competencies and skills. Then, in Step 3, change implementation looks at ways to change the people in the organization. When Step 3 involves removal and replacement, those decisions are viewed by employees as being both fair and valid, those decisions will support the change effort.

Now at the final stage (Step 4), organizational leaders can seek to reinforce behavioral patterns. For that purpose, they turn to new structures and systems. That will be the subject of Chapter 6.

Discussion Questions

1. What are the important differences between Step 2 (Help) and Step 3 (People Change)?
2. What are the main differences between hiring for task and hiring for organizational fit? When is each one most appropriate?
3. What specific recommendations would you make to an organization seeking to avoid training fade-out?
4. The author sees removal and replacement as a key element of aligning people with the requirement of a new strategy. Do you agree or disagree? Why?

Case Discussion

Read "'*Employee First, Customer Second': Vineet Nayar Transforms HCL Technologies*," and prepare answers to the following questions:

1. Explain how—or *if*—Vineet Nayar's new strategy for the company and his approach to people alignment reinforce each other.
2. Do you see potential problems implementing Nayar's people alignment initiatives within India?
3. Are Nayar's ideas about people alignment transferable to other industries and other countries?

"EMPLOYEE FIRST, CUSTOMER SECOND": VINEET NAYAR TRANSFORMS HCL TECHNOLOGIES

Headquartered in Noida, a suburb of New Delhi, HCL Technologies competed in India's hyperdynamic information technology (IT) sector.[27] Founded in 1976, HCL defined itself as "one of India's original IT garage startups." For its first 25 years, HCL found success offering IT hardware. However, as the global IT industry shifted from hardware to software and to offering infrastructure services, HCL proved to be less than nimble.

In April 2005, the company looked within and promoted Vineet Nayar to the position of president. Nayar immediately set his goal for HCL: transformational change within the company in order to position HCL as a global leader in transformational outsourcing services "working with clients in areas that impact and redefine the core of their business."

Strategic Renewal

Strategic renewal at HCL would involve, Nayar announced, a movement away from "small time engagements" and toward high value-added integrated service consulting and outsourcing. In order to turn that vision into reality, Nayar would oversee transformational change at his $1.5 billion, 46,600-employee company. (HCL had operations in 11 countries including the United States, France, Germany, China, and Japan, with 96 percent of its employees worldwide being Indians.)

His first strategic goal was to pay a great deal more attention to internal operating efficiencies than HCL had in the past, while simultaneously emphasizing innovative offerings. Nayar would, he promised, "put our house in order by rejuvenating employees and improving operating efficiencies."

From his past management experience, Nayar (who had spent seven years as an HCL engineer before taking the assignment of running an internally developed start-up company) had come to believe that employees rather than leaders would be the source of improvement and innovation.

India's traditional hierarchical culture led executives to take a "dictatorial" approach to management. Studies of national culture have found that India ranks high on two dimensions: power distance and long-term orientation. High-power distance suggests greater acceptance of hierarchical authority and a greater capacity to follow than lead. A high score on the long-term orientation index suggests a preference for thrift, perseverance, and predictability. If HCL was to compete successfully against larger Indian competitors such as Infosys, Nayar wanted to "invert the pyramid," he said, explaining his meaning in blunt terms. For most companies, "it's the employee who sucks up to the boss." Nayar's goal for HCL was to create a culture where "as much as possible, [we] get the manager to suck up to the employee."

Rejuvenating Employees

Three months after assuming the president's position, Nayar announced two initiatives designed to rejuvenate employees and unleash their creative potential. Both initiatives, he also admitted, were intended to be "shocks" to the system and signal a shaking up of the old culture.

"Employee First, Customer Second"

In July 2005, Nayar introduced his "Employee First, Customer Second" initiative in order to "invert the pyramid." That initiative, explained Dilip Kumar Srivastava, head of corporate human resources, had four strategic objectives:

1. To provide a unique employee environment
2. To drive an inverted organizational structure
3. To create transparency and accountability in the organization
4. To encourage a value-driven culture

Added Nayar, "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."

360° Performance Evaluations

Along with announcing the Employee First, Customer Second philosophy, Nayar introduced 360° performance evaluations. Initially, the evaluations were performed on Nayar and his top 20 managers. That was not the shock however; rather, it was Nayar's directive that the results of that evaluation be posted online for any employee to see.

Executives report to feelings of unease at the airing of those results. Said R. Srikrishna, head of the U.S. infrastructure services division, "There was this whole picture of me that [emerged] as a heavy taskmaster. It was very unsettling the first time."

For Nayar, the publication of 360° results signaled that HCL was serious about his Employee First philosophy. Nayar expanded the system so that employees can see the results for their managers as well as their peers. Nayar assured them that the ratings would *not* be used to determine bonuses or promotions. Instead, they would allow the individuals to work with the company's human resources department to create developmental programs for them.

Nayar appreciated that the idea of posting results would be shocking, at first, to employees. He referred to this as disruptive thinking. "When I put my 360° evaluation in the Intranet within my first 90 days of taking charge at HCL Technologies, it showed that the CEO was willing to put his neck on the line. It is a simple gesture that galvanizes others into thinking on similar lines. We [India] claim to be the world's largest democracy, but while running our businesses we are dictatorial toward our employees."

Additional People Alignment Initiatives

Some additional initiatives started by Nayar include the following:

- HCL's training program was renamed "Talent Transformation and Intrapreneurship Development." "We did not just want to have swanky off-site development programs, then have employees return to work and go back to status quo," explained Anand Pillai, who headed the program. Instead, HCL rotated employees through multiple projects and jobs and then helped them "understand the work of their operation at both the tactical and strategic level."
- HCL abandoned performance-based bonuses and adopted, instead, what was called "trust pay." Aimed most especially at junior engineers, pay would be fixed at the beginning of the year. That represented a dramatic break from the industry standard of having variable pay account for up to 30 percent of total compensation. "It increased our cost base," admitted Nayar, 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."

Further Challenges

By 2007, Nayar could point to some impressive improvements. Under his leadership, HCL has achieved the highest level of organic growth—defined as growth achieved through internal development rather than by acquisitions and mergers—among India's IT sector. Employee retention had been a particular problem for HCL. In 2005, the company's attrition rate—the percentage of total employees who leave a company in a year—was 20.4 percent, among the highest in the industry. In 2007, that figure dropped to 17.2 percent (still higher than many competitors). At the same time, competition remained unrelenting and was becoming more global. IBM announced plans to invest $6 billion in India in the upcoming three years, up from $2 billion in the previous three years.

Endnotes

1. I first became aware of this story from reading Ronald Heifetz, Alexander Grashow, and Marty Linsky, "Leadership in a (Permanent) Crisis," *Harvard Business Review* (July—Aug. 2009), pp. 62–69. Additional material comes from "Best Buy Gets in Touch with its Feminine Side," *USA Today* (Dec. 20, 2006); Jackie Crosby, "Women's Warrior at Best Buy," *Star Tribune* (Dec. 18, 2007); Bala Chakravarthy and Peter Lorrange, "Continuous Renewal and How Best Buy Did It," *Strategy and Leadership* 35 (2007), pp. 4–11.
2. George Bohlander and Kathy McCarty, "How to Get the Most from Team Training," *National Productivity Review* (Autumn 1996), pp. 25–35.
3. Raymond A. Noe, *Employee Training and Development* (Boston, MA: McGraw-Hill Irwin, 2002), pp. 150–175. These conclusions were confirmed empirically in Dian L. Seyler, Elwood F. Holton III, Reid A. Bates, Michael F. Burnett, and Manuel A. S. Carvalho, "Factors Affecting Motivation to Transfer Training," *International Journal of Training and Development* 2 (1998), pp. 2–16.
4. This research is reviewed in Herbert M. Meyer, "A Solution to the Performance Appraisal Feedback Enigma," *Academy of Management Executive* 5 (1991), pp. 68–76.
5. Gary P. Latham and Kenneth N. Wexley, *Increasing Productivity Through Performance Appraisal* (Reading, MA: Addison-Wesley, 1981); David B. Balkin and Luis Gomez-Mejia, *New Perspectives on Compensation* (Englewood Cliffs, NJ: PrenticeHall, 1987); C. Longenecker, H. Sims, and D. Gioia, "Behind the Mask: The Politics of Employee Appraisal," *Academy of Management Executive* 1 (1987), pp. 183–191; George T. Milkovich and John W. Bourdeau, *Human Resource Management* (Homewood, IL: Irwin, 1991); Donald J. Campbell, Kathleen M. Campbell, and Ho-Beng Chia, "Merit Pay, Performance Appraisal, and Individual Motivation: An Analysis and Alternative," *Human Resource Management* 37 (Summer 1998), pp. 131–146.
6. Tracy Maylett and Juan Riboldi, "Using 360° Feedback to Predict Performance," *Training and Development* (Sept. 2007), pp. 48–52.
7. M. M. Greller, "Subordinate Participation and Reactions to the Appraisal Interview," *Journal of Applied Psychology* 6 (1975), pp. 544–549; R. J. Burke, W. Weitzel, and T. Weir, "Characteristics of Effective Employee Performance Review and Development Interviews: Replication and Extension," *Personnel Psychology* 31 (1978), pp. 903–919; Charles C. Manz and Henry P. Sims, Jr., "Self-Management as a Substitute for Leadership: A Social Learning Perspective," *Academy of Management Review* (1980), pp. 361–367; R. L. Dipboye and R. de Pontbriand, "Correlates of Employee Reactions to Performance Appraisal and Appraisal Systems," *Journal of Applied Psychology* (1981), pp. 248–251; J. M. Ivancevich and J. T. McMahon, "The Effects of Goal Setting, External Feedback, and Self-Generated Feedback on Outcome Variables: A Field Experiment," *Academy of Management Journal* (1982), pp. 359–372; D. M. Herold, R. C. Liden, and M. L. Leatherwood, "Using Multiple Attributes to Assess Sources of Performance Feedback," *Academy of Management Journal* (1987), pp. 826–835.
8. Richard E. Boyatzis, *The Competent Manager: A Model for Effective Performance* (New York: Wiley, 1992); Richard E. Boyatzis, Scott S.