



Tata Consultancy Services Limited

Full text of the Keynote address delivered by Mr S Ramadorai, Chief Executive Officer and Managing Director, TCS, at the DSP Merrill Lynch 13th India Investors' Conference on February 3, 2009 at Hyderabad

Ladies and Gentlemen,

I don't know if Hemendrabhai, Kaku and the rest of the team at DSP Merrill Lynch are always this good at predicting the shape of things to come, but the choice of Hyderabad to host their annual India conference is indeed prescient.

The latest events to upset the natural equilibrium of Indian IT happened in this city, so it is perhaps apt that we are all gathered here to talk about some of the issues confronting all of us in the Indian IT industry today.

Worries about governance is an additional point of concern the IT industry doesn't really need now. There's enough for all of us to do in order to work through a global recession that has spread from being client-specific to industry-generic, from the US to the rest of the world and from business pages to the front pages of most newspapers.

I spent last week in Davos listening to a fairly despondent congregation, remarkable only for its universal pessimism and a marginal representation from the global banking community. And like it or not, the mood of world leaders does not seem to be very forgiving of the banking community who are being blamed for their ability to create bubbles and destroy asset classes in the process. One thing everybody agreed with was the need for doing away with protectionism even as we work towards a collective solution, given that this is a new interdependent world.

There was a marked absence of business and government representation from America, barring Al Gore and Bill Clinton. There was cocktail chatter aplenty also about compensation levels among CEOs especially after Obama's comments on bonuses and the like. One of the jokes doing the rounds was:

The bailed-out US banks met with the US Government to discuss their bonuses. They told the US government: “We still demand our bonuses, only they should be even bigger!” The Government official was incredulous - “You have got to be joking!,” he replied. “You have, between you, brought the entire banking system and the real economy to its knees!” ‘Perhaps,’ said the bankers, ‘but name another business that has just attracted £700 billion in fresh capital in tough times like these.”

But on a more serious note; whether it was Putin or Wen Jia Bao, the common underlying theme was that there should be a renewed focus on the real sectors of the economy and less on financial engineering. China along with India and Russia to lesser extent will remain the few islands of growth in the next few years – essentially markets that have large internal markets, which are not terribly leveraged, will continue to grow, but the prognosis for many industries in the developed world is more pain.

A straw poll among the people I met talked about 2009 being the worst year of the recession and things to get back on track sometime during 2010, though some pushed the date of recovery further out to 2011.

In this scenario, it is difficult enough to focus on how to run a company profitably and grow the business when customers are downsizing and sometimes downright disappearing. Bankruptcy and bail-outs have replaced growth and momentum.

At a time when confidence is low and the ability to take risks even lower, a few unconnected events in India have led to the conclusion among some that there is now an India risk – a risk to physical and virtual security following the Mumbai attacks; a governance risk following the events surrounding Satyam. Combined together, it could add up to a significant risk of business disruption. From many of us that represent Indian business, there is a more fundamental question being asked by the global community: Is India safe enough to do business with from the perspective of a customer, an investor or a partner. So suddenly, a phrase I have not heard since the early days of liberalization in the early 90s has re-emerged. Suddenly, people are talking about India risk. For many global companies that have placed their bets on India, is a real worry now that did not exist 6 months before.

It is also ironic, in my opinion, that the Indian IT industry - which has been at the vanguard of India's emergence on the global business platform as a services powerhouse which has an abundance of talent; a place where the rule of law is supreme with the regulators to enforce it and where value is defined as a long-term proposition and not just a short-term cure – should be in the cross hairs, being seen as a risky destination. The industry that created the image of India as a country with a sustainable competitive advantage for many industries, including IT, is now feeling the excessive heat of a few rogue incidents, albeit in a short space of time.

In my opinion, it is very safe to do business in India, invest in India more so than ever before. India is still among the key business and investment destinations in the world, and all of you being here to speak to all of us and understand the issues is a resounding endorsement of that fact. Some of these physical security risks may be real today but so are the solutions being devised to mitigate them. Post 26/11 the Indian Govt is taking measures towards a more unified intelligence sharing mechanism through the NIA, hopefully this will pool resources centrally so that the "first responders"—state and local officials will have access to intelligence and resources to counter threats.

It's also about our attitude. We need patience to cope with security procedures for instance when a security guard wants us to empty our pockets or take a lap top out of a bag. In a society, where impatience is rife, we must resist the urge to break any rules that we would want everybody else to follow.

As companies, we are putting greater attention on perimeter security and using our technology-led systems to ensure that the customer's interests are protected, which is backed up by a multi-location business continuity plan should any disruptions occur. For instance, the recent Mumbai attacks did not deter our multiple development centers from functioning and we ensured that staff could travel in relative security.

Indian IT also has a great record of Security of Intellectual Property Rights of customers and that we are going to continue to set the gold standard on that front. There is enough legislation in place as well though I believe that the track record of the industry shows that it may not be needed.

Governance and Ethics: on the righteous path

The Satyam incident has clouded a couple of facts. One is that the companies in the Indian IT industry are more transparent and disclose much more information than many of their multinational counterparts, showing through metrics how they run their businesses explicitly. We are among the fastest firms to declare audited results like clockwork every quarter and among the companies who provide numbers in multiple accounting formats. Now, it is again our collective duty to put these facts in front of investors and customers alike to reiterate the high standards of governance which have been the norm for some time now.

At Tata Consultancy Services, governance has long been a journey. As executives of the Tata group, we have imbibed the governance values of this 140-year old pioneering group in many ways. The purpose of the group, as laid out by the founder Jamshedji Tata, is to improve the quality of life of the communities we serve. In India and increasingly in the global business community, the Tata name is a unique asset that represents Leadership with Trust.

This leadership is unstated, unsaid and unwavering for both customers and the community alike. So whether it was the Tsunami or the recent terrorist attack it was the Tata's have always pitched in. You would be aware of the Taj Public Service Welfare Trust created to treat terrorism victims, not just those hurt in the Taj attack. This concern and care extends even in relationships with our customers, it's a natural 'Tata' outlook, part of the DNA so to say.

Our heritage of returning to society much of what we earn through charitable trusts has long evoked trust among consumers, employees, shareholders and the community. This heritage is being continuously enriched by the formalization of high standards of behavior expected from employees and companies. Mr. Tata, and JRD before him, constantly remind us that the challenge for the Group is to continue to uphold the value systems and the integrity set out over the years in its totality and not compromise. When it comes to ethics and integrity, there is no grey band for the Tata group.

TCS is rooted in strong fundamentals; our approach is that of institutional building and value creation for our customers and other stakeholders. TCS has always been a role model by adopting the highest level corporate governance practices highlighted by the company's transparency, ethics and integrity - values that flow from the Tata Group's Code of Conduct.

One cornerstone of this is the Tata Business Excellence model which helps us conduct day to day business to create value for all key stakeholders. We document how we do it every year and we are assessed by a team of other group Executives. The feedback from them forms the basis for charting the journey the following year. The model is holistic and demonstrates how our processes lead to the business results we achieve. It keeps asking us “What did you learn from your processes? What have you improved?” It looks at trends, performance vis-a-vis competition, industry-best and benchmarks and hence drives us to work towards being the best in the industry. A spirit of learning from the best companies through benchmarking within the group and outside is encouraged.

One of the key parts of the TBEM exercise is the review of the governance in the organization. We review and improve upon how the organization reviews and achieve accountability of management actions, fiscal accountability, transparency in operations, selection and disclosure policies for governance board members, independence in internal and external audits, protection of stakeholders interests as appropriate .

A separate corporate governance assessment is carried out by a C-level executive along with Reputed Consulting firm like E&Y once in 2 years. The board members are interviewed to understand the operations of the board. The findings are shared in a report with the company executives and a consolidated summary is shared leaders of the TATA group.

The focus on quality and dashboards to monitor our service levels and service delivery has come of this focus. For instance, this focus on measuring everything allows us to give our large customers real time access to dashboards that show the state of multiple projects or engagements we may be handling in various parts of the world. This access to a set of 25 metrics that we call our delivery dashboard is something that customers appreciate as it gives them real time insights into their work with TCS and promotes a level of transparency that they do not see anywhere else. These metrics that include time and cost over-runs if any, no. of defects in the code per 1000 function points, the type of effort being expended and so on. And of course through this continuous feedback loop, we are able to make constant improvements in the levels of service delivery we provide.

When it comes to governance and disclosures, another cornerstone is our listing agreement that we obey in letter and all the more, in spirit. The requirements of Clause 49 of the Listing Agreement are not a mere box ticking exercise for us. We consider the quality of our directors to be more important than merely the fact that they are independent. Indeed, I am sure it will not be long before new rules are brought in to ensure the independence of

directors by limiting their terms as independents to 3 years, though of course they can continue as non-independents beyond a statutory limit. But what good companies must concentrate on is how to ensure that the board of directors have members with varied expertise and experience and most importantly, the enthusiasm to make a difference and contribute to the growth of the companies. As a CEO, I am lucky to have board members who are not only experts but willing to spend their time to guide the management and always keep us on our toes. The role of the chairman and CEO are also separate in the organization adding another layer of comfort in governance.

While independent committees at the board level are a must, the responsibility of governance needs to be cascaded into the rest of the organization, employees must be ambassadors across the organization. In its pursuit for excellence in Corporate Governance, TCS has put a Code of Conduct for all employees including CEO & MD, derived from the Tata Code of Conduct as well as a Code of Conduct for Non-Executive Directors, a robust and all encompassing Information Security Policy and one for various functional activities including Purchase, Recruitment and so on.

We have added more safeguards in terms of an Open Door policy at all levels so that Directors and officials have the opportunity to interact freely as and when required; frequent real and virtual engagement with employees through townhalls, wikis, blogs and other mediums. Last but not least, is the Whistle Blower Policy which is a non-mandatory requirement under the Listing Agreements with the Stock Exchanges.

In terms of governance, I would like to touch on two more issues: Guidance, which something many of you look forward to and we don't give. It can have unhealthy consequences as the Satyam episode has shown. In good times, they make managements focus on short-term results management rather than long-term growth. In times like these, these just don't make any sense because none of us really can predict what will happen three or six months later.

The other point is disclosures: While we need to give information, sometimes this industry goes into information /disclosure overload which can lead to important matters being overlooked by the readers in the maze of irrelevant information.

Business Outlook

All these factors coming together will test the mettle the leaders of corporate India at this crucial time. This is the time for leadership to come in all dimensions and directions.

We are facing unprecedented times. Over 550,000 jobs were lost in the US in January, including 100,000 jobs in Wall Street in just one week. This is on top of the 2.8 million jobs lost in 2008 in the US.

All this economic pain across sectors is already resulting in the rising tide of protectionism. No sooner has the new US president taken office that a raft of new legislation is beginning to emerge with strong protectionist overtones including restriction on how TARP money can be spent including prohibiting outsourcing and others. Protectionism is clearly not the answer in the current situation because coordinated action is required on a sustained basis but it may not turn out that way if all countries start catering to their internal communities only. But I believe that we will need to learn to operate in a more protectionist world and adapt our business models as required.

Indeed, business will be under pressure from multiple points in the next 18-24 months. Our business models need to be refined to cope with such drastic changes in the global markets; and becoming efficient at running our businesses will be the key factor that determines how successfully we come out of this downturn. Growth tends to hide a company's inefficiencies and fat and there's nothing like going on a diet to shed that during a recession! Just ask any fitness guru.

Whether its wages, people, pricing or productivity, companies will have to lean on all these levers to extract the maximum efficiencies. We may need to see an environment where wage rises aren't automatic and mediocre students can sail into top tier companies because of the supply-demand imbalance.

Take, for instance, the industry's practice to hire almost a year in advance. I am not sure that this can continue. Not only is there not the business visibility to hire over 12 months ahead but the feedback from academia is that students tend to become lax once they know that a job is assured at the end of their courses. Just-in-time talent management will be something TCS is working on. Given our deep academic relations, we believe that we can create a new hiring model that could tune the hiring effort more closely to business demand in uncertain times.

Similarly, we need to ensure that we collect our money more efficiently from customers, create contracts that safeguard our interests if there are unforeseen events and ensure that we are protected against things like liability-shifting and bankruptcies.

Real-time enterprise – that's what we need to aim for. Not only in terms of cost management and resource allocation but also in terms of chasing and winning opportunities. Agile growth is a term we use at TCS a lot, as we try to position the company in agile units who are ready to pounce on opportunities as they arise. Empowerment is key in such a context as managers need to be allowed to make quick decisions within an overall strategic context. In our context, we have structured the 130,000 strong organization into 23 business units that can all move fast and display agility required to be a real-time organization to will help them deliver faster, cut down on cycle time and the speed of development

I believe Indian IT is at another inflection point in its growth journey. Can we learn to live out this economic holocaust and come out on the other side as a stronger, leaner, more efficient industry?

I get the feeling that this recession will do to services what the recession in the mid nineties did for the Indian manufacturing sector. Just like Indian manufacturing industry today is in much better shape because of the pain it went through in terms of restructuring and refocusing operations in the mid-to-late nineties, the current situation will force the same of the Indian services industry.

But even in these tough times, they will be opportunities for growth. Healthcare, agriculture and agro-based industries, infrastructure and clean energy will see investments in places like America and also in other parts of the world. We are already putting teams in place to attack these issues and look at business opportunities as they arise. We are focusing on new areas like Green IT, Mobility Solutions, Analytics, as well as Learning and Collaboration.

Companies are trying to look at anything which will help reduce cost. Any offering and idea around cost reduction by bringing in operational efficiencies, greater productivity, improved business processes, infrastructure consolidation We are trying to achieve this by simplification of business processes, infrastructure, the IT application landscape by consolidation, re-engineering, virtualization, workload management.

At a time when gaining customers are at a premium and servicing needs to be done at least cost, the focus is on helping improve experience of our customers' customers in terms of usability through Web 2.0 tools. There is the need for virtual collaboration inside and outside the enterprise using web 2.0, social networking. Web2.0 is increasingly being used to talk to customers

Last point of demand is the need for IT brought on by increased regulation and compliance, reporting, security, as we move towards more disclosure norms, more reporting, more transparency in accounting, especially in the BFS sector. Also as Healthcare sector takes off, compliance related projects and opportunities will only increase.

While there is no doubt that this is a challenging environment, there is also no doubt that when I look at our deal pipeline and talk to our customers, there is a potential growth ahead. It is difficult to say when but many new companies are coming into the outsourcing/off-shoring game as they look to take cost out and make themselves more efficient. Others who have seen success in their efforts in IT are now looking at our other service offerings like Infrastructure Services and BPO. And while overall tech spends will trend down, anecdotal evidence suggests that the budgets for off-shoring are only rising.

The headroom for us to grow is huge across traditional and new services as we enter new functional areas and new markets and market segments. Looking at stock market earnings multiples for IT, I see that investors believe that this industry is past its hey day in terms of growth.

However I would reiterate what we have always said, that is of taking a long term view, we all know that business is cyclic, perhaps this cycle is more prolonged than the ones in the past, but with technology playing a key role in every business and most facets of life today, the need to spend on using technology will ensure that we'll be back in growth gear shortly; emerging from this period of uncertainty with more strength, skills and savvy.

The downturn has brought back into fashion the need to go back to basics, to focus on operational efficiency, building people, building excellence. The crisis poses an opportunity for the emergence of new ways of thinking, disruptive innovations, this is the positive optimism that we must adopt as we continue to build for the future - sure, it will come with risks, with greater controls and stricter governance. This is today's reality; after all, nature has a way of taking corrective measures to maintain its fragile balance. Perhaps we in business needed this corrective measure as well.



As the leader of this industry, our role is to perform at the highest level. We've placed our bets across service lines and markets where we think we will have the maximum impact on our customers' businesses. But more importantly, we've promised our customers that they can expect a level certainty when they deal with us that nobody else can match. In today's uncertain times, what better message can there be?

Thank you for your patience.