

**RESTRUCTURING the MANAGEMENT HIERARCHY
for 21ST CENTURY COMPANIES**

**How Putting Employees First and Reversing Management Accountability Can
Improve Performance and Transform the Organization to Achieve Success in the
Age of Gen Y Influence, Social Media, and Transparency**

A commentary by:

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Introduction: A New Path to Corporate Growth

The traditional paths to corporate growth are no longer as reliable as they once were. In my company's industry, IT services, for example, most products, technologies and services have become commodities. There are very few companies that can succeed through breakthrough product or service innovation, as Apple or Google do. The rest of us have to differentiate ourselves through *how* we execute, not *what* we make or sell.

Fortunately, there is plenty of opportunity to do just that. Far too few companies understand the power that lurks within their organizations, that of employees who do the central, value-creating work of the company. At HCL Technologies (HCLT), we found that our frontline employees, the ones who interface directly with our customers, create far more value than anyone else in the corporate structure, including senior management — including me.

This may sound obvious, but if it is, why are so many companies still structured as if they were operating in the manufacturing-centric days of the 1950s or, for that matter, the 1850s? They keep on building their hierarchies of layer upon layer of managers, who often do more to impede the value-creating employees from doing their jobs rather than encouraging and enabling them.

At HCLT, we found a new path, an approach that we call Employees First, Customers Second. I have been asked about the viability of such a management approach, especially during difficult economic times. Isn't the only way out of a financial downturn to cut costs and reduce headcount? And, if so, doesn't that negate the whole Employees First concept? The short answer is no, as we discovered at HCLT. By engaging our employees and asking them for help in getting through the economic downturn of the past years, our company not only survived, but thrived. We actually grew during the recession and added employees, rather than reduced headcount, and did so without compromising the quality of our products and services.

Some consider the Employees First approach to be unconventional, even radical. I do not see it that way. Rather, I see it as the only logical path to follow in the age of Gen Y influence, social media and knowledge-based industries. The hierarchical approach — based on management's need to command and control the people in the organization — had its day, but that day is now

done. We are heading towards a future characterized by employee-led, self-governing organizations. A value pyramid, if you will.

The Employees First concept is largely made possible and mandated by the rise of social media, and Gen Y is largely responsible for that ascension. This group not only is comfortable with the transparency that social media creates, but they expect and even demand it. They are the ones who constantly, and effortlessly, push the envelope on constant, informal, global communication and information sharing. But the use of social media is hardly restricted to Gen Y-ers. Social media increasingly shapes how we all access information, learn, communicate and share.

Why do so few companies put these capabilities to work in reshaping and strengthening their business organizations? There are many reasons. They lack the necessary understanding. There are not enough models to emulate. They are afraid of the possible consequences.

The fear largely arises from the traditional corporate obsession with keeping information, especially financial results, private. Companies typically do not wish to share too much information about any of their most important activities — including strategies, financial targets and performance, customer relationships, and product and service plans. Why not? Often, the stated reason is that something negative might be made public and cause harm to the company. Although this is a genuine concern, the deeper and more fundamental worry is usually that information will emerge that will threaten the power and authority of management.

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The implications of the rise of Gen Y and social media in the business world are twofold. First, employees are better informed and thus better able to solve problems and generate ideas.

They communicate with one another more frequently and effectively; they are used to a constant, rapid exchange of information. This constant sharing of ideas allows them to generate more and better solutions for any problem. There is enormous potential here for businesses to harness the power of social media, allowing employees to communicate about individual projects as well as the company as a whole.

The second implication of these changes is that leaders must create and adapt to a new organizational model and approach to management. In communications, technology and information services companies, where value lies in having the best and most cutting-edge knowledge, the CEO cannot hope to effectively hold all of the answers and solutions himself. For employees to have only as much power as it takes to complete a specific job is to limit their ability to create solutions and innovate new ideas and practices that will help keep the company ahead of the curve. The role of the CEO in such companies, therefore, is no longer just to manage knowledge or even to create solutions, but rather to support and encourage employees to accomplish these feats themselves.

What all of this means is that the traditional organizational hierarchy no longer reflects the true value of a company, for that value is now the employees themselves. This is what HCL Technologies discovered when I joined the company as president in 2005—at a time when the company was in danger of losing momentum—and realized that our employees were better suited to solving the company’s problems and improving its performance than I could ever be. They were already utilizing social networking to better understand the company and their place within it; they were already aware of the power of globally-based talent to innovate solutions and strategies. The task before us, then, was to find a way to change the structure and the very nature of the company, and to create the tools and strategies necessary to let the people of HCLT do their best work. In short, we had to find a way to put the employees first. Over time, that concept became a new business philosophy that came to be called Employees First, Customers Second.

Our concept of Employees First can be quite uncomfortable to some audiences. Many of our tenets seem foreign to more traditional companies, and indeed they are quite different from the typical business practices. Every company is different. The programs and tools that have made the Employees First philosophy successful at HCLT may not work in a different context. The

important thing is to understand the underlying concepts of Employees First, and to find ways of applying those concepts in ways that will work for the company in question.

There are four fundamental aspects of the Employees First philosophy. Once these are understood, they can be adapted to suit any company's situation:

Mirror Mirror: Creating the Need for Change

The first essential aspect of Employees First is an honest, comprehensive, company-wide self-assessment to make the true situation of the company very evident to all employees and to pinpoint the areas and practices that need to be changed — an exercise that we call Mirror Mirror. It involves all managers and employees, because everyone must come to terms with what is not working, both within their own areas and in the organization as a whole. Looking for and finding issues and problems through the Mirror Mirror exercise creates the impetus to change. It's not enough, however, to do the exercise once and think that it is "done." In order to create real, "everlasting" change within a company, it is important to look in the mirror whenever conditions change, and to determine what is getting in the way of performance, growth, and organizational improvement.

Trust through Transparency: Creating a Culture of Change

There is a difference between recognizing the need to change and actually accomplishing an enduring change within a company. The Mirror Mirror exercise will not lead to anything if it is not accompanied by a willingness to do whatever it takes to bring the imagined future to fruition. One of the biggest obstacles in bringing about a serious change in the way a company operates is a lack of trust between employees and management. Fixing this is one of the most important steps in the Employees First approach. Employees in the value zone are generally in a position to know what's wrong with the company, often even before management does. By giving those employees the power to identify problems and voice their concerns, management can show that it trusts them to understand the inner workings of the company. This, in turn, builds confidence throughout the organization and fuels the desire to change. When employees feel that they are entrusted with helping the company operate as well as it can, they will often work to solve problems or create new initiatives without being asked to.

One very effective way of building this kind of trust between employees and management is by heightening transparency throughout the company. At HCLT, we found that online solutions and social media can be remarkably effective in doing this. Making company numbers, challenges and pitfalls public to all employees instead of just management, and, more important, encouraging conversation and debate about them through discussion boards, Q&A portals and other informal, egalitarian channels, builds a community of trust and shared purpose.

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Inverting the Organizational Pyramid: Building a Structure for Change

Neither the Mirror Mirror exercise nor a solid culture of trust will deliver on their full potential if the structure of the company isn't built to support those tenets. If employees in the value zone continue to feel that their work or their opinions matter less than those of the people in management; if they are still accountable to those who work in enabling functions, such as human resources, IT and finance; if, ultimately, the traditional hierarchy is still in place, then the company cannot achieve sustainable change.

Please understand that I am not an advocate of organizational anarchy. Everyone must still understand their role within the organization, and there must still be designated decision-makers who have the ultimate authority to decide a course of action, if necessary. Inverting the pyramid is really about giving employees in the value zone the power to innovate, to test solutions, to do whatever is necessary to deliver the best possible results to the client, armed with as much knowledge and support as the rest of the company can give them.

Recasting the Role of the CEO: Transferring the Responsibility for Change

I am not suggesting, of course, that the CEO end up at the bottom of an inverted pyramid, with no role except as a cheerleader. Even in a company with a value pyramid, effective leadership remains essential. But in a knowledge economy, the traditional hierarchy gives the CEO an inappropriate and even irrelevant kind of authority and influence. As I discussed in the first section, the combined knowledge of a company's employees, shared through social media, is far greater and more powerful than that of the CEO. So in an Employees First company, the CEO should be *asking* more questions than he or she is answering. *Have you looked in the mirror today? What problems did you see? What might be done to change and improve? What can this organization do to make it easier for you to solve these problems and create better solutions for customers?* Leadership in such a company is about guiding others to embrace change, and transferring ownership of the organization's growth to those within the value zone.

Keeping Things Straight When It Comes to Employees First

Sometimes I think it is easier to misunderstand the concept of Employees First than it is to understand it. Indeed, over the past few years I have encountered many well-meaning business owners who misinterpret the concept, think that it does not apply to their own industry, or think that it is simply not necessary. But more often than not, I've found that these doubts stem from an incomplete understanding of what employees first means, or from trying to fit the tenets of Employees First into the traditional business model. Once the concepts are explained in-depth and given a new context, the doubts tend to disappear, and people see that Employees First really can work in any business context.

The most common misunderstanding of Employees First is that it will not work when the company encounters significant difficulty. Many executives survived the financial crisis of 2008-2009 by making difficult personnel and financial decisions; they often had to cut costs, and the most obvious way to do so was through substantial headcount reduction. Few executives could see that putting employees first, rather than getting rid of them, could provide better ways to cut costs and fuel growth. At HCLT, we stuck by the Employees First philosophy through the toughest times of the downturn. We were, as discussed earlier, able to grow. In fact, we used the

recession as motivation to improve results, rather than as an excuse for declining performance. Empowering our employees gave HCLT the edge while our competitors were losing people in the value zone. In the spirit of transparency, we created a new initiative called *Smart Response*, in which we went online and asked 10,000 employees what actions they thought the company should take to weather the recession. By reaching out in this way, the management team helped employees feel that they continued to be an important part of the company and that they were trusted to help come up with solutions to very serious issues. *Smart Response* helped generate ideas that my team and I could not have come up with on our own, and which were instrumental in leading the company to twenty percent year-on-year growth in market share. When the recession started to abate, we retained the loyalty of our employees and did not have to deal with a high attrition rate. Many of our competitors, by contrast, are still dealing with a culture of mistrust and fear that was created by deep cuts in the workforce, often initiated without sufficient preparation or explanation.

I have also heard many executives say that they do not need to implement Employees First programs when their companies are doing well. For example, at a 2008 conference, I met with a young CEO of a Chinese hotel chain. His family had owned the company for generations, and it was the most well-respected and successful high-end hotel company in his area of China, with

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twenty-two percent year-on-year revenue growth. As a result, he saw no need for any kind of change at his company, let alone the implementation of a program as radical as Employees First. When I asked him how he planned to increase his revenue growth in the coming years, however, he realized that his options were limited. I argued that the *only* way he was going to be able to continually increase his company's revenue was to focus on his employees and their needs. Human capital has virtually endless potential to increase in quality and service, and the only way to increase this human capital is to put employees first. It is the key to continuing corporate growth.

An Employees First Culture Actually Thrills Customers—and Doesn't Require Large-Scale Initiatives

Still, other skeptics say that, while employees may benefit from Employees First, customers will not see its value. I know from first-hand experience that this is not true, and that in fact customers often saw the value of my program even before my executive team and I did. One year at the Global 100 meeting (a meeting of CEOs from some of the most influential companies worldwide), for example, a high-profile former CEO, who was the host of the meeting, began to question the Employees First program and cast doubt on its effectiveness and value. One of my customers, who happens to be the CEO of a *Fortune* 100 company, stood up and forcefully replied that he had “seen HCLT transform itself through Employees First,” and could “vouch as a customer” that it had worked for him and his company, too. I was stunned to hear how strong this leader's support for Employees First was, and saw clearly that customers do see the value of the philosophy. What's more, HCLT's customer satisfaction scores increased by 43 percent during the recession, while scores at many other companies decreased dramatically. Customers know that Employees First actually means increased value for them.

A fourth misconception people have about Employees First is that implementation requires large scale, complex initiatives. Not true. At HCLT, we relied on small-scale catalysts, slight adjustments to our thinking processes, and good communication to make changes. Small changes like these often have the largest effect on a company, or even a whole culture. The power of my employees was increased through small changes to the ways in which we conducted business.

Finally, even after demonstrating the success we have achieved with Employees First, I still hear people say that it cannot greatly improve company profit and performance. In order to counter this misconception, I offer a few facts about our performance in the years 2005-2009. During this time, seventy percent of the deals HCLT won were against the Big Four international IT companies. In addition, HCLT gained five times more customers than it had previously, and revenues tripled. In addition, the employee attrition rate decreased by almost half, and the company's employee satisfaction scores increased by seventy percent. These numbers speak for themselves; it is easy to see that Employees First did greatly improve company performance.

Employees First Is the Concept for Today

Despite the misunderstandings about Employees First, I have seen firsthand that the concept can help transform a company. It can improve its financial performance by increasing revenues and cutting costs. It can help a company weather difficult economic cycles over which it otherwise has little control. It can bring talented people to the company and improve retention rates of the employees who are already part of the organization. It can build relationships with existing customers and attract many new ones. It spurs creativity and innovation. It strengthens the brand. And it helps to create a remarkably resilient, self-governing organization that can swiftly adapt as markets and business conditions change.

As we like to say, Employees First puts the human being back in business.