All this would have resulted in losses but survived due to TCS dividend; thus there was an increasing dependence of Tata Sons on TCS. Mistry did not show concern on these issues, which the board did not like.

There was a conflict of interest issue with Mistry associated with his former family company Shapoorji Pallonji even after the appointment as the chairman of the Tata Group. Contracts worth ₹20 billion were handed to Pallonji Constructions in TCS and Tata Motors.

Mistry was also seen as an underperformer. He was a slow learner and not equipped to take quick decisions. Mistry had spent the first 3 years understanding the Tata empire and its underlying functions as chairman. He has been building knowledge base about specific domains to ask the right questions and understanding geopolitics, technology and societal issues at the Tata empire. Clearly, there was a fundamental disconnect between Mistry and Ratan Tata in leadership and working style.

The biggest allegation against Mistry was that he misled the chairman selection committee in 2011, by making false statements about his plans for the Tata Group and an elaborate management structure for managing the Tata Group empire. Even after 4 years of helm, Mistry did not fulfil any of his plans nor the management structure for which he was ultimately selected as the chairman.

But in his email, Mistry wrote:

> I had to take many tough decisions with sensitive care to the group's reputation as well as containing panic amidst internal and external stake-holders.

Mistry brought in a new set of people to fulfil his vision, who all proved to be lacklustre and were nonstarters (see Figure 4). At AGMs, there were conflicts between the old guards and new guards on many issues. Tata Trusts and Ratan Tata were also not happy with Mistry's approach to fees and commissions for directors on the boards of the group of companies, as well as departure from the long-running tradition of elevating senior group executives to the Tata Sons board.

The break up was when Mistry decided to acquire Welspun Renewables Energy company at ₹95 billion for which questions remained over the extent to which the boards of Tata Power and Tata Sons were kept in the loop and supportive.

Ratan Tata said:

> That was the point in time we got to believe that he had a tendency to do things on his own against the earlier practice of collective decision making.

Figure 4. Cyrus Mistry's Team with New and Retiring Members at the Tata Group

Source: *India Today* (2017).

Disclaimer: This image is for representational purposes only. It may not appear well in print.

The final showdown between two factions has reached till the law corridors of National Company Law Tribunal (NCLT). On 20 December 2016, Mistry moved NCLT alleging oppression and mismanagement by Tata's on his sudden expulsion and also the interference of Ratan Tata and N. A. Soonawala in the governance of Tata Sons. A day earlier, on 19 December 2016 Mistry disassociated from the Tata empire by resigning from all boards of the Tata group.

Mistry had continued to be on these boards even after his ouster as the chairman of the holding company Tata Sons on 24 October 2016 and had resigned even before an official general meeting was planned to sack him officially. The judgement came out in 2018; NCLT ruled in favour of Tata's saying Mistry's allegations had no merit, dismissing his challenge (Bloomberg, 2018a, July 1, July 17). Mistry later challenged the verdict of NCLT to National Company Law Appellate Tribunal (NCLAT); the matter is still being heard.

Panaya Deal and Pay Scale Issue

In February 2017, an anonymous letter blew up saying that Infosys CEO had acquired an Israeli automation IT firm *Panaya* in 2015 at much higher value of US$200 million than the actual figure and some of Infosys top executives had personal interests in the acquisition. The letter also mentioned that all was not well with Panaya in the run up to acquisition. The company did undertake a serious restructuring in the 2013–2014 FY. Panaya also had a strong connection with SAP, where Vishal Sikka was a CTO earlier. The allegation directly pointed out at the Infosys board members and their role in handling the Panaya acquisition.

It further highlighted that then CFO Rajiv Bansal was against this acquisition and was paid a huge severance package of ₹173.8 million without the knowledge of the board. Sikka was also under the scanner for a huge salary hike of 85 per cent, compared to ordinary Infoscions who were given just 6 per cent salary hike in the 2015–2016 FY. He was also criticized for high expenses that incurred operating from Palo Alto location.

It raised serious questions; Infosys' corporate governance and business ethics were at the dock. Infosys founder and ex-CEO Narayana Murthy was at the fore front when these allegations broke up. Narayana Murthy directly hit out at the Infosys management for allegations, which catapulted into direct collision between him and the board members. Infosys management decided to conduct enquiries into the allegations with both internal and external law firms respectively and concluded that nothing wrong or unethical was found. But Murthy demanded Infosys board, full reports of Panaya acquisition and CFO severance package investigation be made public to clear all doubts. Infosys' top brass declined to his demands.

Murthy openly criticized Infosys top brass in public forums for days on various issues related to its functioning. It all created a tough relation between Vishal Sikka and Infosys board with Narayana Murthy. In the meanwhile, Infosys saw many high-profile exits, under various roles (*Livemint*, 2017b, July 31).

The final climax was CEO Vishal Sikka's resignation from Infosys helm on 18 August 2017 after 3 years of journey, even as Murthy was hitting fresh allegations on him. Murthy's last attack was that Vishal Sikka was more fit for a CTO role than for the CEO designation.

These were the lines from Sikka's resignation letter released to the public domain:

> It is clear to me that despite our successes over the last three years, and the powerful seeds of innovation that we have sown, I cannot carry out my job as CEO and continue to create value, while also constantly defending against unrelenting, baseless/malicious and increasingly personal attacks.

As his resignation news reached markets, Infosys share plunged all day along to a 9.57 per cent in its price, and there was a ₹300 billion loss in the market capitalization (see Figure 5), even as Infosys had decided to go ahead with proposed ₹130 billion shares buy back (Bloomberg, 2017). The current COO UB Pravin Rao was appointed as the interim CEO and MD.

Ironically on 19 August 2017, three US law firms, namely, *Bronstein*, *Gewirtz & Grossman*, *Pomerantz* Law Firm and *Rosen* Law Firm initiated investigation against Infosys for any lapses in the corporate governance under its previous board (*The Economic Times*, 2017b, August 19).

Weeks later, Nandan Nilekani another founder member and ex-Infosys CEO from 2002 to 2007, who also supplied whole India with the unique 12-digit Aadhar number under UIDAI project of the Indian government, was brought back as the non-executive chairman, and the entire board was rejuvenated. Markets cheered the appointment of Nilekani to Infosys helm (*The Economic Times*, 2017c, August 25). Later in January 2018, Salil Parekh was appointed as the new CEO. He owed to take the company to greater heights from series of controversies (see Figure 6).

Figure 5. Infosys Stock Declining on Sikka's Resignation News, August 2017

Source: Bloomberg (2017).

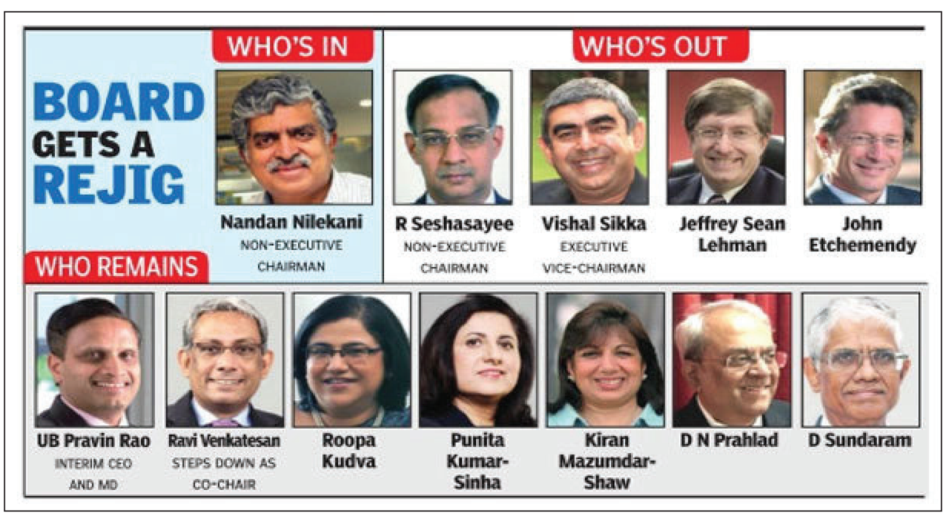

Figure 6. Infosys Board Reshuffle Under Nandan Nilekani helm, August 2017

Source: *The Economic Times* (2017).

Two Young Birds Crossing Similar Roads

Both Ratan Tata and Narayana Murthy are business tycoons with a large base and a unique place in the minds of people. They have a strong business brand and value associated with their names. Both of them had a very long business journey with endless achievements and accolades all along. Their career graph is a mighty ocean with various dimensions of achievements to the entire industry they worked for. Their experience and business exposure was nowhere to match with the young and growing business pillars of Mistry and Sikka. But Tata's and Murthy's ways of handling these issues raised serious questions on their credibility, integrity and trust image to the business world.

Sacking of Cyrus Mistry and the resignation of Vishal Sikka put their organizations in a tight spot with a bad image to the eyes of corporate houses worldwide. It was like an insider chairman could not get enough help and support to fulfil his vision and true value, and the company failed to utilize his true potential for the role he was brought in. On the other hand, a smart CEO had to walk out at the peak of his career due to discouraging signs. Both their journeys were cut short at a much unexpected time and manner. It was shocking to both of them.

A social media post had this powerful line with deep meanings:

> Ratan Tata and Narayana Murthy, Do men beyond prime become harmful to the organizations they built and nurtured for years.

These two instances convey exactly the aforementioned line. Tata and Murthy brought a bad reputation to their own empires by their own acts.

Old Versus New Guards

The two young leaders in their 40s had a tough going with their stalwarts aged in their 70s. Both Mistry and Sikka had a huge vision and road map to their organization, one succeeded and the other failed gradually. Both of them were hard working leaders, but their priorities were vastly different. Most importantly, Vishal Sikka was the CEO of one IT firm, but Cyrus Mistry was the chairman of a huge conglomerate of companies manufacturing from salt to software. Hence, their working style and business scope have got drastic difference, which is quite complicated as well. An Indian MNC was run from Silicon Valley to attain high growth, while the other ran the conglomerate from Bombay House, Mumbai.

Both Mistry and Sikka were well equipped to take their organization to far greater heights which Tata and Murthy would have cheered and wished their appointees a wonderful career path ahead, provided a good conducive environment and corporate governance existed in both companies. It was a systematic governance failure for years whose impact was put on these two young leaders.

Both Mistry and Sikka had similar paths at the far end of the breakup episode but with differences in between. Both of them had a surprise entry with a huge task but a much unexpected exit route. Sikka was seen as a high-powered new-generation CEO with a good track record, but Mistry was seen as an underperformer or a lacklustre chairman. Sikka brought many new policies to Infoscions; Mistry had many new plans to take forward the massive empire but was a nonstarter altogether. Sikka was an outsider brought to Infosys helm, while Mistry was an insider with decades of business and family relationship with the Tata empire. Sikka had the full support of Infosys board, while Mistry failed to put his own house in order to get the board's support. Sikka resigned due to the complete hindrance of Murthy and the endless public criticism by him on the functioning of Infosys top brass; Mistry was shunted out by the Tata board on wide-ranging issues of underperformance and other allegations. Ironically, both Mistry and Sikka carried a black mark for the acquisition of firms, Welspun Renewables Energy and Panaya acquisitions, respectively. It proved to be the strongest reason for their fallout altogether with their appointees. On Mistry's issue, there was not any whistle-blower nor did public criticism happen like in the case of Infosys before sacking. Unlike Sikka, Mistry challenged his expulsion to legal corridors, further denting the image of Tata's.

Consequences in both cases were more harmful than any good news to the organization which Tata and Murthy built brick by brick and nurtured to high spirits with strong commitments for decades. Both actions were shocking to markets and never had an easy going; verbal criticism continued for days, each other giving their side of stories.

It created a leadership vacuum in both organizations; Infosys declared Nilekani as the successor in few weeks, later appointed Salil Parekh as the next CEO. But Tata's had to find some big profiles but, finally, went ahead with their insider itself. It also created a tough and high expectation challenge from the successors, Salil Parekh and N. Chandrasekaran. Initial days were challenging and tough for both of them with series of controversies and bad news for their organizations, which were fresh in minds of the business world. They need to put their house in full order before giving a new view and dimension to the organization. They must pass the litmus test with the stalwart leaders who appointed them, which Mistry and Sikka had failed.

Corporate Governance: A Systematic Failure Entity

Transparency, accountability and security are the three pillars of corporate governance entity. They are critical in running the company with all its internal and external players, including the company board, shareholders and employees, in a right direction with high spirits. The Tata's expulsion of 2016 and the Infosys saga of 2017 raise serious questions about corporate governance practices followed in Indian corporate houses. There was a clear break down of corporate governance system in a very systematic way for years, not suddenly. The final picture was the full-scale exposure to past mistakes and wrong decisions in both cases.

Right from the first day of Mistry and Sikka's appointment, many things did not happen as per the good governance practices. It all got accumulated and had to burst one fine day making loud noise which rattled the entire organization and the business world. How was it that a person tasked to find the successor of the chairman himself getting the chairman post went unnoticed? How was a CEO appointing his ex-colleagues from previous firm to plum posts went unnoticed? Both are serious conflict of interest issues and are set to have strong impact in any organization. There might have been many such lapses under Tata's and Murthy's days in helm as well, but all those got unnoticed because they had ultimate powers being founders or stalwart leaders of their firm, but their appointed ones did not have such authority and were seen doing unacceptable things.

Right Job, Right Person

These two fallouts paint a very gloomy picture of Indian corporates where an appointed leader must perform as per the wish of a stalwart leader who is either the founder of the organization or from a long family hierarchy which has been running the organization as a family business empire for generations. They continue to have a strong influence even after they moved out of their post in their firms. Nothing new or innovative things can be put up at the workplace without their consent. Follow their footsteps without any major changes in the business empire. If you cross the boundary, you will be criticized and sacked. The real power is not in the hands of the official leader but with the founder.

It brings to the light how a family-managed business empire should handle succession carefully as per their need and expectation. The selection of a non-family CEO as the successor with the clarity on roles and duties they need to play must be very well defined. Companies need to draw a well-defined retirement structure plan for founders and stalwart leaders; a smooth transition to the successor must be put in place.

It raises serious questions on leadership style, functioning of the company's board, succession management and employment of non-family CEOs, role of non-operating owners, organizational culture and conflict management in such circumstances.

So how must have been these two scenarios handled better? Did Ratan Tata and Narayana Murthy play their roles as effectively as expected? Did they do justice to their fellow young leaders appointed under their shadows? Issues like this could have been handled in a more appropriate and constructive manner. Things must have fallen in line years ago itself.

Some Gains, Lesser Achievements

In Cyrus Mistry's case, the Tata's sacked a person who worked under their umbrella for over 25 years (*Hindustan Times*, 2016). It is true that Mistry did not have wider appeal nor charisma like his predecessor Ratan Tata. His sacking put the ethical values and image of the Tata empire in a bad light, like an outsider sacked without any chance of hearing or warned at any stage. The official tenure of Mistry was to end in March 2017; the Tata's could have waited for 5 more months and could have solved all problems in a very silent and official manner than such public sacking.

On a broad picture, Mistry's performance was not that bad or was fine to some extent, but a lot more was expected from him which he failed to fulfil (*Livemint*, 2016a, October 24). Mistry had taken some bold decisions like selling the steel business in the UK on the lines of profit which the Tata's felt he could have handled better. Brokerage CLSA (Credit Lyonnais Securities Asia) mentioned in a research note that the removal of Cyrus Mistry from the chairman post would likely impact Tata Steel shares in the near term, while the other group stocks would likely see a negligible impact. Mistry's entire focus was on turning around the struggling companies and leaving out underperformers, which did not project him in a good light. The other important point to be noted here is that Mistry's performance in his former Pallonji group was very good; he led a huge diversification of Pallonji empire and led it to greater heights. How was that he could perform well in the earlier company but was seen as an underperformer in Tata Group? Although there are underlying differences in both business empires, the task was not a simpler one.

In his 45 months' tenure, the total assets of the Tata's empire grew by 33 per cent to ₹6,065.89 billion from ₹4,576.70 billion in the FY 2013. In the last 4 FYs under Mistry between FY 2013 and FY 2016, Tata Motors saw its sales turnover increase by 44.6 per cent to ₹2,800.97 billion from ₹1,936.98 billion. Tata Capital Housing put up a good show with the sales turnover notch up by 224 per cent to ₹12,550 million from just ₹3,870 million in the FY 2013 before Mistry took over. Similarly, Tata Elxsi's turnover jumped to ₹10.75 billion (73%), while TCS where IT industry was in doll drums for some years witnessed its sales turnover notch up by 72.5 per cent to ₹1,086.47 billion in the FY 2016. Profits of Voltas jumped by 74 per cent to ₹3.41 billion, while Tata Chemicals shot up by 63 per cent to ₹7.84 billion (see Figure 7).

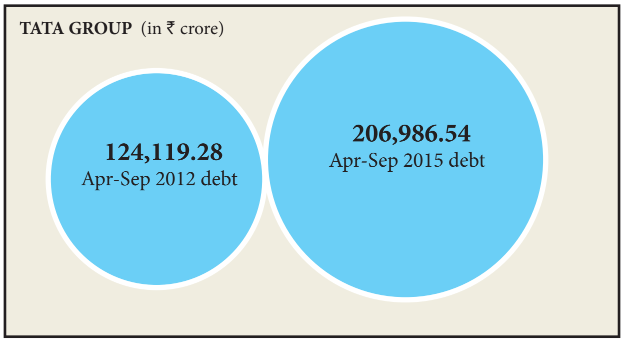

Figure 7. Tata Group's Debt Increasing Data from 2012 to 2015

Source: Capitaline (2017).

But underperformers included Tata Steels which failed to improve its performance in the last four financials as low domestic demand and weakness in the UK market hurt its overall performance. Sales turnover of Tata Steel dipped by 12.4 per cent to ₹1,216.18 billion in 4 years. Another lacklustre performer was Tata Motors Finance; its turnover declined by 19 per cent to ₹23.14 billion from ₹28.54 billion. Brexit is also likely to see another round of bad news for all Tata companies based in the UK in the upcoming years. Its impact is yet to be fully ascertained as the UK trade policy post-Brexit is still not confirmed officially.

Debt was also growing fairly high under the helm of Mistry (see Figure 7). The total debt level of the aforementioned companies went up by 31 per cent in the last 4 years to ₹3,708.45 billion. Which many inside the Tata Group and the outside shareholders were not happy. It was also unexpected in the business functioning of Tatas.

More Support and Guidance

The Tata's must have guided Mistry at all downturns very well. A good and healthy relationship must have been built between Ratan Tata and Cyrus Mistry, there by producing good results. A stalwart leader like Ratan Tata must have played a more active and positive role in grooming his successor Mistry, but the picture was like the Tata's finding fault with Mistry at every stage, allowing Mistry to underperform on their benchmark scale and sacking him at one fine day suddenly with endless reasons. Mistry also failed to garner support from other board members; hence writing on the wall was very clear.

Clearly, Mistry did not get enough insider support to run the Tata empire in good direction under his throne nor did he execute his vision which he had pledged at the time of his selection as the chairman. The broken relationship went so worse that at one stage Mistry went on to take tough decisions on his own like the acquisition of Welspun Renewables Energy company.

If there was a conflict of interest between Mistry's predecessor company and the Tata's, stern warning must have been given to him and scrapped all deals with Pallonji group on the grounds of the Tatas' highest ethical rules and philosophy. But things never happened like that. There is also an underlying family relation between Mistry's and Tata's which is kept at a low light; Mistry's sister Aloo is married to Noel Tata, who is the half-brother of Ratan Tata. Why this family relation was not considered as a conflict of interest when Mistry was handed a top job in 2011? (*First Post*, 2016a, October 25) A very serious question must have been raised then itself. And a bigger question unanswered is how Cyrus Mistry, who was a part of the selection panel tasked to find a successor to Ratan Tata in 2010, became their choice for same post in 2011. It is like things were taken for a ride in 2010, but now every loop hole is being questioned.

Positive and Constructive Role

Narayana Murthy was hailed as the torch bearer of corporate governance and ethical values in India. He was seen as an important leader in Infosys even after his exit in 2014. His inputs were much valued as a founding father to the IT giant. But his role in handling Sikka's case brought a huge black mark on his ethos and values. He was directly held responsible for Vishal Sikka's sudden exit. Within hours of Sikka's resignation, Infosys board attacked Murthy for his endless campaign against the top brass in public forum as the root cause for the fallout. The verbal criticism was so severe that Infosys board said in a statement to markets (*The Economic Times*, 2017a, August 19):

> Given the commitment of the board to remain independent and pursue a chosen strategy, the board currently has no intention of asking Mr Murthy to play a formal role in the governance of the organisation.

Murthy replied back by saying:

> I voluntarily left the board in 2014 and am not seeking any money, position for children or power. My concern primarily was the deteriorating standard of corporate governance, which I have repeatedly brought to the notice of the Infosys board.

On the strings of allegations, Murthy must have first discussed with all other founder members. Taking all of them together, he must have questioned the top brass internally. Ironically, not all of them agreed with him (*Business Line*, 2017). Murthy's confession that he regretted the quitting of the company in 2014 did show him in a bad light and dented his image. It showed that he still wanted to remain in the top chair even after a very long stint and old age (*Times of India*, 2017).

First, Murthy must remember he is the founder of Infosys, not an ordinary investor. Hence, he must have played the founder role more constructively than bringing bad reputation to his own technology empire which he groomed and nurtured for decades. Second, he must not have criticized the internal matter of the company in the public domain so often with a high decibel voice. Openly criticizing an acting top brass led to the straight collision course instead of finding the right solution between Murthy and the top Brass.

Third, Murthy failed to act in a timely manner when Infosys started to take a wrong path way back. There were 16 executive appointments by Sikka; all of whom were from Sikka's previous company SAP and 10 of them quit one after the other in 2017. Murthy must have objected to such appointments then itself as known-circle appointments can lead to biased working style and serious conflict of interest. It is being widely said that Infosys board was not functioning actively for some time under the previous top brass. It was silent spectator to all happenings inside the company, rather board members must have questioned them. Murthy must have played a crucial role in pushing the board to function actively by tough decision making on company matters. May be that's why Nilekani has shuffled the entire board on a single stretch as per his choice now.

It is a worldwide industry phenomenon that a CEO or an entire C-suite is paid a very high package with endless perks that an ordinary employee never gets. Hence, raking up the pay scale issue that too on a technocrat visionary like Vishal Sikka is unjustified and irrelevant. It was back firing his own image; as an ex-CEO he himself was enjoying all perks. Murthy must recollect that even during his stint, Infosys had given mediocre salary hike to all underlying employees, and layoffs in the name of bottom performance under Bell curve appraisal system were happening all along. Hence, he must not compare a CEO to an ordinary fellow employee.

On the severance pay issue to CFO, it is true that the CFO position is a very important and crucial post in every firm. But paying such high package broadly says something is wrong and does not project well. Instead, Infosys must not have budged to such high pay and could have handled Bansal legally in the worst case. The company itself later regretted on such a hefty amount payout as a wrong decision; then it must explain as to what made them take such a wrong decision, collectively. Infosys had also maintained severance pay as a non-compete and non-disclosure agreement. Ironically, the payment to CFO was halted after paying a sum of ₹52 million. In January 2017, Bansal invoked the clause of arbitration proceedings against Infosys for suspension of his pay. Later in 2018, the verdict went in favour of CFO Bansal, asking Infosys to pay remaining money to him.

As a founder member Murthy must have questioned the Panaya acquisition deal in 2015 itself. A six-time higher acquisition pay must have raised eye brow, must not have waited for a whistle-blower to rake up the issue. The board must not have gone with such a high acquisition pay unless there was any strong reasons to pay as the IT industry was not going at a good shape since 2008 economic recession. They must have analysed the true strength and value Panaya would add to Infosys rather a mere acquisition in 2015.

On the investigation part, nothing wrong or unethical was found in the Panaya deal or CFO severance pay issue even after three rounds of enquiry. Murthy must have demanded a more independent probe with himself appearing before the investigation team to give his own accounts of issues to investigators. But Murthy was seen unstoppable, as if he pre-concluded that allegations were true. He was bent to prove as wrong even before truth was investigated or any fact could be proven. He was fairly biased to his own side of the story on which everyone disagreed with him. It bluntly hit his underlying image as a founding father. He demanded the entire investigation report be made public which has hardly happened in any organization or was unacceptable in a larger picture to the firm (*Hindustan Times*, 2017).

Chairman R Seshasayee replied to Murthy's demands saying:

> We are done with this. We have closed the investigation. The detailed report is just going to have who said what to whom. It has 1 million documents. Would making all that public be in the interest of the organisation?

Thus the best solution to the entire fiasco could have been Ratan Tata and Narayana Murthy guided and advised their appointees at the wrong Path and tough times, diverted them to right path towards success, which could have been a win-win situation for all. Such criticism and sacking in public forum brought a very bad reputation to both of them.

Some of the broad questions that need to be answered include:

- Did two business tycoons do enough to guide their successors to carry on their vision independently and build a legacy?
- How could the smooth transition of a Founder to the chosen successor be carried ? The exact role a Founder needs to play in future when the chosen successor is in charge?
- How could the smooth transition of a Founder to their chosen successor be carried and the role Founder need to play in future?
- How and by whom should the performance of an appointed executive be judged in such a business empire?
- To what extent corporate governance practices must be implemented even for an executive or the founder of a company in all situations and circumstances?
- How must the board of a company function taking all stakeholders together in various circumstances?
- How conflicts between an executive and the top brass level must be handled without public visibility or bad reputation to the firm's image?

Appendices

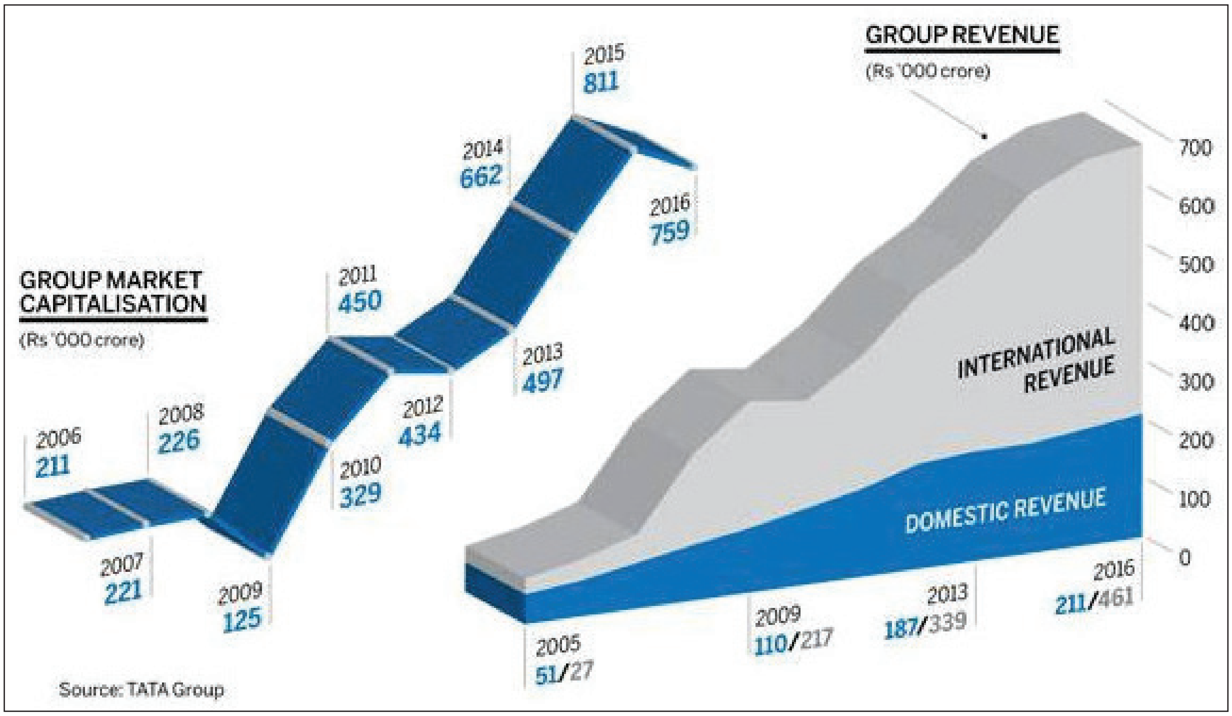

Figure A1. Tata Group's Year-Wise Market Capitalization and Revenue Growth in INR Crores

Source: *India Today* (2017).

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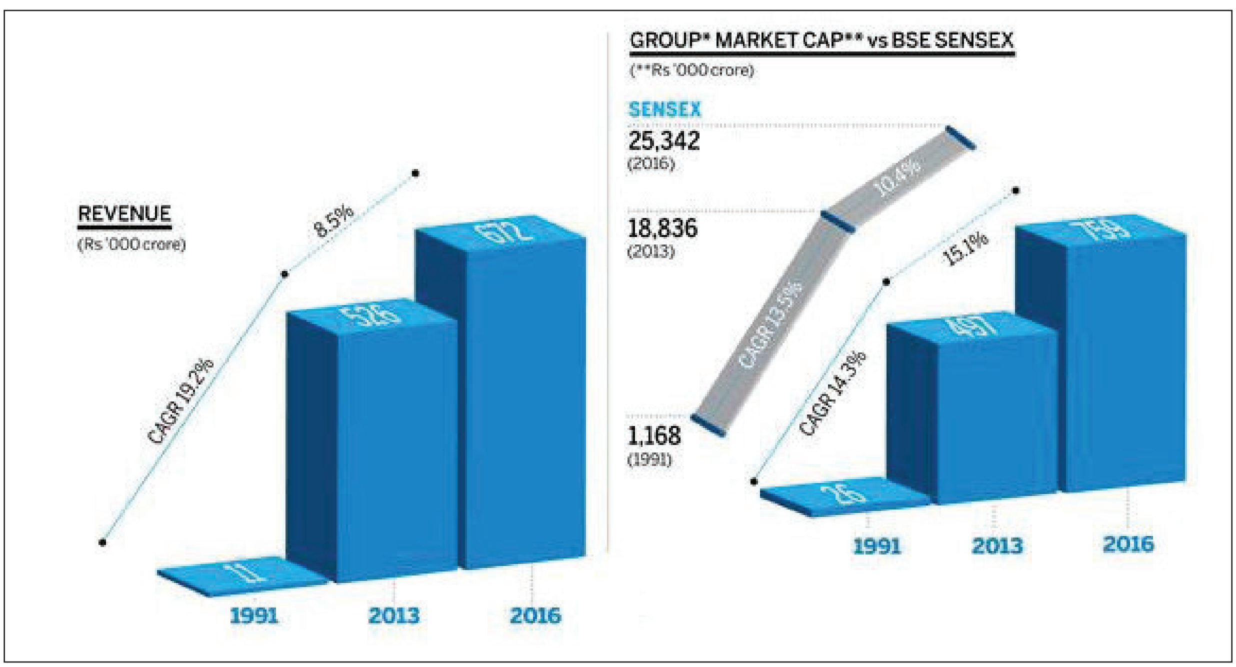

Figure A2. Tata Group's Revenue and Market Capitalization CAGR Growth Rate in INR Crores

Source: *India Today* (2017).

Disclaimer: This image is for representational purposes only. It may not appear well in print.

Table A1. Tata Group of Companies: Performance Comparisons from FY 2013 to FY 2016 Under Mistry in INR Crores

	Sales turnover (Rs cr)			Operating profit (Rs cr)			Net profit (Rs cr)			Total debt (Rs cr)			Total assets (Rs cr)		
Company	**FY13**	**FY16**	**% change**	**FY13**	**FY16**	**% change**	**FY13**	**FY16**	**% change**	**FY13**	**FY16**	**% change**	**FY13**	**FY16**	**% change**
Tata Motors	193698	280097	**44.6**	24809	35618	**43.6**	10271	12564	**22.3**	53716	70468	**31.2**	103345	173903	**68.3**
Tata Steel	138821	121618	**–12.4**	5410	7536	**39.3**	–8332	–10882	**–**	68507	86204	**25.8**	113122	127638	**12.8**
TCS	62990	108647	**72.5**	19218	33644	**75.1**	13886	23928	**72.3**	232	245	**5.4**	40369	67130	**66.3**
Tata Power Co.	33248	37487	**12.7**	5970	7790	**30.5**	–88	985	**–**	37882	40121	**5.9**	55896	61421	**9.9**
Tata Comm	17213	20606	**19.7**	2390	3039	**27.1**	–760	–303	**–60.2**	12362	14381	**16.3**	17964	18677	**4.0**
Tata Chemicals	15034	18063	**20.1**	1911	2288	**19.7**	482	784	**62.8**	8384	8694	**3.7**	16791	17538	**4.5**
Tata TeleService	10708	14273	**33.3**	–487	3252	**–**	–4852	–2895	**–**	23491	35204	**49.9**	21937	24682	**12.5**
Titan Company	10218	11312	**10.7**	1113	996	**–10.5**	727	687	**–5.5**	0	113	**–**	2035	3712	**82.4**
Tata Global	7352	8118	**10.4**	826	757	**–8.4**	394	318	**–19.5**	1389	1182	**–14.9**	7308	8048	**10.1**
Tata Power Delhi	4865	6754	**38.8**	1043	913	**–12.4**	313	263	**–15.9**	3762	3407	**–9.4**	7557	7948	**5.2**
Voltas	5584	5884	**5.4**	340	595	**75.0**	195	341	**74.4**	262	260	**–0.8**	2018	2836	**40.5**
Tata Capital	3221	4957	**53.9**	470	741	**57.7**	391	412	**5.4**	21522	38314	**78.0**	12952	17739	**37.0**
Indian Hotels	3743	4591	**22.6**	167	665	**297.2**	–109	–127	**–**	3818	4781	**25.2**	8277	9366	**13.2**
Tata Capital Fin	2680	3437	**28.2**	466	508	**9.0**	276	272	**–1.5**	17471	25386	**45.3**	11890	15546	**30.7**
Tata Tele. Mah.	2635	2972	**12.8**	501	814	**62.6**	–659	–512	**–**	6247	11546	**84.8**	4526	8369	**84.9**
Tata Technolog.	1995	2686	**34.6**	433	526	**21.4**	298	380	**27.5**	297	396	**33.4**	1260	1710	**35.8**
Trent	2249	2494	**10.9**	63	217	**244.4**	–20	53	**–**	336	391	**16.7**	1719	1891	**10.0**
Tata Motors Fin	2854	2314	**–18.9**	463	156	**–66.3**	309	96	**–69.0**	16825	15995	**–4.9**	19785	20044	**1.3**
Tata Steel Pro.	1650	1940	**17.6**	80	105	**32.0**	41	49	**19.3**	90	219	**142.3**	504	737	**46.4**
Tata Coffee	1698	1765	**3.9**	314	334	**6.2**	126	110	**–12.4**	915	897	**–1.9**	1806	2130	**17.9**
Rallis India	1552	1727	**11.3**	225	246	**9.7**	114	144	**26.2**	131	90	**–31.6**	779	1014	**30.3**
Tata Metaliks	1084	1390	**28.3**	–45	221	**–**	–73	123	**–**	524	311	**–40.7**	500	515	**3.0**
Tata Cap.Hsg.	387	1255	**224.2**	39	175	**350.7**	28	113	**303.9**	3793	11605	**205.9**	4263	12795	**200.2**
TRF	1150	1202	**4.5**	–21	44	**–**	–92	–40	**–**	588	633	**7.8**	688	612	**–11.0**
Universal Comfor	740	1102	**48.8**	43	85	**98.7**	32	63	**98.2**	0	0	**–**	121	181	**50.3**
Tata Elxsi	622	1075	**73.0**	62	260	**320.4**	32	154	**388.9**	59	0	**–100.0**	259	404	**56.1**
Total	**527991**	**667765**	**26.5**	**65804**	**101525**	**54.3**	**12929**	**27080**	**109.5**	**282603**	**370845**	**31.2**	**457670**	**606589**	**32.5**

Source: Capitaline (2017).

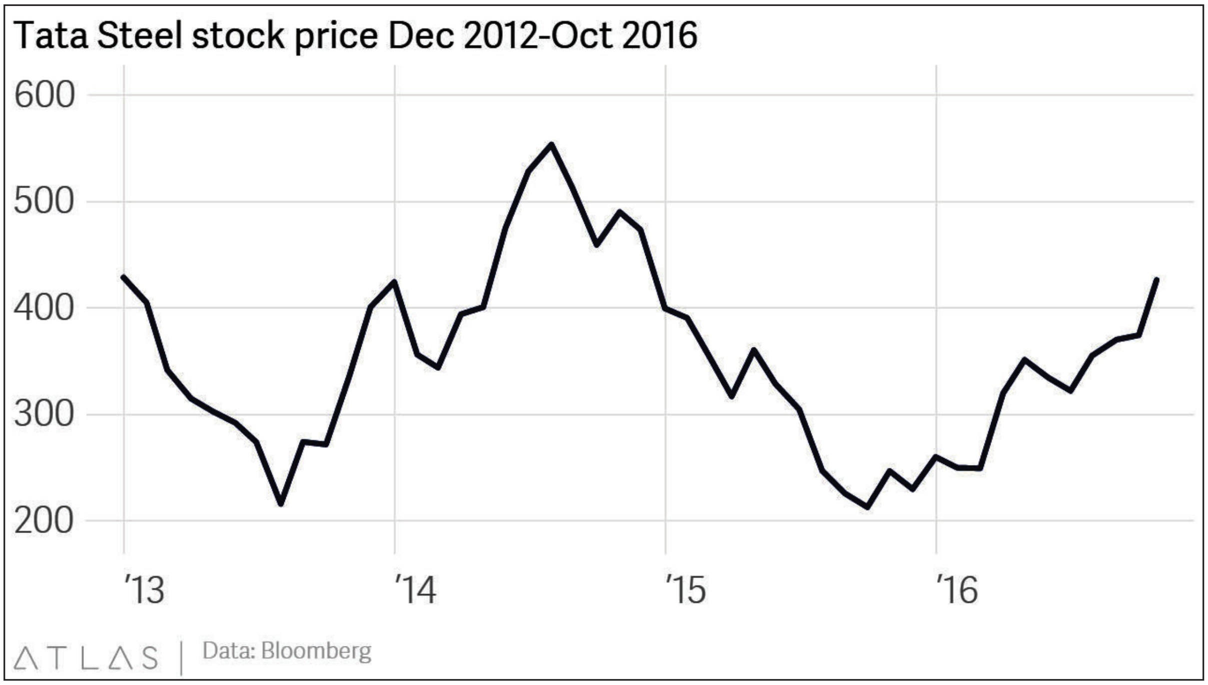

Figure A3. Tata Steel's Year-Wise Stock Prices (INR) Fluctuations Data

Source: Bloomberg (2017).

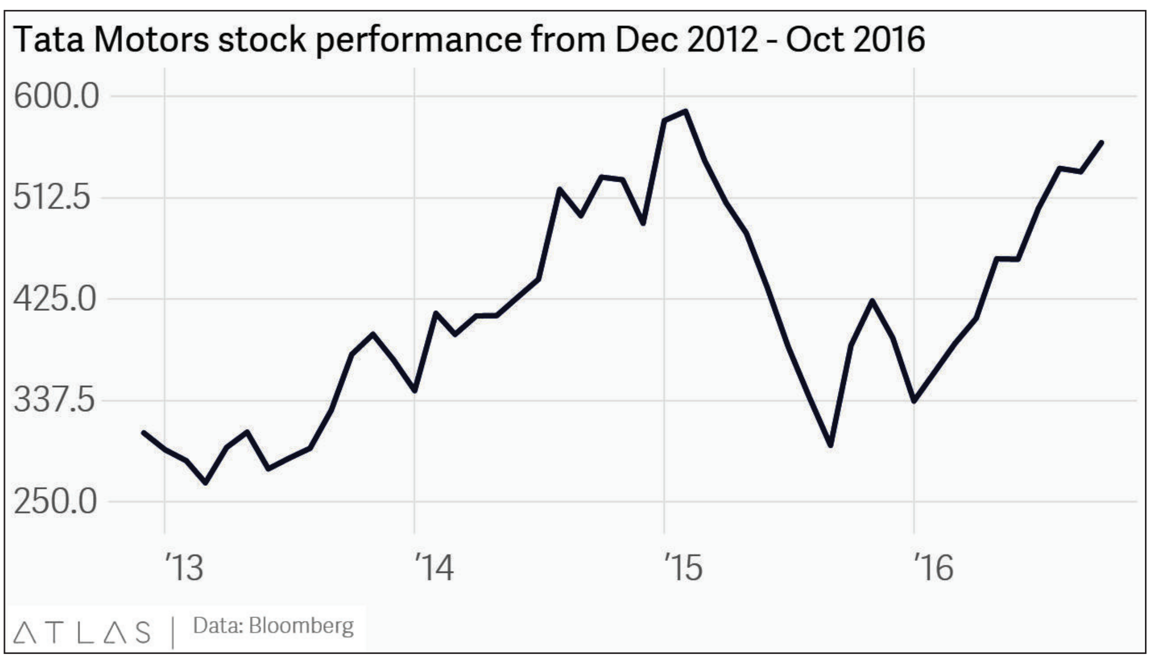

Figure A4. Tata Motors' Year-Wise Stock Prices (INR) Fluctuations Data

Source: Bloomberg (2017).

Table A2. CAGR Growth of Tata Group of Companies Under Mistry and Others

Compaines where Cyrus Mistry was Chairman	
Company	**CAGR (%)**
Indian Hotels	21.3
TCS	19.1
Tata Motors	17.1
Tata Chemicals	14
Tata Steel	-0.1
Tata Global Beverages	-1
Tata Power	-6.3

Other Tata Group Companies	
Company	**CAGR (%)**
Tata Metaliks	66.5
Tata Elxsi	59.6
Voltas	41. 9
Tata Communications	32.1
Automobile Corp of Goa	29.5
Tata Sponge Iron	21.3
Benares Hotels	18.4
NELCO	17.5
Tinplate	15.8
Rallis	12.9
Trent	12.4
Automotive Stampings	9
Tata Investment Corpn	8.1
Titan Companv	7.9
TRF	6.7
Oriental Hotels	5.2
Tata Coffee	-1.1
Tayo Rolls	-3.5
Tata Tele (Mah)	-8.7

Source: Capitaline (2017).

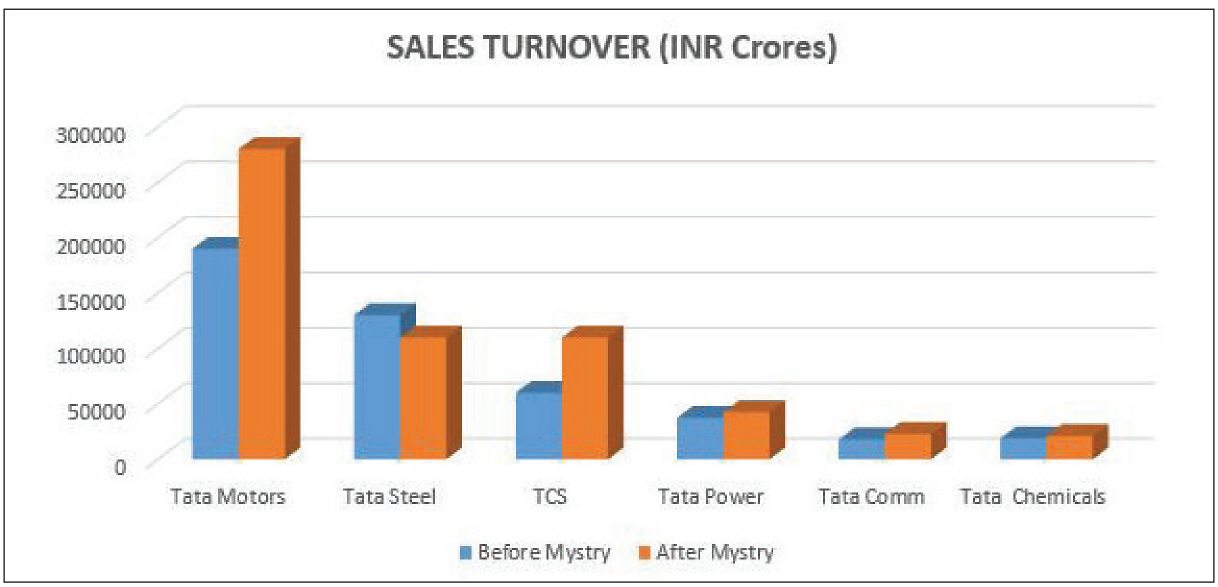

Figure A5. Tata Group of Company's Sales Turnover Before and After Mistry's Takeover

Source: *Rediff* (2016).

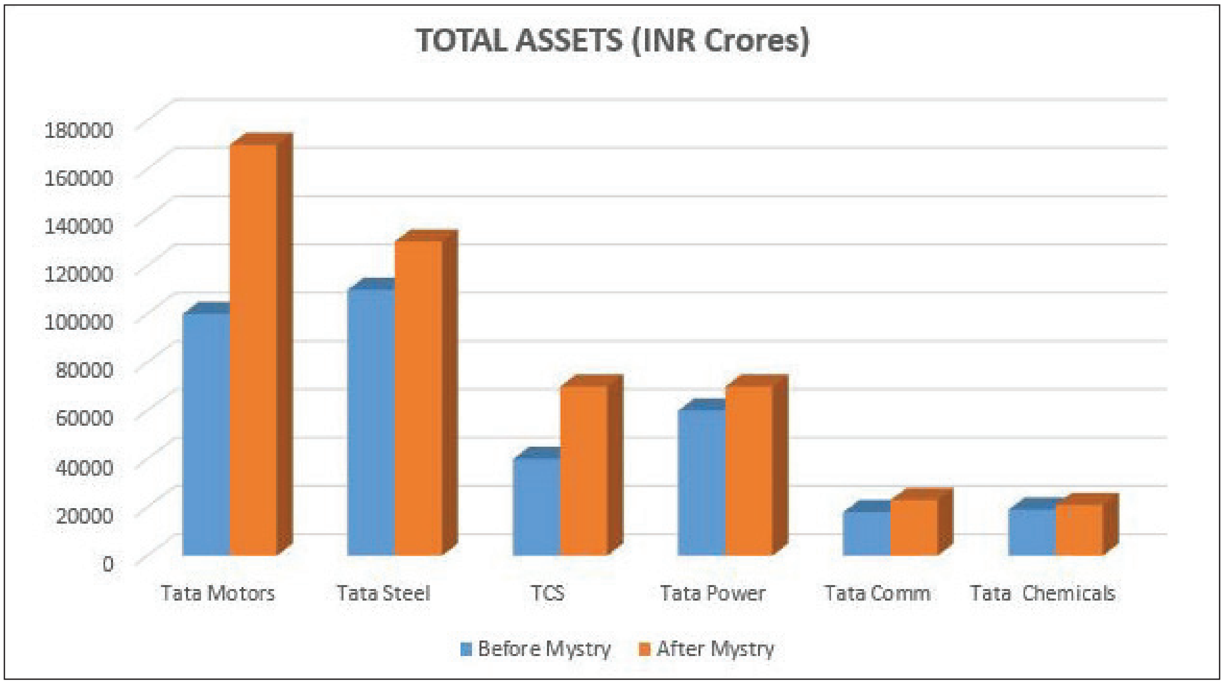

Figure A6. Tata Group of Company's Total Assets Before and After Mistry's Takeover
Source: *Rediff* (2016).

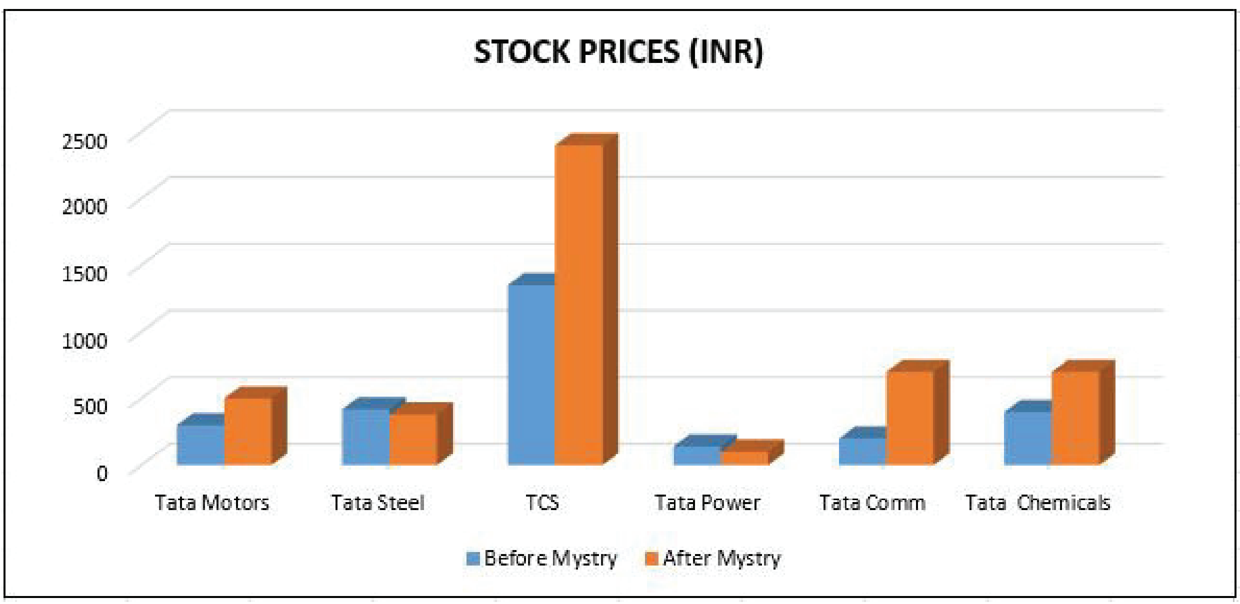

Figure A7. Tata Group of Company's Stock Performance Before and After Mistry's Takeover
Source: *Rediff* (2016).

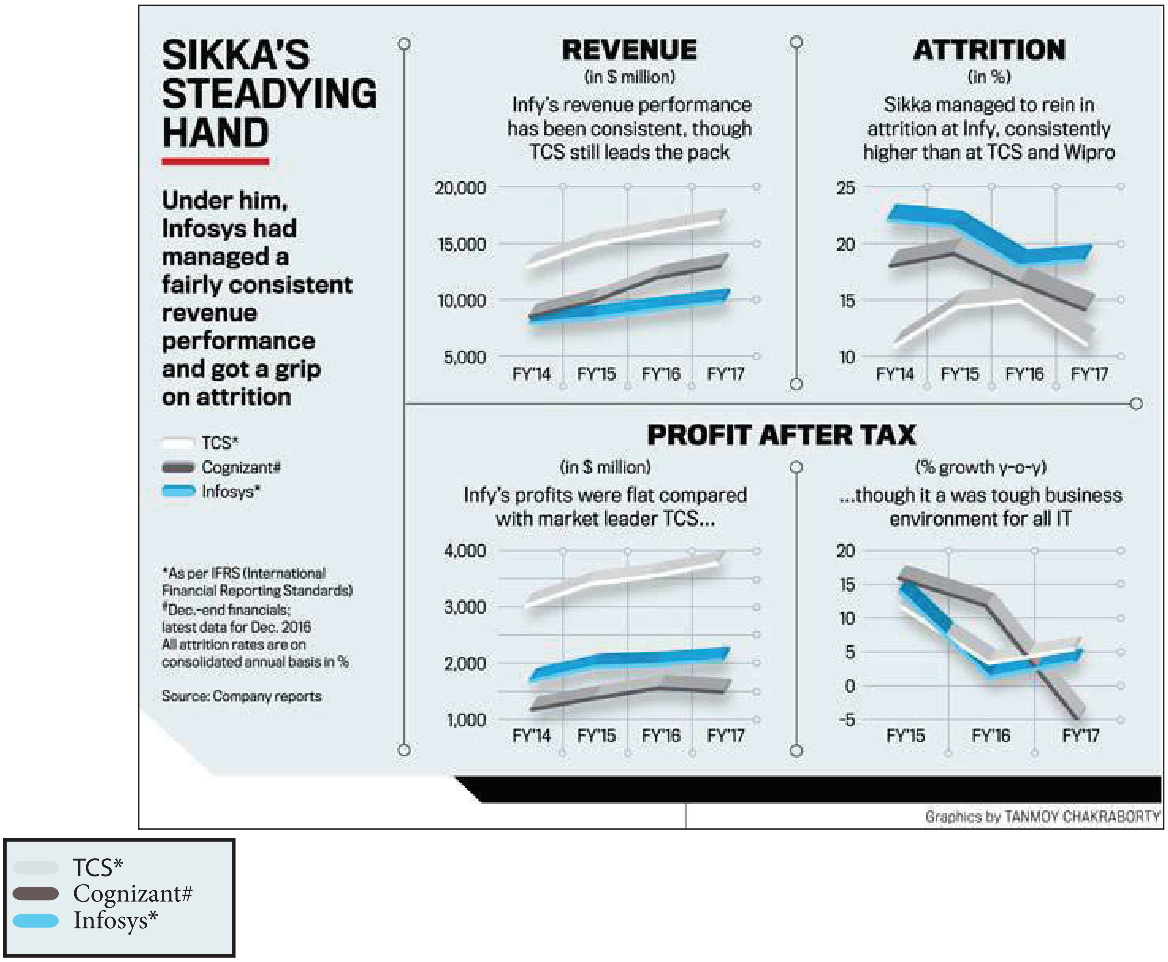

Figure A8. Infosys Business Metrics Comparisons with Its Two Competitors

Source: *India Today* (2017).

Table A3. Infosys Client Revenue (US$) and Business Relationship Data (Year Wise)

Client concentration	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Client contribution to revenue (%)							
Top client	5	5	4	4	4	3	4
Top 5 clients	16	15	16	15	14	14	14
Top 10 clients	26	26	25	25	24	23	23
Number of million dollar clients							
$1 million clients	338	366	399	448	501	529	558
$5 million clients	159	187	190	213	232	244	268
$10 million clients	97	126	132	137	148	159	177
$50 million dollar clients	26	28	40	40	42	47	52

Source: CRISIL (2017).

Table A4. Infosys Employee Metrics Data (Year Wise)

Operationals	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Human resource							
Total (nos)	130,820	149,994	156,688	160,405	176,187	194,044	200,364
Employee cost (Rs million)	148,560	183,400	225,650	288,310	298,020	344,180	376,590
Employee costs/Total revenues (per cent)	54.0	54.4	56%	58%	56%	55%	55%
Revenue per employee (Rs million)	2.2	2.4	2.6	3.2	3.2	3.4	3.5
Cost per employee (Rs million)	1.2	1.3	1.5	1.8	1.8	1.9	1.9
Attrition (per cent)	17.0	14.7	16.3	18.7	18.9	13.6	13.5
Utilisation (per cent)	79.6	75.9	73.0	77.4	80.9	80.6	82.0
Geographical break-up (per cent)							
North America	65	64	62	61	62	63	62
Europe	22	22	23	24	24	23	22
India	2	2	2	3	2	3	3
Others	11	12	13	12	12	12	12

Source: CRISIL (2017).

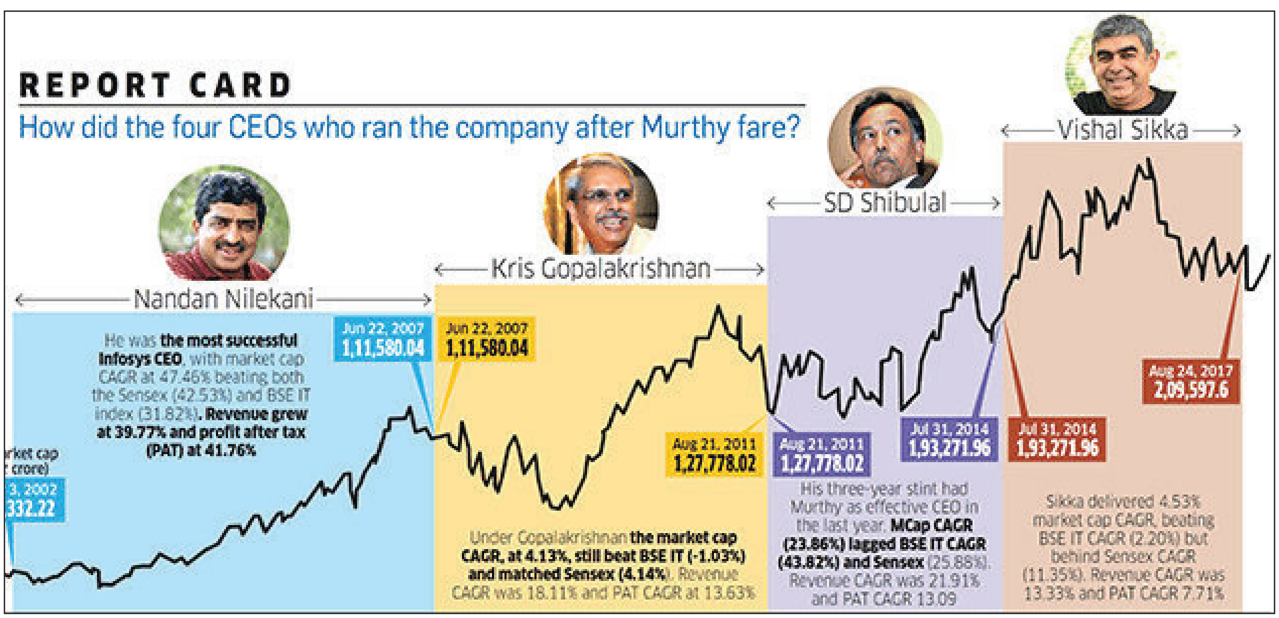

Figure A9. Infosys Report Card Under Last Four CEOs

Source: *The Economic Times* (2017).

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Figure A10. Infosys Share Prices (₹) Journey Under Last Three CEOs

Source: *Financial Express* (2017).

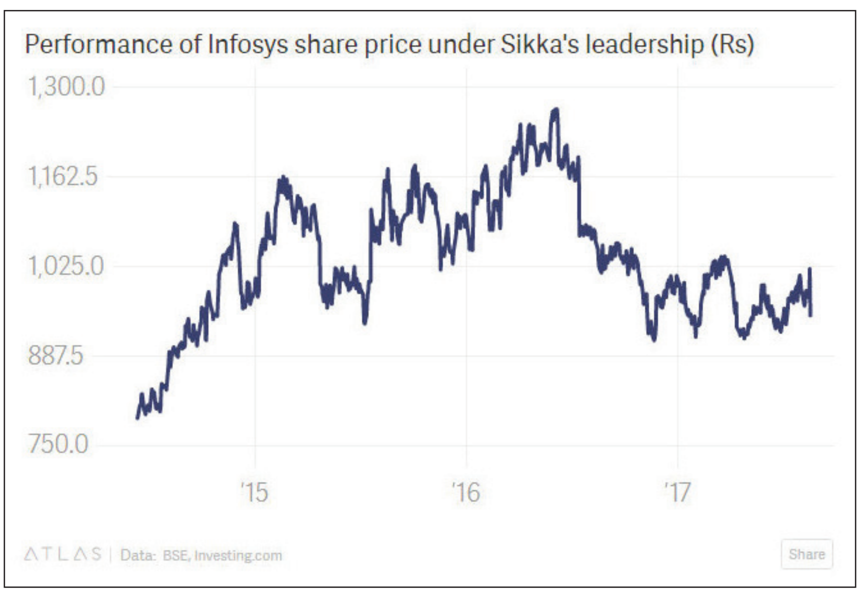

Figure A11. Infosys Share Prices (₹) Movement Under the Leadership of Sikka

Source: *Zee Business* (2017).

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

The authors received no financial support for the research, authorship and/or publication of this article.

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