

*"Posterity will not excuse you if you did not dream big. You owe it to your customers, your colleagues, your investors, and the society. Every major civilization, every great advance in science and technology, and every great company is built on a big dream."*

N. R. Narayana Murthy  
*Chairman and Chief Mentor*

## 30 years of Infosys

Turning thirty is a good time to reminisce. And reflect. And look ahead.

Thirty is one of those rare junctures when you have both youth and experience on your side. Thus, as Infosys completes thirty, we talk about the pleasures and pains of starting small; the genesis of a value-based organization culture; personal goals turning into company milestones; sharing wealth and caring for society; learning and educating; building infrastructure for one and all; agreeing to disclose and refusing to compromise on quality; and above all, believing in a vision and leading by example to see it become reality.

Thirty is also the time to break new ground.

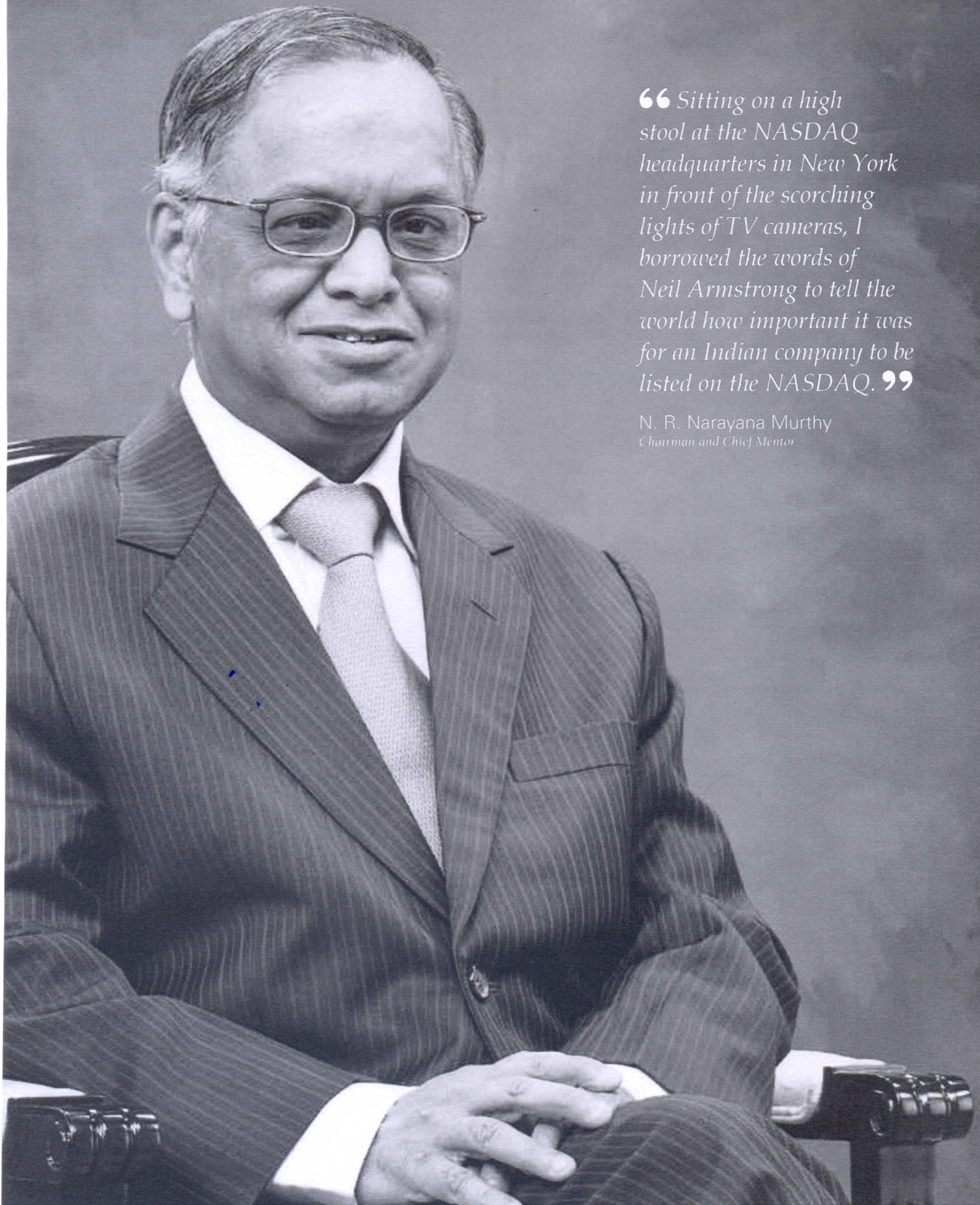


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Goodbye, folks. March on with values...

*“Sitting on a high stool at the NASDAQ headquarters in New York in front of the scorching lights of TV cameras, I borrowed the words of Neil Armstrong to tell the world how important it was for an Indian company to be listed on the NASDAQ.”*

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It was on one of those rare nights at home during the late eighties. I was huddling with my young children, Rohan and Akshata, when Rohan, the most mischievous child I have ever come across, asked innocently whether I loved Infosys more than him and his sister. I got away from that embarrassing situation by saying that I loved my children much more than anything else. However, even today, when we reminisce about the incident, my children are not fully convinced that I was telling them the truth. When I was busy overseeing every detail of the strategy and the operations of the company — from designing the company logo, the company song and the presentation materials, signing off on every drawing and material used in every building on our campuses around the world and coming home late at night — it was difficult to argue with the innocent but correct logic of my children. When I was spending 16-hour days in the office and was away from home for as many as 330 days in a year, it was hard for my children to believe in my commitment to the family.

There is no doubt that the Infosys journey has been an integral part of my life. Most of my colleagues say that Infosys is an inseparable part of me and I am an inseparable part of Infosys. I have been the Number One actor in every major decision taken in the company. I have rejoiced in every significant milestone of the company. I have commiserated in every false step that this company has taken. The best analogy that I can think of for this separation between Infosys and me is that of one's daughter getting married and leaving her parents' home. Yes, the parents will be there when she needs them and they will be happy that she is starting a new life in an exciting new environment.

It is not easy for me to write my last article in the Annual Report of the company. As I write this, a mosaic of images from the past whizzes through my mind. The list seems endless and it would be difficult to narrate them all in this article. So let me highlight a few of them. The day we assembled in my tiny apartment in Mumbai to decide that respect from every stakeholder was the most valuable thing for us. The day we convinced our first US customer to close his own operations at SEEPZ and hitch his future with ours was a significant milestone for us. The day we won the MICO data center contract, starting as an underdog and going on to differentiate ourselves based on our advanced mathematical modeling competence, was a day that boosted our confidence as engineers. The day we inaugurated India's first software campus is still vivid in my memory. Distributing 27% of the company's equity among our employees was a proud moment for those of us who have always considered the idea of sharing wealth to be an important part of our social responsibility.

Listing in India in 1993 pushed us to become leaders in corporate governance. The joy of being India's first software company to be certified at Level 4 of the Capability Maturity Model of the Software Engineering Institute at Carnegie Mellon was clearly what enhanced our own belief in quality. Sitting on a high stool at the NASDAQ headquarters in New York in front of the scorching lights of TV cameras, I borrowed the words of Neil Armstrong to tell the world how important it was for an Indian company to be listed on the NASDAQ. Opening our ultra-modern offices in London, Paris, New York, Melbourne, Shanghai and Tokyo heralded our aspirations to be a global company.

The inauguration of the first education center at Mysore by Prime Minister Manmohan Singh and the second one by Mrs. Sonia Gandhi, the President of the Indian National Congress, were both sound reaffirmations of our long-held belief in the importance of education and research. Participating in the Billion Dollar Day function, declaring several special dividends and bonus shares,

becoming part of NASDAQ-100, starting our banking group, creating Infosys Consulting and Infosys BPO, building more than 28 million sq. ft. of world-class development centers, winning several prestigious global awards, and establishing the Infosys Foundation are milestones that brought us great pride.

There have been some moments of great dilemmas and sadness too. Bidding goodbye to perhaps the brightest of my co-founder colleagues early in the journey was disheartening. Refusing to accept unreasonable terms and walking away from business with a Fortune-10 company was a test of our resolve. Accepting the resignation of a senior colleague and dealing with the instance where our code of ethics was jeopardized were tests of adherence to our values. Deliberating all alone on the resignation offer of a co-founder is not something I would wish even upon my enemy. Being accused of violating our own high standard of business ethics recently made me lose several nights of sleep. Occasional incidents of the organization turning bureaucratic, the inability of some of our leaders to take quick and firm decisions, and the government-company interface becoming less business-friendly from time to time are things that make me sad. But then, this tapestry of happy and not-so-happy incidents is normal and keeps life exciting.

What have been the lessons from this extraordinary marathon? Assembling a team of extraordinary people who have displayed outstanding capabilities through their value system, competence, low ego and high energy is crucial to the progress of any institution. The differentiation comes from ideas, and ideas come from bright minds. Therefore, good people are the primary assets of a great organization. It is essential to realize that even the best people may not be able to run the entire marathon. Different people run out of endurance and intellectual horsepower at different points of time. Some people drop out of the marathon since they do not see any value in an organization when their own time under the arc light is over. A leader's responsibility is to recognize this, provide them opportunities outside the organization, and usher in suitable replacements. Infosys' journey is replete with many such examples.

Many intelligent people possess a high ego and low patience to deal with people less capable than themselves. Leaders have to manage this anomaly very carefully, counsel these errant people from time to time, and allow them to operate as long as they do not become dysfunctional and start harming the organization. If they do cross the threshold, it takes courage to inform the individuals that their time in the organization is over and that they have to leave. However, one aspect that marks out a truly superior organization is the ability of its employees at all levels to be driven by values and to ensure adherence and compliance under any circumstance. No individual is high or important enough for an organization to put up with non-compliance.

Leadership by example is what creates trust in people to follow a leader. As long as a leader is able to show his or her sacrifice and commitment to a cause, others will follow him or her. I am glad we decided on respect from our stakeholders (customers, employees, investors, vendor-partners, government of the land and the society) as the primary objective of the company. I have seen hundreds of instances of such leadership-by-example at Infosys.

A sense of ownership among employees is extremely important to build a long-term future for a corporation. Such ownership comes from fair, merit-based and generous sharing of wealth and perquisites among each member of the company. This is my answer to many of my friends, who wonder why, when Infosys was founded, I took a small percentage of my earlier salary while every other co-founder's salary was increased by at least 10%.

The same friends tell me that they do not know of any other instance where as much as 10% to 15% of the company equity was given to co-founders who had just 12 to 18 months of work experience.

I do not know of any Indian company that has given away as much as ₹ 50,000 crore (at current stock prices) of stock options to employees. Today, every Indian employee at every level who joined us on or before March 2010 is a stockholder of Infosys. The point I would like to make is that such acts demonstrate that our leaders walked the talk in sacrifice and commitment.

Strategy is about ensuring sustained differentiation in a changing environment for better net income margins. Differentiation without better net income margins is meaningless. In my opinion, operating margins and earnings before taxes, depreciation and amortization (EBITDA) are not appropriate measures. In fact, the best measure of differentiation is the per-capita free cash flow generated. Such cash flows bring cash to invest in better people, research and development, infrastructure, training, and better customer and employee confidence. The famous Harvard historian, Niall Ferguson, says in his book, *Civilization : the West and the Rest*, that the six attributes that have made Western civilization dominant during the last five hundred years are: competition, science, property rights, medicine, consumption and a good work ethic. I have been saying for many years now that the factors that differentiate a corporation from its competitors are : an enduring value system, open-mindedness, a pluralistic and meritocratic approach, and practicing speed, imagination and excellence in execution. Leaders have to focus on creating such an environment.

Leadership is about taking bold and firm decisions with incomplete information in an environment of uncertainty. Leaders who waffle do not inspire confidence in their people. It is important to use as much data and modeling as possible to eliminate clearly bad decisions. My decision to walk away from a Fortune-10 company when they contributed 25% of our revenue was one such example of decision making under uncertainty. It was a tough decision that was taken so calmly and firmly that the head of sales at Infosys at that time thought I was not bothered about the future of the company! I had to explain to him that I did indeed agonize over it but that, as a leader, I could not be driven by panic since such an important decision required a calm and composed mind.

Every leader must have a mental model of his or her business with at best five to seven parameters that determine sensitivity to revenue and net-income. It is important to update that model suitably as the business landscape changes. Any leader who cannot quickly do such sensitivity calculation would not be able to take quick and bold decisions. Even today, I carry and update the mental model of our business in my mind.

*We have demonstrated that businesses can be run legally and ethically; that it is possible for an Indian company to benchmark with the global best; and that any set of youngsters with values, hard work, team work and a little bit of smartness can indeed be successful entrepreneurs.*

Generosity is an essential part of a leader. It is the foundation on which teamwork is built. The ability to share the limelight with one's colleagues, the ability to step aside and give opportunity to younger people when they want that fame, power and glory, and the ability to provide a safety net of advice for them is an important aspect of strengthening the future of an organization. It is not easy to give up power, particularly when you have been the object of so much adulation. I must say that Infosys has done a good job in bringing two such transitions before I leave the portals of this company.

Scalability is the true test of the endurance of an organization. The ability to grow successfully without losing quality, productivity, employee, investor and customer satisfaction and the spirit of a small company is what makes Infosys a great company. We have grown from 50 customers to 620 customers, from 10 projects to 6,500 projects, from 100 employees to 1,30,820 employees,

from 100 sq. ft. to 28 million sq. ft. of built-up space, and from 100 investors to over 4,50,000 investors. Such a scalability exercise has been successful, thanks to our PSPD model of operation. PSPD stands for Predictability of revenues, Sustainability of such predictability, Profitability of such realized revenues, and Derisking. Predictability happens because of a good forecasting system that derives realistic data from the trenches and tempers it with the wisdom of senior business leaders. Sustainability refers to the systems that help the efforts of sales people beating the pavement and meeting customers to make the prediction true, the efforts of our delivery people to deliver quality products on time within budgets, and to the efforts of our finance people raising the invoice on time and collecting money on time. Profitability refers to the systems that help our people make value-based sales, follow rigorous budgeting exercises, control costs, get best value for money and ensure the agreed-upon profitability. Derisking refers to systems that identify risks in various dimensions of our operations — people, geographies, technologies, application areas and services — collect periodic data, review the risk levels and

take suitable actions to mitigate them.

Innovation is the best instrument for creating sustained differentiation. However, it must be accepted that revenues for a corporation come from well-understood ideas and business models. For example, most of a bank's revenues will come from borrowing money at a certain rate and lending it at a higher rate. Part of the profits from such models will be used for research and development to generate new ideas. A few of these ideas will be seeded and some of them will become mainstream revenue earners. Therefore, it is very important for a leader to focus on innovation, particularly, when the times are good.

Customers put food on our table. Therefore, we have to have a laser focus on exceeding their expectations, being open and honest with them, and ensuring that they look good in front of their customers. Employees are the only instruments we have to make our customers and investors succeed. Therefore, we have to create an environment of openness, meritocracy, fairness, transparency, honesty and accountability amongst our employees.

Our investors understand that businesses will have their share of ups and downs. They want us, the management, to level with them at all times. Therefore, "when in doubt, please disclose" is a good policy for a corporation. Society provides customers, employees, investors, bureaucrats and politicians. Therefore, earning the goodwill of every society that we operate in is extremely important for us. Global benchmarking is a powerful instrument that helps us to improve our self-confidence, compete with the best global competitors, and serve our customers better.

We Indians must recognize, as we have done at Infosys, that we are our own enemies. There is no external enemy. Our failures are because of our lack of commitment to our cause, our inability to accept meritocracy, and our indifference to honesty and want of a good work ethic amongst our leaders. Performance alone is the key differentiator. This stems from my belief that performance leads to recognition, recognition brings respect and respect brings power. Therefore, if India wants to be a superpower as we keep hoping, the only instrument we have is performance.

We have demonstrated that businesses can be run legally and ethically; that it is possible for an Indian company to benchmark with the global best; and that any set of youngsters with values, hard work, team work and a little bit of smartness can indeed be successful entrepreneurs. This way, we have enthused millions of young men and women in India. This, in my opinion, is Infosys' greatest contribution.

I have realized that humility, grace and courtesy are genuine only when you have power and glory. That is why the leaders at Infosys have practiced this time and again. Humility provides us the strength of mind to learn from people better than us. Grace and courtesy make us worthy competitors. They also remind us that such glory and power are ephemeral and give us the strength to handle the days when we too could lose our shine.

The crucial things we have to do in the future are : recognize our weaknesses; be open-minded about learning from people better than us; learn from our mistakes and not repeat them; be humble, honest and courteous; benchmark with the best in every dimension; use innovation to perform at global levels; and create a worthwhile vision and improve every day. This is how our mantra of focusing on speed, imagination and excellence in execution will take this company very far. I have absolutely no doubt about it. I wish Kris and my fellow Infoscions the best in their journey forward. The board has been kind enough to name me the *Chairman-emeritus*. Therefore, I will always be there to add value if asked.

Thanks,



Narayana Murthy