'Discovering America by looking for India'

An interview with Martin Lippert, former COO of TDC

For TDC, Denmark's leading telecom provider, a lean-management transformation has been a "necessary condition" for investing in future growth.

TDC is Denmark's largest provider of business and consumer telecommunications. Long the country's incumbent telecom company, TDC was gradually privatized in the 1990s as part of a broader liberalization of Denmark's telecom market.

After a group of private-equity firms acquired a controlling interest in TDC in 2005, the company spent the next several years restructuring its operations. But by 2009, rapidly evolving financial, commercial, and technological conditions led the company to turn to lean-management principles for a new wave of performance improvement. Starting on a small scale, the program quickly expanded to become "TDC 2.0," a company-wide transformation that has boosted employee and customer satisfaction significantly while building a much more flexible and responsive organization.

As CEO of TDC Business, the company's enterprise-service unit, and later as groupwide chief operating officer, Martin Lippert was responsible for overseeing the implementation of TDC 2.0 up until mid-2013, when he left TDC for a new opportunity. Before his departure, McKinsey spoke with Mr. Lippert at TDC's headquarters in Copenhagen.

McKinsey: *What were the origins of TDC 2.0?*

Martin Lippert: To be honest, it started almost by accident. The original idea was just a short-term project to improve sales efficiency in the business-services unit.

At the time, the unit's customer- and employee-satisfaction scores were falling. An important reason turned out to be that customer meetings were too short and infrequent. That led us to a difficult realization: efficiency levels were so low that it was simply impossible for the team to cover the entire potential market with a proper sales approach—the numbers just didn't add up. We could not afford to hire hordes of salespeople, so we had to increase efficiency dramatically.

McKinsey: *How did you do that?*

Martin Lippert: We recognized that the only way to reach the improvement target was to find a new way of working: clearer roles and responsibilities, better management, more knowledge sharing, everything. So we started out with a small test case, following a bottom-up approach in which the sales unit adapted a basic lean-management tool kit to its distinct needs.

After about six or eight weeks, the result was an enormous increase in productivity and efficiency. Employee satisfaction rose as well. And when we measured long-term health factors such as employees' sense of direction and control, we saw a lot of improvement. To our surprise, the transformation addressed many of the long-standing issues the organization suffered from, even though that had not been our original goal when we started.

Like Columbus, we set out to find a new route to India. Instead, we discovered America.

McKinsey: *How did the rest of the organization respond to the discovery?*

Martin Lippert: Word quickly got around that the people in the test organization were suddenly happier—performance was much higher, bonuses were higher. Demand for similar change started to build, and so we started to roll the concepts out to different sales organizations.

We saw the same results. Then we thought, "Can we use this approach in customer care?"

We soon realized that lean management was working all over. That was the birth of TDC 2.0. It was not something we consciously designed from the start—we evolved into it, and it proved enormously effective.

McKinsey: *What are some of the things that TDC 2.0 can do now that the old TDC could not?*

Martin Lippert: In short, we are more agile. I see greater agility throughout the organization, starting with how people interact in the regular team meetings that take place every day.

My role is usually to listen, not to participate actively. I can see that employees are much more engaged in solving issues than they were before. They aren't just responding to some point that I raised or that the manager raised. Instead, they are finding problems and solving them on their own, coming up with responses like, "I had a meeting with the business division yesterday. We realized that the way they enter orders into the system is what has been generating the extra code we see, so we standardized the order entry to eliminate the issue."

That sense of agency and initiative is enormously important. I can see employees sticking to the problem-solving process—holding the meetings, doing the analysis, finishing the follow-up—even when their managers are away.

And because our way of working is now standardized—it's fundamentally the same whether you work in the network division, the business division, or another area—no one needs permission to go to another organization to ask for help in solving a problem. Teams know that they will get visits from colleagues elsewhere in the company who have issues to solve.

McKinsey: *How do teams—and especially managers—find the capacity to help from other parts of the company?*

Martin Lippert: Lean management has built our employees' problem-solving capabilities so that more issues get resolved without the manager's involvement.

In the old days, managers were the ones who solved problems, not the employees. With a team of 15 or 16 employees, there were always enough problems that just keeping track of them was practically a full-time job for the manager.

Now we empower the entire organization to go about finding solutions. A few issues will still come back to managers, but much fewer than before. The organization can solve more problems, and that means we can better serve our customers.

McKinsey: *What were some of the challenges that you saw with the transformation?*

Martin Lippert: Transformation is always going to provoke resistance, but because we started in the sales organization, the nature of the resistance was different.

In sales organizations, there are always a few stars, people who have been "the hero" for forever. Their attitude was, "It's great that you're doing something to help the rest of the bunch, but I'm a star here. I'm not going to change, because what I'm doing is working."

We had to be prepared to lose some of them. Our message was very clear: we are creating a new

Martin Lippert

Martin Lippert served as group chief operating officer for TDC until August 2013; earlier in his career, he was CEO of TDC Business and was appointed to TDC's corporate-management team in 2009. Before joining TDC, he was CEO of the Luxembourg-based cloud-services provider MACH. He holds an MS in economics and business administration and a PhD in economics, both from Aarhus University.

way of working. You will participate in designing the process, and once that is in place, we will all follow it. No exceptions.

In the end, I don't think we lost any of them.

McKinsey: *That's an interesting distinction, because organizations more typically see a lot of resistance among middle managers.*

Martin Lippert: We encountered that too. It was a big change for them. Before, middle managers spent only about 10 or 15 percent of their time on real leadership—performance management, coaching, finding out what's going on in their organization. Instead, almost all of their time was consumed by projects, mostly to fix problems. That's a very inefficient way of working. We needed to reverse those numbers so that managers could spend 80 percent of their time being managers and leaders.

Some of the managers were truly unable or unwilling to make the change. But eventually most of them saw that what we were providing was a set of techniques that they could adapt as they needed. In working together with the front line and senior leadership to design the transformation in their teams, the managers gradually came to recognize how the whole system of lean management could help them accomplish more. It took time, of course, but once they did, we saw more involvement from them than ever before.

McKinsey: *What about the senior leaders?*

Martin Lippert: Again, the message centered on empowerment. Usually senior executives would start by saying, "Great project. You should understand, however, that while it might work in the sales organization, my group is different."

Every time we listened, and every time we pushed back.

We pointed to the results they could achieve. We acknowledged that there would be resistance. And we finished by underscoring that we would provide the tools; they would design the transformation so the results would be their own.

By being persistent and emphasizing ownership, we were able to persuade the leadership that the approach was worth trying.

McKinsey: *So persistence and empowerment are the essential elements?*

Martin Lippert: We also had the top team's commitment. TDC 2.0 may have started in one small part of the business, but its success made the top team interested. I expended a lot of time to help implement the process, and so did my colleagues.

The quality of the core transformation team matters. We moved senior vice presidents out of line positions to make sure that team would have people's respect from the start.

Additionally, we found that by effectively communicating the results, the results started to reinforce themselves. When people hear that a sales organization more than doubled the number of renegotiations it completed, they simply have to pay attention. I would say that communication in every direction—toward the board and top management, toward employees, toward other parts of the organization—was a major reason we succeeded.

Being able to decrease our cost every year gives us much greater flexibility in how we respond to changing customer demands.

McKinsey: *How have the changes played out across the organization?*

Martin Lippert: One of the most important effects was to build a real performance culture. Before, there were lots of discussions about figures and key performance indicators (KPIs) and so forth. But it seemed like everybody had their own reports, each showing something different. There were endless debates. So, in reality, people did not discuss performance. What they thought were discussions about performance were instead just discussions about data.

In the transformation, we sought to identify which KPIs really were the most important for leading the business in the right direction. Those became the new report, which is now produced automatically on a weekly and daily basis. We announced that this is the only report that matters, and we shut down the other reports—rogue reports, we call them—so that there was only one set of figures.

McKinsey: *So just standardizing the data was a very big deal?*

Martin Lippert: Yes. But we also needed to change what we did with the data. Rather than use the report to put negative pressure on poor performance, we used it to find positive opportunities, as a way to say, for example, "This salesperson must really understand how to go to market with this product. Let's learn from him and replicate what he does." It became the basis for coaching discussions, so that our lower performers could learn from the stars.

McKinsey: *What was in it for the stars?*

Martin Lippert: They also got more attention, in a positive way. Before, with only 10 to 15 percent of their time available for coaching, managers naturally focused on the weaker team members and ignored the stars. But redesigning the manager role gave managers a lot more time to spend with each team member. For the first time, the stars were getting coaching sessions and seeing that even they could improve.

McKinsey: *And that meant more sales.*

Martin Lippert: New sales increased by 80 percent—that’s 80, not 18—in the transformed teams, with no added personnel.

McKinsey: *That’s astonishing.*

Martin Lippert: But really, the other outcomes matter more in the long run. We have better knowledge sharing. We have increased agility. And in the process, we are reducing our costs by between 9 and 11 percent each year while raising our employee-satisfaction and customer-satisfaction scores.

In the business division, customer-satisfaction scores rose 15 index points in a single year. Usually companies struggle to raise those scores by 3 or 4 points; 15 is so unusual that the statistician rechecked all of the data.

McKinsey: *What are the broader implications for TDC in the future? How does this transformation inform TDC’s strategy?*

Martin Lippert: As an incumbent telco, TDC faces the same challenges confronting the rest of the industry, especially in Europe. Revenues are flat or decreasing. Competition is only getting tougher.

Increased efficiency is a necessary condition for us to be able to invest in the businesses that will provide future growth. The fact that we are able to decrease our cost every year gives us much greater flexibility in how we respond to changing customer demands.

McKinsey: *What comes next for TDC 2.0?*

Martin Lippert: I would say that we are only halfway through TDC 2.0, even though we are completing our implementation across the entire organization. We want to combine the strengths we have developed in different product areas so that we are even more precise in meeting customers’ needs. That is a large part of our organization-wide efficiency agenda as TDC 2.0 takes on a life of its own.

At the same time, we are already looking into what we can do for a third wave, which we are calling “radical simplification.” The idea is to build on the lean-management premises underpinning TDC 2.0 and push them further. o