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INTERVIEW

Business and society: Creating shared value: In conversation with N. R. Narayana Murthy, Founder, Infosys

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Abstract   With corporations playing a dominant role in society today, the centrality of the role of business to society is being researched from multiple perspectives ranging from moral, legal, economic, strategic, social, and environmental. Several approaches to and theories on the subject have emerged in the literature over the years, such as corporate social responsibility, stakeholder management, shared value, corporate citizenship, and corporate environmentalism, and have found acceptance in practice as well. This paper surveys the changing approaches to the role of business in society and reflects on some of the practices in a conversation with NR Narayana Murthy, Founder, Infosys.

Context note

Corporations have begun to dominate every facet of modern life and society. The rising power of corporations in the last few decades has resulted in greater scrutiny of their actions and impacts on society. While this is not altogether new, the recent years have seen a renewed focus on this from academics, policy makers, and managers. Such expectations have been driven by several trends. One, the rapid growth in the economic and political power of corporations and stories of

corporate failures has led to an increasing trust deficit between corporations and citizens. Two, there have been increased concerns about the earth's ecological future, both its decline, as well as the realisation that a variety of the earth's precious assets are controlled by large corporations. Three, the emergence of new technologies, which have increased the reach and power of corporations, while simultaneously allowing individuals and communities to organise themselves. Four, changing norms and values within communities, for instance, the demand for greater transparency and accountability, the national movements for democracy and those against corruption, are posing new challenges to both corporations and society in general. Five, corporations, entrenched as they are in the current economic system, are seen as both the genesis of the problem as well as the potential solution. There is an increasing recognition of the potential

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Top 100 Economies of the World
GDP/Revenues (US$ billion)

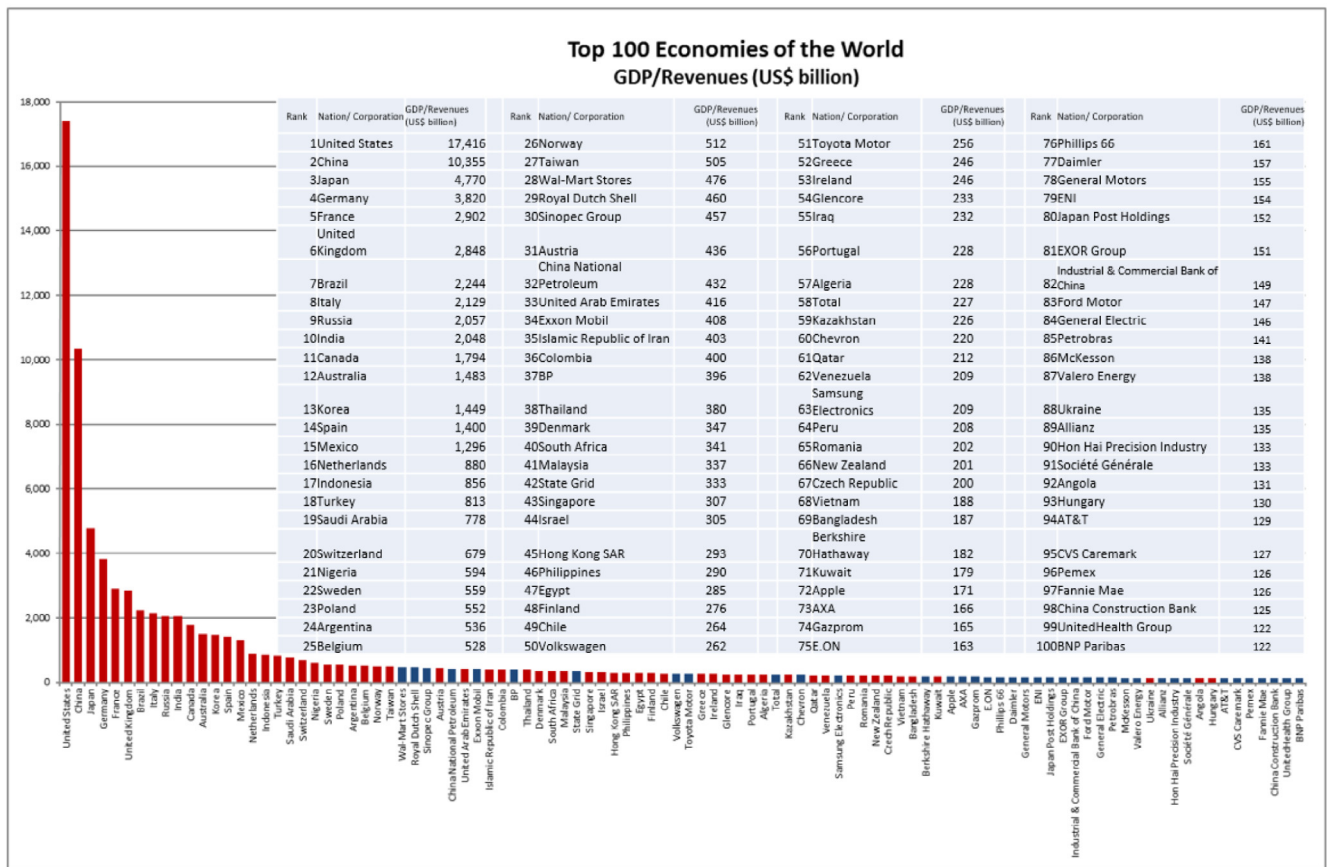| Rank	Nation/Corporation	GDP/Revenues (US$ billion)	Rank	Nation/Corporation	GDP/Revenues (US$ billion)	Rank	Nation/Corporation	GDP/Revenues (US$ billion)	Rank	Nation/Corporation	GDP/Revenues (US$ billion)
1	United States	17,416	26	Norway	512	51	Toyota Motor	256	76	Phillips 66	161
2	China	10,355	27	Taiwan	505	52	Greece	246	77	Daimler	157
3	Japan	4,770	28	Wal-Mart Stores	476	53	Ireland	246	78	General Motors	155
4	Germany	3,820	29	Royal Dutch Shell	460	54	Glencore	233	79	ENI	154
5	France	2,902	30	Sinopec Group	457	55	Iraq	232	80	Japan Post Holdings	152
6	United Kingdom	2,848	31	Austria	436	56	Portugal	228	81	EXOR Group	151
7	Brazil	2,244	32	China National Petroleum	432	57	Algeria	228	82	Industrial & Commercial Bank of China	149
8	Italy	2,129	33	United Arab Emirates	416	58	Total	227	83	Ford Motor	147
9	Russia	2,057	34	Exxon Mobil	408	59	Kazakhstan	226	84	General Electric	146
10	India	2,048	35	Islamic Republic of Iran	403	60	Chevron	220	85	Petrobras	141
11	Canada	1,794	36	Colombia	400	61	Qatar	212	86	McKesson	138
12	Australia	1,483	37	BP	396	62	Venezuela	209	87	Valero Energy	138
13	Korea	1,449	38	Thailand	380	63	Samsung Electronics	209	88	Ukraine	135
14	Spain	1,400	39	Denmark	347	64	Peru	208	89	Allianz	135
15	Mexico	1,296	40	South Africa	341	65	Romania	202	90	Hon Hai Precision Industry	133
16	Netherlands	880	41	Malaysia	337	66	New Zealand	201	91	Société Générale	133
17	Indonesia	856	42	State Grid	333	67	Czech Republic	200	92	Angola	131
18	Turkey	813	43	Singapore	307	68	Vietnam	188	93	Hungary	130
19	Saudi Arabia	778	44	Israel	305	69	Bangladesh	187	94	AT&T	129
20	Switzerland	679	45	Hong Kong SAR	293	70	Berkshire Hathaway	182	95	CVS Caremark	127
21	Nigeria	594	46	Philippines	290	71	Kuwait	179	96	Pemex	126
22	Sweden	559	47	Egypt	285	72	Apple	171	97	Fannie Mae	126
23	Poland	552	48	Finland	276	73	AXA	166	98	China Construction Bank	125
24	Argentina	536	49	Chile	264	74	Gazprom	165	99	UnitedHealth Group	122
25	Belgium	528	50	Volkswagen	262	75	E.ON	163	100	BNP Paribas	122

Figure 1   GDP/Revenues of Top 100 Economies/Corporations of the World.
(Source: IMF, 2015; Fortune Global 500, 2015)

of business to help address the most pressing challenges of development today, namely climate change, poverty, and the promotion of democratic values.

We pick up one of these trends to illustrate our point. Data from the International Monetary Fund and *Fortune* magazine indicate that in 2014, nearly 40% of the world's top 100 economies are companies and not countries (see Fig. 1). The top 50 corporations in the world control over US$9 trillion, which nearly equals the combined gross domestic product (GDP) of the bottom 161 countries of the world put together. Walmart alone, with its turnover of nearly US$480 billion, is the 28th largest economy in the world. The top five corporations of the world have a combined turnover that nearly equals the GDP of India. Shell alone controls an area of 160 million hectares of land, and about 146 countries have a smaller area.

Globalisation connects corporations and societies in ways that we might not have visualised earlier and which would have been considered impossible in the past. For example, a cup of Starbucks coffee has been estimated to have its value chain spread over a dozen countries. This type of integration brings with it, its own problems. One, it may lead to an inequitable distribution of costs and benefits across the supply chain, where value is created collaboratively across a number of geographical regions, but value captured remains under the control of some corporates. Two, government and corporate roles appear to have been repositioned, with govern-

ments focussing on becoming smaller, but smarter and more efficient, while corporations grow in size and take on roles traditionally performed by governments. For example, in India, insurance, energy, telecom, airlines, and many other sectors have been privatised or opened up to the private sector in the last two decades. Paradoxically governments are becoming like corporates while corporates themselves are beginning to behave like super national governments. This interchange of roles between governments and corporates has created increased concerns about the role businesses ought to play in society.

While the role that business needs to play has been more intensively debated in academic and policy circles in the last decade, the debate was stoked by the Nobel Laureate Milton Friedman's assertion that "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (Friedman, 1970).

Friedman's thesis, that only individuals and not corporations can have responsibility, has been widely contested both by practitioners and academics. In the early seventies, Drucker argued that "Business enterprises . . . . are organs of society. They do not exist for their own sake, but to fulfill a specific social purpose and to satisfy a specific need of society, community, or individual. They are not ends in themselves, but

means. The right question to ask in respect to them is not, what are they? But, what are they supposed to be doing and what are their tasks?" (Drucker, 1973). These observations raised questions about the nature of the corporation and that of the relationship of businesses to the economy and society (Preston, 1975). By the mid 70s, it was clear that "narrow economic formulations (e.g., role of externalities) were insufficient to capture the multitude of public issues involving the large corporation" (Post, 2015). Others reinforced this by noting that "the social responsibility of the business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time" (Carroll, 1979). As Carroll notes, references to these ideas can be found in earlier works such as Howard R. Bowen's "The Social Responsibilities of the Businessman" of 1953, Heald's 1957 publication, "Management's Responsibility to Society: The Growth of an Idea", and several others. As McGuire noted, "the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" (McGuire, 1963).

However, we may argue that the criticism against Friedman's his views may have been misplaced. Friedman, while emphasising the primacy of the shareholder and wealth maximisation objective, also subjected those aspects to conditions of fairness and legal legitimacy. Broadly speaking, Friedman's definition still remains valid. What has changed are the "rules of the game" with environmental and social conditions having to be considered in corporate decision-making.

That corporations exist as part of and as agents of society is well established now. Ed Freeman who developed the stakeholder paradigm in response to this view also challenged the idea of shareholder primacy. Freeman defined stakeholders as any group of individuals who can affect or are affected by the achievement of the firm's objectives (Freeman, 1984). While profit maximisation may be the driving force from an investor's perspective, from the perspective of other stakeholders, a successful business is one that meets their needs and aspirations even if they do not engage in a direct contractual or economic relationship with the firm in question. From a practical point of view too, it is important to note that a firm's ability to operate in the market place is not just determined by its capacity to procure the necessary legal licenses, but is also dependent on securing social legitimacy (the informal approval from society to conduct its business in its chosen area of operations). Others too have argued that it is a conceptual fallacy to see society and business as separate. Rather, "as one of the most important human institutions, business is central to the way in which we constitute a society and how we live in society" (Painter-Morland, 2013, p. 283).

Going beyond the moral responsibility concern, which is framed in ethical terms, this question has also been explored from an economic perspective. Several studies have explored the linkages between corporate social and financial performance. For instance, Orlitzky and Benjamin (2001) suggested that the higher a firm's corporate social performance (CSP) the lower its financial risk. Further, the role that business can play in the positive transformation of societies has also been explored by other studies. That business benefits society in myriad ways and can be an instrument of positive social influence has

been made multiple times in the recent past. This stream of thought has more recently informed multiple areas of work including, base of the pyramid approaches, inclusive business models, and social entrepreneurship.

Porter and Kramer's article on shared value refined the idea, suggesting that a prosperous business can only exist in a prosperous community. This approach required businesses to move from a philanthropic approach to a strategically oriented approach in which a corporation adopts "policies and practices that enhance competitiveness of the company while simultaneously advancing social and economic conditions in the communities in which it sells and operates" (Porter & Kramer, 2011). Porter and Kramer emphasised the "symbiotic relationship between social progress and competitive advancement". This relationship "implies that both business decisions and social policies must follow the principle of shared value", and creating win–win options (Porter & Kramer, 2002, 2006, 2011).

While Western literature dominates academic journals, it is interesting to note that comparable ideas had emerged in the Eastern economies even earlier. The best example of this is the concept of trusteeship, a Gandhian idea of how economic wealth must be governed. In Gandhi's own words:

"Supposing I have come by a fair amount of wealth—either by way of legacy, or by means of trade and industry—I must know that all that wealth does not belong to me; what belongs to me is the right to an honorable livelihood, no better than that enjoyed by millions of others. The rest of my wealth belongs to the community and must be used for the welfare of the community."[1]

These ideas greatly influenced JRD Tata, the founder of the Tata Group who then applied them to the Tata Group of companies. It is important to note that Gandhi's concept of trusteeship "does not prevent an organization from pursuing a goal of maximizing wealth. However, assets in excess of one's needs, are viewed and used as being held in trust for meeting society's needs . . . . For Gandhi, wealthy people should not just be encouraged to act as trustees, they are morally required to do so" (Gopinath, 2005).

In understanding the role of business in society, researchers have used multiple perspectives ranging from moral, legal, economic, strategic, social, and environmental. Diverse but complimentary perspectives have also emerged such as corporate social responsibility, stakeholder management, shared value, corporate citizenship, corporate environmentalism, and so on (Wry, 2009).

In the world of practice too, these ideas have found acceptance. While the moral and legal arguments dominated the earlier part of the literature, economic and social aspects are the currently popular lenses to view these issues. In 2009, McKinsey's global survey among decision makers revealed that decision makers, especially investors, believed that environmental, social, and governance activities do create value for firms (McKinsey & Company, 2009). The McKinsey study did not however resolve the question of whether placing a financial value on social programmes would impact a firm's reputation.

Regardless of anything else, the challenges nations face today mandate new ways of visualising the business–society relationship. For instance, many problems such as climate

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[1] http://www.mkgandhi.org/articles/views%20on%20trusteeship.htm.

change, terrorism etc. cannot be addressed using conventional economic approaches; they require innovations in both policy and practice. New collaborative forms of institutional arrangements need to develop. For example, privatisation efforts by many national governments have resulted in corporations operating in areas previously considered to be the preserve of governments. It has also led to the creation of collaborative arrangements between different sectors and institutions in society, at times even resulting in the creation of new organisational arrangements or hybrid organisational forms. This in turn will require a repurposing of the strategies, structures, systems and processes of existing businesses, explicitly recognising the transformative role that businesses can play in society.

Another aspect to consider is the globally coordinated efforts to increase social and environmental security. Increasingly, multilateral agencies and international organisations are playing a proactive role in shaping corporate responses. For instance, the United Nations Global Compact—a voluntary initiative that encourages businesses to adopt sustainable and socially responsible policies, drew significant support from the corporate sector and has a membership of 8343 companies from 162 countries. The more recent proposals by the UN to adopt the Sustainable Development Goals covering a broad range of issues including eliminating poverty and hunger, improving health and education, addressing gender issues and women's empowerment, building sustainable cities, and addressing ecological challenges require collaborative action between businesses and governments. As in the case of Millennium Development Goals (MDGs) earlier, it is quite conceivable that the agenda will need to be championed by corporates. Independent initiatives outside the governmental framework are flourishing. An early example of this is the CEO Water Mandate, which mobilises business leaders to advance water stewardship, sanitation, and the Sustainable Development Goals and has been endorsed by over 130 companies.

In the Indian context too, corporate engagement with society in general has seen changes in philosophy and practice. While the early stages of the responses were marked by chequebook philanthropy or charity, Indian firms are beginning to be more strategic in directing their social engagements. From a regulatory perspective as well, the changes to the Indian Companies Act in 2013 have motivated companies to make social responsibility related investments. The Act mandates that that every company needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities subject to certain clarifying criteria. It is likely that governments elsewhere too will adopt similar guiding principles for business.

While the philosophical questions underpinning the role of business in society have more or less been resolved to favour businesses playing a more proactive role in creating a just and sustainable society, some issues still remain unresolved. This is probably an area where practice has led theory and new models of business–society engagement are emerging all the time raising new and unresolved issues. For instance, while the need for businesses to engage with community is uncontested, particularly given the material, financial and human resource flows between the corporation and society, the level and nature of engagement is still open.

The first question in this context is, "How active should a corporation as an agent be? For instance, should a business even play an activist role in creating the changes that it desires? Would such an action, especially if it involves the directing of its resources—ultimately shareholder wealth—be even justifiable from a governance perspective? Related to these are other questions such as, who defines the boundary of engagement (what level is appropriate)? When do corporate philanthropy or social responsibility issues become corporate activism? Would the same frameworks of analysis apply? Should the interests of the stockholder conflict with those of other stakeholders who will determine the primacy of one over the other?

Second, the last two decades have seen a dramatic progress in a multitude of technologies, including information and communication technologies, biotechnologies, and nanotechnologies. As significant technological advances are made, regulation has not stepped up to resolve new decision dilemmas that may arise. How does a business deal with the as-yet-less-understood aspects of new technology? Underlying this is the question—Who is the real custodian of a society's values? Communities, governments or corporations? Related to the above is the question of regulation. Should the levers of corporate accountability be driven by regulation or self-regulation?

Third, as we have noted before, the scope of business–government–community engagement has grown larger. This and the consequent emergence of new institutional forms give rise to several questions and issues pertaining to the boundaries of corporate engagement, forms of regulation, emerging technologies, and auditing of impacts of the evolving forms of interaction. Also what new organisational forms are needed to deal with the increasing complexity and interrelatedness of social issues and networks and organisations?

The business and society discussion today is at new crossroads. The strategies corporations develop and frameworks the governments place around them will have significant implications for the nature of solutions that will emerge in addressing our most pressing developmental and social challenges.

The role of business in society: In Conversation with N. R. Narayana Murthy, Founder, Infosys

N. R. Narayana Murthy
Founder, Infosys Limited

In 1981, Narayana Murthy founded Infosys, a global software consulting company headquartered in Bangalore, He served as the CEO of Infosys during 1981–2002, as the Chairman and Chief Mentor during 1981–2011, and as the Chairman Emeritus during August 2011–May 2013. Under his leadership, Infosys was listed on NASDAQ in 1999.

Mr. Murthy articulated, designed, and implemented the Global Delivery Model, which has become the foundation for the huge success in IT services outsourcing from India. He has led key corporate governance initiatives in India. He is an IT advisor to several Asian countries.

He serves on the boards of Ford Foundation, United Nations Foundation, Rhodes Trust and the Institute for Advanced Study in Princeton, New Jersey. He has served as a member of the

HSBC board and the Unilever board. He has served on the boards of Cornell University, Wharton School, and the Graduate School of Business at Stanford University. He has also served as the Chairman of the Indian Institute of Management, Ahmedabad.

Mr. Murthy is ranked among the top 10 of the *Financial Times*' list of "Business pioneers in technology", published in March 2015. In 2014, he was ranked 13th among *CNBC*'s 25 global business leaders who have made maximum impact on society during the last 25 years. He was listed among the "12 greatest entrepreneurs of our time", by *Fortune* magazine in 2012. The *Economist* ranked him among the 10 most-admired global business leaders in 2005. He has been awarded the *Legion d'honneur* by the Government of France, the *CBE* by the British government and the *Padma Vibhushan* by the Government of India.

He is a foreign member of the *US National Academy of Engineering* and a Fellow of the *Indian National Academy of Engineering*. He is the recipient of the 2012 *Hoover Medal*. The Tech Museum, San Jose, awarded him the *James C. Morgan Global Humanitarian Award* in 2012. He received the 2007 *Ernst Weber Medal* from the Institute of Electrical and Electronics Engineers, USA (IEEE).

He is the first Indian winner of *Ernst and Young's World Entrepreneur of the Year* award. He has also received the *Max Schmidheiny Liberty Prize*. He has appeared in the rankings of businessmen and innovators published by *BusinessWeek*, *Time*, *CNN*, *Fortune*, *Forbes*, *Financial Times* and *India Today*.

He is also a trustee of the Infosys Science Foundation, which governs the Infosys Prize, an annual award, to honour outstanding achievements of researchers and scientists across six categories.

P. D. Jose: Today we have the privilege of speaking to Mr. Narayana Murthy, India's and probably Asia's most admired business leader who has demonstrated that it is possible to build a world class company driven by values in India. Thank you Mr. Murthy for sparing your time to share your views and insights with us.

N. R. Narayana Murthy: It is an absolute pleasure. Thank you very much for this opportunity.

P. D. Jose: Our discussion today focuses on the role of business in society. Over the last few decades, we find that society has been putting more pressure on businesses to perform in a socially responsible manner. Given your experience, what are the new social contracts that are emerging between corporations and societies?

N. R. Narayana Murthy: The fact that a corporation has to earn the goodwill of society, that it has to earn the goodwill of the stakeholders, is nothing new. The only way a corporation can exhibit longevity and succeed over a long term is if it has the goodwill of society. This has been there for at least 600 to 800 years, or ever since the first company came into existence. However in the recent past, particularly in the last three decades, some of the corporate leaders have forgotten this important idea and have been overcome by greed, and have been less than fair to society and therefore, this has come to the front burner. At the end of the day, the primary responsibility of a corporation is to maximise shareholder value, while ensuring fairness, transparency, and accountability to every one of the stakeholders. Who are those? Customers, employees, investors, vendor partners, government of the land, and society. This has been so over a long time, this will be so in the future too. Therefore, that is all the social contract that a corporation has to worry about. Because it is in the best interest of the corporation itself.

P. D. Jose: You articulate these ideas very well in your book . . . You have spoken about the multiple worlds that constitute India and the need to promote inclusive growth, and compassionate capitalism. But in a pluralistic society such as India, isn't it difficult for a corporate to manage conflicting demands from stakeholders?

N. R. Narayana Murthy: Not really. Anything is as difficult or as simple as you make it. There is one fundamental question that every corporate leader has to ask, before taking any decision. And that is, will this decision of mine enhance respect and trust for my corporation and for myself? If each of the corporate leaders asks this question, then I have no doubt at all that we will do everything right by every one of the stakeholders because then customers will be happier, employees will be happier, society will be happier, government will be happier, vendor partners will be happier, investors will be happier. Therefore, the simplest way of reducing this complexity is to ask the question, will my decision enhance respect and trust for my corporation.

P. D. Jose: Once again I quote you . . . . unless the corporation learns to show fairness to all its stakeholders, it will not be successful in the long run . . . Can you give us a few examples of how Infosys might have actually managed this?

N. R. Narayana Murthy: We were the first in India to introduce stock options in a major way. I think our stock options came as one of the largest in the world. Starting from a janitor, right up to the senior vice president or the executive vice president, we ensured that everybody was given stocks in the company. That, very few companies in the world have done. Second, we created an open environment where all doors are always open, anybody can send a mail to any of the senior people, and we responded to it. Third, we enhanced the transparency of governance of the company by ensuring that our annual report and Web content followed the finest principles of corporate governance. Fourth, in a situation where a customer contributed as much as 25% of our revenue when we were very small, we advised that customer that unless he or she was in a position to enhance the pricing we would not be in a position to serve him to his or her satisfaction. We were quite willing to end that relationship and transfer all our work to anybody they chose simply because we were convinced that we would not be serving the interests of the customer unless there was enough money to invest in new technology, new R&D, new infrastructure, new employee training, and so on. So in every one of these instances we have asked the question, are we fair to the other party? Are we following the golden rule? Are we doing what they would do to us or what we want them to do to us? So they always come back.

P. D. Jose: That refers to stakeholders within the company and your customers. What about stakeholders in society?

N. R. Narayana Murthy: The Infosys Foundation has addressed the basic needs of the poorest of the poor. We have built hospitals, we have donated equipment to hospitals, we have built 35,000 libraries in rural India, we have created scholarships for 5000 children in rural India, we have rehabilitated sex workers, and we have contributed to cancer research. Therefore in many ways we have contributed to the society outside of our own context.

P. D. Jose: This is quite interesting because several management gurus including Michael Porter have talked about the need to connect a company's progress with social progress. What they referred to as "shared value".

N. R. Narayana Murthy: I would not say that a corporation is responsible for social progress. No, I think that will not be right. What I would say is conduct yourself in such a way that you earn the respect and trust of society. If we follow that simple rule then everything will fall into place. After all, let us remember, the primary responsibility of a corporation is to enhance shareholder value. However, as I pointed out earlier, they have to do it in a way that there is fairness, transparency, and accountability to every one of the stakeholders—customers, employees, investors, vendor partners, government of the land, and society. And every one of our actions must elicit or must enhance respect and trust for the corporation.

P. D. Jose: But given that corporates have access to huge amounts of resources, technology, the ability to influence policy, and impact the lives of millions of people, directly and indirectly, don't you think corporations should also be concerned about their social impact?

N. R. Narayana Murthy: No, no. That is where Infosys has started the Infosys Foundation. We have started the Infosys Science Foundation where we give six prizes every year to distinguished researchers in various fields of science and humanities. We take part in several committees of the government of India and we have added our own value to it. We enhanced the level of corporate governance in India so that became a standard for every other corporation to follow. So in our own way we have added to all of that. But each one of these acts will have to be part of what you do every day for your corporation. It should be like breathing; every one of these actions should become as involuntary as breathing. You should not be aware of what you are doing in these things because these are all good things. You have to do them.

P. D. Jose: On the one hand you say corporations should focus on returns to shareholders—that's the conventional argument—on the other, you are using Infosys Foundation as an instrument of social change. Does it imply that business needs to run business more efficiently and leave the activity of social development to foundations and others whom businesses may support indirectly?

N. R. Narayana Murthy: No, no. As I said, there is one fundamental rule. In every decision that a CEO takes he will simply have to ask the question, will this enhance respect for us as a corporation.

That automatically means you have to conduct yourself in such a way that you do not violate the sustainability of this planet. You will have to conduct yourself in such a way that you are not shortchanging your customers. You will have to conduct yourself in such a way that you create goodwill from the society. You cannot violate any law of the land. You cannot violate any norms of corporate governance. These things automatically happen. If you are focussed on customers, if you are fair with your employees, if you follow the best principles of corporate governance with investors, if you don't violate any law of the land, if you earn goodwill from the society, and if you are fair with your vendor partner, then you are doing everything that is necessary for social progress. At the end of the day let us remember one thing. Unless a corporation is financially strong, it will not be able to do any of these things. Because if you want to add more and more value to customers, you have to invest very heavily in R&D. You have to improve your technology, you have to improve your infrastructure. Unless you are financially strong, you cannot give better salaries to your employees. Unless you are financially strong, you will not be able to discharge your obligations of contract with the vendor partners. Unless you are financially strong, you will not be contributing to taxes in the country. Unless you are financially strong, you will not be able to do corporate social responsibility activities. Therefore, being financially strong is very, very important. But we all have to understand that one thing and that is, it is possible to do well while doing good. That is the fundamental issue.

P. D. Jose: So on these aspects, how do you assess corporate India's performance?

N. R. Narayana Murthy: Ever since Infosys led the corporate governance movement in 1994–95, I think there has been lot of improvement in the area of corporate governance in the country. Second, there has been a lot of focus on corporate social responsibility. There has been lot of cooperation between the government and the corporations. So things have improved a lot.

P. D. Jose: But we still seem to have many of the problems that we started out with when we became independent. The issues of poverty, inequality, all of those, and several other issues.

N. R. Narayana Murthy: Those are all the issues for our politicians. Inequality in society is not a result of a corporation's activities. The primary responsibility of a corporation to a society is to create a large number of good quality jobs. So that people have good disposable income, and they go and spend it. They educate their children better, they look after their parents, they look after their families well, and they create a better future for themselves, and so on. Therefore the primary responsibility towards society for a corporation is to create more and more jobs of better and better quality. And then of course there are subordinate goals that I spoke about earlier. But the responsibility of reducing inequality is that of the government, both the state government and the central government. A corporation can at best be a partner in doing it. But a junior partner.

P. D. Jose: What is the potential for corporates and governments working together in a public private partnership mode to address some of the biggest developmental challenges that we are facing today?

N. R. Narayana Murthy: Corporations everywhere and in India are very much focussed on results. They are very focussed on efficiency. They are very focussed on completing projects on time. Therefore if a public private partnership has to succeed, then both the parties will have to do everything possible to ensure that there is a fair contract between the public partner and the private partner and the society. Second, that this contract does not get changed midway and third, that both the partners put all the resources needed to ensure that the project is completed on time, within budgeted cost, and with the requisite quality.

P. D. Jose: Given that you are India's face on the global corporate arena and also that many more companies from India and other emerging economies are occupying a more prominent place among global corporates, do you think that places any special pressures on companies coming from these economies, in terms of social responsibility?

N. R. Narayana Murthy: There are two dimensions to it. First, the Indian dimension. By and large most Indian multinationals compensate their employees very well and because of this there is a possibility of the less fortunate ones in society being somewhat dissatisfied that there is a huge gap between the standard of living of the employees of these multinational corporations and the less fortunate ones in society. That is the reason why many people in India are somewhat unhappy with the IT industry. Therefore it is in the best interests of both the employees of these corporations and the corporations themselves, to do everything possible to ensure that we wipe the tears from the eyes of the unfortunate ones. In other words, do whatever we can in the area of corporate social responsibility so that their life is slightly better. This is from the Indian point of view, the Indian dimension. There is a foreign dimension. And that is, because we represent India, because the Indian name is involved, because the Indian image is involved, in everything that we do outside India, we must ensure that we do not violate any law of the land, that we follow the finest principles of governance there, that we are fair to customers, to the employees, investors, vendor partners, government of the land and the society outside India too. I think these are the two dimensions that have received even greater focus since the emergence of Indian multinationals.

P. D. Jose: Coming back to Infosys, you have been a pioneer in sustainability reporting. Can you tell us what motivated you to do this?

N. R. Narayana Murthy: Sustainability reporting was started by my colleague Nandan Nilekani and later on it was carried on very ably by Kris Gopalakrishnan, both of whom were CEOs of Infosys. But we felt that as a corporation that consumes the resources of this society it is our responsibility to do it with utmost care. Therefore we focussed on reduction of usage of electricity, we focussed on reduction of usage of fresh water, we focussed on reducing carbon emission indirectly – we don't do anything directly – and also on doing everything necessary so that Infosys itself becomes a sustainable corporation. Like making sure that customers are happy, making sure that employees are happy, making sure that investors are happy, government is happy, society is happy. So that was the rationale.

P. D. Jose: Given that the standards have become more rigorous and disclosures often lead to pressures from other entities, in the Indian context specifically, based on your experience, what level of disclosure do you think is appropriate for a company to make?

N. R. Narayana Murthy: You know I have always followed the principle – when in doubt, disclose. So based on the circumstances, based on the context, if the CEOs follow this rule, when in doubt, disclose, then we have no issue at all. It is very difficult for me to say what the level of disclosure for each corporation should be because one industry may have a different set of disclosure requirements than another industry. But there is a fundamental principle and that is, the softest pillow is a clear conscience, and second, when in doubt, disclose.

P. D. Jose: The recent changes in the Companies Act require firms to spend some percentage of their revenues, their profits, on CSR activities. In one of your earlier talks elsewhere you argued that rules cannot build character. So in that case, what can help build character? Is this new rule a tax, an unnecessary tax?

N. R. Narayana Murthy: You know, values are nothing but a set of protocol to be followed by every member of the group or the community to enhance the trust of every member of the community in every other member of that community. That's what values are. Therefore these values will have to be inculcated by parents right from childhood. Mostly, these values are enforced by primary and secondary school teachers, because that is the time when the influence of parents on one hand and the influence of the teachers on the other hand is strong. Therefore my belief is that the parents and the primary and secondary school teachers have a very important role to shape the values of children. And then the rest is very easy.

P. D. Jose: I asked you this because you know the new CSR rules tend to mandate actions by companies. And going back to what you said, rules cannot build character; I was thinking, what is the best way, the right approach to reform corporate behaviour?

N. R. Narayana Murthy: At the end of the day the corporate leaders have to understand that they are the evangelists for capitalism today. Capitalism is new to India. And therefore if you want capitalism to be accepted by every member of the Indian society, rich or poor, urban or rural, then these early role models of capitalism must conduct themselves in a way that everybody will say we too want to be like that. Therefore instead of government mandating two percent CSR, I wish that each one of us voluntarily contributed two percent or even higher, based on the circumstances, towards making this society better. So I am not so much in favour of mandating values, mandating good behaviour. That generally does not happen. It only happens by the instrument of leadership, by example.

P. D. Jose: I couldn't agree with you more. Leadership is really important. And there are many instances where Infosys's practices have been influenced by your values in the leadership. An often quoted example is the water conservation efforts at the Mysore campus. How important do you think personal values are to overall corporate social performance?

N. R. Narayana Murthy: I think it is very important. Right from the beginning, my parents practised it, my parents-in-law practised it. They were well to do, particularly my parents-in-law, my father-in-law was a well-known surgeon. They said, water is a scarce commodity in this country. Therefore, even though we can afford to use a lot of it let us be very frugal. It is that habit that got passed on to me and even today I just use half a bucket of water for my bath. Therefore when we built the Mysore facility we said, look we have 12000 rooms there. Majority of the occupants are youngsters. And they turn on the tap at full blast. They turn on the shower at full blast. I said this is not fair. Therefore, number one, we made provision so that water is not wasted to the showers and second, we have built nine lakes on the campus so that when we do rainwater harvesting, we would be more or less self-sufficient in our water usage.

P. D. Jose: That is very impressive. But how do you institutionalise this? You mentioned elsewhere that leaders need to communicate good values. And this is an important first step in changing mindsets. You were referring to youngsters in that case. But in the same way, how do you develop next generation corporate leaders who are sensitised to social and environmental issues?

N. R. Narayana Murthy: There are multiple instruments for a leader to pass on corporate values. One, leadership by example. Everybody is watching a leader. They want to imitate the leader. Leader is all powerful. Leader is a hero to them. Therefore every action of a leader is watched, admired, hated; if admired imitated, and if hated imitated. Therefore it is extremely important for leaders to lead by example. To walk the talk, to practice the precept. First one. Second, leaders must communicate values time and again using the example of the corporation. Using the example of the context so that the employees can relate to those lessons, those values very well. Third, I think it is important to create a reward system so that people indeed follow those values, to the extent that you can. That is why for example we have the Value Champion at Infosys. Every year we honour somebody in each campus who embodies the values of Infosys best.

P. D. Jose: So as a corporation, even as a business leader, what should be the philosophy behind looking at societal issues and dealing with them? Should it be, we will follow the highest standards? Or we will benchmark against the best practices? Or we will play an activist role in helping shape policy?

N. R. Narayana Murthy: At the highest level as I said earlier, if we simply ask the question how will we enhance respect for the corporation in every decision that we take. That at the highest level. Then second, you get down to the next level and that is we have to be open minded to learn from best practices on a global basis. There are some wonderful things that are happening in the US, in Australia, something great happening in Japan, in Brazil, UK and so on. The moment you start benchmarking yourself to the best practices then that gives the confidence to create your own next practice. So the next practice syndrome can only start when you have become an expert in benchmarking yourself to the best practice because you are the leading edge there. Then you have the confidence to advance that leading edge.

P. D. Jose: To what extent do you think it is even desirable for a corporation to play an activist role in helping transform society?

N. R. Narayana Murthy: Well I think there are areas. For example, in the area of corporate governance. It is necessary, we have done that. Absolutely no doubt about it. But there are areas where we can lend support to those voices. For example the quality of higher education in this country is one area which has tremendous impact on us and it has value to society also. Therefore it is a win-win. Therefore we can support that voice. And there are other areas, for example if there is a disaster in the country, and at that time, we have to be activists in contributing to the remedy process, contributing to all the wonderful voluntary organizations that are helping the people who are affected by the disaster. So that again is an activist process but that's in a context.

P. D. Jose: I ask you this because there is an increasing and worrisome trend—for some corporations at least—of activism where non-governmental organisations (NGOs) are taking up issues against corporations. Some examples are Greenpeace's campaigns against e-waste in the IT industry and against companies such as Vedanta and so on. What should be a corporate's response to such activism?

N. R. Narayana Murthy: First of all, my own belief is, whether it is Green Peace or someone else, they are people who are trying to do good for the world. They are not bad people. And they are bright people too. They are intelligent people. Therefore, first of all we have to listen to them. Then we have to hold conversation with them. We have to bring data on facts on our side of the table. And then we have to explain why we are doing what we are doing. If it emerges at the end of that discussion based on data and fact that we are doing something wrong, then we have to change that. On the other hand, if we are doing right, I have no doubt at all that those NGOs will appreciate our effort. So in my opinion, the onus lies on the part of the corporations to listen to these people, bring data on facts, and hold meaningful conversations. Because at the end of the day let's remember, pluralism is an important part of any successful democracy. As Franklin D Roosevelt said, there are four dimensions of freedom in any true democracy. That is freedom of expression, freedom of faith, freedom from want, and freedom from fear. Therefore it is our responsibility to ensure that there is no freedom from fear. No NGO should be afraid of taking up a cause for fear of alienating this corporation or that politician. Second, we must all revere freedom of expression. It is their right to say. But every right comes with a responsibility. In other words, they have to collect proper data, they have to collect proper facts, and then make their comment. If they have not done so for any reason, then it is good for us to sit down with them, provide new data and facts, and I have no doubt at all that if data and facts are on our side, they will change their views. I have tremendous respect for the NGOs.

P. D. Jose: So you are saying that it is possible to collaborate with non-governmental organisations or activists for the greater good. But I am sure our readers would like to know, if you have you ever felt the need to compromise on the financial goals of Infosys because of pressures from any external factors?

N. R. Narayana Murthy: No, never. Never. I believe that no matter what the consequences are, you have to do the right thing because over a long period of time, it could be let's say two years, five years or ten years, you will indeed be a winner if you did the right thing. If you want to generate say, one crore of rupees, you may do something, cheat somebody and make that money and run away, but if you want to generate fifty thousand crores revenue every year or hundred thousand crores every year, then you have to do it the right way. There is no short cut to that.

P. D. Jose: You are implying that things are fine and it/the system will transform. Are you saying that the economic system, corporate governance, business activities are perfect? They do not need to be fixed?

N. R. Narayana Murthy: No I didn't say they are perfect. Look, at the end of the day, every corporation reflects the values and sentiments of its leaders. And there are some corporations everywhere in the world who have succeeded despite not doing the right thing. But they are more an exception in every society. Instead of justifying acts by corporates saying, look that corporation has done it, therefore that is the right thing, I would say, look at the majority of the corporations. And the majority of corporations in any country would only succeed if they did the right thing. Therefore the rule for us is to go by the majority not by the exception to the rule.

P. D. Jose: As a final question, what is the advice that you would give a lot of young business graduates who are looking to you for leadership, who are looking to you as an inspiration?

N. R. Narayana Murthy: There are multiple things that can be said. But I would say that the real success is the ability to bring a smile on the faces of people when you enter a room. And people express that smile, show the smile not because you are very powerful, not because you are very handsome, not because you are very rich, but because they realise you care for them. Because they realise that you have a part of your heart for them. Therefore I would say that every one of us should try to bring a smile on the faces of people when we enter a room. That means in everything that we do, we simply have to ask, are we caring for our stakeholders in this decision? Are we keeping their interests in mind when we take the decision? That is what I would say.

P. D. Jose: A part of this interview is also being broadcast to the students of a massive open online course (MOOC) that IIM Bangalore is offering. And these courses are for students from across the world. They are looking to make their careers in the corporate world. What advice would you give them so that they are able to build corporations that add value to society as well as to the shareholders?

N. R. Narayana Murthy: It is very important for every youngster to remember that their corporation and they themselves are very important players in creating a world which is sustainable, which is peaceful, where there is harmony, and where there is prosperity for every citizen of this planet. And that responsibility is a huge one. And they will be able to discharge that responsibility only if they ask whether every decision of theirs is enhancing respect for their company and for themselves. That is what I would suggest. Just ask in every decision that you make whether that decision will enhance respect for your company, and for yourself. Whether you are leaving this world a better place at the end of that decision. That would be the best.

P. D. Jose: That's a very inspiring message. Once again, thank you for sparing your time and sharing your insights. On behalf of the *IIMB Management Review* and our readers, we wish you an even more productive, even more engaged role in helping create a more sustainable society. Thank you so much.

N R Narayana Murthy: Thanks a lot.

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