THE CRITICALITY OF STRATEGIC RISK MANAGEMENT

By Russ Banham

RIMS

Four years ago, Infosys, a major Indian multinational corporation that provides business consulting, information technology and related outsourcing services, was riding high, with its market capitalization in excess of $40 billion. Then, a series of controversies over alleged governance lapses resulted in the resignations of its CEO and certain members of its board of directors. In the interim, Infosys' reputation suffered a setback and its stock price plummeted.

Tasked with plotting a comeback, the firm's new CEO and its new board chairman articulated a bold new strategy that relies in part on Deepak Padaki, Infosys' Chief Strategy & Risk Officer, to identify the risks confronting the strategy and develop effective mitigations. RIMS sat down recently with Padaki, an Infosys employee for 27 years, to discuss the firm's current strategy and the vital role played by ERM.

RIMS: Thanks for agreeing to chat about such a transformative time in your company's history. Before we dig in, tell us a bit about Infosys' ERM program—when it began and why, and how it has changed through the years. And tell us a bit more about your work through the years.

Padaki: I've been with the company since 1992, just before we went public in an IPO in India. I started here as a software engineer, then went into client services and later headed up M&A strategy and execution. About four years ago, I took over the risk portfolio as CRO, just prior to the difficult transition period you mentioned. With regard to our ERM program, ever since we went public, our board has had a special risk committee, which initially was focused on our operational risks. After the 2002 Sarbanes-Oxley legislation increasing our financial regulatory and compliance risks, the risk office evolved to become focused on financial risks in addition to operational risks. Just before the financial crisis hit in 2007-08, we created a dedicated CRO position, held by my predecessor, who subsequently became the CFO. Upon taking the CRO position, he transformed the risk office to focus on strategic risks, which he elevated in importance. It was a very timely decision heightened by the 2008 financial crisis, given its impact on our customers, vendors and employees. At this point, I would say we had our first real version of ERM, as it encompassed strategic, operational, and financial regulatory and compliance risks, and the related management and mitigation of these risks.

RIMS: In 2014-15, Infosys' cofounders left the company for a variety of reasons, chief among them the transition to a professional, external CEO. Shortly thereafter, the company's reputation and stock value declined, culminating in the exodus of the CEO and certain members of the board of directors. What was the upshot of these developments on Infosys' strategic risk?

Padaki: You're right in that these various issues boiled over into a crisis in the second half of 2017. Our reputation and stock price suffered, and our legal expenses shot up. We were in a very vulnerable position. But there's one other facet to the story you just described that warrants mention. The new CEO brought in a transformative change to our strategy–one focused on leveraging intellectual property in addition to service capability. Acquisitions were made and capabilities were built in support of that strategy. And these came untangled when there was a change at the top. Besides, the events heightened our strategic risks as it was a time when our industry had started to go through its own disruptive business transformation.

RIMS: You were the CRO by then. What were the major business challenges confronting the organization?

Padaki: For one thing, our traditional services were being commoditized. Our clients and prospective clients were pursuing digital transformation, looking to adopt transformative business opportunities accruing from advances in software and computing technology. They were looking to reinvent their processes and systems to become digitally enabled, which required a deeper understanding on our part of new technologies like user-centric design, machine learning and robotics, as well as new ways of working. We needed to evolve our strategy to be consistent with their needs, and there are inherent risks in such evolution. Frankly, there is no greater risk for a company than executing a change in strategy. So we recalibrated our strategy to remain relevant to our clients' digital transformation agenda, thereby offering significant growth opportunities for employees and more profitable returns for investors. My job was to ensure that impediments in the way of achieving the strategy were identified and mitigated.

RIMS: How did you and the board's risk committee tackle this task?

Padaki: The risk committee was renamed for some time as the strategy and risk committee to underline the importance of strategy execution, as this was now our primary driver of risk. At the same time, I started building a new ERM framework that put a heavier emphasis on strategic risk management.

RIMS: Please tell us about your process.

Padaki: I focused on four areas of needed transformation. The first had to do with our traditional IT services, which had become commoditized and were subject to intensifying price competition. For some of these traditional services, the premium we used to command was getting squeezed. The second area was our clients' technology buying paradigms, which had changed. Historically, we marketed and sold our services to the CIO, but now a Chief HR Officer or the Chief Marketing Officer are buying technology solutions and services for their respective digital transformation needs. The third was the cost of our supplies, of which talent is the biggest part. This expense has increased dramatically—for us and other information technology companies—putting us in a 'war for quality talent.' We had to spend more to hire the best people and reskill them. The fourth factor was the risk of clients rapidly automating many of the services we had previously provided, displacing some of our value.

RIMS: How did you respond to these realizations?

Padaki: Once the new strategy was in place, we identified 18 key risks affecting its realization across the enterprise. For example, one key risk is a rising rhetoric of job protectionism. To a large extent, our industry has historically depended on the global movement of people—for instance, our business model was dependent on the ability to use work visas to allow our engineers to travel and temporarily work at client locations in the U.S. Two years ago, the U.S. Congress began to discuss possible new regulations on how such visas are issued, which created a significant strategic risk for us. To mitigate it, we responded with an initiative to create more jobs locally in the U.S.—to effectively build a workforce that is local. We then had a senior executive lead this strategic initiative, whose task entails pushing the strategy forward while solving the risks that could derail the strategy.

RIMS: Please provide an example of such a risk.

Padaki: Say we need to hire 10,000 people in the U.S. on a local basis. To recruit this talent, we need to reinforce our employer brand at universities. Therefore, our brand development now becomes a strategy execution risk, requiring the head of the initiative to reach out to the marketing organization to influence its brand strategy. That strategy, meanwhile, may be challenged by other risks such as prioritization and budgets. Understanding the strategy reveals the risks, which may posit the need for a different way of achieving the strategy. This is a large part of what my function has been doing the past year-and-one-half—helping different parts of the organization dig through the layers of risks confronting the different strategic initiatives.

RIMS: Has it been effective?

Padaki: With regard to our localization expansion strategy, we are recruiting talent from U.S. universities and are aiming to become an employer of choice through them. At the same time, we're setting up leadership and support teams in the U.S., Europe and Australia, to reduce our dependence on immigration policies. Above all, we have used this risk reduction as an opportunity to bring aboard differentiated talent. This will help our customers leverage digital technologies that are closely aligned with their transformations while improving our competitive position. Certainly, there is a widespread feeling here that we are back on track, and the difficulties of the past few years are fading into the background. ■

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