

Strategy: Back to front

Think the customer should always come first? Wrong, writes Vineet Nayar, chief executive of IT company HCL Technologies. He explains that a strategic management focus on front-line employees helped his company to buck recessionary trends

Vineet Nayar

At our company, HCL Technologies - which employs 60,000 staff in 26 countries - we have espoused a management approach that we call employees first, customers second (EFCS). Its purpose is quite simple: to concentrate the company's attention and resources on the employees who operate in the "value zone", the place where employees and customers interface and where real value is created.

I have never understood why this approach should be seen as controversial. Doesn't it make sense for senior management to do everything it can to help its value-creating employees be as effective and productive as possible?

However, the EFCS concept has, in fact, caused quite a stir in the press, business literature and at various events around the world where I have spoken. The most frequent objection to the "employees first" concept is the obvious one: "Mr Nayar, you must be rather ignorant or perhaps did not earn a business degree, because you have brushed aside the most fundamental and ancient business dictum of all: customers come first. Or, as it is also stated, the customer is always right."

Thank you for that reminder! The truth is that we did not ignore the dictum, we rejected it. We refused to accept the old-fashioned "either/or" argument that putting one constituency first necessarily means that, in some way, others must be relegated to an inferior or subservient position. That thinking dates back to the days of vertically-organised manufacturing companies and, before that, feudal castles and, even before that, the court of the Pharaohs.

Our rejection of conventional management wisdom does not mean that we reject customers. I did, in fact, earn a business degree and am aware that customers are essential to the success and sustainability of a business. But as a manager or an executive, what does it mean to put customers first? Should I give them 3.5 per cent off the list price of my product or service? Should I listen to them about how to run my business and ignore what my own employees tell me?

The customer that is worth doing business with is the customer that wants value from its suppliers and partners, not perks and special deals and flimsy customer programmes. Which brings me back to the way to create and deliver exceptional value for customers: put employees first.

The question is, of course, how does one do this? What does it mean? That I must be nice to all employees? Or is it a question of compensation, or simply more recognition?

Let me stress that EFCS is a management approach, not an HR initiative, which was conceived and implemented as a support to a new, overall business strategy that had already been formulated. It called for a complete transformation of our business model, over a period of five years, from being a provider of discrete IT services to a full-service, end-to-end, global IT solutions partner – a goal that we achieved. But EFCS necessarily involves the organisation of the HR team. What's more, it has significant implications for the HR discipline itself.

The best way to understand how HR is both involved and implicated is to address the issue of execution and who and what is involved throughout. At HCL Technologies, the EFCS initiative unfolded in four broad phases that we have called: mirror, mirror - confronting the truth; using transparency to build trust; inverting the management pyramid; and recasting the office of the CEO. Here's an outline of the four phases:

1. Mirror, mirror – confronting the truth

The first step was to get a critical mass of people in the organisation to recognise that we needed fundamental change. To do that, we developed an exercise we came to call "Mirror, mirror". It involved a series of meetings with employees at all levels, in which we asked people to honestly, critically and openly evaluate the company and its current status. This sounds rather obvious, but such open discussion had not been a part of the company's culture until that time.

The exercise proved very interesting. Many people thought we were doing just fine. And, in fact, the reality wasn't so bad: we were growing at what could be considered a pretty healthy clip. The problem was that our competitors were not only growing faster than we were but were more successfully adapting to the changing environment of the IT industry. So, although some employees defended our position, others spoke up and told the less rosy truth, as they saw it.

They said they had been worried and had wanted to advocate change but there had been no forum in which to

do so. Once the door of debate was opened, it turned into a floodgate for discussion.

What role did HR play in this exercise? They spoke up as managers and employees. They, too, had their concerns, worries, observations, suggestions and visions of what the company might be. They knew that HR had a vital role to play in helping the company in its transformation effort. They began to see, just as everyone else did, that their function, their discipline and they themselves would have to change.

2. Trust through transparency

As we all know, deciding to change and actually creating the desired change are two very different things. We soon saw that something stood in the way of execution: trust.

When a company is seeking change, trust is essential. Employees need to trust their managers; managers need to trust their employees; managers need to trust one another. But we had never attempted such a fundamental change before. Many of us had not even worked together on any kind of new initiative. I had only been leader of the company for a few months.

Given all that, how could we possibly know that we'd be able to pull off such a major transformation? How could we be sure that we would have the necessary skills, knowledge and, perhaps most important, the will to work through the challenges and difficulties we were sure to encounter? We looked at each other and quietly wondered if we could trust each other, and ourselves, to do what had to be done.

To go about building trust we decided to work one specific lever: transparency. By opening up our processes and sharing more information across groups and disciplines, we expected that people would begin to feel the sense of confidence and control they needed to trust themselves and others.

So, we started very simply, by making available much more of the company's financial information — to many more employees within the company— than we ever had before.

The effect was immediate and remarkable. People could see much more clearly the company's overall financial situation. They could get a better sense of how their own unit was doing and how its performance compared with that of other units. And they could begin to track the effect of their actions on financial results. Encouraged by the positive impact of that small initiative, we continued to push the envelope of transparency and, as we did so, we saw trust building rapidly throughout the company.

3. Inverting the management pyramid

We had a lot of little successes with small steps of this kind — “blue ocean droplets” as I call them, in reference to the book *Blue Ocean Strategy* by W Chan Kim and Renée Mauborgne. Small drops make ripples that eventually cause big waves of change.

Now that we had built a significant amount of trust, we turned our attention to the organisational structure and, specifically, to the enabling functions, including finance and HR. We wanted to make these functions as accountable to the employees in the value zone as those employees were accountable to their managers in those functions.

Again, we took small steps. We began by creating an online portal called the “smart service desk”. It enables any employee to open a ticket about a problem or to make a request for information. The ticket is assigned to the most appropriate department for handling and a manager there takes responsibility for it. Only the employee who opened the ticket can approve the solution.

The smart service desk had the desired effect. Rather than simply telling the managers of the enabling functions that they should be accountable to front-line employees, the smart service desk provided a specific mechanism, with well-defined rules, that ensured that they really were accountable. As a result, traditional lines of authority were crossed and barriers to collaboration were removed.

4. Recasting the office of the CEO

I cannot, of course, recount all of the initiatives we've pursued over the five-year period since 2005. I can say that not only have they helped us achieve our strategic goals, they've also had some interesting secondary effects.

One of those was on me. Or, I should say, on the office of the chief executive. It became clear that, by focusing on employees in the value zone, the role of senior management had to change significantly. The days of top-down strategy making and opaque decision-taking had to come to an end. We had to transfer responsibility for making change from the office of the CEO to the employees themselves.

To do this required a change of attitude. The chief executive must become the one asking the questions, rather than the one giving all the answers. He or she must be the one who sees where the company is in the cycle of change — because it is constantly repeating itself — and provokes another round of introspection or another series of trust-building initiatives. This is the final phase of the Employees First initiative: recasting the role of the

CEO as the leader of a self-governing organisation.

When we set off on our journey of transformation at HCL Technologies, many people in the enabling functions — HR, finance, technology — at first worried that EFCS would cause an uncomfortable change in their role and possibly reduce their power and influence. Why were they being asked to be accountable to front-line employees, rather than ensuring that those employees got their work done in the proper way? How did this initiative affect the basic functioning of the HR department?

We have found that HR professionals are essential to implementing the EFCS philosophy. They facilitate communication across boundaries, become champions of transparency, guide the performance review process and support the many programmes we have in place to help employees unleash their passion at work.

HR has found itself playing a new and more important role in the organisation — no longer is it merely processing information and defending the employee handbook; it is helping everyone in the company to create as much value as they can. The job may look different, but our HR people find it much more satisfying.

When we started this journey, our goal was to transform HCL Technologies – and, after five years, we have certainly done so. During the first four years, revenues and operating income tripled, and employee attrition fell by almost 50 per cent. Seventy per cent of all major deals closed by HCL Technologies were won against the big four global IT players.

And we achieved all this while we were having lots of fun. I know there are inconsistencies and imperfections in our approach – and when we encounter one we must look in the mirror again and make a correction. The beauty, ultimately, is in the experiments and the learning we gain from them.

Some popular misconceptions

It is often easier to misunderstand the Employees First, Customers Second (EFCS) concept than understand it. The five most common misunderstandings are:

1. “EFCS won’t work in a difficult economic climate.” EFCS actually worked to our advantage during the recession of 2008-09. While our competitors did the knee-jerk thing – cutting costs by laying off employees – we asked our people to come up with ideas for both cost-cutting and revenue generation. We received thousands of responses, which helped us generate initiatives that meant we were able to grow during the downturn.
2. “We’re doing fine, we don’t need EFCS.” It is a rare company that is doing so well that is not in danger of being made obsolete by a change in the business environment. In fact, there is no such company. We were, in fact, doing “fine” in 2005, by many measures, but if we had not undertaken this transformation I am convinced we would be a distant also-ran or even out of business today.
3. “Customers will not receive any direct value.” This is just plain wrong. The whole point of the EFCS initiative is to create more value for customers. And they notice it – they see it in the innovation, passion and sheer hard work of our employees. And the proof is in the pudding. Since we began our EFCS journey, our customer satisfaction ratings have increased. They actually went up by 43 per cent during the 2008-09 recession.
4. “Implementation requires large-scale initiatives.” Companies have become accustomed to the idea that transformation requires a huge reorganisation, expensive technology or a top-to-bottom strategic plan created by an outside consultancy. Or all of the above. We did none of those things. We relied on a series of small catalysts, “blue ocean droplets”; none of them caused massive disruption, but many led to major change.
5. “EFCS is not about performance.” Since 2005, our performance improved dramatically:
 - we outperformed our competitors during the recession;
 - our EBITDA (earnings before interest, taxes, depreciation, and amortisation) income has more than tripled;
 - the number of \$20 million+ customers has increased fivefold;
 - our market capitalisation has nearly doubled; and
 - our employee satisfaction index has risen by 70 per cent. Employees first!

Further Info

CIPD’s Annual Conference and Exhibition

- Vineet Nayar will be delivering a masterclass on 10 November at the CIPD’s Annual Conference and Exhibition, taking place on 9-11 November in Manchester www.cipd.co.uk/ace/pm

- Vineet Nayar is CEO of HCL Technologies Ltd., leading global IT Services Company. His new book is Employees First, Customers Second <<http://hbr.org/product/employees-first-customers-second-turning-convention/an/12330-HBK-ENG>> (June, Harvard Business Press).