#### From the Horse’s Mouth: Intrepid Conversation with Phil Fersht | Season 1

#### Episode 1.3: The Great Equalizer - Ravi Kumar S, CEO of Cognizant and services tech visionary.

00:00:34 Phil Fersht

Good to be back chatting with Ravi Kumar today, who needs little introduction to our audience, he is the CEO of Cognizant. I'd love to connect with Ravi a bit about where our industry currently is and where we think things are shifting. I mean It's been a kind of sobering 18 months for our industry, Ravi. What best describes to you why there's been a change in mindsets, maybe a slowdown in some of the rapid growth we've seen, and is this a secular change or is this a temporary thing?

01:10 Ravi Kumar

So, Phil, I would say some of it is temporary and transitionary and some of it is a structural change. First of all, the cost of capital has gone up significantly. While there is uncertainty around the world, the geopolitical situation. I mentioned this before that we have never seen a period of change and a period of uncertainty coming together. The change because of the technological advances of AI and the uncertainty because of the geopolitical situation around the world.

But overall, the economic uncertainty has led to, with inflation and everything else, led to higher cost of capital, and the higher cost of capital almost warrants that the tech deployment costs, tech development costs actually go down. It has happened before. Once it has happened with the advent of cloud, it has happened once before with offshoring. It will happen again. This time around, there's a pull and a push.

The pull is with the advances of AI, you could apply it to tech8. I call it tech for tech. The push is, the higher cost of capital will force enterprises to revisit that discretionary spend. If you want to divert it to technology, it needs to be much more viable, and the ability of using AI on tech to reduce the development costs, the software development lifecycle costs will allow you to get there. So that is the permanent shift I'm seeing. The temporary shift is the combination of interest rates and the geopolitical situation. So that's broadly how I see it. Discretionary was at a throwaway price before. I mean, you could experiment with millions of dollars because the cost of capital was so cheaply available. So that's going to change prominently. We've seen a shift in the attitude towards AI deployments just in the last year. We've just got hold of some new data from the Global 2000 that shows cost reduction is now key, particularly amongst AI deployments. How can organizations ensure that these technological evolution complements human creativity and emotional intelligence and it's not just driving out more and cost and at that type of impact?

03:41 Ravi Kumar

One of the biggest levers for any tech discontinuity on enterprises is productivity. I know you start with productivity, then you move to innovation, then you move to, like all tech discontinuities of the past, AI's primary pivot in the short run is for productivity and task-based productivity, task-led automation. Now, productivity has been plateaued across the world for the last 25, 30 years. In fact, one of the biggest drivers for technology to be applied in workplaces is higher productivity. I mean, the information age happened in the late 80s, but the productivity really came in early 2000.

So the first and the foremost pivot to AI led transformation in enterprises has to be productivity. We did a study in partnership with Oxford Economics. We found out that 44% of our clients, in fact, we interviewed 2000 global enterprises. 44% is related to productivity. 36% of them have spoken about innovation being the reason why they did. Of course, a small portion of them for redesigned. The problem is productivity has not been measured. It has to be measured at every role, every occupation, so that you could repurpose jobs from a set of tasks they do today to a set of tasks of the future.

The last time we did something like this was when robotic process automation happened, and it was a flawed model. We relegated humans to the back end of the customer service value chain and we removed cars and we completely complicated the customer service function. And that was where it got applied the most. We are now stepping into an era where AI is in some ways going to be less about removing cost, more about amplifying human potential. So that process is going to lead to higher productivity, higher per capita income, higher output. In the process, the cost of goods are not going to go up. Wages are going to go up. In some ways, the prices of goods will remain constant. I'm hopeful that the pivot this time is going to be more towards productivity and less towards reducing cost.

Over a period of time that would lead to more innovation, newer products, newer revenue streams, and redesigned operating models. Just imagine if productivity today, which is just 1% globally, goes up to 2% to 3%, which did happen in the early 2000s because of the information age. It would add $10,000 to $15,000 per capita income just in the US. So I'm very hopeful that the new pivot for AI is going to be productivity-led. The more productive will gain less, the less productive will gain more, and therefore it will be an equalizer.

We should look at AI as a way to reduce entry barriers to jobs. You're going to see a higher number of journalists who are lending expertise. You would see a gap between our occupations going down. You would see a gap within an occupation going down. This will result in multiplying our own human capabilities, AI assistants around us.

That is the future we're going into. The co-pilot, as we call it, or a teammate or a coach or a genie attaches to us to amplify that human potential. Leveraging the human endeavor for more value-added work will drive the future.

07:50 Phil Fersht

I think you've summed it up with this shift from cost reduction to productivity improvement because the two used to be, I think, confused. I think your writer on RPA was too focused on taking out cost and taking out human labor rather than thinking I'm going to hire 100 Ravi's to do these tasks for me. Now I can hire the same 100 Ravi's to do these tasks for me, but these Ravi's are super intelligent because they're using agentic software, AI software to be more productive and more capable at the work they're delivering.

Now, how does a company like Cognizant evolve into that type of environment where you can generally go to your clients and say, “Look, we can provide you the same number of people, the same type of engagement, but the value is going to be so much more productive.” Do you think clients are ready for that? How do you see that transition happening?

08:49 Ravi Kumar

We as an industry have gone through these transitions a couple of times before. When offshoring happened, the cost of deployment went down, the amount of technology consumed went up because technology is elastic. If consumption is elastic, you could cannibalize yourself, do more for less, and in the process, create more consumption. The second time when it happened was with the advent of the cloud, where the plumbing to building ratios changed. And when that happened, more human effort was leveraged for building while plumbing was automated. More technology got consumed because technology is elastic.

With AI, one of the biggest use cases is to apply it on your own software development cycles. If done properly, integration of AI into human effort is an important capability set. If you can integrate it well, you get 30-40% productivity. That will get transferred to clients because this industry, the tech services industry is very efficient. So it diffuses very fast. As it diffuses, you're going to see more value to the front end of the chain. If that happens, you're going to transfer that cost back to clients, which means the backlog will go there. Every client of ours has a backlog that will go there. You will see technical debt coming down.

In fact, just in the United States, there's a report which talks about how there is $1.5 trillion dollars of technical debt, technology debt sitting on books of enterprises. We use half a trillion dollars to service that debt because we don't have financial capital to retire the debt. We don't have tribal knowledge and we don't have legacy skills like COGOL. You could pretty much leverage AI to take out some of those constraints. Financial capital will be lower. Tribal knowledge can be institutionalized. Lack of legacy skills can be overcome by AI. If you do so, you're going to reduce technical debt. More technology will be consumed in enterprises. Some industries have very low tech intensity and those industries will absorb more.

I actually believe that doing more for less will actually drive more consumption because of the elasticity of the spend of technology. If we do this in know more in a constructive way, we can go back to clients and actually generate more momentum with the concept of doing more for less. That will lead to more work for us. That's how I see this and that's why I'm super excited about what AI can do to our operating model, in turn, what it does to technology and the landscapes of clients. Equally, the application of AI into business landscapes, into operational jobs, I think is very, very important. In fact, one of the findings of the Oxford study we did, 90% of the jobs will be disrupted, 50% of the jobs will be significantly disrupted. When that disruption happens, we actually can start to think about what are the tasks those jobs had, how do you map the tasks of the future jobs and map it to what would be human effort and what would be machine effort and integrate that entire plan to create jobs of the future where machines and people work together.

It's a way of thinking nonlinear. It's a way of scaling without growing, as I call it. It's a way of giving the small the same advantage as the big. Remember the cloud did that. The cloud actually took the capital barriers out and created the same advantage for the small as the big. You could take technology on the tap. This is another leap and I call it, small gets the advantage of the big. You could almost say an enterprise 2.0 version where you could scale without growing. Every function of an enterprise will get refactored so that you can allow small teams to scale without growing on an AI stack. A modern agent base intent-driven AI stack will replace classical, functional-driven stack of tools. It's going to be an exciting, transformational phase.

13:17 Phil Fersht

You've managed to articulate four of the five debts that we write about, technical debt, skills debt, process debt, data debt. There's a fifth debt we think is paramount, which is culture debt. You mentioned a couple of times, this is a big mindset shift, more than anything else. It's easy to think about the “how” practically we can do a lot of this stuff but ultimately, there's a cultural shift that companies have to go through. Where do you think we are with that and how hard is this going to be, not just for services firms like yourselves, but your big enterprise clients to overcome some of these cultural hurdles that are facing them?

13:54 Ravi Kumar

I think that's a fascinating question, Phil. I mean of course, you've touched upon the intangible aspects of this transformation, and culture is in the middle of it. As much as this looks like a hard shift, there is a soft shift as well. As you shape enterprises which have gone from a hub and spoke model, an enterprise organizational design has always been hub and spoke. You have central headquarters, which is the hub, and then you have spokes across the world. You're going to go from there to a networked organizational structure, which is going to be headless.

Many enterprises now, and I know a few of my clients, were starting to think about, I would call it the enterprise 2.0, where you build a network organization where technology and ARPs are intertwined. They're no longer in the headquarters. They're actually distributed across the world. Already the tech capabilities of most enterprises have been distributed across the world. You want to revisit and see if ARPs have to be distributed and there has to be in close proximity to tech because tech and ops are intertwined. Enterprises are going to revisit what they will insource and what they will outsource. That's also because the core is changing. At one point of time when outsourcing happened, tech was non-core, and today tech is core. So how do you bring that back into your organizational muscle? I think it's going to be very important. So building culture, creating the rhythms at work, thinking nonlinear, thinking about scale without growing your teams, I think are very interesting cultural nuances enterprises have to adapt. It is going to be an interesting shift as we go forward, because cultures were, when you had these buzzing offices, which were headquarters of companies, where walking the corridors, you would feel what the culture is.

You will now have to redefine that in a networked organization. Remember, we are no longer just networked, we are networked and hybrid. Hybrid because of the post-pandemic era, we have landed in a hybrid environment. So networked and hybrid, thinking nonlinear, thinking scale without growing, distributed organizational structures, I think it's just going to create a confluence of things which will generate a very different culture for enterprises. We're also going to move from organizations which have built specialists over a period of time to bi-functional broad-based capabilities where data sciences and the arithmetic is going to be at the core of all the other things you do and is also going to create a very different culture. There's also one other aspect for you and I have discussed in many podcasts before, which is about problem solving being the endeavor of machines, while the new human endeavor is going to be finding new problems which means businesses of all kinds will have to hinge on human ingenuity and creativity will be the source of new products and services because that will be the human endeavor, which also leads to a different culture and a different organizational construct. So I think you've touched upon a very, very interesting point on how cultures will evolve in enterprises.

17:04 Phil Fersht

We've seen a shift towards, you talk about this outsourcing of technology when it was non-core to now it's coming up to core and we're seeing a heavy reinvestment in global capability centers and I think part of this is clearly around companies wanting more control over quality control over value. Do you see this as a long term trend towards a centralization of talent, in particular in locations like India, that are managed in a different way than they have been traditionally? Where do you see this trend going?

17:38 Ravi Kumar

This is certainly a big trend. Right now, 1.6 million professionals in India work in GCC's Global Capability Centers, which is one third of the Indian IT workforce. Almost one third of that capacity got added in the last literally two years, and it is growing. So I don't see that reversal of trend. I think it will go on for some more time till you reach an equilibrium where you start to believe that whatever you have in-sourced, you've in-sourced.

I want to go back to the conversation we had a few minutes ago. There is a revisit of what needs to be in-sourced and what needs to be outsourced. Till you get to that equilibrium, that trend will continue. The second thing, Phil, which is happening is the last one-third which got added in the last two years is more of ops and less of tech. So this is going back to what I said, which is co-locating ops in closer proximity to tech because they are intertwined. So the concept of having your ops in and around your headquarters is going to go away. The concept of having your ops closer in proximity to technology is real.

So the re-architecting of the 2.0 organization structure for most enterprises is starting to happen. That is also leading to the GCCs. So there is a revisit of the networked organization, revisit of tech and ops being co-located, and of course, revisit of insourcing of your core, versus what it was before. So all three coming together, there is an influx of GCCs in India. But after a point, you will also know that it's a different labor market.

So in a different labor market where you are vying for talent, not with your peers, you're vying for talent with companies who are not your peers in different industries and companies who do this for a living, like companies like ours, you will get to that point where you will believe that it is no longer viable for you to build it yourself. It will get to, I would say, a circuit breaker where there will be a little bit of a reversal.

Equally, you should not in-source only because of arbitrage of labor. You should only in-source if you can do arbitrage or if you can nullify the arbitrage of labor and nullify the arbitrage of technology. A lot of times you want to hand it over to a partner to do this because they not only can do it for labor, but they also can do it for the technology arbitrage. So the tooling and the instrumentation of AI which will also drive that equilibrium that you use a partner who is more equipped to do this.

20:24 Phil Fersht

I think it's fascinating the fungibility of talent across different industries. It's a big change that I think is much needed in our industry. Final question is, will the future be equally distributed, Ravi?

20:36 Ravi Kumar

If I look at the lens of access to good jobs, I would say AI is a great equalizer. In fact, our own study field says that the top 50% of my developers gained only 17% and the bottom 50% of my developers gained 37% productivity being equipped with AI tooling. So I do think it is an equalizer to that extent.

So if I look at it from the lens of capability and the lens of access to jobs and the lens of entry barriers to jobs, it is a good equalizer. Unlike other technologies, digital technologies created a divide in many ways. The ones who had the tools and the ones who could use the tools leveraged the highest potential of it and the ones who couldn't were left behind.

Some industries were left behind, some economies were left behind, and some individuals were left behind. This is a technology where, for the first time, natural language is the interface. Computers are trying to understand what humans do versus humans trying to understand what computers do. That leads to the point that this is a technology which will diffuse very fast because the barriers of tooling, the constraints attached to its diffusion are no longer there.

Economists use this model called the Basque Diffusion Model, where they apply the model to every technology wave and they discount the impact of the technology. Economists now say that on the Basque diffusion model, this is probably the least discounting because it will diffuse so fast. Technology built in the United States will diffuse to a farmer in India because the farmer in India can actually, on a local dialect, interact with the technology and not just use it for information sake, but use it for expertise. I do believe that could be a potential equalizer. The question is whether the companies which are involved in the models, the companies which are involved in the chips, are they going to keep the value or the value will diffuse to the front end of the chain? If it diffuses to the front end of the chain, I think this will be a big equalizer. So far, that value has not diffused so much. So we don't see it in front of us, but based on everything I know about the nature of this technology, it should be an equalizer. Therefore, the distribution should be much more efficient.

23:03 Phil Fersht

Fantastic. This has been a wonderful conversation, the ability to scale without growing, the impact of culture on changing what we do, the commoditization of legacy, the whole change of the workforce, and the increasing core of technology at the heart of the business. This has been an amazing conversation, Ravi, really look forward to sharing our conversation with the world, and thank you very much for your time today.

23:29 Ravi Kumar

Thank you Phil. Thank you for always pushing the boundaries and trying to get the best. It's always about the interviewer, then the interviewee, if you start to make me tell things which I never did before.

23:54 Phil Fersht

Yeah, I know we covered the whole spectrum around these five debts and where it's all coming together for the future. So I enjoyed it very much and look forward to more of these discussions with you.

23:53 Ravi Kumar

Perfect. Thank you so much. Thanks for the opportunity.

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