

Utilizing Values to Achieve Competitive Advantage At



In today's world of complex markets and changing competitors, the effectiveness of an organization's information technology (IT) can often determine the difference in success or failure of its strategy. This function can provide the company with information, transactions, and customer service that create (or fail to create) competitive advantage.

Yet many companies are mired in supporting a complex accumulation of software applications. Many of the applications are incompatible with business needs and fail to provide an easy way to link information to different functional needs. Furthermore, as of this writing, the inability of internal computer clocks to recognize the Year 2000 problem may lead to tremendous operating breakdowns. Finally, as technology continues to change and progress at ever-faster rates, a company needs to stay abreast of these advances and determine the right new technology, then implement and maintain it with tremendous effort. These conditions often exist in mission-critical areas of organizations in many industries. Few organizations have addressed these issues to their satisfaction.

This situation opens the opportunity for a company like Keane, Inc., to provide organizations with meaningful solutions. Keane is a software consulting firm based in Boston, Massachusetts. Its purpose is to help clients build and manage high performance information technology systems. It has grown to become one of the largest firms in this industry and a major contributor to IT solutions. Since its beginnings in the mid-1960s, the company has expanded its office network and service offerings greatly. Keane will achieve revenues in 1998 in excess of \$900 million, supported by 40 offices throughout the United States and it has been recognized by The Wall Street Journal as the number one company for creating shareholder value over the last 10 years, and by the Gartner Group, an IT industry research firm, as one of the industry's top three consulting firms for addressing Year 2000 issues. Finally, Keane has received the Software Engineering Institute (SEI) level-three certification for its software maintenance capabilities. Each of these achievements shareholder return, reputation, and quality has positioned Keane as a leading company in the IT industry.

Keane's Keys to Success

Keane has been able to achieve this growth and market leadership position while staying true to its mission and values. Keane is often regarded as a "shirt sleeve" consulting firm, because consultants work with their clients to make IT changes. While they provide assessment services, the staff is often seen as more of a partner to their clients than other major IT consulting firms.

Furthermore, they truly embrace and foster the concept that the only sustainable competitive advantage is to learn faster than one's competitors.

Keane demonstrates its commitment to building high performance IT organizations by utilizing a service offering framework in three areas:

1. Formulating a strategic information plan and assessing a client's current capabilities and performance against these requirements
2. Developing program management competencies to manage risk and ensure alignment between information systems and the client's business imperatives
3. Delivering IT applications development and maintenance projects, outsourcing services, and Year 2000 compliance upgrades that enhance the client's ability to compete

There have been several key elements to Keane's success. First, Keane has developed the ability to replicate successes from project to project and client to client through its project management methodology. This is a quality assurance framework for planning and controlling the IT development work. Second, it has built offices from acquisitions or investments to serve companies in local markets. There are three issues in considering any company for an acquisition. These are:

1. Financial strength and potential
2. Compatibility with the company culture
3. Due diligence for legal and accounting records

Concern with any one of these factors can stop an acquisition. Furthermore, Keane strongly invests in the communities it serves and the companies based in these locations. This has also enabled Keane to offer a workplace environment where full-time travel is not an employment requirement (as found in many large IT consulting firms).

Third, it invests heavily in training and development. It regularly invests more than 5% of its revenues in the development and delivery of training curricula. In 1997, Keane built a multi-million dollar Learning Center in Boston. It uses training for multiple purposes. For Keane, training is a way to enhance the skills of staff members and encourage its desired culture. It uses the training process to foster sharing of information, learning what works and doesn't work in its client projects, and to drive continuous improvements. The investment in training is also reflected in each of the branch offices and is an important element in assessing the performance of branch managers.

Finally, many of the conventional human resources functions are decentralized into line operations. For example, recruitment is handled at a local branch level. Professional recruiters report directly to senior line operating managers, and they are responsible for finding and recommending attractive candidates for the organization.

The screening of candidates relates to both technical skills and “style,” or those attributes and competencies Keane wants to be known by with its customers. People are what Keane offers to its clients and the process and methodologies are how these people add value to their clients.

These elements to success are a reflection of the company’s core values. These values include a commitment to:

1. Learn from experiences of all kinds
2. Drive for continuous improvement
3. Teamwork and collaboration
4. Respect ideas and people
5. The success of its clients

Reward Systems That Reflect Corporate Values

The major force driving the Keane culture is the desire to learn and use this learning to support clients and the company’s competitiveness. Reward systems serve as a process to support this philosophy with a meaningful stake in the outcomes. They are not overly sophisticated; the value of the reward systems is in their simplicity and flexibility.

There are several layers of reward systems that form a fabric of reinforcement for corporate values. First, they seek to provide salaries that are competitive to the marketplace for talent. Because Keane offers many other advantages for working with the firm, it does not attempt to lead the market when it comes to salary or fixed compensation. Furthermore, it seeks to find people who are new or at emerging stages of their technical careers. Then it invests in developing and retaining them to be meaningful contributors. Because the branch office network is focused on local markets, the lack of excessive travel is another competitive advantage to attracting and retaining desired talent.

Those involved in recruiting for Keane have a special bonus program. These individuals support the applications development and outsourcing staffing needs. This is regarded as a team effort within the local branch. Consequently, for each person who is hired, a specified amount is contributed to a common pool. The pool is distributed to all recruiters evenly at the end of each month. The recruiters have personal goals to achieve, and if they exceed them, they receive a personal bonus in addition to the pooled bonuses. This encourages both individual performance to meet or exceed one’s personal goals and collaboration to assist others in meeting their goals.

For those involved in sales, Keane offers a special compensation program. This program has evolved over time and continues to reflect corporate strategies and priorities. These sales staff members support the business development efforts of each branch, and they refer business leads to other branches. They receive a two tiered bonus. They receive an acquisition bonus when they acquire a client project contract. This recognizes the

immediate achievement of a piece of business. The amount varies based on the size and business type of the contract. Then, they receive a percent of the revenues from the projects sold over their quota. Sales representatives have a quota that relates to their market and their salary. When revenues exceed this level, then they are eligible for the revenue commission.

There are several qualifications to these contracts. First, each practice area (e.g., applications development, outsourcing) has a minimum contract value that must be exceeded before bonuses can be earned. Second, the contracted work must use Keane's project management methodologies. This ensures that the project is consistent with Keane's quality standards and type of desired business. Finally, the commission rate varies based on the desired business work—higher rates are paid for desired business mix. Consequently, Keane uses a sales plan to address future year's business needs.

In each branch and within the corporation there are practice managers. These are individuals whose responsibility is to develop methodologies and ensure that quality standards are applied to the capabilities Keane provides its customers. They also serve as the primary resource to support learning and innovation across the corporation within their practice area. They are associated with each branch office as well as corporate wide functions. They directly support the sales representatives and other project managers in the delivery of high-quality services. Their incentive compensation relates to three areas: the profitability of their branch, the revenues from one's practice area in the branch (or corporation), and the quality of services received by the client. The quality is measured by both external technical standards (i.e., SEI certification) and customer satisfaction. They receive credit in their practice areas for both sales and implementation results.

The branch managers have profit and loss accountability for their area. A given branch may vary in size, depending on the market opportunity. Their success is assessed according to similar criteria as the practice managers'—profits, revenues, and quality. Goals are set in relation to market opportunities, desired project mix, and corporate requirements. As sales representatives develop new business, practice managers promote quality performance, and project leaders implement client projects; everyone gains. The branch managers' role is to lead these efforts within their markets and assist other branches in achieving profitable growth.

Integrating Stock Options and Special Recognition

In addition to cash compensation, Keane utilizes a targeted approach to stock options and employee recognition. The stock options have been a source of substantial opportunity in capital appreciation. As the stock value has grown over the years, the company has been able to provide a substantial amount of options to managers and technical leaders. The stock option program has supported the growth of the business so that there has been minimum dilution in shareholder value. As highlighted by *The Wall Street Journal*, Keane has been able to create substantial shareholder wealth over the last 10 years.

The stock options program has been used to reflect two priorities: The number of options one receives is based on individual performance and the value is established through the gain in the share price. This performance relates to the core factors of profitability, revenue growth, and quality. Senior executives review the revenue, profit, and leadership performance of branch managers each year and determine who have been the strongest contributors to the company. An individual may receive options in one year and none in the next. There are no rules that restrict how or who receives stock options. The symbolic value of the awards is achieved by being selected to receive an option award. The value of the options is based on the growth in market value of the company. They are not discounted and they need to be turned into stock in a relatively short period of time—reinforcing the idea that individuals “buy into” the company. Furthermore, there are restrictions to when an individual can exercise the options and sell the stock. This reinforces the principle of retention, but the growth opportunity has been the true value. Fortunately, the growth in value of the shares has contributed to a significant gain for many individuals.

In addition to stock options, the branch organizations have been highly active with creative special recognition programs. Each branch has an employee committee that has the responsibility of developing and managing a recognition program. The basis for these awards links back to the overall corporate values. Many provide strong peer recognition and celebrations for branch level achievements.

For example, one of the branches has a recognition program with three levels. These levels and the awards are described below.

1. Special contributions. There are awards that are given for completing a special education program, serving on selected committees, participating in special community service activities, or contributing to recruiting staff. Individuals receive special thank you letters from executives, mentions of their efforts in the branch newsletters, and discussion of their efforts in management and branch team meetings.
2. Great achievements. This level of contribution is based on receiving a client quality or service award, making a special contribution to sales efforts, or fulfilling a major responsibility that was not in one’s standard job. These are given to individuals and teams. They may receive group dinners, membership in technical organizations, subscriptions to high-preference journals, or other awards of particular value.
3. Grand contributions. This level of award is for making a major contribution to the success of the branch and the clients it serves. It may include making a special “breakthrough” contribution to a client project that improves the impact of the IT project on the client or reduces the time or costs of major efforts, publishing papers that promotes Keane’s reputation as a thought leader in the industry, and similar large-scope impacts. Individuals or teams may receive cash awards, paid time off, or certificates for new software or hardware of their choosing.

In each of these recognition programs, employees are highly involved in the selection as well as the awards. The recognition team and/or branch or corporate senior executives are involved in many award ceremonies. These events happen throughout the year and are tied to the project management culture of the organization. All individuals are eligible (excluding senior managers), and many of the award recipients and ceremonies are communicated throughout the corporation. They have served as an important process for reinforcing the corporate culture and values. In this way, Keane is able to sustain a culture even though it is spread throughout a broad network of offices, projects, and client locations.

The Future in an Increasingly Competitive World

The future for IT consulting is indeed great. Companies are making major investments in development or are considering outsourcing the entire operations. In each case, Keane is there to help. The challenge of attracting and retaining critical talent is a major issue for Keane as it is for all organizations where IT is an important function.

Keane has made a policy not to offer hiring bonuses or retention packages for remaining with the company. So far, it doesn't need to. The compensation program is so flexible that if branch offices want to offer a different package, as long as they are within corporate guidelines they are free to do so. Executives want to pay for performance, not just retention. If individuals perform well, they will receive meaningful incentive payouts in cash and stock options, as well as special recognition for their accomplishments.

Keane experienced a recent challenge to this policy. A major client in a large metropolitan area wanted to offer retention bonuses to retain certain key individuals who had become instrumental to the client's conversion process. Keane executives did not allow this to proceed. They felt this would compromise their commitment to integrity, would be difficult to manage internally, and might change the focus of the work from Keane to the client.

They wanted employees to be committed to Keane, not to the client. While they did not approve the retention program, they did work with the company to prepare a performance-based retention program (i.e., a project bonus program) consistent with the needs of the client. This demonstration of flexibility and responsiveness has been a hallmark of Keane's success.

Retaining this level of integrity in a marketplace where talent is scarce and expensive will be difficult. Keane is about sustaining its unique culture and reflecting its values in every decision and investment made by the company. It keeps the focus on the client, not chasing talented individuals. Consultants have fun, contribute to their client's ability to compete, and learn from the process. This builds confidence and ensures that Keane continues to have a bright future.