

PREPARING FOR CHANGE:

AN INTERVIEW WITH COGNIZANT CEO FRANK D'SOUZA



Frank D'Souza
President and Chief Executive Officer
Cognizant Technology Solutions
Corporation

Despite a changing economic environment, New Jersey-based Cognizant has been able to maintain a double-digit revenue growth rate and projects revenue for the year to increase by at least 11.5 percent over 2008.

Francisco (Frank) D'Souza, Cognizant's president and CEO, attributes increased demand for the company's IT, consulting and business process outsourcing services to two developments: companies' efforts to streamline and rationalize costs in response to the prevailing economic conditions and the longer-term need to restructure amid the fundamental changes occurring in many industries.

Cognizant was founded in 1994 as an IT services arm of The Dun & Bradstreet Corporation and was spun off as an independent organization two years later. Its strategy has been to provide blended onsite and offshore services, a combination intended to leverage the lower-cost labor available in offshore locations while maintaining close ties to clients through onsite technical and client management teams. Cognizant is organized around specific industries and its growth strategy is focused on expanding into new geographic markets — especially building its client base in Europe, where companies are beginning to embrace global sourcing — and expanding its service offerings. D'Souza talked with Spencer Stuart about Cognizant's business priorities and their talent implications.

COGNIZANT AT A GLANCE

- > Founded in 1994 as an IT development and maintenance services arm of The Dun & Bradstreet Corporation, Cognizant was spun off as an independent organization two years later and has been listed on Nasdaq since 1998.
Headquarters: Teaneck, N.J.
Employees: 64,000 associates
Geographic reach: 50 global delivery centers in 15 cities and in five countries around the world
Revenue: \$2.8 billion in 2008, an increase of 32 percent over the prior year
Customers: 569 active clients, including 46 of the Fortune 100 companies
- > “As our business scales and the complexity of the business problems that we’re solving for clients increases, the different groups at Cognizant need to cooperate with each other to deliver end-to-end solutions. So, collaboration is going to become the ‘killer’ competency for the next generation of growth.” — Frank D'Souza

Has Cognizant seen its mix of business change in the current economic environment?

D'Souza: This is a very interesting economic slowdown because, while there is clearly the cyclical trend that began with the credit crisis, there is another factor at play that is getting very little attention and may be even more important for the long term. Businesses and whole industries are going through very fundamental structural changes. For example, in media and entertainment, you see a tremendous amount of turmoil because of digitization; whether it's the newspaper industry, television or traditional music publishers, each segment is being threatened by digitization in various forms. You see a similar story in the life sciences industry, where drug pipelines are shrinking, research and development productivity is falling, the number of blockbuster drugs in the pipelines are far fewer than they were in the past. Industry by industry, you can point to fundamental structural changes that are driving these companies in a very different direction.

So, while we have seen an uptick in demand for services that help reduce costs, such as application maintenance, offshore testing, business process outsourcing, we are also seeing growth in our management consulting business and our analytics business, which provides high-end quantitative solutions to business problems. My view is that the strength in those service offerings is being driven by companies trying to respond to structural changes in their industries — and looking for new thinking around new business models, new operating models, market entry strategy and so on, which is a lot of what we're doing in our consulting business.

It sounds as if Cognizant is involved in activities that are much closer to the core business than in the past, when outsourcing was for back office-type things only.

D'Souza: Clients are looking to us not just as outsourcers, but as enablers of the virtualization of their business. They increasingly see us as

being very good at running globally distributed virtual operations. I would argue that we have figured out better than anybody else how to take complex processes and distribute those processes at various levels around the world, in places in the world where it makes the most sense to do this work and then reassemble that work and deliver it to an end client. It's analogous, if you will, to Adam Smith's "invisible hand" that directs capital to the most efficient use. We provide the equivalent of the invisible hand that's directing work to the places in the world where it is most optimally performed, based on skill and cost and so on.

We recently announced a relationship with Invensys through which about 400 Invensys employees in India joined Cognizant. Now, if you view this through the lens of the traditional core competency model of outsourcing, you might conclude that that a technology firm like Invensys should not consider outsourcing a core competence. But in fact, they look at us as an integral part of a broader ecosystem and have concluded that our globally distributed development model is the way to accelerate innovation and get access to the best talent in the world.

Looking ahead, what would you say is the strategic direction or imperative of the firm?

D'Souza: In the future, work is going to be highly distributed; personal physical geographic presence is going to be less important. You're going to be able to work from wherever it is convenient for you and participate in the global economy. That's clearly an area that we're pushing on with Cognizant 2.0, which is our Web 2.0 platform to support global project management and global knowledge management of highly distributed teams. All this is made possible by the advances in collaboration technologies and reductions in the cost of bandwidth, which continues to impact the kinds of services we can deliver from India and other parts of the world, as well as the complexity of services we can deliver.

We're also pushing the more traditional areas of growth and expansion, such as moving into new geographies like Asia, Latin America and the Middle East. We're expanding our service offerings. And broadly speaking, there is room to grow our traditional outsourcing business, as the penetration of global sourcing is still extraordinarily light in all of our sectors, whether it be industries or verticals or horizontals, so we think there's plenty of upside even in the services we're delivering today.

Based on its strategic direction, does the company need to develop or acquire different capabilities?

D'Souza: If you think about the three primary vectors along which we think about the business, which are the services we offer, the industries we serve and the geographic markets we operate in, we are pushing forward on each of them. Every time we push forward, there is a requirement for us to build new capabilities. For example, we recently sent a team to Latin America to explore and develop a strategy for the market and for building the capabilities we need there, including local market knowledge. The Invensys relationship also required us to develop new capabilities. So we are rapidly building out our knowledge in the shop floor manufacturing space to ensure that we understand what really happens on the plant floor and can help manufacturers stitch plant floors together with enterprise applications.

What are the leadership qualities that will become more important for the company to acquire or develop over the years?

D'Souza: We've seen dramatic growth in a short period of time, and virtually all of the growth over the past 15 years has been organic. We've had three to four distinct phases of growth, and in each of those phases there was a particular set of qualities and competencies that allowed us to be successful during that phase. As I think about the phase of growth that I expect we will be in for the next three to five years, the competencies that the

firm is going to have to learn pivot around collaboration internally — so-called boundary-less thinking. We've been very successful up until now building the company based on very empowered business units, where we've got folks who think of themselves as "CEOs" of business units. As our business scales and the complexity of the business problems that we're solving for clients increases, the different groups at Cognizant need to cooperate with each other to deliver end-to-end solutions. So, collaboration is going to become the "killer" competency for the next generation of growth.

How much time are you devoting to the people management side of things, in terms of coaching, hiring, appraising and counseling of your team?

D'Souza: I try to have a rule that it's not less than half of my time. One of the core levers that CEOs have is their people — the people they have on the train and seats they occupy. We have a very structured process in which we review the top 100 to 150 people in the company in terms of performance and potential, and then we talk about their development. I would say that my scarce resource today is not capital and it's not market opportunity. I could grow the business faster if I had greater access to leadership talent.

Do you see that globally?

D'Souza: Yes, the issues are a little different in different parts of the world, but it's a universal phenomenon. In India, the economy overall is growing very well and this is creating huge demand for talent. So, finding strong leadership talent is a challenge. It's highly competitive. It's a traditional war for talent. In other parts of the world, we have terrific services leadership talent, but less leadership experience in the global delivery model.

Tell us about your own route to the top and some of the experiences that have been most valuable to you as CEO.

D'Souza: The thing that was most valuable to me, beyond the fact that I had a good, broad range of experiences, is that I worked closely with four different CEOs: the CEO of Dun & Bradstreet, who set up the business and now serves on our board, and then three CEOs of Cognizant. Each one had a very different style, and all were extremely successful in their own right. That was a life-long learning experience in a very short period of time.

Still, when you actually moved into the CEO job, were there one or two things that surprised you?

D'Souza: I have to separate my answer into the activities of the job and then the softer side of the job, if you will. In terms of the activities of the CEO's job, I give our board and my predecessor a lot of credit for managing the succession process well. They identified areas of development in the year leading up to the announcement of my taking the job. For example, investor relations wasn't something that I had an opportunity to do in my career. My predecessor, the board and our CFO made it a very conscious priority to get me in front of the investors and to coach me on how we work with investors and create that level of visibility.

All that said, no matter how much preparation you do, there are some things that you just don't have the frame of reference to understand until you're in the seat. The conceptual understanding that the buck stops with you is very different from the actual realization that the buck stops with you, and that only comes when you're in the position and confronted with that first very difficult decision. The second piece is that, if you allow it to be, the CEO job can be very lonely for many reasons. I've found that I had to create an environment that didn't make it that so isolated by making sure that I had peer groups outside of

Cognizant and also the support structures inside the company to address that.

How has the global experience that you've had working in places like Hong Kong, India, Panama, Germany and the U.S. helped shape and influence how you go about your job and make decisions?

D'Souza: It's a great question and I sometimes take that experience for granted. A lot of the culture and fabric of this company comes from the fact that many members of the executive team of the company are very global executives. That has allowed us to build a company that has a couple of different flavors to it. The first is that we as a company are very comfortable being "local" in any part of the world in which we operate, but being a global company at the same time. We have balanced that extremely well. Clients tell us all the time that we are the "most local" of the global services firms.

The other thing about Cognizant is that, because we have people from multiple nationalities around the world, it's an environment that respects, welcomes and embraces diversity and understands that diversity actually makes us a much stronger company.

About the authors

Jason C.W. Hancock and Vikrant S. Vora are core members of the firm's Technology, Communications & Media Practice and work with information technology and professional services organizations around the world.

The Technology, Communications & Media Practice

Spencer Stuart's global Technology, Communications & Media Practice, founded in 1982, has helped build the leadership teams and boards of some of the world's preeminent companies. From major multinationals to medium-sized companies to startups to venture capital firms, our clients rely on us to deliver outstanding results, and to operate with the flexibility needed to navigate in rapidly changing market conditions. Each year the practice conducts more than 1,000 senior-level executive search and board director assignments worldwide.

Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 51 offices in 27 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information on Spencer Stuart, please visit www.spencerstuart.com.

Amsterdam
Atlanta
Barcelona
Beijing
Bogota
Boston
Brussels
Budapest
Buenos Aires
Calgary
Chicago
Dallas
Dubai
Frankfurt
Geneva
Hong Kong
Houston
Johannesburg
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis/St. Paul
Montreal
Mumbai
Munich
New Delhi
New York
Orange County
Paris
Philadelphia
Prague
Rome
San Francisco
Santiago
Sao Paulo
Shanghai
Silicon Valley
Singapore
Stamford
Stockholm
Sydney
Tokyo
Toronto
Vienna
Warsaw
Washington, D.C.
Zurich