the bizIT interview
Employees first, customers second

Vineet Nayar's radical style took HCLT from a $700 million company to US$3.1 billion in five years, reports RAJU CHELLAM

HOW do you take a company from US$700 million in annual revenue to US$3.1 billion in under five years? How do you transform a company that had lost its competitive edge because it had become tolerant of gradual change - when the industry itself is rapidly changing - and take it back to the top rungs of the global industry ladder?

You do that by turning the company upside down, by making management accountable to the employees who create value for the company, and by putting employees first, customers second, and management third.

This radical response of inverting the corporate pyramid and creating a new mantra known as EFCS (employees first, customers second) catapulted an Indian IT outsourcing company to the leading rungs.

The company, HCL Technologies (HCLT), began reshaping itself in 2005 with Vineet Nayar at the helm. He began the transformation in 2005 when HCLT had sales of US$700 million. EFCS succeeded so well that other global companies, such as WL Gore, Whole Foods, TopCoder and Southwest Airlines started embracing the mantra.

Accolades from business leaders followed. Tom Peters, author of the best-seller In Search Of Excellence noted that Mr Nayar could be the next Peter Drucker; Fortune magazine bills his leadership style as 'the world's most modern management'; and the London Business School has called him the leader of organisational innovation.

'I wanted my employees and management team to focus on just how enormous our market was, how tiny a share of it we actually had, and what a narrow segment we played in.'

- Vineet Nayar

The mantra has brought magic to HCLT's revenue. 'About 70 per cent of all major deals closed by HCLT were won against the big four global IT players,' Mr Nayar, currently HCLT's vice chairman and CEO, told BizIT in an interview.

'By annual revenue, US$1 million-plus customers doubled, US$5-10 million customers quadrupled, and US$20 million-plus customers grew five-fold.'

For its latest year ended Dec 31, 2010, HCLT reported sales of US$3.1 billion. Singapore is its HQ for the Asia-Pacific, Middle East and Africa region. The company offers an integrated portfolio of services including IT solutions, remote infrastructure management, R&D (research and development) services and BPO (business process outsourcing) for industry verticals such as financial services, health care, manufacturing, consumer, and public services. HCLT is part of HCL Enterprise, which is a US$5.5 billion group.

The garage start-up

HCL was founded in 1976 and is one of India's original IT garage start-ups. The group employs 77,000 professionals of 95 nationalities in 29 countries.

'The worldwide IT outsourcing market is worth about US$500 billion,' Mr Nayar said. 'The industry is dominated by global players like IBM, Accenture, and EDS-HP. The top five Indian companies, including HCL, account for just US$6 billion of that total, which is just one per cent. I wanted my employees and management team to focus on just how enormous our market was, how tiny a share of it we actually had, and what a narrow segment we played in - and strangely, being satisfied with it.'

The solution? Focus on the second-tier Fortune1000 Global companies. 'Of the 1,000 major global companies, the top 200 are quite well served,' Mr Nayar said. 'The Big Four catch them more often. So why don't we focus on the next 800, the ones that are not so well taken care of? We can manage the complete IT life cycle for our customers and take on the role of partner rather than supplier. These types of contracts can run into the hundreds of millions of dollars.'

Part of the strategy of how to win these megabucks contracts was by putting the EFCS mantra to work. 'This is what will enable us to unleash the positive energy and passion of our employees, to create a tremendous wow factor in the value zone that will become our major differentiator,' Mr Nayar said.

What was the reaction when he first outlined this to 100 of HCLT's best and brightest staff? 'Two full minutes went by and still no one said a word,' he wrote in his book.

'At last, one of the business leaders from Europe raised his hand and said 'Vineet, I'm thinking you must be crazy. We have no idea how to compete with the global players. We will destroy everything that we have created in the past few years.' More voices rose from around the room and soon a heated discussion was taking place. I wanted all the comments to come out into the open and be debated to the point of exhaustion.'

HCLT experimented with various practices to shapethe process into a four-part journey. The first was to confront the truth about the company, its culture, its business practices and its management. The second was to be 100 per cent transparent with the staff and to customers to build a level of trust unprecedented in the corporate world. The third was to invert the management pyramid and have support functions such as HR and finance accountable to the frontline employees in the value zone. And the fourth was to recast the office of the CEO.

'We launched the value portal, a system that enables employees to offer suggestions and solutions for change, and thus transfer responsibility from senior management to the company as a whole,' Mr Nayar said. 'So far this has led to more than 500 ideas that HCLT has implemented, creating over US$25 million in value.'

The company also set up a smart service desk (SSD) to resolve problems between support functions and frontline staff. 'In the first week, we had 16,000 tickets or problems to address,' Mr Nayar recounted. 'Any employee with a problem can open a trouble ticket. This is assigned to a manager responsible for its resolution. Since only the employee who opened the ticket can sign off on the solution, SSD helped address and resolve thousands of long-standing problems.'

The result? Employee attrition fell 50 per cent, an external survey reported that employee satisfaction was up 70 per cent, revenue and operating income tripled over a four-year period, and about 70 per cent of all major deals closed by HCLT were won against the Big-Four IT players.

'This may be the world's most modern management,' according to Fortune. 'It may be successfully adopted by any company in any industry anywhere in the world, with similar results.'