

Employees **first**

Innovation is often focused on products. Yet the leader of one Indian company is shifting the business model of a 30,000-employee company. The work of HCL Technologies reveals how innovation can apply to organisational systems as well.

The trouble with seeking out the future of management is that, even when you find it, it looks – to most casual observers – suspiciously like the past. Most truly radical management models are either highly situation-specific (Linux would not have happened without the evil empire, Microsoft, threatening to take over the world) or they don't survive (remember Volvo's experiments with team-based car assembly?). The management innovations that matter are usually more prosaic in nature and typically build on ideas that have been tried

out in other contexts. As a result, the sceptic could be forgiven for dismissing them as more of the same.

But it is worth remembering that human DNA and dinosaur DNA are 97 per cent the same. What matters is the three per cent of DNA that separates the two species, not the vast majority of things that are common. And it's the same with management practices: the losers and the winners have many points of similarity but a few key differences. We need to focus on those points of difference, particularly on their

source. New management practices are emerging all the time, but you often have to look quite hard to see them.

HCL Technologies, the fifth largest IT services provider in India with close to \$1 billion in annual revenues and 36,000 employees, is a case in point. To the outside world, HCL is just another big Indian IT company, and on paper its structure and its processes look remarkably similar to everyone else's. But scratch the surface and you see the beginnings of a new model of management. Through the →



Vineet Nayar: "the scarce resource is not customers"

→ pioneering efforts of its president, Vineet Nayar, HCL Technologies is putting in place a series of apparently small changes that will potentially have a dramatic effect on how people in the company work. And already these innovations are starting to get noticed. As *Fortune* editor David Kirkpatrick observed after talking to Nayar, “I have seen the future of management, and it is in India”.

The drivers of innovation

Vineet Nayar joined HCL in 1985 as a management trainee and worked his way up through the company, becoming president of HCL Technologies (there is also a sister company, HCL Infosystems) in 2005. So he has lived through the boom in IT investment, the shift to outsourcing and offshoring, and the gradual maturation of the IT services industry. As he recalls:

“The history of HCL is a bet on the growth of technology services. Back in the late 1990s, 45 per cent of our revenues came from technology development. We were very good in what we did. But when the technology meltdown happened in 2000, technology spending vanished overnight. So we had to reinvent our business model.

“We took a look at our market space, and the key trend was that there was too much emphasis on volume and people had forgotten the concept of value. Everybody was rushing to India, but no one was asking, ‘Am I getting value?’ I believed that down the line clients would get frustrated: ‘I have got my

and creating value for them,” Nayar explains. “And we announced this in a global customer meeting. We said, ‘We will surrender our existing customers if they don’t feel we are important partners for them’.” This meant giving up \$35 million in revenues, but it allowed HCL to focus on the customers that were aligned with its strategy.

The second strand of HCL’s innovation-led strategy was the allure of uncontested market space – the “blue oceans” in Chan Kim and Renée Maubourgne’s phrase where margins are high and competitors are non-existent. “We have to create market space either in the way we deliver the service or what we deliver – this is what makes us unique and makes us big.” HCL was the first mover in remote infrastructure management (managing data centres and network services out of India) and became leaders in that market space. And now the company is pushing a new offering in the IT outsourcing market in which the customer generates major cost savings while retaining control. By offering flexibility and transparency to the customer, HCL avoids head-on competition with the big players like IBM and EDS (whose approach is to take the entire system off the customer’s hands). Major deals, including those with Dixons, Terradyne and Autodesk, attest to the potential in this new market space.

Building an innovative organisation

To deliver on the promise of a distinctive market position, Nayar

to happen.” His objectives in doing this were not unusual – he wanted to invert the pyramid and put the power in the hands of his employees, and he wanted to make managers accountable to their employees, rather than the inverse. But his methods are original, radical, and perhaps even a little risky.

Nayar has a few overriding principles that shape all the changes he is putting in place at HCL:

- Employee first, customer second. “The scarce resource is not customers, it is great employees, so if we spoil them and make them realize that HCL is a great place to work, they will deliver value.”
- Transparency reduces the gap between the manager and the employee. Many traditional organisations create problems by restricting the flow of information and setting up artificial boundaries between people. By increasing transparency these boundaries are removed, and employees are more likely to act responsibly and creatively.
- There are no half measures. You cannot change a 30-year-old company culture without extreme measures. Dramatic changes are needed to get the pendulum swinging.

So what are the management innovations Nayar has implemented? Three in particular are worth a closer look:

360-degree feedback HCL’s annual survey of 20,000 people across the company rates 1,500 managers on

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30 per cent, 40 per cent cost saving, now what?”

HCL decided to position itself as a value-centric company rather than a volume-centric company. “We decided to chase deals where we were both important to the customer

realized he needed to make some fundamental changes inside the company. “We were creating an innovative company, but you can’t do that unless your internal organisation structure is innovative. If you don’t perpetuate innovation, it is not going

20 aspects of their performance – strategic vision, ability to communicate, problem solving skills, responsiveness, and so on. There is nothing unusual in running such a process. But what is unusual is that the results of the survey – the

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numbers and the comments – are aggregated and published online for every employee to look at. For example, according to his employees, Nayar’s overall score was 7.8 on a 9-point scale. The employees can see his scores and see that he has a higher score on motivating employees compared to getting resources together to get things done on time.

This is a simple change in practice, but one with profound consequences. For the manager, there is nowhere to hide if he or she

gets negative feedback. Most managers take the feedback very seriously and make changes; a few choose to move on. As Nayar observes: “This system is important because it shows the manager is accountable to you, the employee, not the reverse. We are trying to add a new definition to the word *accountability*.” And importantly, the 360-degree feedback is not linked to the annual appraisal or to the compensation package. It is open for everyone to see, and that is enough to encourage changes in behaviour.

Service tickets Any employee with a question, a problem, or a gripe is encouraged to open a “ticket” with the relevant department. If there is a problem with the air-conditioning, she opens the ticket with the facilities service desk; if she doesn’t like her new salary, she opens the ticket with the HR service desk.

As soon as the ticket is opened, “people start running around trying to solve that problem”. And, importantly, the only person who can close a ticket is the employee who opened it in the first place. Service desks, such as HR, are measured on their ability to resolve tickets, and the expectation is that tickets will be closed within two days. Daily reports list the number of open tickets, and how long they have been open, for the 15 service desks.

When the service ticket system was introduced, there were 30,000 tickets per month being opened, on a whole range of issues from broken chairs to travel policies to compensation matters. Gradually this number has dropped as big areas of concerns have been sorted out, but there is still a steady stream of tickets. For example, the HR manager in the UK has closed 234 tickets in 2006 and has zero unresolved tickets.

So what has the introduction of service tickets done to the HCL culture? First of all it has improved the “hygiene factors” in the workplace. The environment “has become extremely conducive for an employee to work in, because he →



HCL's new Gurgaon home

→ is seeing the organisation as being responsible to him”.

Second, it underlines the concept of reverse accountability – the idea that managers and support functions are serving the employees, not the other way round. And this is all part of the employee-first mentality. “We

Recognition for added value Nayar developed a clear point of view on compensation and recognition during his 20 years with HCL. “The industry used to pay 30 per cent variable compensation to the employee linked to the company’s performance. We found the idea quite ridiculous,

problem. In Nayar’s words: “We said, the guy who wants innovation the most is the customer, so why don’t we make the customer the judge? So we created a simple tool: whenever an employee thinks he has done something that goes above and beyond the contract, he logs the

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are spoiling the employees,” says Nayar. “It is like five-star treatment; they are getting used to a certain level of service, and they have trouble going to other companies where they can’t even raise these issues. So we are creating a unique experience for the employee.”

A third benefit of the service ticket system is it acts as a barometer of ill-feeling or problems in the organisation. As the company’s UK Human Resource manager commented, “Whenever we introduce a new HR policy, the volume of tickets goes up. We know from the volume of tickets whether we have communicated effectively or not.”

There is a risk that the service tickets create the wrong sort of behaviours: what if employees start raising tickets on trivial or silly issues? What if they start raising tickets on the online system rather than talking directly to their managers? Nayar is conscious of these risks. “We want to let employees choose when to raise a ticket. If it is important enough to them, they should raise it, even if I think it is trivial. We don’t want people to be scared of speaking up. But we are also trying to push a change in behaviour here: we are now looking for a department who can give me one day without a ticket. This doesn’t mean suppressing issues: it means you need to be proactive with your employees so that they have no need to open a ticket on you.”

because if you are a software engineer you have no meaningful influence on the performance of the company. So we said we will turn all that into fixed pay – ‘trust pay’ as we call it. Now, having established that, we switched to value: we said now we will start measuring you on the value created for the customer.”

So far, so good. But every company wants to measure and reward its employees for creating value for their customers, and most struggle enormously with how to do it. Again, HCL has developed a simple but innovative solution to the

value created in the value portal which shoots off a note to the customer describing what he has done – perhaps unexpected cost savings, perhaps increased server utilisation – and the customer is asked how much he values this. The customer responds on a one-to-five scale, the results are fed back into the system, and at the end of a quarter we count up how many ‘innovation points’ each person has received. These innovation points can be cashed in for a gift, perhaps a bike or a holiday.”

Again, it is important to think



HCL's Belfast sales floor

through the implications of this innovation. Getting the customer's input is a brilliant move, but it is still highly subjective and it has to be handled in a non-intrusive manner. So the innovation points and reward system have enormous symbolic value, but they are deliberately not linked directly to compensation to avoid game playing.

Putting it all together

The three innovations discussed are just the most visible manifestations of the unique organisation Nayar is trying to create. A glance at the company Intranet reveals a host of other neat twists, including a direct Q&A link with the president himself ("Vineet replies") and a lot of investment in employee-focused resources (such as practical guides

for Indians who are moving abroad for the first time). Indeed, it is not incidental that all the management innovations HCL has introduced are IT-enabled. While they would all have been possible in an earlier era, technology increases their transparency and responsiveness by an order of magnitude.

HCL Technologies is a work-in-progress, but with some clear signs that it is heading in the right direction. Revenues in 2006 are expected to top \$1 billion for the first time. Employee turnover, always a big problem in the IT industry, is down to single digits. And major new customers are coming on board all the time – recent additions include Celestica and Skandia.

So what's next for HCL Technologies? Does Nayar have a few

more tricks up his sleeve? He laughs. "Yes, we are still making changes to the organisation. But I have a deep conviction that this is the right thing to do. Fundamentally, where we are coming from is right. The method is not finalized, but the direction [in which] we are going is right."

And rather than keep his management innovations secret, Nayar would like to spread the word. "I am frustrated by how companies have approached innovation and change. Everyone knows how to come up with a new product. But how to fundamentally shift the business model of a 30,000-employee company, I think there are very few who have done that. Hopefully by the time we are finished, people will have a better understanding of how to do this." ■

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