

HCL Technologies Reaffirms Employee-First Approach at 2010 Global Customer Meet

Susan Tan, Helen Huntley, Dan Miklovic

HCL Technologies' 2010 Global Customer Meet (GCM) brought together clients, industry thought leaders, analysts and partners to discuss "The New Normal" and allow HCL to showcase its unconventional approach to management, "Employee First, Customer Second" (EFCS), to which the company credits its success over the past five years.

Key Findings

- HCL asserts that its unconventional approach of EFCS is helping it grow business during the recession by focusing its value creation at the intersection of its employees and customers.
- The EFCS philosophy empowers its frontline employees to make decisions and take actions for the benefit of customers.
- HCL acknowledges that 50% of the world's population is under the age of 25. This age group, per HCL, doesn't work or purchase in the same way as an older generation. The EFCS philosophy embraces the way new workers and clients think and buy and helps to increase retention.
- To increase value to clients, HCL will continue to look to acquire vertically focused players and seeks to share ideas between HCL and customer employees to co-create value.

Recommendations

- Established HCL customers should remind their HCL personnel about their empowerment to add value and encourage them to do so, instead of just being order takers. EFCS has reached all employees in terms of philosophy, but not all employees are proactive in applying it in the field.
- Established HCL customers should encourage their HCL resources to actively participate in HCL's Value Portal initiative. This is where HCL employees who are working on a client engagement can, via an automated process, submit ideas for increased value if they notice any areas in which things can be improved.
- Customers evaluating or shortlisting HCL should look for examples of how the program has helped other HCL clients. They should also check out HCL's attrition rate to determine if EFCS is truly bringing about a more-dedicated and consistent workforce for HCL.

WHAT YOU NEED TO KNOW

As a fast-growing IT and engineering services firm, HCL is becoming an alternative service provider to the top three providers for some companies. It is seeking to differentiate itself through a culture of Employee First, which empowers its frontline employees to make decisions and take actions to add value to clients. Understanding the company's culture and capabilities will help potential customers better evaluate if a relationship with HCL is appropriate.

EVENT

Event Facts

Held on 11 through 13 April at Orlando, Florida, HCL's GCM attracted 700 clients this year, about a 40% increase from the previous year. About 85% of the 70 speakers/moderators were clients, while the rest were industry thought leaders, analysts and partners.

Analysis

Employee First has been the guiding principle at HCL since 2005, when CEO Vineet Nayar took over a company teetering on irrelevance and losing traction in the market. This maverick and charismatic CEO took on the experimentation of the Employee First philosophy to create a workplace that empowers its employees to be action-oriented and vocal about how HCL can increase value for their clients. Employee First also enables HCL to increase employee retention rates and attracts the best and brightest — not a trivial task, given that HCL is smaller and less well-known than competitors Tata Consultancy, Wipro and Infosys.

Employee First is a management philosophy that postulates that the "value zone" — the place where value is truly created — is at the interface of customers and employees. In today's world, the value zone has moved closer to customers, yet in most companies, the control zone has remained with managers. Employee First turns this around to make management (and supporting functions) accountable to the frontline employees.

The Employee First experiment has created a buzz, having been featured in mainstream media as well as being a case study written by and taught at Harvard. In 2009, HCL was also honored as the best employer in Asia/Pacific and India by Hewitt Associates, a global HR consulting and outsourcing firm.

Financial results have also been promising. HCL revenue has almost tripled in the past four years, with HCL infrastructure services and application services increasing their share in HCL's portfolio to 20% and 22%, respectively. In 2009, during the recession, HCL grew 23.5% (although not all of its growth is organic) to \$2,453 million while most of its competitors struggled to grow revenue. As evidence of its increasing relevance to key clients, the number of clients spending \$10 million or more with HCL has more than tripled in the past four years.

To promote the philosophy, the CEO wrote "Employees First, Customers Second," a book in which he explains the motivation for making a cultural shift, the process by which the shift occurred, and espouses the importance of transparency in making employee empowerment work. A point reiterated several times during the HCL GCM was that EFCS, is a work in progress and there is still much experimentation being done. This means customers of HCL will find themselves in the middle of those experiments, and sometimes those will fail (to the extent the outcomes may not match expectations). That is a price both sides will have to pay, and customers should keep this in mind when engaging HCL. However discussions with clients at the event revealed that when that happened, they learned from the experience, moved on, and

together solved the problem in the end. There was a refreshing transparency in HCL client base in expressing what did and did not work in their HCL relationship, with the HCL employees themselves sometimes initiating the client discussion of the pain point, something rare in most user group meetings.

The HCL GCM featured a number of plenary sessions regarding the need for business transformation and the reinvention of management, with industry thought leaders, such as business strategist Gary Hamel and former President Bill Clinton, and client companies' and HCL partners' CEOs and other senior management from Tibco, SAP and McKinsey, among others, talking about the future of business in an increasingly global environment with an exponentially expanding technology presence. All were supportive of the EFCS philosophy as one tool that business must use to cope with this transformation. Companies that engage HCL have the opportunity to learn from HCL how to empower employees, as well as what is still a work in progress and may make sense to delay. As proven in other areas, such as Six Sigma or Lean, customers can learn from their suppliers (and vice versa) to the benefit of both.

Although customers are not exactly going into rapture over Customer Second, they are definitely in favor of Employee First. They understand that when HCL employees are empowered and properly motivated, they stand to benefit from that enthusiasm, with new ideas for increased HCL value, as well as stronger employee retention. Perhaps one factor that there was uniform support for the EFCS philosophy is that essentially every customer attendee is an employee himself or herself, and they wished he or she had the same degree of empowerment that many of the HCL employees exhibited. "Employee First, Customer Wins" would have been a more-appropriate slogan, or at minimum, a better representation of the positive benefit for both sides in the relationship.

HCL intends to continue its philosophy of Employee First and investing in employees while implementing the following strategies:

- Acquisitions that can enhance the value they bring to clients — These include firms with business transformation capabilities, subvertical expertise or pivotal regional focus rather than subpar assets that HCL can then work to turn around.
- Value creation and customer intimacy — The linchpin of its Employee First philosophy, value creation fostered by customer intimacy will continue to stand center stage, with continuing and new initiatives, such as having a customer advisory council, global customer meetings and a value portal where HCL employees submit ideas to enhance value to their client.
- Continuation of a collaborative enterprise with customers, called "organization of the future" by HCL's CEO, that creates a more-distinct differentiation of value-add than HCL's competition.
- Transformation board creation — Although currently in an experimental mode, HCL has created a transformation board, made up of HCL employees who are separate from any HCL account "run" personnel, including account executives. HCL believes that this separation will drive additional transformation by having a team of transformation experts who focus only on working with clients in a new way through changes in technology, processes and/or operations that will drive to additional client value.
- Vertical focus expansion — Although financial services and manufacturing will continue to be important vertical industries, HCL will plan expansion into verticals that have the potential to become large revenue generators, such as energy/utilities, the public sector and healthcare.

- Regional expansion to take advantage of the growing emerging countries' demand.
- Global delivery expansion into different low-cost regions (for example, Latin America) as well as the U.S. (HCL has delivery centers in North Carolina, New Jersey and Texas) to take advantage of work that can't be offshored.
- New services and models in response to the growing trend in cloud computing and utility services.

Challenges

While growing faster than its competitors, HCL is still a midsize player with associated brand name and breadth of capabilities challenges. HCL is still not a well-known name in the industry, unlike its bigger Indian competitors, such as Infosys, TCS and Wipro. HCL's midtier status will continue to impact its ability to attract clients that feel greater ease working with established Indian brands. This means it may not get on the shortlist of many companies that it can capably serve, especially in project-based work in which typically, a third-party advisor — who has understanding of when to include HCL — is not involved. Although the company takes the position that it is not necessary to be the biggest in revenue to deliver the highest value and that it can grow through increased client penetration, growth in number of clients is critical to leveraging its investments in specific assets and, therefore profitability, not to mention diversification of revenue sources. HCL's philosophy that buyers are not "swayed by logos" is shortsighted, and will cost it new clients and associated revenue.

Also, HCL is not a full-service provider in all domains of business. It lacks key skills in critical business areas specific to niche aspects of narrow vertical industry segments, such as government, chemicals and education. Unlike much-larger service providers that can utilize a specialist in one narrow technology or application over a larger customer base, HCL's size does not permit it to do that yet. Potential clients should recognize that no degree of employee empowerment can compensate for a critical skills deficiency, and that in some areas, HCL may be only one of several service providers that may be needed to address a need. Clients will have to decide if the difficulties of dealing with multiple service providers outweigh the potential benefit of being exposed to HCL's EFCS philosophy.

HCL must ensure that its EFCS philosophy reaches all its employees quickly. Although we recognize it takes time to change a culture, and that although there are good examples of clients benefiting from HCL employees' ideas and value orientation, many clients Gartner has spoken to still regard HCL as a technical and expert resource rather than an innovative company that delivers business value.

While EFCS has produced good results for HCL, companies adopting this approach must guard against the risk of this philosophy turning into a self-serving focus on employees if taken too literally, and copied without true understanding. The spirit of EFCS is the enablement of employees to realize their potential faster, thereby increasing the capacity of the organization to create value for its customers. It is not about putting the needs of the employees above those of the customers; it is about aligning employees with the needs of the customers.

RECOMMENDED READING

"HCL Global Meet 2010 Showcased Engineering as Well as IT Services"

"Employee First, Customers Second," a book by HCL CEO Vineet Nayar, CEO HCL

REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509