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HCL Technologies (A) (Abridged)

In January 2006, HCL Technologies' forty-four year old president, Vineet Nayar (referred to as Vineet as requested by the case protagonist), was ecstatic to hear his company had just won the biggest IT outsourcing deal in Indian history, yet he knew the road ahead would be long. HCL had been founded in the 1970s and by the 1980s had established itself as India's most sophisticated and successful hardware company. But throughout the late 1980s and 1990s, as software and services became the name of the game, HCL slipped behind both Indian and multinational competitors. In April 2005, Vineet became HCL Technologies' president at the request of founder and chairman, Shiv Nadar. At the time, the 41,000-employee HCL enterprise had \$3.7 billion in revenues and a market capitalization of \$5.1 billion. While it was growing at a cumulative average growth rate of 35% (including inorganic growth), this was largely due to the momentum of the past.

Like many of his competitors, Vineet hoped to move his company up the value chain. At HCL, the plan was to accomplish this goal by providing clients with innovative, integrated services that would impact and even redefine their core businesses (see **Exhibit 1**). To fulfill this vision, Vineet had devised a three-part transformation strategy. In the first phase, Vineet had introduced a corporate strategy called "Employee First, Customer Second" (EFCS). EFCS was energizing employees and the company's financial performance was improving. At the February 2006 Global Customer Meet in Delhi, on which HCL was spending \$2 million, Vineet planned to make the EFCS strategy public for the first time. He also planned to announce that HCL was going to walk away from "small time engagements" in order to focus on value-added, innovative projects. Vineet knew there was much transforming left to be done. However, he wanted to show the world the industry pioneer was rejuvenating.

HCL: The Early Years

Shiv Nadar founded HCL with fellow engineers in 1976, shortly after the Indian government passed a law that discouraged multinational corporations from doing business in India (see **Exhibit 1**

Professors Linda A. Hill and Tarun Khanna and Research Associate Emily A. Stecker prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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for timeline).¹ With IBM's departure from India, HCL, like a few other firms, received government approval to enter the hardware market. HCL started in Nadar's garage, and with its sophisticated R&D capabilities, it quickly took the lead. To attract the right talent, HCL recruited at India's top engineering and business schools, offering Rs. 2,000 (US \$180), a monthly salary superior to Citibank's at the time. The group had an entrepreneurial spirit, and Nadar noted, "We believed that if something was feasible but had not been tried before, you should try it. We believed you should not be afraid of failure." This mentality led to the "golden years" of the 1980s, as HCL's heavy investment in R&D allowed it to keep up with the latest technological trends like DOS and UNIX. An early employee noted, "We were first in the market, although we were only in India. Our computer systems came out before Apple's, and we came up with a fourth generation programming language before Oracle. Plus, we were led by Shiv, a true visionary. He was the first to believe that computers could be manufactured in India."

In 1985, Vineet, a 23-year old engineer with an MBA from XLRI, Jamshedpur, one of India's leading business schools, joined HCL as a Senior Management Trainee in the marketing function. He was eager to join the company given its reputation for innovation. Around this time, though, two trends affected HCL. First, the financials in the computer business were changing; as hardware became commoditized, software and services, with their financial rewards, became the name of the game. During this time Indian software companies like Wipro, Tata Consultancy Services (TCS) and Infosys came to the fore. HCL took a contrarian stance and remained in hardware, committed to staying on the cutting edge. Second, since most Indian companies were not computerized, HCL was ahead of the curve. After commissioning a McKinsey study to confirm that HCL was ahead of its market, HCL decided it was time to go global. Although it offered innovative products, Americans were reluctant to buy hardware produced by an Indian company, since Indian products were presumed to be inferior. Thus, in the early 1990s, HCL entered a joint venture with Hewlett Packard.

Hard Times at HCL

By 1992, Vineet, like many of his colleagues, was frustrated and worried about HCL's future. Vineet was thinking about leaving the company to start an entrepreneurial venture, and eventually Nadar got word of this. Nadar invited Vineet to his home for dinner. When Vineet mentioned he was considering leaving, Nadar offered an attractive opportunity: Vineet could become an entrepreneur within HCL. At the time, the government was planning to create a new, electronic stock exchange, and it was accepting bids. Vineet decided to take on this challenge, hired a few colleagues and founded HCL Comnet, an IT infrastructure and networking business wholly owned by HCL, that would try to win the contract. The "Comnetians" worked for two years on their idea of using satellite technology—which had never been used before for this purpose—to modernize the exchange. Sanjeev Nikore, one of the first few employees of Comnet, explained, "It was the holy grail for us because it was the only chance we had. We were battling the best in the world, and the stakes were so high that we had to be innovative." Comnet beat global majors for the deal, and the new exchange was running smoothly by the end of 1994. Soon, Comnet was one of HCL's most innovative and successful businesses.

¹ The Foreign Exchange and Regulation Act in 1974 disallowed foreigners from holding more than 40% equity in any firm in India and also dictated that source code for all computer products had to reside in India. IBM chose to leave the Indian market. See Parthasarathy, B., "Globalizing Information Technology: The Domestic Policy Context for India's Software Production and Exports." *Iterations: An Interdisciplinary Journal of Software History*, May 2004.

However, several trends kept HCL lagging behind competitors (see **Exhibit 2**). First, as the Indian government began to deregulate, multinationals like IBM returned, adding more competition. Second, customers were increasingly demanding integrated IT services that could give them competitive advantage; as such, global IT leaders were transforming themselves into service delivery businesses. Third, companies were increasingly off-shoring re-coding and application development work to India to take advantage of lower costs. In particular, the Year 2000 problem (Y2K) sparked a rush to India for IT support.² Nadar's philosophy was to avoid competing on price so he decided not to participate in the Y2K remediation. This proved costly since many of the Indian software companies took this work and built strategic relationships with top leadership at global companies.

Nadar concluded it was time for HCL to move aggressively into a new strategic direction, and he ended the relationship with HP in 1997 to facilitate HCL's move into services. He changed the management team and in 1998 reorganized HCL into two companies: the Indian-facing HCL Infosystems, a company focused on hardware and on software integration, and HCL Technologies, a global IT services company that would provide software-led IT solutions, remote infrastructure management services and business process outsourcing (BPO). In 2000, Nadar led HCL Technologies through the largest IPO of a domestic IT company at the time. Still, HCL was lagging. An employee noted, "HCL was no longer the place to be. When people thought of Indian companies, they thought of places like Wipro, Infosys and TCS, not us." HCL's growth was attributable to its past success and its attrition rate rose to 30%, much higher than the industry average. An employee noted, "The 1990s was really an opportunity lost phase for HCL. Our bet was on selling more and more computers, but other IT companies were moving into services. That was the new game and we entered late."

Searching for a New Leader

By 2004, Nadar³ was thinking seriously about appointing a new leader for HCL Technologies. Vineet (see **Exhibit 3**) was an obvious choice because of his success at Comnet, which by this time had close to 1,000 employees, had won many high profile deals, and had successfully gone global in 11 countries. It had also developed a distinct culture within the larger HCL organization. Anant Gupta, Comnet's COO, noted, "At heart we were all entrepreneurs, and we were constantly transforming our business to adapt to market dynamics. We called ourselves 'The Force of One' because we wanted each individual to be empowered to bring value to the customer, but behind that individual was the muscle power of the whole organization." To remain a cutting-edge and rewarding place to work, Comnet had instituted an extensive talent development program and leveraged its intranet as an efficient communication tool and key resource for operational efficiency.

Nadar reflected, "Part of what made Vineet a success at Comnet was that he had unreasonable expectations. He was constantly bringing the company forward. He had the energy and the capacity

² There was widespread concern in many industries—like finance and government—that computer systems would have trouble processing information on and after January 1, 2000 because most systems had only been designed to work until 1999. The fear was fueled by government reports, media speculation and press coverage. In response, many companies worldwide upgraded their computer systems.

³ Nadar, by then a billionaire, was receiving international recognition for his ability to spot technological trends early and capitalize on them. For example, many articles and awards committees cited his ability to see a future for the IT industry in India, and to realize that collaborations with global players were needed to improve manufacturing quality in India, as well as imperative to gaining credibility in the global landscape. In 1987 the body representing the electronic industry in India nominated Nadar as Man of the Year. In 1995, he was nominated the Dataquest IT Man of the Year. In February 1997, *TIME Magazine* wrote: "The world has caught up with Nadar's vision of a networked future, and the results are shaking up enterprises, economies and governments around the world."

to lead HCL into a new era.” To Nadar’s dismay, at first, Vineet did not agree. Vineet explained, “I liked small, innovative companies. I was happy at Comnet and I was not sure I had the skills needed to run a huge company.” Nonetheless, when Nadar once again asked Vineet in 2005, he finally agreed. Vineet commented, “I told Shiv that running a big company was not my preferred job but I’d do it under one condition: that I could do things my way. I wanted to make drastic changes that had never been made before. It was risky but Shiv said okay.”

In 2005, the Indian IT industry had an estimated \$36 billion in annual revenues and was growing 28% annually. It employed only 300,000 employees in 2000, and by 2005 it had over one million. Technological trends—like software as a service, Open Source, and Tool Automation—were changing the game once again, and India was no longer seen merely as a low cost destination.⁴ While HCL had begun strengthening its Applications and BPO services at the turn of the century, it was ranked 5th place in India’s IT market. Building a brand as a services company was not easy, given its legacy.

Leading a Transformation: Vineet Nayar as HCL Technologies’ President

On April 5, 2005, Vineet began his tenure as President of HCL Technologies. The company had both software and infrastructure services businesses. Vineet spent his first weeks traveling around India to HCL’s 300 locations to speak with thousands of HCL Technologies employees—96% of whom were Indian, although they were dispersed throughout 11 countries worldwide—and dozens of customers. While he had known that HCL had work to do, Vineet had not appreciated the gravity of the company’s problems. On his first day at work, two customers cancelled their contracts with HCL, and on his fifth day, another did. He also realized the huge challenges in the Sales and Delivery groups. Vineet knew he would probably have to reorganize them. Vineet commented, “I had been running my own little shop inside HCL and did not realize how much the company had slipped. I had taken more than I could chew, but that brought the extremity to me. The company needed more than a band-aid; it needed a tourniquet. Within a few weeks, I stopped being polite”

During May, Vineet formulated a plan for the company. To keep up with market demand, Vineet knew that like all Indian IT companies, HCL had to differentiate itself. He concluded that the company should move up the value chain and start going after larger, more complex engagements. In order to execute this strategy, Vineet knew the company had to improve its operational efficiency as well as become ever more innovative. The systems and processes had to become more consistent across the global operations (see **Exhibit 4**). Most of all, Vineet realized HCL’s employees needed to abandon the “it’s okay to lose” mindset and proactively add value for customers. Vineet commented:

I began an initiative called ‘Mirror, Mirror,’ where in my interactions with employees, I held up a metaphorical mirror which revealed that HCL had been pretty for 25 years, but we had not been for the past five. I was trying to get at their inherent hunger and desire to win. I’d say things like, ‘Right now we’re poodles. Is that what you want to be?’ There was no soft

⁴ The nature of the services industry was changing. The business model of the past—in which IT companies used a “Time and Material” model in which they billed customers based on number of employees, resources used and the length of the engagement—was starting to move, albeit slowly because of contractual complexities, towards a model of outcome-based pricing. Outcome-based pricing involved techniques like pay-per service use and royalty-based revenue share arrangements. Very few engagements to date involved this type of pricing. Some of the new services were driving this change. Software as a service, for example, was a new trend in software service delivery in which software was provided as a service rather than using software by paying licensing fees. Tool Automation was improving the productivity of software engineering through office automation, which delivered more value with less cost and effort. Open Source was a trend in which source code was freely available and instead of license fees, customers were charged only for services used.

landing for anyone. I was holding up a mirror to the entire company. We had to transform from the inside out and I was hoping that the employees really wanted to do the same.

In June, Vineet set up a communications and marketing team of over about 30 “Young Sparks,” some of whom had transitioned from Comnet. He also brought over the heads of Systems, Sales and Talent Development. Sanjeev Nikore, from Sales, noted, “I could quickly see that the Technologies employees were very technically skilled and creative, but the company lacked unity. HCL had done a great job of promoting intrapreneurship—however, this led to people working in silos. We needed integration, and we needed to be working for the same goals.” The company’s decentralization created an urgent dilemma for Vineet, as he found himself with 85 direct reports. Vineet informed employees he would be reducing his reports to twelve in short order. Some senior people left, unhappy that Vineet was going to centralize the company. Some did not believe his talk of “transformation.” Vineet marshaled on and created two operating groups: a seven-person Management Consult for Delivery and a five-person Management Consult for Sales. He planned to meet with each group separately every month together twice a year.

Vineet located his marketing team on his floor of HCL’s headquarters in Noida, a suburb of Delhi. He met with the team frequently to plan the launch of an internal campaign to engage employees. Vineet wanted to change how employees experienced HCL. A Young Spark noted, “It was really exciting to be working so closely with the President. We were all under thirty and this was a critical project. We were under a lot of pressure.” Suresh Sundaram, Vice President of Marketing, said, “Vineet wanted us to come up with a tagline and an intranet portal that had the theme ‘Employees First.’ After much deliberation we came up with ‘Employee First, Customer Second’ because it had shock value and showed we were doing something radical.”

Laying the Foundation

Setting the Strategy

In early July of 2005, Vineet convened a three-day Blueprint meeting of the company’s top 100 managers. At the meeting, Vineet announced a new strategic direction for the company. He noted:

I made it clear that HCL, in order to survive, needed to change the way it approached customers. Rather than do small, project-based work, we needed to go after big deals. To do so, we needed to differentiate ourselves and offer multi-service, unique propositions that transform customers’ businesses. In order to be able to do this, we needed to remove the silos and encourage collaboration across the company. I said that we were going to start competing against global majors like Accenture and IBM, so it was critical that we get our house in order.

Upon hearing the new “big deals” strategy, some attendees were skeptical, wondering how they could ever win against global majors, let alone successfully execute sophisticated engagements. Vineet commented, “To the skeptics I said, ‘I’m coming from Comnet where a big deal started the company.’” One attendee noted, “Vineet was very open to discussion and we were encouraged to express dissent. But he was also quite clear and said, ‘We are not going to be a me-too player.’” Vineet announced his three-phase strategy, focused on value-centricity, at the Blueprint:

In the first phase, which would be two years, we’d get our house in order by rejuvenating employees and improving operating efficiency. In the second phase, we’d form strategic partnerships with other companies so we could jointly offer more value and end-to-end

services for customers. The third phase, which I planned to complete by 2010, would be a radical shift in the HCL business model. With the industry changing so rapidly, I did not have a firm vision of what this would look like, although I planned that 50% of our revenue would come from services that did not exist in 2005.

At the Blueprint, Vineet also had the executives set goals for their groups for the coming year. Vineet observed, "In truth, it did not matter what the specific goals were. Eventually, I planned to run the company by comparison, whereby everyone could see how other groups were doing. Also, it was just important to instill the discipline that setting and striving for a goal afforded." Vineet did mandate one guideline for goal setting, however: Sales would have revenue goals for the coming year, while Delivery would have both revenue and profitability goals. Vineet explained, "We had different challenges at the sales and delivery ends. Sales had to start delivering accelerated growth and increasing market share while Delivery had to build execution excellence. I needed to focus them on separate goals and I needed to ensure Delivery got its house in order—particularly before holding Sales accountable for profits. I needed them to feel confident; I did not want to handcuff them." He also informed the employees that later in the year 360° developmental reviews would be introduced.

As he closed the meeting, Vineet extended a challenge: each person had to figure out how they would help HCL win multi-year, multi-service, multi-million dollar co-sourcing partnerships. DSGi, a European electrical retailer, emerged as one such opportunity. In May, DSGi had announced that LogicaCMG, a European IT services company, would outsource its internal IT support. But, the board had pulled out of the deal at the eleventh hour because of concerns over cost and complexity. The Dixons CIO left as well over the fiasco.⁵ Putting together a proposal would take months. Vineet noted, "The deal could turn around everything for HCL, it could be a rallying point. In the past we'd let big deals get away but we said not this one." Somnath Mallick, Head of HCL's Australia and New Zealand business, noted, "The large deals space was really dominated by the traditional firms and for HCL to win, we really had to change the rules of the game. The idea of offering multi-service in an integrated fashion from offshore by bringing together different groups in HCL was a powerful proposition." The senior managers left the Blueprint understanding the problems, but energized about the future. Some, however, were skeptical that a transformation would happen. One attendee noted, "Vineet wanted HCL to be five times as successful in five years. That seemed pretty bold."

Setting the Structure and Systems

As July progressed, Vineet made a number of changes designed to align HCL's structure and systems with the big deals strategy. First, he organized the company around five lines of business (LOB), instead of geography. The LOBs were applications, enterprise consulting, technology, infrastructure and capital markets. He appointed heads for each LOB, all of whom were obvious choices. Each had about 7,000 employees and operated in HCL's verticals—which were essentially industry sectors—which included Hi-Tech & Manufacturing, Life Sciences & Healthcare, Media & Entertainment, Financial Services, Retail and Telecommunications. Vineet noted, "I used brute force in making these changes. I wanted every single person focused on implementation; I did not want to debate if it was good or bad. We were collapsing walls so we could build a company together." Stuart Drew, a senior manager in the UK, commented, "Vineet wanted HCL to have a single theme and the benefits seemed clear to most of us. After all, he had consulted with all of the top managers during his first weeks and he saw we wanted, and needed, change. "

⁵ McCue, A., "Dixons Moves on from Logica Fiasco," www.ZDnet.co.uk, January 20, 2006.

Second, Vineet met with Sandip Gupta, Comnet's head of Finance who had been with the company since 1998, and asked him to start a second Finance group that would directly participate with Sales and Delivery on bringing in value-added business. Gupta started the conceptual thinking for a Business Finance department during late July. He noted, "I had been in finance all of my life, but this was finance of a different sort and was critical to the success of the company. At first I had a lot of difficulty, and sleepless nights wondering if I could handle the work."

Third, Vineet laid the groundwork for the Multi-Service Delivery (MSD) Unit, which he conceived as a separate organization with 200 of the brightest engineers in the company. Human Resources led the rigorous selection process, which considered technical capability, business acumen as well as how an engineers' personality profile mapped onto the job. The MSD Unit would focus exclusively on winning and delivering big deals, then integrating back their learning back into the organization. Vineet noted, "Going after big deals was a huge financial risk. In putting this group together, I was hoping to put HCL's best foot forward. Also, scalability was a key concern. With cross-functional groups designed to execute special projects with specific targets and time frames, we were able to grow organizational capacity across borders." This strategy did have risks, however. Going after a big deal entailed making a US\$8 million investment, as well as the possibility of facing even slower growth going forward. Vineet explained his logic: "We needed to grow and I knew that business as usual would not lead to the disruption in growth for which we hoped. We had limited time to pull ahead of competition and this was an idea that no one else had tried."

Fourth, Vineet began the implementation of consistent systems and processes across all of the LOBs. Given the scale of the global company, he automated as many processes as possible. By coupling automated processes with a sophisticated, colorful, employee-friendly intranet, HCL employees around the globe would have consistent, relevant information in a timely manner. Since many of the members of the Communications team had come over from Comnet, they quickly migrated and refined useful pieces of Comnet's intranet for Technologies. Vineet stressed that automated processes and the intranet would be used to enhance transparency. For example, in July, HCL employees had their annual reviews on the same day using the same electronic form.

Making Employee First, Customer Second Real

By the end of July 2005, the Young Sparks, many of whom were working virtually from around the globe, had launched a campaign that introduced HCLites, as they decided to call HCL employees, to Employee First, Customer Second (EFCS). Dilip Kumar Srivastava, Head of Corporate Human Resources, noted, "We had four strategic objectives with the Employee First initiative: to provide a unique employee environment, to drive an inverted organizational structure, to create transparency and accountability in the organization, and to encourage a value-driven culture. We wanted all of our communications to reflect this, and we wanted to use the power of the intranet." A Young Spark noted, "We wanted an icon to represent HCL, something that symbolized the importance of the individual but also the power of the collective." The brand identity they came to favor was that of "Thambi," (see **Exhibit 5**), which meant "brother" in Tamil, the major language in South India. A Young Spark commented, "We spent a few months testing out Thambi with employees. Some thought he looked like he had been electrocuted. Ultimately there was consensus that he symbolized an extraordinary individual with pride, passion and a focus on results. It was an exciting process for employees and for our team. For many of us this was our first big job, and it was so exciting."

Both Indian and non-Indian employees were skeptical about EFCS, although few seemed to know exactly what the initiative would entail. Most took a "wait and see" approach. R. Srikrishna, Senior

VP for the North America Infrastructure Services Division who had been at HCL for almost 15 years, explained, “Vineet was a bit of an outsider, being the guy from Comnet. There was a sentiment that here was another manager with his new policies, but would they really affect me?” A longtime employee noted, “Having something called ‘Employee First, Customer Second’ to fix us seemed inadequate. We needed something serious.” Vineet kept pushing ahead. He commented:

The idea behind Employee First was that as a services business, the employee interface with the customer was critical. HCL had disengaged employees. The value-centric leadership goal could only be achieved with an engaged employee. I wanted to create an environment where employee development and empowerment was the most important thing because ultimately, I wanted value-focused employees that were willing and able to drive an innovative, sophisticated experience for customers. From the start, though, I was clear: Employee First was not about free lunch, free buses, and subsidies. It was about setting clear priorities, investing in employees’ development, and unleashing their potential to produce bottom-line results.

For HCL, it was important to take treating employees well seriously. Its attrition rate of 19.5% was still above industry average, as compared with Wipro, Infosys and TCS, which had respective attrition rates of 15%, 10.5% and 8%.⁶

The Intranet—New and Improved

The EFCS initiative was perhaps most evident to most employees on the intranet—which was becoming ever more widely used. One tool brought over from Comnet was the Smart Service Desk (SSD), a ticket-based online system similar to a help desk that decreased resolution time and increased transparency in the problem-solving process. Employees could use SSD to log in issues ranging from HR and Finance to IT or training; then they could watch what actions were being taken through the process of resolution. Only the employee who raised the ticket could close it.

In addition, Vineet launched “U&I,” a vehicle for communication between himself and employees. The objective was to create an environment of trust, transparency and management accountability through open communication. Employees could pose any question at all to Vineet, who answered 100 questions each week. A staff member was wholly dedicated to uploading and categorizing the questions since the site was so popular. The questions and answers were posted for all to view. Vineet commented, “I threw open the door and invited criticism. We were becoming honest, and that was the sign of a healthy company.” With weekly polls and an animated guide named Natasha who guided employees to the right place for information, the site truly reflected a new HCL. An employee from HCL’s New Jersey office noted, “When I first heard about Natasha, I kind of chuckled. It seemed silly to think that an animated woman guiding employees through the intranet could solve anything. But it truly did change how I got my work done.” Drew commented:

Communications at HCL used to be handed down from up high. Vineet replaced that with lots of direct contact through video conferencing, online tools, and face-to-face talks. In the UK, we frequently gathered in a room to watch Vineet speaking somewhere in the world. We had a sense of clarity about the future. Seeing the path made the likelihood of completion greater.

While these efforts were changing the way employees viewed HCL’s leadership, Vineet knew there was no replacement for in-person interaction. Thus, he launched a series of town halls referred to as Directions, during which he and top company leaders traveled to all of HCL’s locations to speak

⁶ Subramanian, S., “Which Indian IT Company is the Best?” www.rediff.com, July 5, 2005.

candidly to employees. Vineet noted, “Directions created a common language across the company so that everyone knew and could articulate what HCL stood for and how they fit into the big picture.” The town halls would happen once a year, but Vineet typically spent 50-60% of a month traveling.

The 360° Feedback—For All to See

At the August 2005 monthly Executive Management Council meeting, Vineet announced that in September all managers would receive 360° feedback, a process that had been successfully used at Comnet. Since reviews and salary increases had just been announced in July, Vineet stressed that the 360° was for development, not evaluation. Vineet mentioned that others were not required to follow suit, but he was going to post his 360° feedback on the intranet for all HCL employees to view. Rajiv Swarup, an LOB head at the meeting, noted, “I offered that I was ok with making mine public, and I think others felt a little peer pressure to join. It snowballed, although some people declined to make their feedback public.”

In September, the 360° feedback for a handful of top managers was posted on the intranet. Many employees rushed to see the results. For some who had actually been reviewed, though, the experience was tough. Sandip Gupta commented, “The experience was hard for those of us accustomed to a traditional Indian workplace where hierarchy was emphasized. It was difficult to be so exposed.” For managers in the lower ranks, the sentiments were even more mixed. A manager based in the UK said, “Having it transparent was uncomfortable. But having the guy at the top willing to do it too made a big difference. It was supposed to be uncomfortable; development meant being stretched.” Vineet was pleased with how the process went. He commented, “When thousands of employees all over the world had the chance to view their top management transparently, I think the message really got across for the first time that we were truly a different company. The transformation process was becoming less dictatorial and more consultative.” An executive noted, “There was a tipping point. For a while there were few believers, and then suddenly there were few non-believers.” Rajeev Sawhney, Corporate VP and Head of HCL Europe, who had been at HCL for almost 30 years, commented, “For those of us who had been at HCL for a long time, we saw that Vineet was trying to bring back the true HCL DNA that had made us dominant in the past.”

Trust Pay

In September, another critical change was made: HCL was moving from a pay system with performance-based bonuses to what it referred to as “trust pay.” This policy did not apply to senior management or salespeople. Senior managers received fixed pay in cash as well as a variable bonus and stock options, both of which depended on individual performance. Trust pay was instituted for 85% of employees, most of whom were junior engineers. For them, compensation would be fixed at the beginning of the annual cycle. The HR head noted, “In the industry, it was typical for engineers to get 70% of their pay fixed, and then have 30% variable. But many companies set internal targets so high that that only a small portion of that 30% was ever attained. So rather than telling our employees their fixed pay was Rs. 14K per month and variable could be up to Rs. 6K per month, we just gave them the full Rs. 20K.”⁷ Vineet noted, “It increased our cost base, but the idea was, we’d pay you fully, but we trusted that you would deliver. It was intended to reduce transaction volume and increase trust. It re-energized the company as suddenly people from the competition were joining us.” Sandip Gupta noted, “We were growing fast and also trying to transform ourselves. Some of the

⁷ USD\$1= 40.62 Indian rupees. www.XE.com.

new hires received their offer letters and thought there was a mistake. No other company had trust pay." A Delivery group member noted, "Trust pay was a really attractive aspect of HCL. The focus was on the work, not wondering if you were going to get a bonus."

Pushing Forward

As the fall of 2005 progressed, Sandip Gupta's Business Finance group, which by then had a handful of employees, was taking on an increasingly important role. The group worked closely with Sales on the commercial part of deals, sat in on negotiations, and assisted with pricing. Gupta noted, "When a deal was picked up, we'd make sure it was win-win for HCL and the customer." Mike Barbakoff, responsible for the Retail vertical, noted, "We had our eyes on mega-deals, particularly DSGi. Within a few months HCL had gone through a revolution, not an evolution. And Business Finance was absolutely essential to putting a business proposition together."

The Quality group, also a few months old, was flourishing as well. It was uniquely organized to offer shared services including Quality Business Services (QBS), Operations, Consulting and Business Management Office (BMO), to HCL's LOBs. Kannan Veeraraghavan, a former KPMG partner who had been responsible for consulting on Software Process Improvement, led the group. He had been hired to start the new group by Vineet in early June. Veeraraghavan noted, "I was impressed by Vineet's ambitions for HCL and he saw quality strategically. I worked with LOB heads to identify and implement strategies that would increase quality. With HCL growing so fast, we needed processes to be scalable and we needed knowledge to be shared." With the enthusiasm of HCL's leadership, the Quality group implemented processes quickly. One of the group's endeavors was the 'Project Quality Index,' which compared project performance across various LOBs. The index converted capability measures to a comparable index across projects, taking into account a project's effectiveness, compliance and quantifiable results. Veeraraghavan noted, "It was helpful to employees and customers loved it."

During this time, Vineet was busy traveling the globe to help HCL win big deals. His focus was most intense with DSGi. Vineet explained, "We really chased this deal. In the past we'd let big deals get away, but we said not this one."

Transforming Sales

Vineet knew that having a strong sales force was critical to winning big deals, and he brought Sanjeev Nikore over from Comnet to run Sales Operations. Nikore brought the 180-person global sales team, which had salespeople in 13 countries, under one automated system, which he brought over from Comnet, customized, and launched by October. The tool created greater transparency and information-sharing. To Sales, it was "a lifeline." A Sales team member noted, "At first, we hated automation, because it was a pain to do the reporting. But, it allowed us to track the big accounts and make sure we did not mess up." In addition, Nikore organized Sales around verticals.

With support from Vineet, Nikore created an "enabling environment" in Sales. The group got more space on the intranet, developed better incentives like trips to Rome for big deal wins, and more tools that made work easier. Business Quotient, for example, was an online tool that updated salespeople on developments and trends in their particular industries. Another tool allowed Delivery to see the promises Sales was making to customers, increasing transparency between the teams. In addition, Nikore and his counterparts in Delivery and Business Finance ran a series of strategic off-

sites during which about 50 attendees met in a “war room” for about three months and brainstormed innovative propositions for clients. A member of the Delivery team noted, “In the past we had some tension with Sales. But when we were all working for the same thing—a big win—it was easier to set aside differences.” Still, Vineet commented, “I met with the groups separately and I wanted each group to believe the mega-deals were really possible. Sometimes that meant pumping up Sales.”

Getting Results

In November 2005, just eight months after Vineet’s arrival, HCL Technologies won its first big deal: a \$50 million, multi-year contract to provide offshore application and data center services to Autodesk, a California-based software and services company. The *Economic Times of India* wrote, “The contract was won against stiff competition from companies like IBM, HP, Accenture and ACS, plus Wipro, Infosys and Satyam. It is the single biggest order ever received by HCL group in remote IT infrastructure management space.”⁸ Barry Rubenstein and David Tapper of IDC also made note of the achievement, yet warned, “HCL does have much work to do to build out its consulting services function in order to truly serve as a partner for transformation.”⁹ In December, HCL won a strategic partnership agreement with Japan’s second largest steel manufacturer. Investors and journalists were taking notice of HCL’s transformation. *India Today* ranked HCL as one of the top ten “most wanted Indian stocks.” The wins energized the company, although HCL suffered some losses too. It had put in bids for a contract with a global retailer and for doing SAP implementation for a global pharmaceutical company, both of which were lost to global majors. Further, while HCL did indeed have much to celebrate, like all top Indian IT companies, it was partly in the right place at the right time. An industry insider noted, “India was the flavor of the month. Everyone was growing rapidly. The tide was rising for all companies, and HCL was benefiting from that rising tide.” Drew, who was based in the UK and was in charge of Financial Services for Europe, noted, “I always told my team, ‘If we’re as good as the multinational competition we are going to lose because at the end of the day it will come down to brand. Imagine the board saying, ‘We recommend HCL over one of the majors.’ That person has to have some good reasons. It’s our job to give them to him.”

Preparing Internally

By the beginning of 2006, HCL was headed in the direction Vineet had intended. He had reduced his direct reports to twenty by this time, and through automation and the intranet, HCL was able to celebrate its star performers. For example, the Strategic Business Unit (SBU) championship, where productivity of LOBs’ SBUs were ranked, was a highly trafficked site on the intranet. Barbakoff noted, “When the transformation first started, I was worried it was just a sound byte. But the reality was, it manifested itself in everything: in the SSD, Natasha, U&I, and all interaction with leadership. We had things that other companies would never dare to do—like the transparent 360’s.”

⁸ See “HCL bags \$100 million deal from Autodesk,” *Economic Times of India*, November 11, 2005.

⁹ Rubenstein, B., and Tapper, D., “Changing the Offshore Application Outsourcing Game: HCL’s Innovative Deal with Autodesk.” IDC Report #34806, January 2006.

In the new year, Vineet was started talking “blue ocean strategy”¹⁰ (see **Exhibit 6**). He explained, “In creating value centricity in employee behavior, I wanted to create a unique customer experience. This did not mean going head-to-head with the competition, but creating a whole new set of business propositions—entering blue oceans.” Part of creating uncontested market spaces meant leaving the world’s 200 biggest companies to the likes of companies like IBM, and instead going after the next 800, which tended to feel a bit neglected by traditional outsourcers. It also meant anticipating customer demands. For example, when the United States was creating new regulations for health insurance accountability, Vineet decided to put in a framework for a healthcare micro-vertical. Sandeep Kishore, a Senior VP responsible for the Hi-Tech & Manufacturing Vertical, who had been with HCL for almost 20 years, concurred: “We were determined not to be volume-centric but value-centric, focusing on outcome not effort. Previously, we’d go into a company to do a small project and get out. Our new focus was to have long-term and strategic relationships with integrated product and services propositions with our customers and partners.” Vineet commented, “EFCS was only the first step in HCL’s transformation. The ultimate goal was to radically change the business model.”

With HCL’s rapid growth and more sophisticated customer engagements, many employees were seeing the scope and scale of their jobs grow rapidly. A manager noted, “I went from running a group with 600 people to running one with 3,000. It was a huge jump, and it was not uncommon among my peers. Vineet was taking a risk.” The risk notwithstanding, the HCL stock price rose as it gained market share (see **Exhibit 7**). To ensure that employees were able to fulfill the customer expectations, HCL developed an extensive talent development program. Anand Pillai, Vice President of Talent Transformation & Intrapreneurship Development, said:

Our learning management system aligned business goals and the learning needs of employees. We did not just want to have swanky off-site development programs then have people return to work and go back to status quo. We wanted every working day to be a learning day. Clients outsourced their pain areas to us; the projects we had to fulfill required integrating many pieces. We rotated our employees, developed them, gave them all the tools possible so that the customer could approach any one of our employees and find that the employee could understand the work at their operation at both the tactical and strategic level.

Entering the Big Leagues

In mid-January 2006, HCL won the \$330 million DSG International deal. It surpassed the previous record for India’s largest outsourcing deal that TCS set with its \$250 million deal with ABN Amro in 2005.¹¹ Kevin O’Byrne, group finance director of DSG International, said, “We have selected HCL on the basis of its breadth of experience, partnership approach and the transparency in its cost models. This co-sourcing partnership will enhance our capabilities, drive innovation and improve our agility.”¹² An HCL employee noted, “We gave DSG a strong business case with unparalleled

¹⁰ W. Chan Kim and Renée Mauborgne, both professors of Strategy and Management at INSEAD, invented the “blue ocean strategy” concept, which was explained in their bestselling 2005 book called *Blue Ocean Strategy: How to Create an Uncontested Market Space and Make Competition Irrelevant*. In the book, the market universe is described in terms of red and blue oceans. Red ocean spaces are the known market spaces, where competitors try to outperform other companies to get a greater share of the market. As the market crowds, growth prospects are reduced and products become commodities, with cutthroat competition making the ocean bloody. In contrast, in blue oceans denote all the industries not in existence yet, where demand is created rather than fought over, and there is opportunity for profitable, rapid growth. The book argues that having a blue ocean strategy provides a systematic approach to reconstructing market boundaries and creating great value for companies.

¹¹ Mayes, N., “HCL Technologies Captures \$330 million DSG Deal,” *Computer Business Review*, January 23, 2006.

¹² “HCL Ties Up With DSG International,” *EFYtimes*, January 19, 2006.

transparency and contractual flexibility. HCL offered a guaranteed percentage of cost reduction over five years, and productivity improvements were guaranteed in the pricing offered. We also gave full visibility to our unit rates underpinning our utility pricing. We were able to win business because we were truly offering something different from the Indian competitors and the global majors.” Drew commented, “We were starting to win (see **Exhibit 8**) because Vineet had pulled all of the ingredients to success—which we already had—together. Employee First was a wonderful glue.”

But the company still faced challenges. Employees would have to deliver the complex engagement. And Vineet knew that the transformation had really only just begun. He planned to have 100,000 employees—all of whom would need to be transformed—by 2010, as HCL was going to need that much force to enter the complex customer engagements Vineet had in mind (see **Exhibit 9** for employee growth data). He was even thinking of venturing into outcome-based pricing, whereby HCL would receive a percentage of a customer’s revenues under a risk-reward model. At the moment, though, Vineet had to prepare for the fast-approaching Global Customer Meet. Introducing EFCS and HCL’s plan to walk away from “small-time” engagements would certainly get the attention of key constituencies like customers, competitors and the media. Vineet needed to ensure it was well accepted. HCL’s employees were energized and focused on delivering tangible business results. Vineet did not want to jeopardize progress.

Exhibit 1 Timeline

DATE	EVENT
1974	India passes the Foreign Exchange and Regulation Act IBM leaves India
1976	Shiv Nadar founds HCL in his garage
1985	Vineet Nayar joins HCL as a Senior Management Trainee in marketing
1992	Vineet founds HCL Comnet
1998	Nadar reorganizes HCL into HCL Infosystems, the India-facing company focused on hardware and software integration, and HCL Technologies, the global IT services company
2000	HCL Technologies IPO HCL’s attrition rate is far above industry average
April 2005	Vineet becomes President of HCL Technologies Several customers come close to cancelling their contracts with HCL Vineet visits HCL locations in India and abroad Vineet starts “Mirror, Mirror”
June 2005	Vineet brings in “Young Sparks” for internal marketing Vineet brings over the heads of Systems, Sales and Talent Development from Comnet Vineet sets up Management Consults for Sales and for Delivery
July 2005	Performance appraisal for all employees on July 1 Launching of the new intranet & Employee First, Customer Second

DATE	EVENT
	Sales and Delivery get different goals
August 2005	First "Directions"
September 2005	360° feedback for top managers is public on the intranet Trust pay is initiated
November 2005	HCL wins the \$50 million deal with Autodesk
December 2005	HCL wins the \$100 million EXA deal
January 2006	Vineet starts talking "blue ocean strategy" HCL wins DSGi deal worth \$330 million

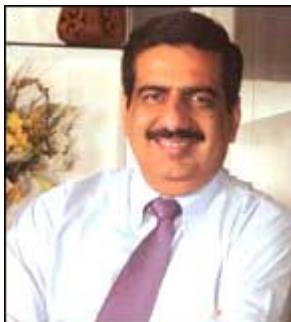
Source: Casewriter.

Exhibit 2 HCL Technologies Performance Data Pre-2005 (in USD millions)

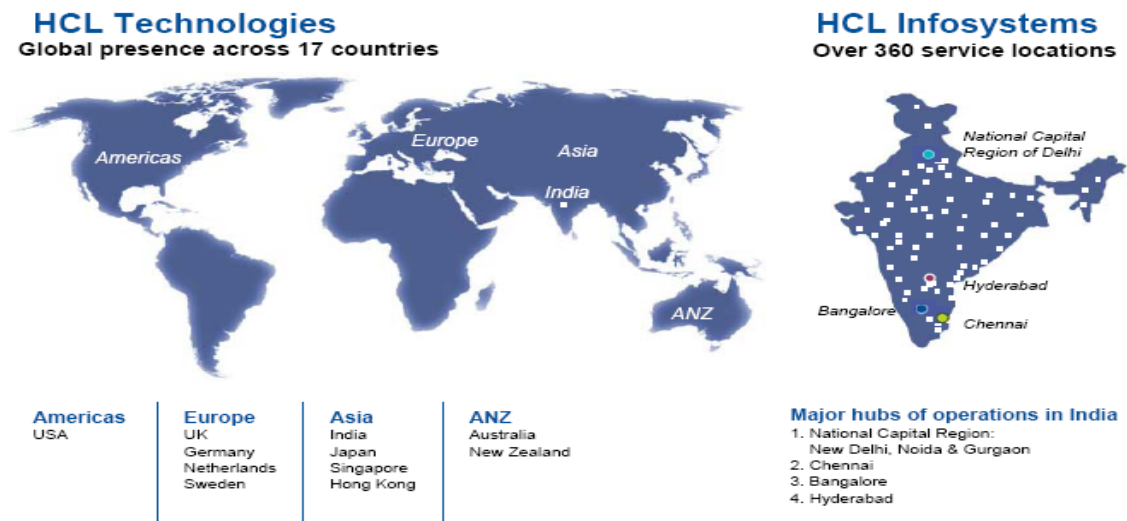
	1999	2000	2001	2002	2003	2004
Sales/Turnover (Net)	166.326	204.567	296.652	332.924	447.493	564.876
Net Profit Margin	13.298	25.473	34.366	26.097	11.567	26.767
Market Value -Total	@NC	4,031.04	1,775.66	1,319.85	958.657	1,920.62

Source: Compustat.

Exhibit 3 Vineet Nayar



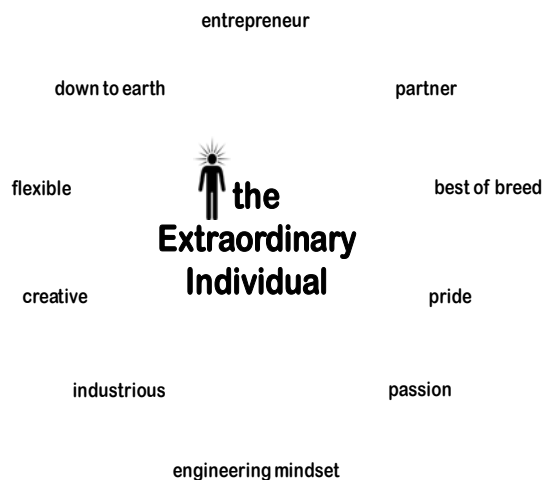
Source: HCL.

Exhibit 4 HCL Enterprise Worldwide

Source: HCL.

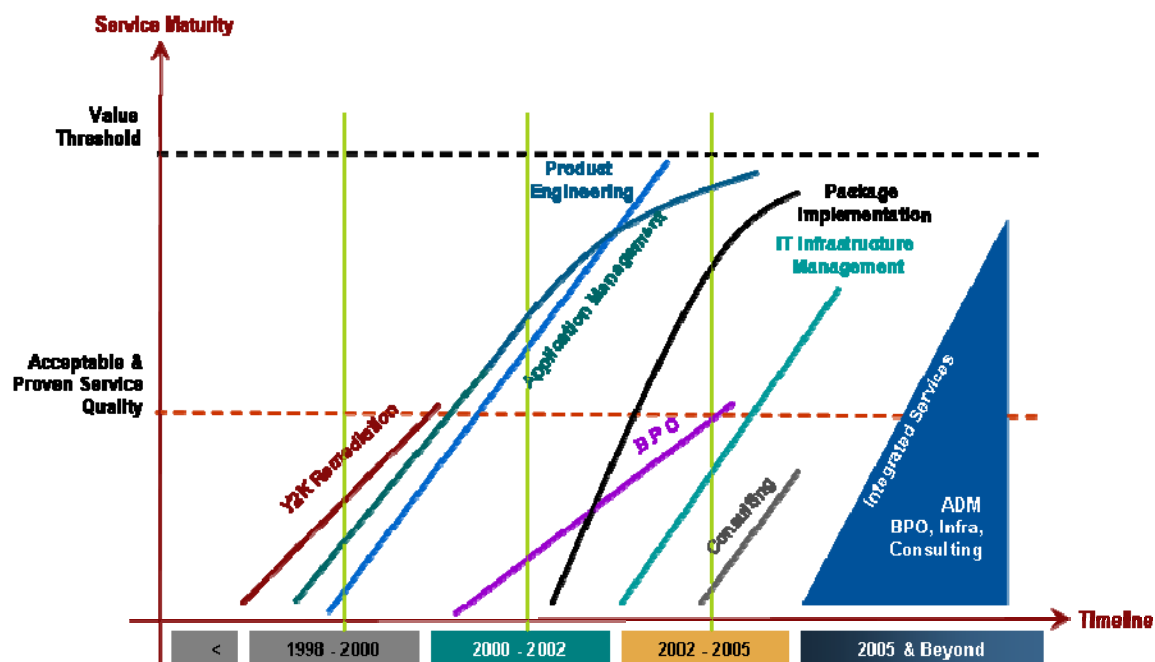
Exhibit 5 HCL Marketing Strategy: Employee Motto & Thambi

- am value centric and not volume centric
- believe in 'Employee First' as they are the ones who provide value to my customers
- believe in listening
- have a value-based multi-service approach that combines emerging services like IT Infrastructure Management, BPO, R&D services and Package implementation with deep domain expertise in focused micro-verticals
- follow a flexible and transparent business model. My pricing depends on the value I deliver to my customers
- believe in trust, transparency and flexibility
- believe that my relationship would sustain purely based on the value I deliver to my customers
- am the most hungry team in the IT Landscape today



Source: HCL.

Exhibit 6 Indian Offshore Industry Evolution



Source: HCL.

Exhibit 7 HCL Technologies & Competitors vs. Bombay Stock Exchange Prices

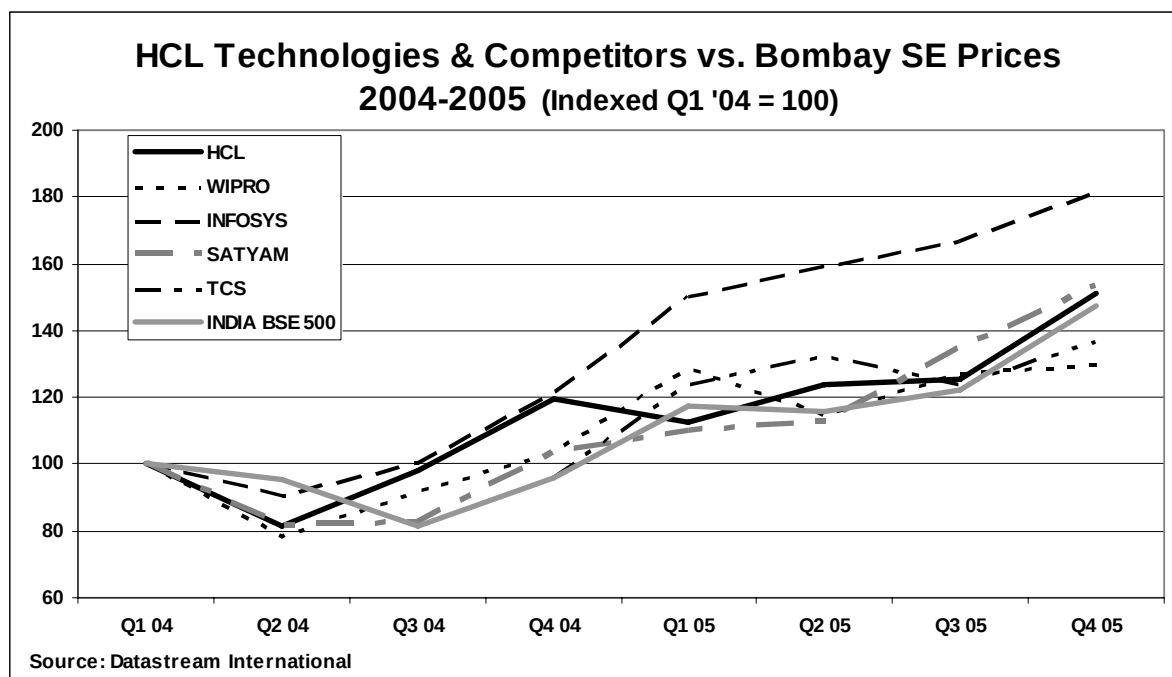


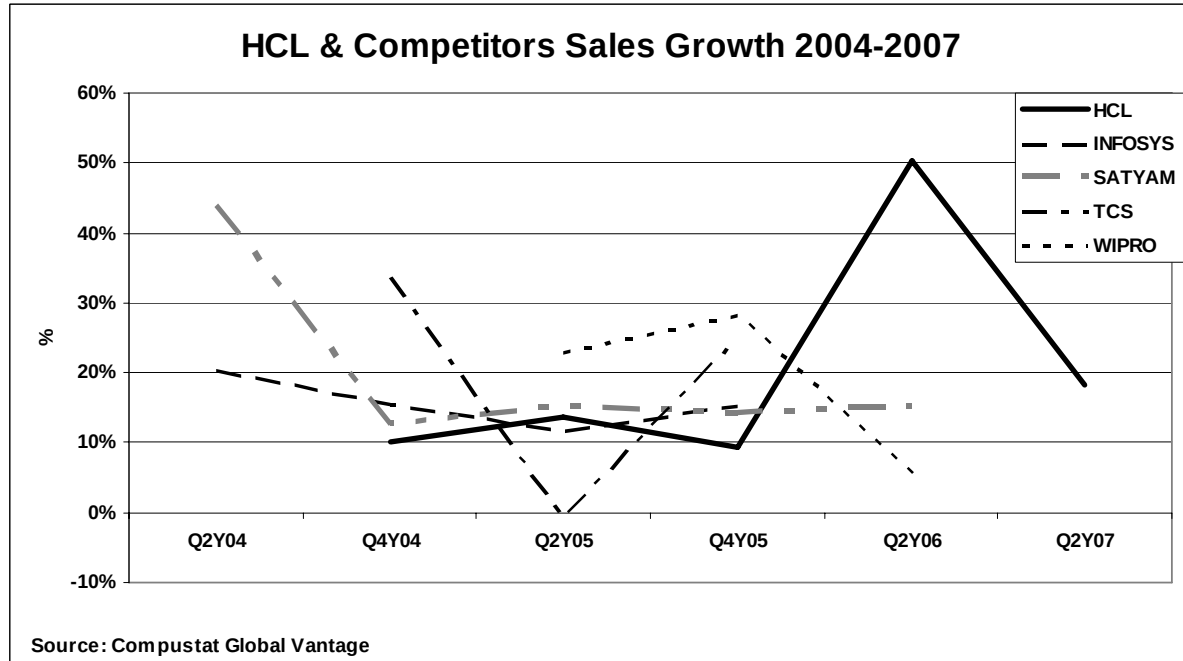
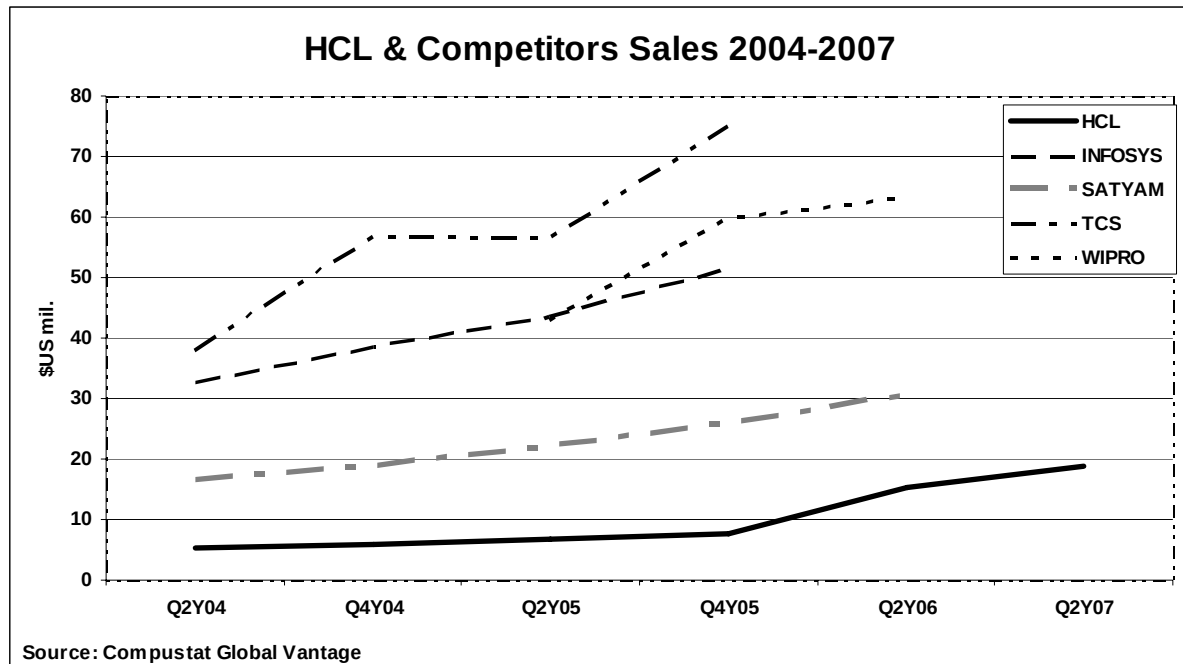
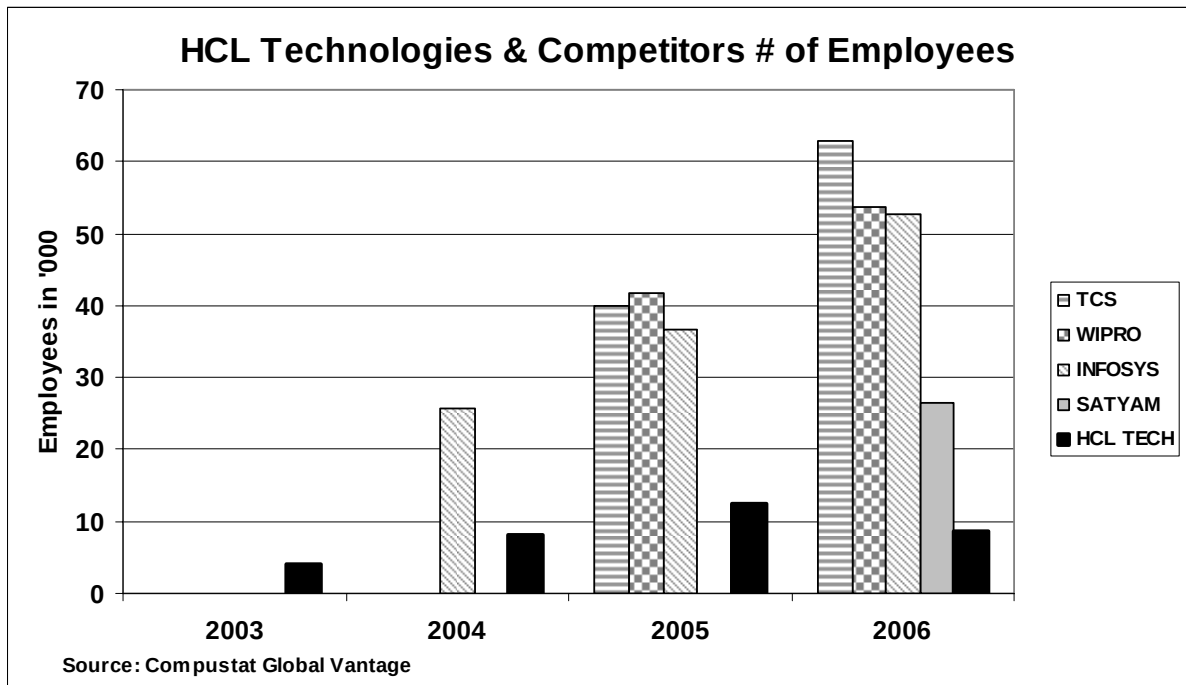
Exhibit 8 HCL & Competitors Sales 2004-2006

Exhibit 9 HCL Technologies and Competitors' Number of Employees



LINDA A. HILL
TARUN KHANNA
EMILY A. STECKER

HCL Technologies (B) (Abridged)

In June 2007, Vineet reflected on how far HCL Technologies had come since 2005. Employee First, Customer Second had rejuvenated the company, and HCL was no longer losing market share. In fact, in the most recent quarter, revenues of \$362 million were up 44% year-on-year (YoY), while operating income was up by 57% YoY to \$69 million, with an operating margin of 18%. Net income of \$65 million was up by 76% YoY. Still, Vineet had much on his mind. The second phase of HCL's transformation—in which HCL planned to form strategic partnerships with other companies so that they could jointly offer more value and end-to-end services for customers—was slated to begin this month. But Vineet wondered if he needed to first focus on getting HCL's operating margins higher. After all, as much as he needed to drive the transformation, he had to remain focused on the bottom line. HCL was transforming, but it was still trailing behind its competitors (see **Exhibit 1**).

Facing the Public

To celebrate its accomplishments and announce its future plans, HCL Technologies hosted an “audacious, multi-million dollar celebration” for customers in Delhi, India in February, 2006. The three-day event, called “Explore and Transform,” brought together leaders in finance, aerospace, retail, life sciences, entertainment, and automotive industries and industry analysts, as well as about 300 HCL employees. Vineet commented, “We billed it as the biggest celebration India had ever seen. We had Bollywood stars and dance performances. It was a huge deal because it was an opportunity to showcase what India and the transformed HCL had to offer.” At the event, participants shared their experiences of how to leverage IT outsourcing to transform their businesses, as well as explored the latest business and technology trends HCL had to offer.

In the closing session, Vineet made a bold speech. He introduced EFCS externally for the first time, emphasizing that while HCL's focus was to create an empowering, satisfying work environment for employees, the impact would be positive and clearly felt by customers. A senior manager in the company noted, “EFCS got good reception from the crowd, although I thought it was risky to announce it at such a high profile event. Maybe it would have been safer to socialize the idea with key customers first. Also, I wondered why we couldn't just say, ‘Employee First’ since leaving

Professors Linda A. Hill and Tarun Khanna and Research Associate Emily A. Stecker prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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the last part—Customer Second—out would have made it less controversial. If I were alone on a sales call, for example, I'd feel more comfortable using the toned down version."

Second, Vineet announced that HCL was going to walk away from small-time engagements. He recalled, "No one in India had ever refused business, but HCL was going to start after giving a 365-day grace period. I think this gave confidence to HCL employees, and the customers started to see that we were serious and we knew what we were saying. We were very keen on showing them a different company." The customers were impressed. Vineet noted, "They loved the EFCS idea so much they wanted to participate in the transformation. My teams were getting requests to go implement this at customers' organizations." Vineet also noted, "This was an example of when we chose employees before customers. Until then, about 7% of our revenues came from over 200 customers where employees were involved in non-strategic, commoditized projects. We were walking away from that type of customer, and they were not pleased. We estimated our revenues would take a \$40 million hit. But EFCS was about giving employees the most innovative work and positioning HCL for long-term success."

International media were noticing HCL. In April 2006, *Fortune*, referred by a customer, wrote an article about HCL entitled, "The World's Most Modern Management—in India." Vijay Guntur, an HCL employee for almost 20 years, commented, "People wanted to be in a place where change was happening. With more coverage, HCL was having an easier time attracting employees." New employees were becoming a mainstay at HCL, as the company was growing 40% annually (the company went from 24,090 to 32,626 employees between 2005 and 2006). Vineet commented:

We were growing very fast, and we had to in order to control for quality. Part of the reason I made evaluation so important was that we needed to ensure exit for underperformers. In companies like HCL, you need to keep attrition between 14% and 20% in order to survive. We needed fresh graduates to come in and perform fast, because the industry was growing so fast (see **Exhibit 2** for competitions' attrition rates).

Attrition rates were a source of concern for all Indian IT companies—and for multinationals with operations in India, like IBM and Accenture. Yet it seemed with the ability to pay higher wages and offer long-term global career opportunities, companies like IBM were having an easier time. For example, IBM, which had 50,000 employees in India at the time, had an attrition rate below 10%, versus the Indian IT industry average of 15%.¹ Analysts were covering this issue and others. A 2006 analyst report by the firm Motilal Oswal noted the following of HCL, "While top line growth is expected to be robust, escalating employee costs is likely to depress gross margins over the next quarters." The same report also noted another key challenge for the company: "Transition of clients to higher revenue brackets as relationships mature continues to be a challenge for the company."²

Maintaining Momentum Internally

As the summer progressed, HCL's internal transformation efforts continued. In July of 2006, Vineet once again hosted a Blueprint strategy session, and this time 250 senior managers attended. Pradeep Bindal explained, "Last year's event created such synergies that we wanted to broaden the forum. It would result in more buy-in. With more people, though, there was less time for small group

¹ Hamm, S., "IBM, an Indian Company?" *Business Week*, November 20, 2006.

² Nagarajan, D., "HCL Technologies," Motilal Oswal report, March 1, 2006.

discussion. Still, it was a success.” Vineet reviewed the progress from the past year, as well as updated attendees on big deals to set their eyes on for the future. Most agreed with Vineet that HCL should keep charging ahead. Sawhney noted, “It was exciting. We were playing against the global majors and we were winning. We were doing something right. We had momentum.” Yet some felt HCL may have been becoming overly ambitious. Guntur noted, “I felt that we could get better at figuring out how to manage risk. The Business Finance group was designed for this purpose, but still, executing deals like DSGi carried significant risk for HCL. There were many dimensions to manage, both financially and technically. I felt that as we went out to win more work we need to learn how to make tighter contracts and put in systems to ensure due diligence.”

At the meeting, Vineet also announced that the Delivery and Sales groups would jointly develop a single set of objectives. G.H. Rao, the Corporate VP of Engineering Solutions & Services, commented, “Under this new format, the leaders in the Sales and Delivery groups would sit down together and set the budget and goals. I was skeptical because there was this belief that the sales team would never really commit to a plan and stick to it, rather they would just sell whatever they could. I worried, ‘Would they know enough about my part of the business?’”

In general, though, the Blueprint was viewed a tremendous success, and was a testament to how far the company had come. Vineet noted, “As the organization developed more capacity, and as processes became more automated, I felt that I was able to move back towards hands-off leadership. When I came in I had to be decisive and hands-on, but I started to go deeply only when it was required. Eventually, I hoped HCL could decentralize, but this time it would have homogenous processes. The intranet was a critical tool in this.” Bindal said, “Vineet was the type of leader who created structures and then let those structures take care of the ongoing business. When needed, he’d identify gaps and fix them.” While the intranet and various structural and processes changes were helpful, getting consistency across the global company was difficult. For example, implementing the balanced score card using automated project portals was a challenge. Vineet noted, “The balanced score card was completely transparent and visible to all project managers. It tracked data on project performance and customer profitability. But since it was a ‘relative performance index-based system,’ it constantly benchmarked performance on a relative scale, using clearly measurable balanced scorecard parameters. The movement from soft review to hard, data-based measurements and the movement from no transparency to complete transparency was an implementation challenge.” Sawhney noted, “One of the biggest challenges was getting processes to work smoothly across the globe. We still weren’t there. It was a challenge to ask people to change the way they worked.”

In July 2006, HCLites went through the automated, annual review process, and in September, HCL once again encouraged managers to share their 360° feedback on the intranet. This time, 1500 managers did. Rajiv Swarup noted, “Some of my reports came to me to talk about the feedback they got and to get counseling on how to change; they were using the 360° constructively.” Others noted that although the scope and scale of their jobs had grown significantly in the past year, HCL’s more sophisticated, automated tools enabled them to spend more time on people development. Still, some managers declined. One noted, “In India, people tended to value hierarchy and transparency was not part of the culture. It was uncomfortable to be exposed, especially as someone with seniority.”

Reaching Out

In September, Vineet and his top managers hosted Directions meetings for the second time. Swarup noted, “During the first year, the questions people asked at Directions were more transactional. But in 2006, employees from all levels were asking about the future, about strategy and how to add value. You could tell this was an organization undergoing transformation.” But it was

clear that not everyone was transformed. Vineet commented, "I thought even if only 10% of the company was really thinking innovatively and was deeply transformed, it would serve as a tipping point. Cultural transformations always take time, but there had been vast improvement and I felt it was irreversible." Still, EFCS was pumping new energy into the organization. Drew commented, "I have had so much fun since Vineet became President. In my business life, I had never had such a rewarding experience, and I have worked for some very good companies."

To help encourage innovative thinking, after the Directions meetings, Vineet launched iGen, an online platform where employees could propose solutions to problems HCL faced. Shobhit Kumar, a Young Spark, noted, "iGen required a well thought out idea with supporting information and suggestions about how to execute the idea, along with predictions for cost savings or impact on the company. The iGen application walked an employee through a process of ten questions to help her construct her idea better." The marketing team launched a massive campaign to encourage participation. Vineet commented, "The exact ideas employees proposed were not as important, usually, as the fact that they were thinking creatively. iGen was about the culture of creating ideas. I kept it open for a limited time so upon closing, employees would wish they could still submit ideas." Swapan Johri, the VP of Transformation Services, noted, "A core group of 16 senior managers evaluated the ideas. Someone who had not contributed could look at the idea that won and be challenged to think of an even better one next time. We were trying to create a fabric of innovation."

HCL Arrives

As Vineet continued to work on HCL's internal transformation, the company began to receive more attention externally. In October, HCL was among the top two fastest growing companies in the Indian IT space (see **Exhibit 3**), and in November, the IDC called HCL a "disruptive force." In fact, in the IDC's report published at the end of 2006, it said of HCL, "Though it has not received the hype of salesforce.com or Google, we believe HCL may very well be one of the contenders to lead the IT services world of the very near future."³

The big deals kept coming in. By November, HCL had made multi-million, multi-service deals with Teradyne and Celestica. The contract with Teradyne, a leading supplier of automatic test equipment based in Boston, MA, was worth \$70 million, and HCL won the contract over the likes of IBM. Although HCL had worked with Teradyne for seven years, it had previously provided mostly project-based work. Rao noted, "We wanted to capitalize on the relationship and we saw an opportunity to leverage the management bandwidth we had there, so we made the move to do more multi-service work. The idea was to make existing customer engagements larger rather than acquire lots of small-time engagements." It was a step toward outcome-based pricing, through which HCL would receive a certain percentage of a customer's revenue. An HCL employee noted, "These royalty-based revenue share arrangements were very complex. We had one with Cisco, and Business Finance was really critical in structuring the deal. We had to ensure that IT costs for the customer were below a certain percentage of revenues and there was a revenue share program associated with that benchmark." Sandeep Kishore noted, "This deal was truly innovative. We signed up to drive Teradyne's business efficiency and operational excellence through a combination of IT application and infrastructure services in a truly integrated manner thereby providing a robust platform for their IT to be completely aligned to the business and provide a competitive edge." Chuck Ciali, Teradyne's CIO, noted, "We wanted a scalable partner who could handle the operations and also be leveraged

³ B. Rubenstein, "Why HCL Technologies is Disruptive and Bears Watching," IDC, November 2006.

into that application renewal that we had planned. We went through a fairly extensive process. . . . In the end, we selected HCL to be our partner in this IT transformation enabling business strategy.”⁴ Soon, HCL placed a dedicated Multi-Service Delivery Unit at Teradyne’s Boston location, as well as sent over an HCL senior manager, and some relationship managers. An employee noted, “HCL’s HR team went through a re-badging process with the Teradyne employees that were switched onto HCL’s payroll. They too would feel the effects of Employee First.”

At the same time, HCL was busy gearing up for the joint venture with Celestica, a Toronto-based world leader in the delivery of innovative electronics manufacturing services. The deal, worth \$100 million, launched HCL’s “concept to manufacturing” service. Kishore commented:

With the Celestica joint venture, we really deployed our blue ocean strategy though a whole new uncontested marketplace of integrated engineering that included design to manufacturing and significant time to market advantage to the manufacturers and OEMs (Original Equipment Manufacturers). We created a complete end-to-end proposition through this joint venture. Our competitors were only doing design then getting out, as we had been doing in the past. But now, we were capitalizing on our ability to do design, concept, manufacture, and prototype or even volume manufacturing—using Celestica’s lean manufacturing processes and their global footprints. This was a move to value-centricity, away from the focus on volume. Vineet really catalyzed it since he let us take the risk to create new marketplaces. This ability to really think outside the box was new in HCL’s recent history.

Many of the big deals HCL was signing were transformational in scope. Vineet noted, “The customers wanted assistance from us in developing a comprehensive roadmap for transformation.” To provide the benefits of HCL’s experience and insight to new customers, a new LOB called the Enterprise Transformational Services (ETS) was created. Ram Krishna, Corporate Vice President of ETS, noted, “Enterprise Transformational Services gave us a seamless advisory to execute capability in large, multi-million, multi-year transformation deals. It enabled us to leverage our best practices through a structured methodology and approach.”

Industry experts applauded HCL for delivering on a “common mantra” among all the IT services about innovation and enterprise transformation services. HCL’s service portfolio was much more diversified, with infrastructure and BPO service revenues at 14% each of the total compared to the rest of its peers—most of which were still heavily reliant on standard application development and maintenance services. ARC Advisory Group’s Rajabhadur V. Arcot and Sid Snitkin wrote about the Celestica deal in an industry trends report: “ARC believes that the joint venture between Celestica and HCL Technologies is an emerging trend in the product design, engineering, manufacturing, and lifecycle support space. This trend leads to enhancing the level of concurrency among product design, engineering, sourcing and manufacturing activities.”⁵ Another ARC Advisory Group analyst, Steve Banker, noted, “The company has improved its competitiveness by moving to an employee first strategy. This is likely to be a hard strategy for their competitors to match. How many companies will have the guts to do 360 degree publicly posted reviews of all managers?”⁶

In December of 2006, HCL once again hosted an “Explore and Transform” meeting for over 300 customers in Agra, an Indian city made famous by the Taj Mahal. Vineet commented, “I used no

⁴ This quote was taken from an HCL Technologies presentation entitled, “Winning & Executing Large Deals,” May 7, 2007.

⁵ Arcot, R. and Snitkin, S., “Product Manufacturing—the Next Leap,” ARC Advisory Group, March 22, 2007.

⁶ Banker, S., “HCL Technologies Puts Employees First to Better Serve Customers,” ARC Advisory Group, November 7, 2006.

PowerPoint at all during the meeting. People don't remember anything from PowerPoint slides. But I made sure the customers and employees felt we were in this together. I had all of the employees stand up in front of the customers and said, 'This is the team that's delivering to you.' The customers applauded and I really think they appreciated it because it was a departure from normal." Srikrishna noted, "Our work was translating into hard numbers and customers responded to that. In fact, just after the meeting HCL won another deal, this time a \$200 million deal with Skandia, part of the London-based Old Mutual group." Still, HCL had work to do internally. A January 2007 report from Motilal Oswal noted of HCL Technologies:

Attrition rates have increased in all segments of the business; voluntary attrition increased to 17.8% from 16.5% in IT services, to 16.8% from 13.1% in Infrastructure services and to 19.9% from 18.5% in BPO. The attrition is highest amongst employees with less than six months experience in the company. We believe that the high attrition rates would compel the company to offer more attractive wage structures to employees, as well as result in greater number of employees being included in its stock option plan. . . . This in turn is likely to lead to higher fixed wage costs, which could pressurize margins.⁷

The New Initiatives

Never willing to settle for the status quo, during the second half of 2006, Vineet collected ideas about ways the company could improve. Vineet explained, "It was really about doing Mirror, Mirror again. We had made tremendous progress, but there was much farther to go." By the end of December, Vineet and top a handful of top leaders had whittled down the suggestions to a list of seventeen initiatives (see **Exhibit 4 & 5**). Vineet noted:

My goal was to unroll these in 90 days, sometime in early 2007, on a global scale. I thought a six-sigma consultant would be helpful since this was a massive undertaking, and the consultant could add to the pace. When I told him what I hoped to do, the consultant was aghast. He could not believe the boldness of the goal. So I put a huge amount of money on the table. He wanted x, and I offered 2x—if he and his team, in collaboration with my teams, could finish in 90 days and demonstrate results in 180. Otherwise, they would get 0.5x. Consultants were not used to a \$1 million fee aligned to results, but they liked the plan and the linkage to results fired them up.

Transforming the Transformers

By April 2007, the company had produced impressive results (see **Exhibit 6**). Its revenue growth for the past five quarters had been 7.4%, 8.3%, 10.3%, 10.2% and 9.5%. In the third quarter results dated through March 31, 2007, HCL Technologies reported that in addition to crossing the 40,000 employee mark, its net income had increased 17.9% from the previous quarter, with last twelve month (LTM) revenues at US\$ 1.27 billion. The company had been among the top two fastest growing companies (on a QoQ basis) in five straight quarters. Yet HCL's competitors were thriving too. In its quarterly report, TCS boasted the industry's lowest attrition rate: 11.3%. Its net profits, \$275 million, were up 7% from the last quarter. During the quarter, Infosys reported it had 34 new clients.⁸

⁷ Shah, S., "HCL Technologies," Motilal Oswal Report, January 16, 2007.

⁸ "Infosys Says Quarterly Net Jumps 70%," www.marketwatch.com, April 13, 2007.

Aside from stiff Indian competition, HCL had multinational players like IBM, Accenture and EDS with which it had to contend. In an April 2007 issue, the *Economist* noted of IBM's position in India, "The Indian firms are a limited form of competition. The biggest, Infosys, has a stock market value of only \$28 billion, compared with IBM's \$144 billion. IBM has lucrative businesses the Indian firms can only dream of. These include the lease-like revenues from licenses relating to its mainframe computers and its pioneering 'multi-core' semiconductors." Further, IBM's CEO, Sam Palmisano, announced that IBM would invest a further \$6 billion in India over the coming three years, up from \$2 billion in the previous three.⁹ The same article noted that Barry Rudinstein of IDC "suspects that the Indian firms are too focused on short-term profits to make the best long-term bets, which may well include automation. 'Things may look very different in five to seven years' time, and much better for IBM,' he says." Still, the *Economist* cited HCL as a company to watch:

IBM and other multinationals are becoming increasingly nervous about the fifth-biggest Indian outsourcer, HCL Technologies. . . . Largely unnoticed, HCL has won several contracts worth \$300m-700m for infrastructure management and business transformation. . . . According to IDC, a technology-research firm, HCL 'may very well be one of the contenders to lead the IT services world of the very near future.'¹⁰

Nadar was pleased at the company's progress. He noted, "For over 30 years HCL has developed time-tested ability to spot inflection points ahead of time and proactively adapt to change. Global business trends, with a re-emergence of disruptive technologies and new business models suggest very exciting times. We are on a firm footing to capitalize on these trends and uniquely shape the future."¹¹ Even with the positive results, though, Vineet faced some challenges. For example, an Ovum report noted the following after HCL released its third quarter results:

HCL's operating margin of 18% has improved slightly in the past year, but is still one of the weakest among the top table of Indian outsourcers (still, it is far higher than that of all Western outsourcers) which poses a slightly different set of questions. Are its margins lower due to its diversified portfolio and higher costs (employees first) or are its operations subscale compared to that of its peers? We note that its BPO and infrastructure services operating margins at 15% and 12% respectively are well below those of its ADM business (20%), which suggests that the service line diversity factor has the greatest influence. This could mean that all of the other Indian vendors that are moving aggressively into infrastructure and BPO services could expect a degree of margin dilution going forward. But then again, maintaining a 40% growth rate was never going to come cheap.¹²

Still, HCL had much to celebrate. In June, *BusinessWeek* put HCL on its list of the world's top 100 growing technology companies." HCL also announced a \$15 million contract with Alenia Aeronautica and an expanded strategic relationship with Rockwell Collins.¹³

Vineet was now embarking on the second phase of the transformation journey, which focused on forming strategic partnerships. Vineet knew some of the company wondered if HCL was really ready for this new phase.

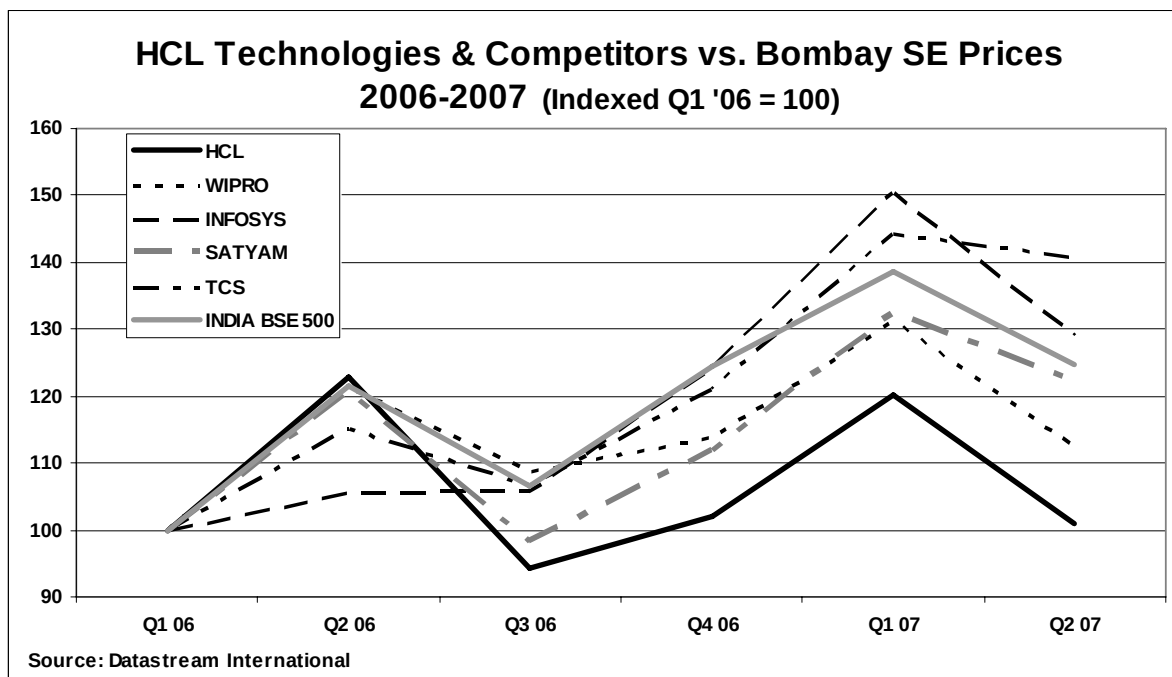
⁹ "Hungry Tiger, Dancing Elephant: How India is changing IBM's world," *Economist*, April 4, 2007.

¹⁰ "Hungry Tiger, Dancing Elephant: How India is changing IBM's world," *Economist*, April 4, 2007.

¹¹ HCL Third Quarter Results Press Release, April 17, 2007.

¹² Dobardziev, A., "The two sides of HCL Tech results," *Ovum Analyst Report*, April 19, 2007.

¹³ http://www.businessweek.com/magazine/toc/07_27/B40410727it100.htm

Exhibit 1 HCL Technologies & Competitors vs. Bombay Stock Exchange Prices**Exhibit 2** Attrition Rates in the Indian IT Industry*

	Sept 2005	Dec 2006	% Change
TCS	8.7%	10.8%	24.14%
INFOSYS	10.0%	13.5%	35.00%
WIPRO	14.0%	16.0%	14.29%
SATYAM	16.2%	17.6%	8.64%
COGNIZANT	16.1%	17.1%	6.21%
HCL	19.5%	17.7%	-9.23%

Source: HCL

*It is important to note that companies calculate their attrition rates differently. Some companies take the average number of resignations during the past four quarters and then divide by the total number

of employees in the last quarter. HCL uses a denominator that is equal to “opening number of employees minus closing number of employees in that quarter for resignations in that quarter.”

Exhibit 3 Growth rates of Indian IT Companies

	AMJ 05 to JAS 05	JAS 05 to OND 05	OND 05 to JFM 06	JFM 06 to AMJ 06	AMJ 06 to JAS 06
TCS	4	4	1	5	5
Infosys	1	3	4	1	1
Wipro	2	1	2	4	3
Satyam	3	5	5	3	4
HCL	5	2	3	2	2

Source: HCL.

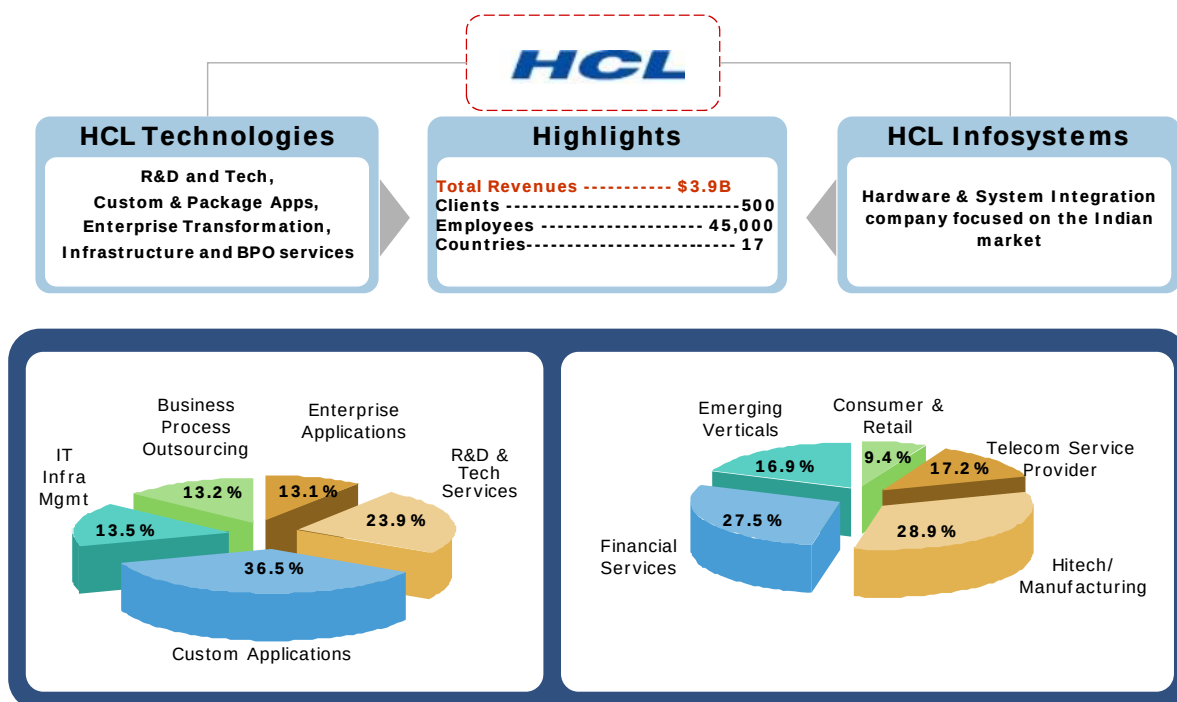
Exhibit 4 HCL's New Initiatives

1. Employees will not be un-utilized for more than 15 days, through the 15-day DMO (days Manpower Outstanding) policy.
2. Rigorous targets of 100% +/- 2% overrun for effort and duration; 100% +/- 1% overrun for cost and schedule in the next three months.
3. Use the DRIVE (Discover Review Invent Validate Enlighten) methodology to improve service level agreement (SLA) compliance for customers.
4. Targeted lowest attrition rate in the Indian IT industry.
5. Zero defect billing to facilitate steady cash inflow.
6. HCL Cares: Dedicated portal to provide a unique and customized experience to every customer.
7. Stitch a proposal in flat 8 hours to meet stiff deadlines from customers.
8. Smart Recruit and Smart Move: dedicated channels with fastest turn around time to hire, train and deploy HCLites on live projects.
9. Employee Help Desk: Single window to resolve employee issues across all geographies.

10. Zero Ticket Day: utopian scenario wherein not a single ticket is raised on any support executive by over 40,000 HCLites.
11. Neo Modeler to improve predictability of costs and revenues.
12. Paving way for a more effective and transparent HCL through automated processes.
13. Employee First: reward and recognize one in every 250 HCLites.
14. "Industry first" Value Creation Framework for customers.
15. Domain-focused research and investment on R&D.
16. Next Generation Leadership: cultivating business leaders for managing multi-million multi-service delivery accounts.
17. Train the Trainer: producing certified trainers and subject matter experts for every domain.

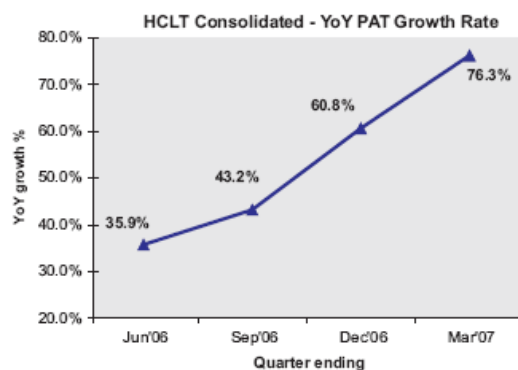
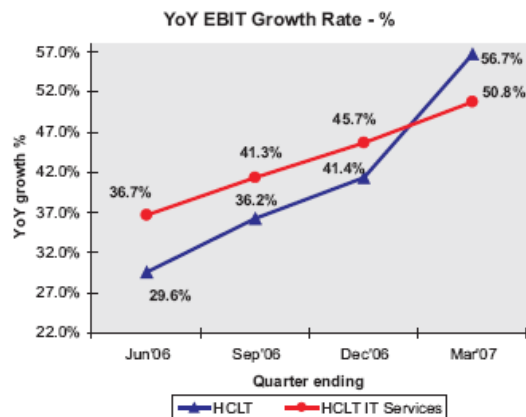
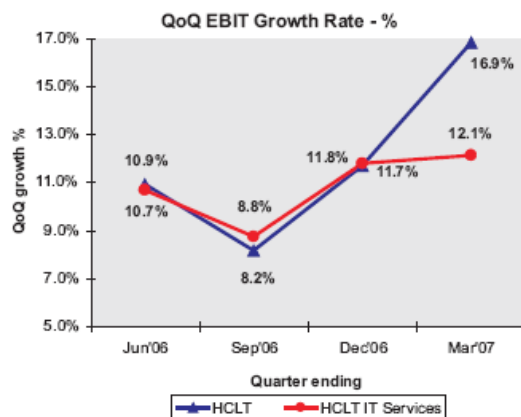
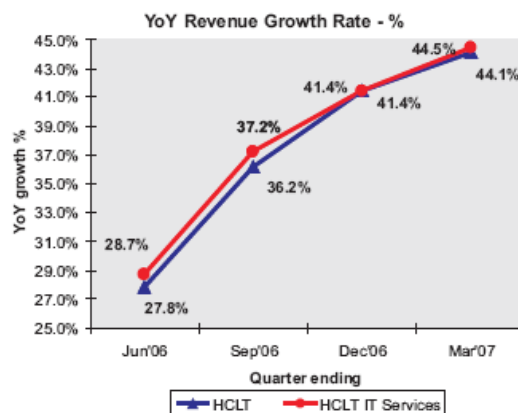
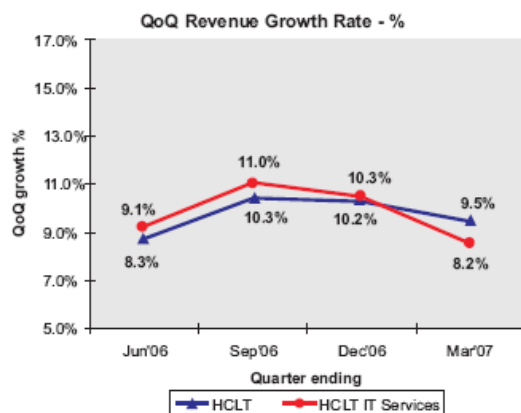
Source: HCL.

Exhibit 5 Overview of HCL, as of May 2007



Source: HCL.

Exhibit 6 HCL Technologies Business Highlights



Source: HCL.