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HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Introduction

In April 2005, Vineet Nayar,[1] newly appointed president of HCL Technologies (HCL),[2] took on the challenge of bringing the company to a leadership position in the IT services industry. It was a formidable task given that HCL was, at the time, plagued with many problems, not least an attrition rate of almost 17%—much higher than that of its main competitors—and a demoralized work force.

Earlier in his career, Vineet had headed up Comnet, an IT infrastructure startup within HCL. Although it was eventually very successful, Comnet had seen some rocky times. At one point, several major customers were upset, and Vineet braced himself for a meeting with yet another disappointed customer. He was pleasantly surprised that this particular customer was in fact very happy with Comnet. What surprised him much more, however, was that after greeting him, the customer representatives chose to ignore him almost completely, and directed most of their comments to individuals on the core Comnet project team. Vineet heard these individuals praised at length for their contributions, while references to him were minimal.

This meeting proved to be a turning point in the evolution of Vineet's thinking on leadership. He realized that having the right employees deeply engaged in the task of customer value-creation was more important than anything he could do.

In February 2006, Vineet announced a radical new strategy, "Employee First, Customer Second," (EFCS) at HCL's first global customer meeting. The strategic goals for the EFCS

[1] Who liked to be called Vineet.
[2] At the time of the writing of this case, Vineet was president and CEO of HCL Technologies.

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transformation were to create a unique employee organization, drive an inverted organizational structure, create transparency and accountability within the organization, and encourage a value-driven culture.

In January 2008, almost three years after the start of the EFCS transformation program, Vineet and his senior management team looked back on what had since happened and wondered how effective EFCS had been in increasing employee engagement, enhancing customer experience, improving financial performance, and spurring innovation. Vineet was open to an independent academic case study. A team, which included some members from Corporate Marketing at HCL, was formed to support this study.

The Indian IT Services Industry

The Indian information technology services (IT services) industry had grown from $4 billion in revenues in 2000 to estimated revenues of more than $40.8 billion in 2008 for software and services export. The average compounded annual growth rate (CAGR) for this sector in 2003–08 was 30%. The year 2000 compliance—Y2K—requirements that many companies faced at the turn of the millennium were the initial trigger for a huge pent-up demand for software application remediation and maintenance. The dot-com bubble and subsequent downturn gave a big push to offshoring—getting work done at remote locations away from a customer firm's home base. In 2008, the leading Indian players in this industry segment were Cognizant, Infosys, HCL Technologies, Satyam, TCS,[3] and Wipro. Global vendors such as IBM and Accenture also competed in this sector.

The IT services sector in India had been a demand-driven industry. How quickly a firm could scale up output had determined its growth and relative market share. **Exhibit 1** shows market share of the major Indian-headquartered global IT services companies in the year ended March 31, 2008. **Exhibit 2** shows annualized revenue growth versus growth in number of employees, in the years 2005–06 through 2007–08. In 2008, IT services companies predominantly used time and materials' contracts to price their services. While alternate-outcome-based pricing models had received a lot of attention, estimates suggested that in most of the major companies in this sector, revenues that were not linear in billable hours accounted for only 5% to 30% of the total revenues from IT services in 2008.[4] Hence, scale up was almost a direct multiple of employee head count, making hiring and attrition rates critical to the growth of an IT services company. This was in contrast to most technology-product companies, where scale up was not a direct linear function of head count. Thus, human-resources strategies were critical ingredients of the growth plans for companies in the IT services sector.

[3] Tata Consultancy Services.

[4] A September 2006 *Economic Times* article stated that 4% of TCS's revenues were from success-fee-based contracts at that time. In 2008, the Indian IT services companies were in the 5% to 10% range, while global vendors were in the 20% to 30% range.

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Most Indian IT services companies started their export activities with "body shopping" operations in the early 1980s, whereby employees were sent to the client firm's site. Over time, body shopping morphed into "staff augmentation," the practice of providing project personnel with appropriate skills to customer firms either at the clients' sites or offshore. In both cases, customer firms maintained responsibility for project management and finding solutions. Body shopping continued to be the dominant mode of offering export services almost through the 1990s. By 2003–08, however, Indian IT companies had increasingly assumed project-management responsibility, as indicated by a rise in fixed-price contracts. In 2008, fixed-price contracts accounted for 30% to 45% of revenues for Indian IT companies.

The smaller project-based deals of earlier years had grown organically into larger engagements. The average total-contract value of deals was increasing for Indian companies. Customer accounts had grown as customers started leveraging the lower-cost offshore model. Indian IT services companies used quality as a key differentiator, and by 2008, all of them could boast of Capability Maturity Model Integration (CMMI) Level 5[5] processes. Customers had started to take continuous improvements in cost, productivity, quality, and delivery excellence for granted. In addition, they were looking for innovation: ways to *change* their business, and not just ways to better *run* their business. All of this was becoming more feasible for Indian IT services companies because larger portfolios of applications were managed under the new deals—the complexity of service delivery had increased exponentially, so the ability to manage risks and deliver on large deals was becoming critical to success. An article in the *Economist* highlighted the pressures IBM faced from Indian companies in a globalized world:

> IBM and the other multinationals are becoming increasingly nervous about the fifth biggest Indian outsourcer, HCL Technologies. It is leaving the world's 200 biggest firms to the likes of IBM, and instead going after the next 800, which HCL's boss, Vineet Nayar, says tend to feel a bit neglected by the big traditional outsourcers. Largely unnoticed, HCL has won several contracts worth $300m-700m for infrastructure management and business transformation. In a recent deal with Cisco, HCL will take on risk from the American hardware company, using a contract that forsakes a fixed fee in favour of sharing revenue. According to IDC, a technology-research firm, HCL "may very well be one of the contenders to lead the IT services world of the very near future.
>
> As the Indian tigers improve, the pressure on IBM to innovate is bound to grow. That may get harder, which is why there is speculation that it will buy one of those Indian tigers. So far, adding jobs in India has not meant shedding many jobs in costlier places, such as America. And innovating may be harder when the corporate headquarters is in cosy New York rather than in the heat of the action in

[5], Capability Maturity Model Integration., Developed by Software Engineering Institute at Carnegie Mellon, 2008. http://www.sei.cmu.edu/cmmi/index.html.

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India. IBM's chief procurement officer may be in China, but no one who reports directly to Mr Palmisano is based outside America.[6]

Demand growth and the increasing complexity of engagements raised many challenges on the supply side. An obvious one was the need to hire in large numbers to sustain growth. Yet it was not just a numbers game. Productivity of new hires tended to be low and training costs relative to other costs tended to be higher for Indian IT services vendors than for similar companies in the United States. Executives at HCL estimated that the Indian education system, where learning was often by rote, imposed billions of dollars in training costs on the Indian IT services sector. New employees often needed training to understand the basic concepts and training to encourage independent thinking. The latter was much harder to do, given that employees often had deeply ingrained tendencies to look for formulaic answers. It was a testament to the management processes implemented by Indian IT services companies that they had survived despite these huge indirect costs. In a study of 24 Indian companies, which included the top seven IT companies, Wadhwa, Kim de Vitton, and Gereffi reported that Indian companies had managed to convert workers with poor education and weak skills into productive employees who could compete in the global markets through rigor and better training and processes.[7]

The shortage of suitably trained employees was apparent at both the low and high ends of the education spectrum. Commenting on the 2006 report by the Association for Computing Machinery's (ACM's) Job Migration Task Force, David Patterson, a Berkeley computer science professor and former president of ACM, noted with surprise that India produced fewer than 50 PhDs a year in computer science, a number smaller than the output of the San Francisco bay area alone.[8] Because the premier Indian educational institutions devoted to teaching were doing little research, it was hard for Indian industry to be considered a leader in any area. Further, with some exceptions, in India R&D referred mostly to product-engineering tasks. This was the backdrop for innovation and management practices in Indian IT services companies.

The Indian government's announcement, in July 2008, to open eight more Indian Institutes of Technology (IIT) had made the headlines, but IT services executives believed it would hardly make a dent in the numbers that were needed. IT executives also expected that because it would be many years before this policy would bear fruit, Indian IT companies would have to use innovative strategies to manage the supply gap. One such strategy was diversification of sources. Some Indian IT companies had started up operations in other areas—Infosys in China, HCL in Ireland, TCS in Latin America. Diversification needed to go hand in hand with developing internal training procedures to train employees from other parts of the globe.

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[6] "Special Report. Hungry Tiger, Dancing Elephant—IBM and Globalization," *Economist*, 383, 8523 (7 April 2007): 69–72. Datelined from Armonk, Bangalore, and Delhi.

[7] Vivek Wadhwa, Una Kim De Vitton, and Gary Gereffi, "How the Disciple Became the Guru," Working Paper, 23 July 2008, 46–7.

[8] David A. Patterson, "Offshoring: Finally Fact vs. Folklore," *Communications of the ACM*, 49, 2 (February 2006): 41–2.

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Indian IT companies had scaled up rapidly from 284,000 employees in 2000 to 2 million by end of 2008 in the software-services segment.[9] Facing increasingly complex customer assignments, HCL and other Indian IT service companies struggled to develop and retain engaged employees who would be eager to meet and surpass their customers' expectations.

Transformation at HCL Technologies

In July 2005, during a three-day Blueprint[10] meeting of the company's top 100 managers, Vineet and his senior management team announced a paradigm shift in HCL's strategic focus. There were to be two main points of departure from the company's own past as well as that of other Indian IT service companies' approaches at that time. HCL's primary focus would shift from volume to value and from processes to people.

Until 2005, HCL and its competitors had been largely volume-focused—accepting whatever deals came their way—ranging from small project-based deals to larger operations. To enable volume growth, these companies worked on process- and productivity-focused HR management strategies. While processes remained critical for the transformation initiated at HCL in 2005, a key difference was that processes were viewed as a way to achieve the primary goal of enabling employees to create more value for customers. As part of the new value-centric strategic direction for the company, Vineet and his team emphasized larger multiyear, multiservice, and unique customer-value propositions, and expressed their willingness to walk away from deals that did not fit into that framework. DSGi, a European electrical retailer, was the first in this new genre of multimillion–dollar cosourcing partnerships.

The transformation was to occur in three phases. The goal for the first phase was to create more engaged employees through EFCS. Vineet wanted to create a strong service brand by focusing on customer interactions with energized employees. He urged his team to think about ways to spur innovation:

> How do you structure mass innovation, which captures the imagination at the bottom of the pyramid and gets converted to actionable opportunities at the top of the pyramid? Unlike product companies, HCL has to demonstrate innovation at every customer touch point. Thus, it needs to structure itself to deliver hundreds of innovative ideas, rather than a handful of ideas that are market makers.

In the second phase, Vineet wanted to form strategic partnerships with other companies to offer more value and end-to-end services to the customer. The plan for the third phase was to implement a radical shift in HCL's core business model, with 50% of revenues in 2010 coming from services that did not exist in 2005.

[9] *NASSCOM Strategic Review 2007* and *NASSCOM Strategic Review 2008*. NASSCOM is the National Association of Software and Service Companies, an Indian organization.

[10] "Blueprint" (an HCL term) meetings were held to discuss strategic issues with senior management.

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Smart Service Desk

To create a unique employee organization, HCL wanted to create a uniform experience for employees of all ranks. Enabling functions such as administration, human resources, finance, accounts, and IT support were to be accountable to employees. This egalitarian approach had worked in some high-tech start-ups in Silicon Valley and elsewhere, but it was hard to achieve in a large multinational company. In large organizations, senior managers were often more likely to be satisfied with their experiences with the enabling functions than more junior employees. Often, some uniformity of experience existed across employees requesting IT support through IT help desks and other online systems; however, this was rarely the case for other enabling functions.

To help create uniformity of experience, HCL implemented Smart Service Desk (SSD), a ticket-based online system that decreased resolution times and provided more transparency across all enabling functions. Any employee could submit a ticket electronically to any enabling function, and only the employee who submitted a ticket could close the ticket. For instance, an employee might submit a ticket to the HR department to request support for higher education or to report an incident related to his or her job satisfaction. The service providers (i.e., the enabling functions) tracked their service levels—resolution time, customer-satisfaction scores, and so on.[11] The system automatically and progressively escalated to involve the next level of managers within the enabling function. The employee who had generated a ticket had 72 hours to accept closure of the ticket or to reopen it if they were not satisfied with how it had been resolved.

360-degree feedback

To create an inverted organizational structure, Vineet Nayar instituted reverse accountability—essentially holding managers accountable to their direct reports. A 360-degree mechanism was used to collect feedback. All managers were required to go through the 360-degree-feedback mechanism, regardless of their level in the organization. The feedback was to be purely developmental and was not to be used for appraisal purposes. While 360-degree feedback had been implemented at many organizations at the time, the unique twist at HCL was that the feedback was to be voluntarily public. If a manager agreed to do so, the feedback received was posted on the HCL intranet, for all employees to see.

Vineet set the ball rolling for voluntary public disclosure by posting the feedback that he received through the 360-degree process on the HCL intranet, in August 2005. Given the hierarchical structure of most Indian organizations, many managers were initially uncomfortable with having their direct reports and peers see their evaluations. In 2006, Vineet and some other corporate officers made the feedback they had received public. By 2007, 1,279 out of 2,282 HCL managers chose to make the feedback they had received open to the public. The idea behind voluntary public disclosure was that when employees allowed public access to the feedback they received, they were, in a sense, accepting the feedback and committing to change. This required a high level of trust in the organization.

[11] The employee submitting the ticket was the customer.

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Opinion polls

Vineet firmly believed that high employee engagement and an innovative climate required a bidirectional flow of ideas. Traditional hierarchical setups allowed only a top-down flow of ideas. Vineet and his senior management team increased engagement with employees through a variety of mechanisms.

For policy matters that would affect a large part of the organization, HCL management gathered employee opinions using opinion polls. In the 45 opinion polls conducted in 2006–07, the number of participants ranged from 450 to 10,000 (averaging 2,000 per poll). **Exhibit 3** displays the results from an opinion poll in which employees were asked whether they were interested in taking e-Learning courses. As another example, HCL management was considering an upgrade to air-conditioned buses for employees to travel to work, in which case the bus charges would be higher. When an opinion poll revealed that the employees were highly cost-sensitive and not keen on the idea, it was dropped.

"Directions"

"Directions" was an annual company-wide event that took strategic discussions out of closed-door meetings to all employees. The CEO and the leadership team were present at these meetings to share the vision and strategy of the company as well as respond to questions in interactive sessions. Directions allowed everyone in HCL to speak the same language and understand how their individual contributions fit in a larger organizational framework. Of course, running Directions involved a significant time investment. Vineet and the senior management team at HCL took two weeks each year to prepare for the event. Each year, Vineet and his team produced a video in which they described company strategy. Then, Vineet and his senior managers spent another two weeks attending Directions events. For instance, in 2008, they planned to hold 15 face-to-face meetings in four cities in September—Delhi, Chennai, Bangalore, and Mumbai, with about two sessions each day, covering a total of 33,000 employees. In each session, Vineet and his team first played the video for the audience, and then they spent two hours taking questions. For each attendee, the time commitment was four hours at the meeting, plus two hours to commute to and from the event location. Almost anything could come up for debate, and some managers worried about uncomfortable questions, which did, at times, arise. Attendance was voluntary, and yet, in many meetings, attendance ranged from 65% to as high as 75% of those invited. This was particularly remarkable given that 10% to 20% of the employees were traveling, on leave, or had work-related commitments in the office at any point in time.

U&I initiative

The U&I initiative, launched at the end of 2006, provided an online forum for employees to interact directly with the CEO—allowing them to raise seemingly unresolvable issues. Initially, transactional issues such as compensation packages and delayed appraisals dominated the questions. As employees realized that the SSD could be used to resolve these issues and

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systems and processes became more stable, the volume of questions decreased, and questions became more strategic in nature, ranging from new opportunities in the IT industry to process innovations within HCL. Any employee could post a question to the CEO, and Vineet attempted to answer up to 100 questions a week. He read and responded to every message himself, an activity that took almost two hours each week. Vineet's answers were posted on the site and were visible to all employees. About 15% of the employees visited the U&I portal each month either to express their opinions or to view those of others. Every employee had an equal opportunity to quiz the CEO on anything under the sun, and the CEO's service levels also were measured. As of July 2008, 2,492 questions had been asked, of which 2,346 had been answered.

CEO's blog

The CEO's blog performed the reverse function: Vineet posed questions or posted information about events, and the employees responded. For example, he would talk about his sales problem, his delivery problem, the coming sales meeting, or what he thought needed to be discussed at the next Directions event. The employees responded with their ideas.

"Natasha"

"Natasha" was an animated online assistant and guide for users on the HCL intranet. It served as a virtual face for HCL's processes and policies.

iGen

Value-creation activities were promoted by creating capability through learning- and knowledge-management systems. In keeping with the philosophy that thinking was not the monopoly of a central group, there were many venues for employees to contribute ideas. For instance, iGen was an idea-generation portal that allowed an employee to submit an idea aimed at either improving an existing business or rolling out a completely new process. By July 2008, out of 355 ideas posted, 98 had been accepted in areas such as business development, project management, product development, tools, human resources, and finance.

innovation@HCL

In a monthlong innovation contest held in 2008 to recognize innovations created by various project teams, a company-wide contest was held for project managers and higher ranked staff associated with customer-delivery projects to submit entries to innovation@HCL. The line of business (LOB) heads evaluated ideas on a set of metrics that included cost savings, innovativeness, effective usage of tools, and unique differentiation from the competition. From the 235 entries that were submitted by project teams trying to showcase their abilities across the organization, 18 of these were rewarded for implementing innovative practices in their projects. These were best-in-class projects and were benchmarks for others to follow. A new initiative "Be the CEO of Your Idea," launched in early 2008, allowed employees to identify gaps at HCL and suggest innovative high-impact solutions that were easy to implement. Unlike iGen, this

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initiative was based more on a "fix the flaw" philosophy. The selected winners also got a chance to work with top management to implement their proposed changes across the organization.

Major Innovations

In the period 2005–08, HCL was looking for new ideas that would support its new strategic focus on value instead of volume. From this quest emerged three big ideas that HCL was first in the industry to implement: concept to manufacture or C2M, global risk–reward partnerships in the engineering space, and integrated services in the enterprise IT space. Finding new ways to create value was becoming crucial because cost and efficiency advantages alone were increasingly less important as a source of competitive advantage. In 2008, global IT vendors had huge operations in India and were therefore able to offer similar cost-arbitrage opportunities.

C2M offered the benefit of intellectual property (IP) ownership to the customer while minimizing development and program-management effort. Linking up strategically with partners in a customer company's value chain enabled HCL to offer this capability. HCL's partnership with Celestica was a case in point. In the past, HCL had provided only design services. Now, in partnership with Celestica, it was able to offer end-to-end solutions starting with product design and prototyping, through manufacturing and after-sales support. The customer, for example, a networking OEM, would receive the benefit of a one-stop solution that allowed it to use its own IP with minimal effort to develop it. HCL was the first to offer this capability in a global delivery model, with services offered from remote locations.

Another innovative idea was global risk–reward partnerships. In this model, HCL assumed research and development, product engineering, and customer-support activities while the customer firm owned the brand and the sales and marketing responsibilities in a revenue-sharing arrangement. This model had been used with Computer Associates as customer for an Internet security product. The value for Computer Associates and HCL was that this model allowed each organization to focus on its best competencies, fostering resource focus and goal alignment with shared objectives.

The global service-delivery model pioneered by Indian IT vendors prior to 2005 revolved around single-service capability such as application development and maintenance, package implementation, infrastructure management, and so on. The customer did not see a commitment to output or value from the Indian companies, but there was transparency in their relationships. In short, the offerings were simplistic and not aligned to business; however, global vendors followed a total IT outsourcing model—managing applications and the underlying infrastructure—including taking over assets for the long term. Such vendors worked on a fixed-fee basis with some anticipated productivity improvements built into their contracts. In this case, customers saw better alignment with their business goals, but the relationships lacked transparency and flexibility. This is where HCL saw an opportunity—to have service complexity on par with the global IT vendors without the baggage of asset ownership—by providing

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transparency and flexibility within a global-delivery model. Thus HCL's integrated services' approach under the cosourcing model—in contrast to the global IT vendors' total outsourcing model—found ready acceptance at large and medium-sized enterprises. With integrated service offerings, synergies from having common help desks, common tools, and common operations centers could be realized that were not feasible with discrete offerings. Often the customer's IT systems had evolved organically in an uncoordinated fashion, with people referring to them as "being held together with chewing gum and wire." Managing multiple customer touch points in a coordinated fashion created obvious opportunities for HCL to streamline the customer's processes and remove redundancies, resulting in lower cost, higher reliability, and enhanced service.

Issues in Implementation

Vineet and his team wanted to create a distinctive company culture. Yet they knew from the outset that employees were unlikely to internalize anything that had even a hint of being a charade or lacked transparency. As anticipated, some employees were skeptical and worried that EFCS was just a promotional gimmick from the corporate office. Others embraced the idea of being an "HCLite."[12]

The corporate values espoused would have to resonate with employees' own value systems, and it would be almost impossible for a large group to be swayed by a pitch that did not ring true. Changing the mind-set of 55,000 employees spread over 17 countries in a 32-year-old organization would not be an easy task. HCL's Neha Arur from the HR group, had been deeply impressed by the employee-centric culture that Southwest Airlines had espoused from its inception. In a 2008 speech, Southwest COO Colleen Barrett, who referred to her own style of leadership as "servant leadership," described the company's culture:

> To simply be themselves on the job. We have always thought that your avocation can be your vocation, so that you don't have to do any acting in your life when you leave home to go to work, that you don't have to take off the real person that you are and throw it down on the couch.[13]

Southwest Airlines had grown from an upstart to the busiest airline by passenger volume in 23 years and had over 35,000 employees in 2008. It also enjoyed the lowest employee turnover rate in the industry—under 5%—and had shown several years of profits when competitors were losing money.

Even within the IT services sector, HCL was not unique in its HR policies. Good HR strategies were imperative for growth in all Indian IT services companies, so all of them tended to do well on strategies for talent management. For example, Infosys was rated the fourth-best

[12] A phrase coined at HCL that embodied the HCL identity.
[13] Center for Leadership and Change Management. "Southwest Airlines Flies High on Fuel Hedging and 'Servant Leadership.'" Knowledge@Wharton. Published 9 July 2008.

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employer among 155 Indian companies by a Dataquest survey and had the lowest attrition rate among the top five IT services companies.[14]

Emphasis on organizational culture was common in the Indian IT services companies. While Tata Consultancy Services embraced the Tata culture,[15] InfoSys had employed emotional bonding and excellent grievance-resolution mechanisms to create "Infoscions,"[16] similar to HCL's HCLites.[17]

What distinguished HCL was the radical approach to employee transformation adopted in April 2005. Even large Silicon Valley technology companies with good personnel policies, such as Cisco, Sun, or Hewlett-Packard, were less radical in their approaches. Vineet's bold articulation of a transformation that would disrupt hierarchical command-and-control organizations was rather unique—especially in an Indian context where looking up and not questioning authority was an ingrained response. HCL seemed to be further along in this process than other technology companies.

Another interesting point about HCL's transformation processes was the customer-value focus. Vineet and his senior leadership team believed it was necessary for HCL to build a strong service brand in order to leapfrog their competition. The Mayo Clinic had built a strong service brand by focusing on customer interactions with providers. It had been successful in turning customers into marketers—95% of Mayo Clinic patients reported that they voluntarily said good things about the clinic to others.[18] Organizations such as the Mayo Clinic and Southwest Airlines were an inspiration to executives at HCL.

While Suresh Sundaram, vice president of Marketing, admired the Southwest culture, he was quick to note that unlike Southwest Airlines, IT services' vendors faced a complex customer landscape with its wide range of technologies, businesses, geographies, languages, and cultures. Customer disposition also varied greatly—some customer firms were early adopters while others were reluctant to outsource.

Gathering Evidence

The case study team investigated how HCL had changed from 2005 to 2008, in the areas of both employee culture and customer-value creation. The team hoped to investigate a long list of questions. How real was the EFCS transformation? Was HCL walking the talk, or was it all smoke and mirrors? If the EFCS transformation was real, what thought process and practices had

[14] Hayagreeva Rao and David Hoyt, "Infosys: Building a Talent Engine to Sustain Growth." Stanford Graduate School of Business Case HR-30.

[15] Rohit Deshpande, "Tata Consultancy Services (A)," Harvard Business School Case 9-505-058.

[16] A phrase coined at InfoSys to capture the Infosys identity.

[17] Thomas J. Delong, Jaya Tandon, and Ganesh Rengaswamy, "Infosys (A): Strategic Human Resource Management," Harvard Business School Case 9-406-010.

[18] Leonard L. Berry and Kent D. Seltman, "Building a Strong Services Brand: Lessons from Mayo Clinic," *Business Horizons* 50 January 2007: 199–209. Kelley School of Business, Indiana University.

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organically led to the transformation? Had HCL reached the tipping point for adoption of EFCS? In other words, were enough employees subscribing to the EFCS philosophy so that it would only be a matter of time before the entire organization believed in the philosophy? At an even more basic level, was EFCS a strategy at all? Did it make sense to make people the core element of strategy? Was EFCS sustainable in a global and fast-paced business world? How would competitors react to EFCS? How had EFCS affected HCL's shareholders, customers, and employees?

The team used a two-phase approach, starting with face-to-face interviews with different stakeholders, and then proceeding to administer a survey to 1,000 randomly chosen HCL employees over all levels of whom half responded.

Employees' perspective

To get a sense of EFCS, the case-study team members spoke to more than 100 individuals representing a wide cross-section of employees. When they suggested that EFCS might be just talk, these individuals vehemently disagreed. The senior managers believed that EFCS did make a difference, and not surprisingly, some of the younger employees were even more passionate about EFCS. Some managers did mention that, in the beginning, entry-level and junior employees who had less than three years' work experience, interpreted EFCS as giving them the right to demand more pay, but eventually they started understanding its philosophy.

In the second phase of the case study, employee views were gathered along a number of dimensions, using the questionnaire shown in **Exhibit 4**. The questionnaire had a set of 15 statements grouped in five categories: focus on employees, productivity, alignment with company goals, accountability to employees, and participatory culture. Respondents, comprising a mix of engineers, team-lead levels, midlevel managers, and senior managers, anonymously rated each statement online using a five-point scale. Consolidated responses to the questionnaire are shown in **Exhibit 5**. An additional analysis by employee level showed no major differences across them.

Customers' perspective

To understand the customer perspective, the case-study team examined customer-satisfaction scores[19] maintained by HCL; it selected three geographically dispersed customers that had a mix of CSAT scores to interview. In each customer organization, the team spoke to CIO-level employees or direct reports to the CIO.

The first HCL customer interviewed was the delivery-function head of a U.S. East Coast customer. The employee observed that the customer organization itself needed to be at least at Level 3 maturity in the CMMI capability model for the customer to be a good outsourcing user. He said that his company was no longer in staff-augmentation mode with HCL but in a partnership mode—the focus was on value instead of on volumes. HCL was setting up a

[19] Known in the industry as CSAT scores, these were developed by a third party.

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development factory with a pool of good developers and Six Sigma processes for the customer's projects. In addition to reduced transition costs as applications were developed, the customer expected more proactive behavior. Among his favorite projects with HCL was one on outsourcing a large number of legacy applications. There was no attrition; there were high CSAT scores; and the transitions occurred smoothly. The main difference he saw after 2005 was in accountability (complete difference in behavior), capability, innovation, and entrepreneurship. He felt there was transparency in costs and in savings. At HCL's customer meeting, he had been able to interact with all HCL employees working on projects for his organization. He believed that these employees were more empowered compared with employees at peer companies. He noticed that some of the competitor employees' behavior had also started changing in response to HCL employee behavior. Even though he was happy with the progress in the relationship, he felt there was still some way to go for true partnership. He was pleasantly surprised when he had been put in front of analysts at the HCL customer meeting, and some leading American analysts including Gartner had invited him to talk about outsourcing-related issues at other venues. Finally, he said he appreciated HCL's openness and transparency.

A second customer, located on the West Coast of the United States, was the engineering CIO of a group that was involved in business-critical activities for a large company. She felt that HCL employees were much more proactive than their competitors' employees. In many ways, the HCL employees working on her company's projects looked to her company as a dotted line relationship—the HCLites viewed themselves as an extension of the customer organization. She met all these employees during one of the customer meetings. She believed there was a culture of rewarding productivity gains, but that, at times, the customer needed help with such mundane tasks as handling routine work. She felt that HCLites were looking for opportunities to solve customers' problems and that motivating them to perform routine tasks was hard at times. Among the notable projects she mentioned was a testing project that was handed off to HCL when some of her company's employees were laid off. HCL executed well, acted as a trusted partner, was open to issues, and showed sensitivity, she said. Similarly, she was impressed by the work on 24/7 tool support for software engineers. The conversations with HCL were no longer on price but on value to the customer. She was working on a new revenue-sharing business model where both the risk and reward would be shared between her organization and HCL. She considered HCLites more empowered than other vendors' employees, resulting in innovation and proactive discovery. They built tools including automated ones and came up with ideas on processes and efficiencies. In terms of partnership, she believed that HCL had the same market urgency as her organization. For instance, a project with a completion date originally scheduled in July had been completed two months earlier due to the accelerated transition. And efficiency had been high, and defect find-rate low.

The third customer was the central IT department and procurement group of a financial-services customer based in Europe, which had selected HCL as a strategic IT partner in 2004. Approximately, 400 HCLites worked for the customer on application maintenance and back-office work. Some of the significant projects involved innovations based on service-oriented architecture in providing business services. The IT head believed that the enthusiasm level was similar to that of other Indian IT companies. The IT head said that Indian IT employees might

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have higher drive, but their productivity was lower. Because of the higher quality from European vendors, the billable hours were greater for HCLites with the net result that costs were almost the same. The customer IT head said that the current HCL-account head was very proactive as an individual, but there seemed to be no processes and systems to ensure that the whole team would be proactive. He believed that, at present, his company's relationship with HCL was between a vendor and a partner. He believed HCL tried to offer a multiservice approach, but that the culture of project focus killed the integrated approach. He saw HCL employees as enthusiastic but "reasonable opportunists"—resulting in skill mismatches. In essence, they were taking on jobs for which they were not ready.

Shareholders' perspective

In 2005–08, HCL had made major strides improving the quality of its disclosure statements. Improvements along a number of dimensions, including graphical display of key highlights, trends, and catalysts for growth, enhanced transparency and made disclosure statements more in line with industry practice. Even analysts, including those at Kotak Institutional Equities, who were not convinced about HCL stock in May 2008, acknowledged in their report to HCL that there had been "substantial improvements in disclosure quality" and "quarterly disclosures among the most comprehensive in the industry." Among the negatives, they listed the expensing of stock options as a concern. In addition, management statements such as "hiring was slow as we could do the same work with fewer people" struck Kotak as hawkish.

HCL's market capitalization had increased by 68.9% from $2.6 billion in April 2005 to $4.4 billion in April 2008.[20] Its stock price had performed reasonably well compared to its peers in 2008. In the year ending April 2008, excepting Satyam, which posted an increase of 2%, the stock price of other Indian IT companies had declined during this period, and HCL had the smallest decline of 13.7%. HCL's dividend yield[21] was the most attractive among its peers as may be seen in **Exhibit 6**. The net dividend payout ratio—dividend as a percentage of net profit—stood at about 40.2%.

The number of institutional shareholders had increased by 40% from 168 in March 2005 to 235 in March 2008. The company rewarded shareholders with a liberal 1:1 bonus[22] in April 2007. It had reported more than 8% quarterly growth in revenues except in the last two quarters that ended in March 2008.

In 2008, HCL had reported a two-year compounded annual growth rate of EBIT margins of over 35%. In infrastructure services, the growth in margins had been a phenomenal 109%. HCL ranked as the number-one infrastructure-outsourcing vendor in the world according to the Brown-Wilson Group in *The Black Book of Outsourcing*. In terms of diversification by geography as well as verticals, HCL had done well. Revenue growth versus margin improvement

[20] Based on average closing price for April 1 to April 30 for the respective year.
[21] Annualized dividend as a percentage of the share price.
[22] Investors were given one share for every share that they owned.

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for the major Indian IT services is shown in **Exhibit 7**. **Exhibit 8** shows the share of revenues from new business for HCL and competitors.

In interactions with two investors and three analysts, the case-study team found that both groups were familiar with the transformation story and the EFCS philosophy. The investors and analysts believed that the Indian IT industry had done a good job handling supply-side constraints. On the demand side, the slowdown in the U.S. economy, especially the financial services, were cause for concern. **Exhibit 9** shows quarter-on-quarter growth rates for HCL compared with the average quarter-on-quarter growth rates for the top four Indian IT services players in 2008.[23] One investor believed that the slowdown could also lead to more offshoring. Some of them believed that Indian IT companies had done a good job adding new services—such as testing services, business-process outsourcing, and infrastructure-management services.

All the investors and analysts agreed that the quality of disclosures had improved tremendously. They mentioned that HCL had won the Best Investor Relations award in the Asian region in 2007.[24] They also said that inviting investors and analysts to customer meetings took transparency to new levels as this was the first time any Indian company had done this.

One analyst noted that prior to 2005, there were "too many gunslingers" (entrepreneurs who forced the company to function in silos) at HCL. In terms of current positives, one of the analysts noted that deals with customers such as Cisco and Computer Associates represented new business models that would change growth patterns.

The first investor had invested in HCL because it was positioned for growth. Its infrastructure management and BPO services offered a compelling growth story. The first investor would invest more as business continued to grow. The second investor was interested in the company because of its successful transformation from a technology company to an IT services company. This investor had a lot of respect for one of the founders, Shiv Nadar, and his vision about the nonlinearity of revenues and outcome/productivity-based pricing. Other reasons included HCL's possession of major cash reserves, and it had been giving good dividend yield.

Next Steps

In July 2008, as Vineet and his team prepared for the 2008 Directions event, they wondered what message to take to HCL employees. Vineet reflected on what had been, and what the future might hold:

> Our emphasis is on the zones of frustration with the customer. In 2005, we saw it as trust and transparency in outsourcing contracts and lack of skin in the game in engineering projects. We responded by launching the cosourcing initiative, which

[23] Based on revenues.

[24] To be accurate, *Asia Money* magazine had a poll on Best Managed Companies, and HCL Technologies was voted one of the best companies for investor relations in 2007.

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was based on trust, transparency, and flexibility. We also launched revenue-share arrangements for engineering projects where we would develop the product on our P & L, and share the risk and reward based on market performance of the product in the shape of revenue share. In [the] future, we see the zone of frustration, not as reduction in IT spend[ing], but the lack of contribution from IT vendors in overall improvement of business metrics like business-process cycle times.

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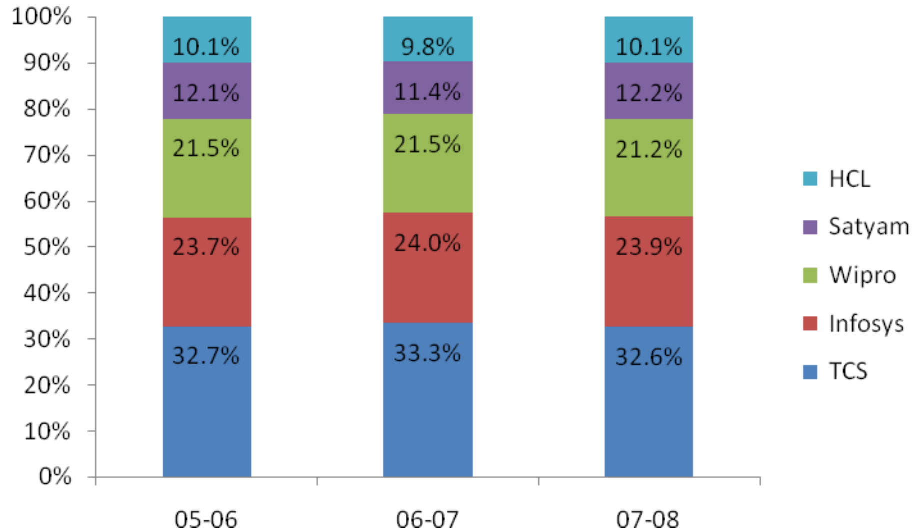
Exhibit 1

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Market Share of the Indian IT Services Companies for the Year Ended March 31 2008



Source: Based on public financial data.

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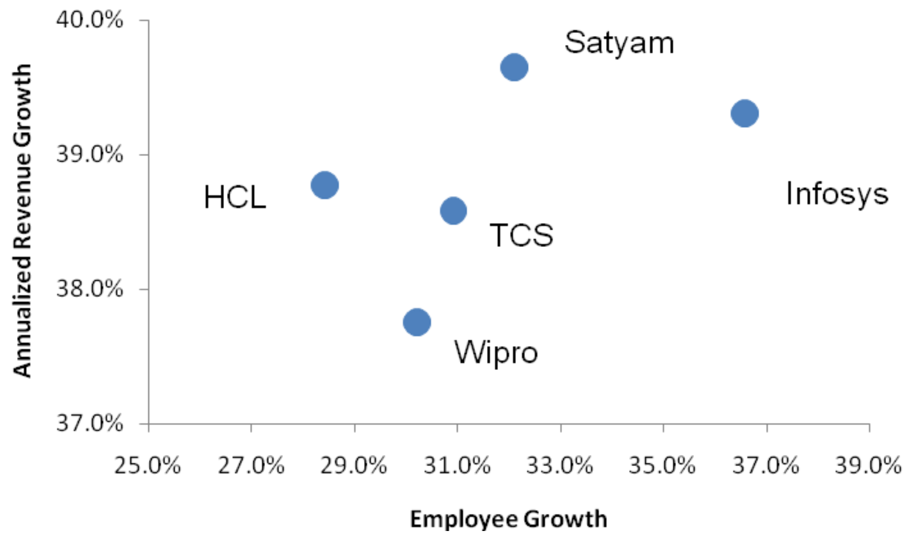
Exhibit 2

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Annualized Revenue Growth versus Growth in Number of Employees
(2005–06 through 2007–08)



Source:Based on public financial data.

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Exhibit 3

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Results from an Opinion Poll

Opinion Poll Result		
Would you like to nominate yourself to any number of 1,000+ E-Learning IT courses which T2ID has launched?		
Yes	91%	9607 Votes
No	7%	653 Votes
Can’t Say	3%	304 Votes
Total Votes: 10564 Votes		

Source: HCL Technologies.

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Exhibit 4

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Employee Survey Questionnaire

The questionnaire statements grouped by themes were as follows:

1. Enhanced focus on employees:
   a. HCLT's policies and practices have become more employee-centric with the adoption of Employee First philosophy.
   b. My inputs and feedback are valued in the company.
   c. At work, I have the opportunity to perform to the best of my abilities.
2. Enhanced productivity:
   a. The workflows and processes have become uniform across locations and functions.
   b. "Smart Service Desk" (SSD) saves time spent on routine transactions.
   c. Availability of real-time information and workflows on my page had simplified my task.
3. Alignment with company goals and vision:
   a. Initiatives like "Directions" and "All Hands Meet" and "Open Houses" make me feel empowered to express my views.
   b. Forums like "U&I Conversation" help me get better insight into the organizational issues, challenges, and triumphs.
   c. The information and tools like "innovation@HCL" and "Be the CEO of Your Idea" provide me an opportunity to make a difference.
4. Accountability to employees:
   a. "Smart Service Desk" (SSD) has made the internal service providers accountable and SLA-driven.
   b. Reverse accountability measures such as public disclosure of 360-degree reports increases the credibility of managers.
   c. Natasha has made people policies of the organization more transparent.
5. Participative culture:
   a. I have an opportunity to make decisions and drive change by being part of Employee First Council.
   b. Initiatives like iGen and Value Creation Portal make it easier for me to suggest ideas and act on my suggestions.
   c. I have more forums to express my opinions, feedback (e.g., SSD feedback, EHS Internal Survey, Direct Dialogue, Opinion Polls, U&I, and 360).

Source: HCL Technologies.

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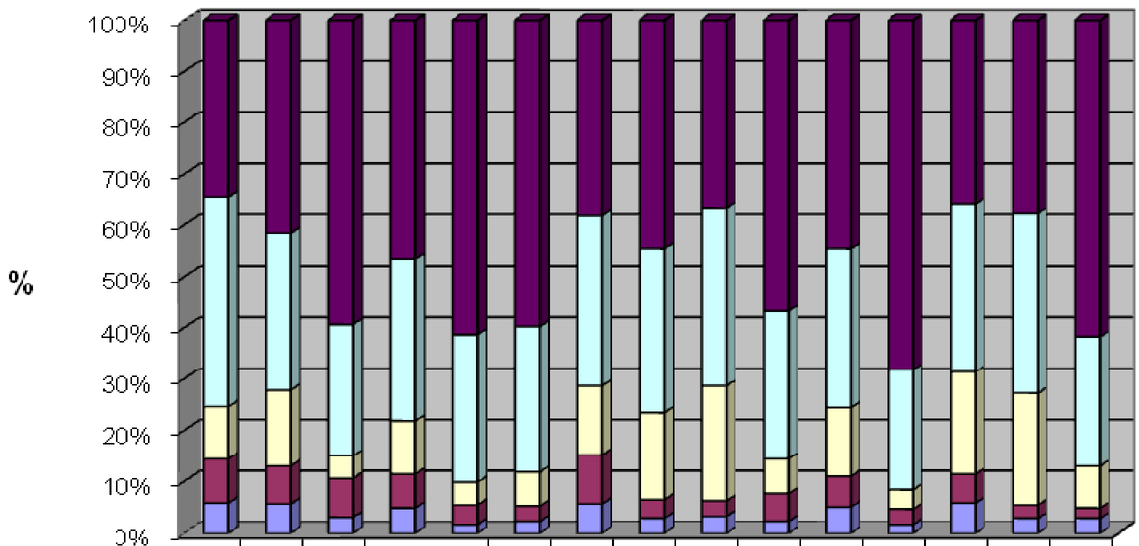
Exhibit 5

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Employee Survey Questionnaire—Consolidated Results



	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15
Agree	172	208	297	233	307	299	191	223	184	284	223	341	180	139	309
Somewhat Agree	205	153	128	158	144	142	166	160	173	144	155	117	163	175	126
Can't say	51	74	22	52	22	33	67	85	112	34	67	19	100	109	41
Somewhat Disagree	43	37	38	33	19	15	48	18	15	27	30	15	28	13	10
Disagree	29	28	15	24	8	11	28	14	16	11	25	8	29	14	14

Source: HCL Technologies.

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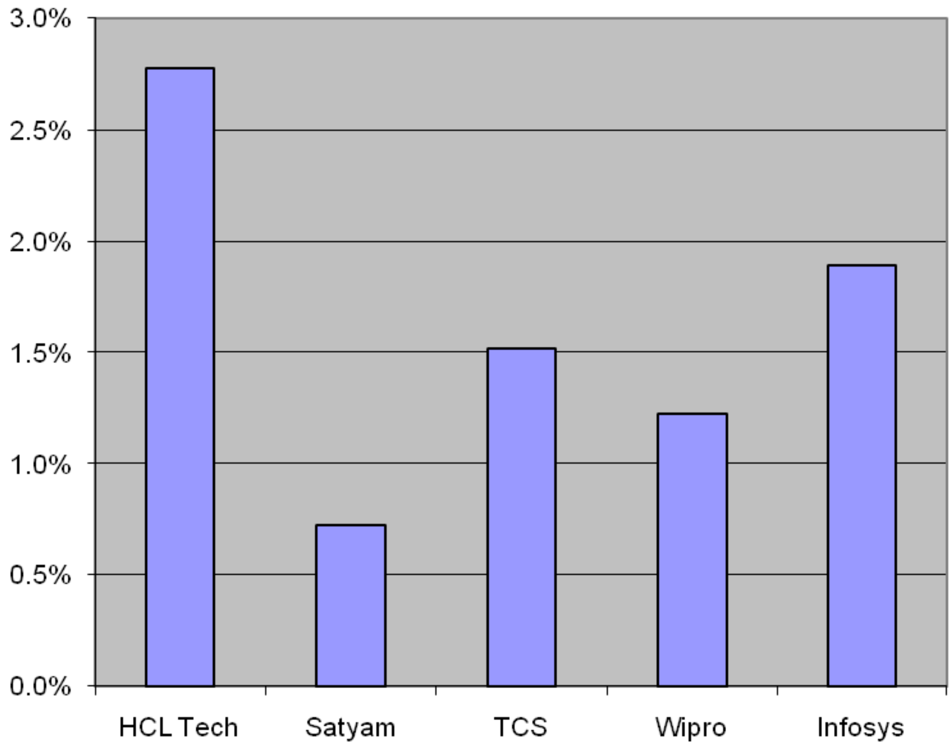
Exhibit 6

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Dividend Yield as of April 30, 2008



Source:Based on public financial data.

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Exhibit 7

**HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND**

Revenue Growth vs. Margin Improvement for the Major Indian IT Players
(2005–06 through 2007–08)

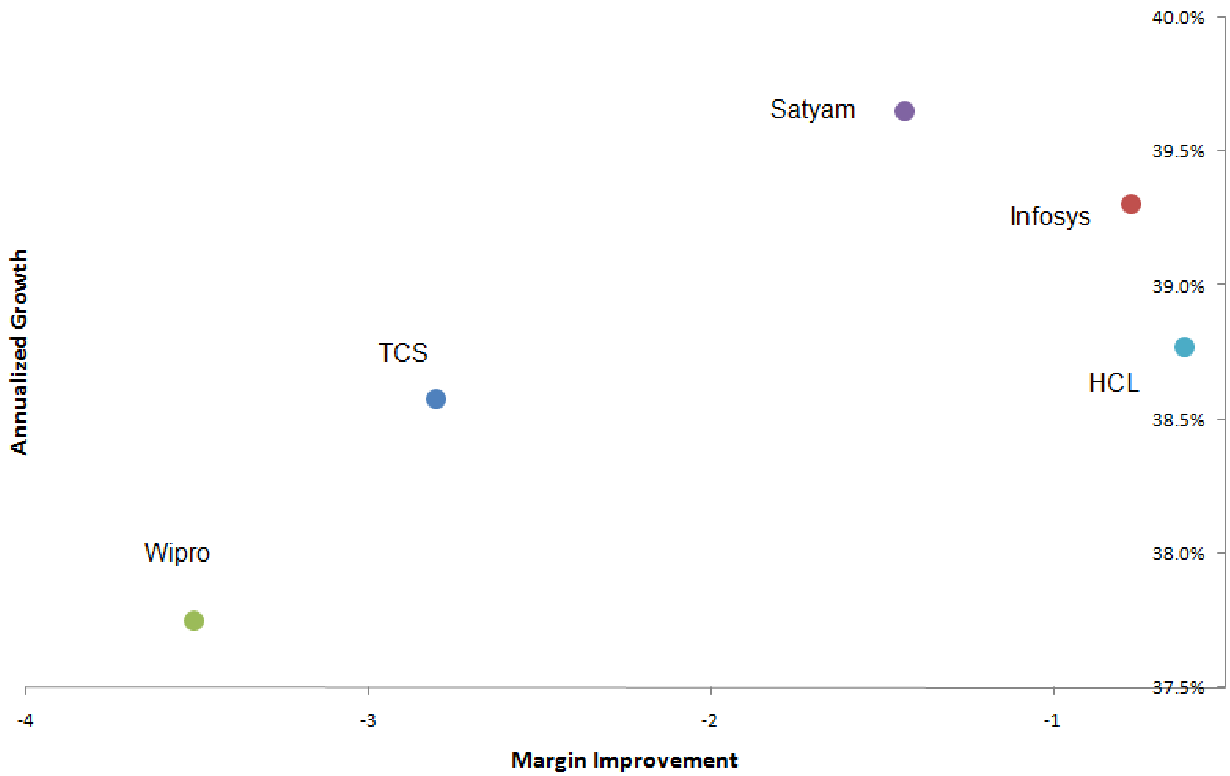

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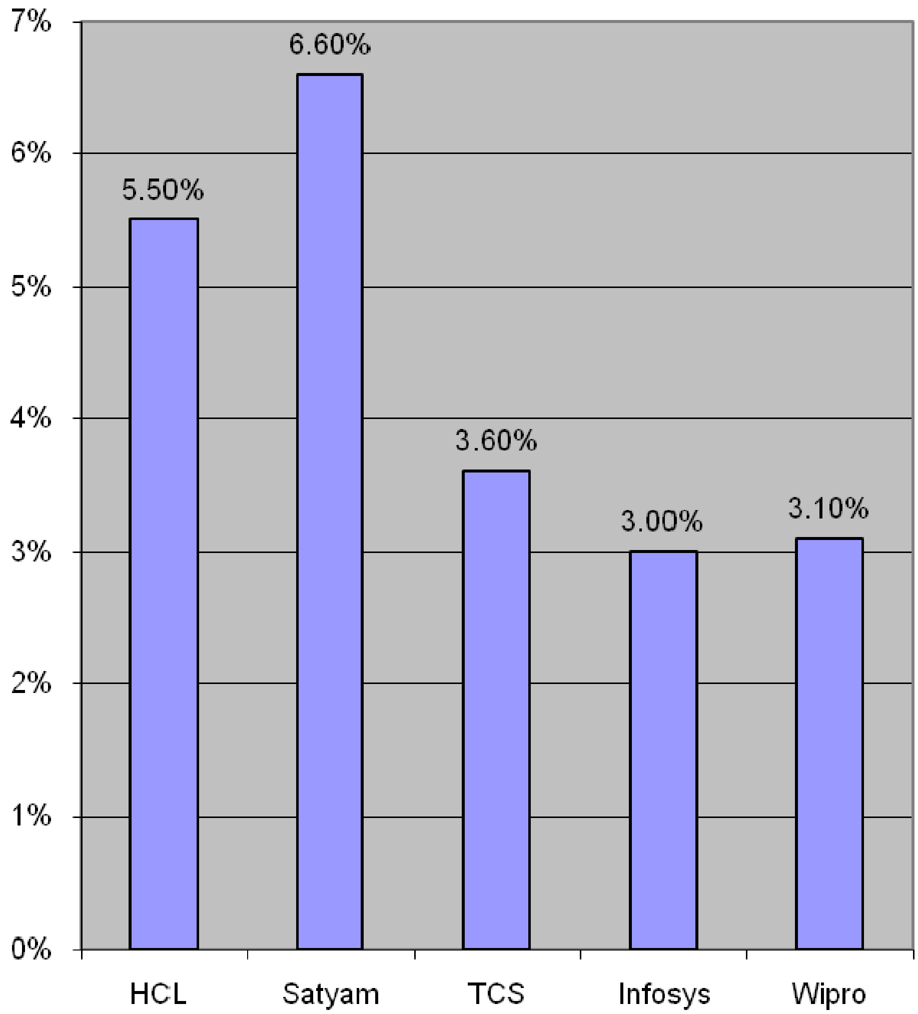
Exhibit 8

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

New Business Contribution, Year Ended March 31, 2008



Source: Based on public financial data.

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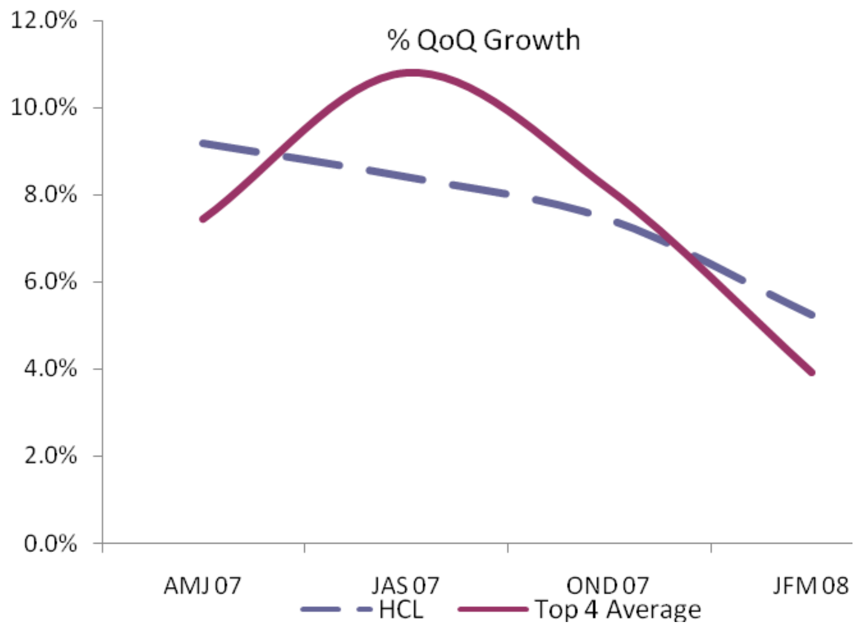
Exhibit 9

HCL TECHNOLOGIES:
EMPLOYEE FIRST, CUSTOMER SECOND

Quarter-on-Quarter Revenue Growth Rates in the Indian IT Services Industry



Source: Based on public financial data.

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