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Case Study: HCL Technologies Puts Employees First, Customers Second

by Jeffrey S. Hammond
for Application Development & Delivery Professionals

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Empowering High-Performance Teams Re-Ignites Growth And Prosperity

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EXECUTIVE SUMMARY

HCL Technologies (HCL) was growing at 30% compound annual growth rate (CAGR) from 2000 to 2005. Sounds good, right? Well, not so — its competitors were growing faster, and HCL was falling behind. Between 2005 and 2010, HCL's new CEO, Vineet Nayar, embarked on an all-out effort to transform the systems integrator into a high-performing organization. Nayar's efforts started with a simple premise: By putting employees first, HCL could create a culture that attracted and retained creative employees. Putting the customer second may sound heretical, but it worked. HCL transformed its business by practicing radical transparency and increasing the autonomy of individual development teams. HCL also turned its traditional organizational pyramid on its head by making shared-service organizations such as tech support and management accountable to frontline developers. Developers are responding with innovative ideas and creating a self-sustaining "can-do" culture. The financial results were also impressive: a 35% growth in revenue per employee and a sector-leading 25% compound annual growth rate (CAGR) through the 2008 to 2010 recession.

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NOTES & RESOURCES

Forrester spoke with key stakeholders at HCL Technologies to write this case study.

Related Research Documents

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"Best Practices: Building High-Performance Application Development Teams"
November 3, 2010

SITUATION: HCL TECHNOLOGIES WAS FALLING BEHIND ITS COMPETITORS

At first glance, the creative cultural conditions that define high-performance development teams would seem completely at odds with a large, offshore IT services provider like HCL Technologies. It's common knowledge that IT shops offshore non-value-added work to countries where the development costs allow outsourcing firms to deploy massive numbers of low-cost workers on mundane maintenance tasks. That was the case in 2005, when HCL found itself growing at 30% per year, with $700 million in revenue and 25,000 employees.

Sounds like success, right? The only problem was that HCL's largest competitor was growing at 50% per year and pulling away from it in the market. At the same time, the low-cost outsourcing model was proving to be a challenge to maintain, as high turnover rates and rapidly increasing salaries made keeping even inexperienced, low-cost, "Type X" developers a difficult challenge.[1]

HCL's new CEO, Vineet Nayar, knew that the firm needed dramatic change to avoid a slow glide path to the second tier. Between 2005 and 2010, HCL embarked on an all-out effort to transform the company into a high-performing organization.[2] The effort began with culture. The results are illuminating for large corporations struggling to redefine moribund IT shops, and they disprove the conventional wisdom that high-performance development practices can't scale beyond small, startup-style companies.

HCL started with a fundamental assumption: It would make supporting revenue-generating employees the first priority of the company culture and make customers the second priority. It sounds like heresy that the customer doesn't come first, doesn't it? But the key insight that Nayar had was that if he created conditions where creative employees could flourish, then innovation would increase and customer satisfaction would follow. It's not necessarily an original concept; other companies, including Zappos, have proved out the concept at a smaller scale. What HCL had to do was demonstrate that engagement of creative workers could work at a fast-growing, 25,000-person system integrator. It wasn't as simple as it would have been at a Silicon Valley startup, but HCL made it happen by focusing on three best practices: 1) growing autonomy by inverting the traditional organizational pyramid; 2) encouraging employee passion on an epic scale; and 3) unleashing organic creativity and employee innovation.

BEST PRACTICE: HCL GROWS AUTONOMY BY INVERTING THE ORGANIZATIONAL PYRAMID

When you're striving to create a high-performance culture at scale, bureaucracy is one of the most intractable foes you'll face. Bureaucrats tread on the value of the information in their possession and their direct-line authority over developers, and when they are in a shared services organization, they use their position to dictate what individuals can and cannot do. Top-down command and control organizations are as old as business itself. Top-down organizations work well when frontline workers don't need to engage in creative thinking. If you're squashing bugs, repeatedly running the same test cases, or installing the same eCommerce system for the twelfth time, it might be possible to get away with a lot of low-cost, engaged, "Type X" developers. But customers were asking HCL to break new ground and use software to create innovative new products and services. To escape the innovation wasteland, HCL needed to shake things up on the frontline.

HCL uses many techniques to facilitate a creative culture, including:

- **Practicing radical transparency.** Radical transparency starts with opening the financial window on all projects. This enables all team members to see how their project is doing, how other projects are doing, and how entire business units are performing. It invites comparison. Employees love having full access to information, and they love the fact that there's no place for poor performers to hide. Over time, HCL has augmented basic financial information with a Balanced Scorecard of useful data and used social networking technologies to create a companywide conversation about the challenges the organization faces.

  HCL shares this practice of transparency with other high-performance cultures that Forrester has written about, including Atlassian and Netflix. High transparency creates a basis for trust as surely as its absence sets a basis for speculation and mistrust.

- **Adopting reverse accountability for corporate functions.** In bureaucratic organizations, developers are accountable to finance, human resources (HR), legal, the project management office (PMO), the enterprise architecture (EA) team, and/or infrastructure and operations. The result: Developers spend hours each week out of flow — and not writing code. They might spend hours convincing database administrators that a system is ready to deploy, or wrangling with HR to get approval for a vacation block, or creating documentation to convince an EA team that the proposed system specification will work and be compliant with what it asked for. In a sense, these cross-functional teams become part of a work-prevention process.

  This situation was true at HCL until management made shared service organizations accountable to frontline employees, including those on development teams. HCL measures shared services personnel on their ability to serve the needs of revenue-producing employees. One example: HCL's IT support desk. Only the employee who opens a trouble ticket can close it, so individual employees have complete control over when a task is considered done. The effect is that gatekeepers become troubleshooters because their bonuses and career progression depend on serving the employees on the frontline, who, of course, are serving customers.

- **Implementing broad-spectrum 360-degree reviews.** At HCL, frontline workers can review any manager who directly or indirectly influences their work. And managers are encouraged (but not forced) to make the results of their reviews public for all to see. This is where peer pressure kicks in: As senior executives post their reviews, the pressure mounts for other managers to follow suit. Employees view reluctance to post a review as a tacit admission that a manager has something to hide from his peers. And, of course, employees find ways to get the word out anyway. It's important to note that these 360-degree reviews are used purely as a developmental tool and are not linked with the formal performance appraisal process.

Broad-spectrum reviews also show top management which managers have the greatest influence on client work. Team members who have the widest sphere of influence tend to receive the highest number of voluntary reviews. Managers who don't have a lot of reviews tend to be those with a narrow degree of influence in the company, even if they are senior managers.

HCL's experience in rebuilding its organizational control structures is important because it demonstrates that there are real changes that a large organization can make that increase the autonomy and control that individual development team members have over getting their jobs done. And when you give creative, disciplined employees the freedom to make the right call, the result is that thousands of decisions get made faster every day by the people with the best context to make them. Speed leads to agility, and even if the wrong decision is made, it's possible for local managers to act and quickly correct the problem. But there was one critical prerequisite before any of the policies above could be put into place: Without explicit support from the executive management team and trust in the motives of frontline developers, none of these changes would have been possible.

BEST PRACTICE: HCL ENCOURAGES EMPLOYEE PASSION ON AN "EPIC" SCALE

Once HCL was on the road to creating a transparent corporate culture, executives turned their attention to tactics that would raise the level of engagement that employees had with their work. One of the best ways to engage creative workers is to align their passions with company goals. HCL management believes that employees feel passionate about their jobs when they know that management understands the importance of their roles, respects them, and makes it easier for them to accomplish their work. The result is a shared purpose that acts as a bond between employee and employer.

One way to measure the level of employee engagement is to measure and track employees' levels of passion. HCL does this with the EPIC (Employee Passion Indicative Count) assessment. Here's how it works:

- **Every year employees voluntarily take the EPIC assessment.** The EPIC assessment is open to all employees and is available once a year. It's not mandatory because HCL's human capital management professionals feel that employees tend to view mandatory surveys in a negative light and spend less time and attention on them. Employees spend about 25 minutes answering questions about their preference for thirty passion drivers. Approximately 65% of HCL employees voluntarily took the EPIC assessment last year.

- **Each employee gets a customized report on his or her passions.** If you've ever taken tests such as the Gallup StrengthsFinder, the Hermann Brain Dominance Instrument, or the Myers-Briggs Assessment, you have a general idea of how EPIC works. But EPIC goes beyond high-level personality types and provides specific recommendations to HCL employees based on their top five and bottom five passion indicators. Each passion is measured on a scale of -240 to +480, along with a color-coded indicator that shows how well the employees' passions are utilized within their current roles (see Figure 1). In the example below, the employee is at an amber state and only moderately leveraging his or her passions at work. It could be worse (there are no red indicators), but it could also be better.

- **Employees use their EPIC scores to forge a shared purpose.** It would be tempting to use EPIC scores as a companywide management tool (as an example, 68% of employees who left HCL last year had passion drivers in the amber or red zones). But HR personnel at HCL have decided to use a light touch with EPIC scores and abstain from predictive analytics. Only immediate managers get access to an employee's EPIC scores, and they are not used as part of the performance appraisal process. Rather, they are used as a focal point to develop employees' careers and help them align their personal passions with client projects, such as a social networking project or a mobile development project. HCL's Anand Pillai, senior vice president for EFCS transformation initiatives, summed up the intent well: "Find the job you love and you'll never have to work a day in your life."

BEST PRACTICE: HCL UNLEASHES ORGANIC CREATIVITY

When you combine autonomy with passionate engagement, the result is predictable: Innovation begins bubbling up from the lowest levels of the business as the creative juices flow. That's what is happening now at HCL. The interesting thing is that the tactics for harvesting this creativity rest on a collaborative relationship between management and employees. Here are a few examples of how HCL does it:

- **"Meme" unleashes collaboration.** When member of the social network group at HCL proposed their idea for an internal version of Facebook, management was skeptical — why would employees use an internal social network instead of Facebook and Twitter? But in a culture that tolerates experimentation, risk of failure isn't a barrier to action. In the end, HCL's new social network, called Meme, surprised management: Its explicit blend of personal and work life drew in more than 30,000 employees on initial launch. Meme also reinforces the culture of transparency as more employees share information about themselves. As an example, a group of female employees set up a shared blog, called Blog Her, about issues they face in the workplace. The blog creates an important area to discuss a different perspective on HCL's corporate culture. It also creates a relief valve that allows the company to monitor working conditions. Vibrant online communities like this one are the virtual equivalent of the water cooler or the foosball table at smaller startups. They create a social opportunity for groups of co-workers to de-stress together from the rigors of creative work.

- **"Mad Jams" make a difference with innovation.** One of the interesting things about innovators is that recognition for their efforts is just as important as compensation (if not more so). HCL managers found this out when they tried to compensate employees who submitted innovative ideas into their value portal. Compensation did not result in a higher submission rate. So the marketing group got creative with the "Make a Difference (Mad) Jam" program. Imagine an *American Idol*-type competition where each business unit gets to audition ideas from its employees and send the best three ideas on to the global competition. HCL employees vote for the first-round winners, and the top eight are given further coaching by HCL's CEO for the final competition in front of a panel of judges. This year's winner was a cross-channel banking solution to improve customer onboarding. More than 20 team members working across multiple business units developed the winning solution — not the type of innovation you get in most traditional companies.

- **"MAD LTD" engages social consciousness.** HCL also took the "make a difference and lead the difference" theme and applied it to creating a shared purpose for philanthropy while connecting employees to youth across India. The MAD LTD program builds on the idea of leadership from the ground up and also serves as a way to connect HCL to local communities (and new young talent with distinct social passion). It's an example of direct action instead of faceless corporate philanthropy.

There's an underlying theme to each of these efforts: They are employee-led and voluntary in nature. But most importantly, they encourage employees to blend their personal and professional selves. HCL's vice president of global marketing, Krishnan Chatterjee, sums it up nicely: "In most companies people walk in and leave their true personality hanging on a hook outside like an overcoat. That's not what we want at HCL."

What executives at HCL have grasped is that an engaged employee is one who is always looking to improve the status quo, one who is willing to try something innovative and do it without being prompted. For HCL customers, improved engagement and employee passion translates into greater flexibility, proactive innovation, and a desire to do the right thing for the customer, regardless of what the rules might say. And the collective result of thousands of small-scale decisions made close to the customer has resulted in improved customer satisfaction, larger deals, and robust growth.

RESULTS: HCL RE-IGNITES GROWTH, PRODUCTIVITY, AND PREFERENCE

So where is HCL nearly five years after starting its cultural makeover? The results speak for themselves:

- **The company has re-ignited its growth engine.** All these touchy-feely, engage-the-creative employee initiatives are great when times are good, but they won't work in times of crisis — right? Actually, the reverse is true. Many of the high-performance case studies we've written about have done well during the great recession, and HCL is a case in point. In the past three years, HCL has maintained a three-year CAGR of 25%.[3] HCL has nearly tripled its employee base since 2005. Ideas submitted by creative employees through HCL's value portal generated new streams of revenue.

- **Individual employee productivity is up.** In 2006, HCL's average revenue per employee was about $37,000 per year, more than $10,000 below the top-performing Indian systems integrator. Now, average revenue per employee is more than $50,000 a year, at the top end of the range for Indian systems integrators. It seems that engaged employees are good for the bottom line.

- **Employee attrition is down.** HCL is in a cutthroat business where its competitors try to lure away top performers with bonuses or higher pay if they are willing to jump ship. But for creative employees, money is only one factor in the decision. As HCL's workforce has become more independent and engaged, net attrition is down by almost 50%. The reduction in attrition among employees rated as "outstanding" is even higher.

- **Improved customer satisfaction is a long-term reward.** A company that outsources its development may see an executive from the outsourcer a few times a year, but it deals with the development team on a daily basis. This is where the investments in engaged, creative employees really pay off. Even though HCL puts its employees first and customers second, the company measured a net gain of 43% in customer satisfaction scores from 2008 to 2009, which was followed by a further 21% net gain in customer satisfaction scores from 2009 to 2010.

Figure 1 HCL's EPIC Assessment Helps Employees Find Their Passions

Your EPIC score is: 294

The EPIC score refers to the total score you have received in the 30 identified passion indicators used in the assessment. It is the summation of the rating given by you for each statement. The maximum score possible is 480, and the minimum is -240. The ranges for the EPIC scores are as follows:

480 to 360: Very high
360 to 240: High
240 to 120: Moderate
120 to 0: Low
Less than 0: Passion lies outside 30 identified passion indicators.

Your top five passion indicators are:

Welfare	Social
Collaboration	Social
Management support	Social
Attitude	Self
Connectedness to colleagues	Social

Leveraging fully Leveraging moderately Leveraging less

The above five indicators are your motivating factors and your biggest sources of inspiration. You are leveraging the indicators in the **green category** to the fullest; you are leveraging the indicators in the **amber category** moderately; although the indicators in the **red category** are among your top passion indicators, you are leveraging them very little. Therefore, you need to work on these indicators to get the most out of them.

60172 Source: Forrester Research, Inc.

Figure 1 HCL's EPIC Assessment Helps Employees Find Their Passions (Cont.)

Contribution of top five in your overall passion: 43%

This means that the above top five indicators contribute to 43%.

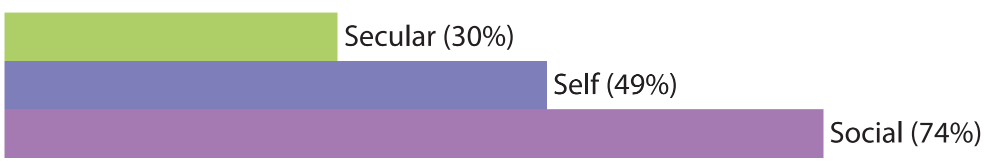
Your projected theme: Social

This means that your top five indicators fall in the above-mentioned theme(s).

Your overall dominant theme: Social

Based on the ratings you have assigned to each statement, your dominant theme is Social. This shows that this theme has the highest strength.

Strength of each theme in your overall passion:



Your bottom five passion indicators are:

1.	Knowledge	Self
2.	Salary	Secular
3.	Customer support	Social
4.	Training and learning	Secular
5.	Trust and transparency	Secular

The above indicators are not driving you presently.

Source: adapted from EPIC assessment report for Prerna Na

60172 Source: Forrester Research, Inc.

RECOMMENDATIONS

HOW TO APPLY HCL'S BEST PRACTICES

HCL's experience proves that you don't have to be a small startup to put autonomy and engagement in place to drive innovation. It also proves that you don't have to be working, like Google or Netflix, on whizbang technology in Silicon Valley. You don't need to make gut-wrenching changes or massive transformation programs, but you do need executive buy-in and leadership that is comfortable ceding control and authority to frontline development staff. You also need to know what your desired outcome is and how you'll measure success. Here's how you can use HCL's tactics:

- **Get your executives on board with the program.** We'll continue to produce case studies like this one, but with an ever-growing body of research, it should be clear that many companies of all shapes and sizes have cracked the code to changing their corporate cultures. The key to innovating with software is building a creative development culture. Make sure you present your leaders with the research that proves the case.
- **Make plans to invert your organizational pyramid.** There's no reason that your HR department can't begin to implement HCL's strategy for extended 360-degree interviews. Throw some disinfectant into your organization to identify the information traders and your go-to folks. Your development teams will relish the chance to tell you where the friction points are in your organization. From there, you can move on to making shared services such as quality assurance (QA), the PMO, and enterprise architecture accountable to the development teams who drive your business forward.
- **Create transparency through clarity.** HCL's practice of radical transparency takes some getting used to. It's not always easy or pleasant to know exactly where you stand as an employee or where the company stands as a business, but it does create high clarity of purpose and sets the stage for cooperation. Companywide metrics stimulate new ideas and make it clear where the growth areas of the business are. High-potential employees will naturally migrate to where they see the best opportunities.
- **Focus on creating a results-oriented work environment.** The best way to leave space for creative workers to do their thing is to focus on measuring the results of their actions. Metrics like customer satisfaction, revenue per worker, or customer-found defects versus internally found defects are good examples because they focus on outcomes instead of intermediate processes. This is true for the developers on projects and just as appropriate for teams that support their actions, including enterprise architecture and project management offices.

ENDNOTES

[1] Forrester has laid out the case that software development is a creative "heuristic" practice, not a rote "algorithmic" practice. Firms that view developers as cogs instead of creative professionals are likely to

end up with an inordinate amount of "Type X" developer behavior instead of "Type I" behavior. See the November 3, 2010, "Best Practices: Building High-Performance Application Development Teams" report.

[2] Nayar's book is a great read for application development professionals. Source: Vineet Nayar, "*Employees First, Customers Second*," Harvard Business Press, 2010.

[3] HCL benchmarked its results against approximately 3,000 technology firms: firms involved in hardware, software, services, or a combination of these. According to Bloomberg's financial database, there were only eight companies with a $5 billion or more market cap and $2.5 billion or more in revenue that grew at 25% CAGR or more during the past five years: Apple, Google, Cognizant, VMware, Compal Electron, Tencent Holdings, Chimei Innolux, and HCL Technologies. Source: HCL Strategic Intelligence Wing, Bloomberg database as of July 1, 2011.

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