# Stanford eCorner

## The 3 Constituents: Investors, Customers and Employees

**Rick Wallace, *KLA-Tencor***

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**Video URL:** http://ecorner.stanford.edu/videos/1604/The-3-Constituents-Investors-Customers-and-Employees

Rick Wallace, the new CEO of KLA-Tencor shares his insights about managing a large organization. He describes his job as making trade-offs to ensure that all three constituents, investors, customers and employees, are happy with the company. While they all have separate and sometimes contradicting motivations, a company's long term success is heavily dependant on its ability to cater to these three constituencies.

**Transcript**

I certainly think about these three constituents. And I think everybody starting businesses or entering them needs to recognize there are multiple constituents and they are not the same. Shareholders are certainly different, our investors are different, and customers which are different then employees. But they all matter. I used to ask this question in internal meetings, I would say, "Which of these is the most important?" And of course the finance people would say, "Shareholders." And the sales guy would say, "The customers are." And the HR people would say, "Employees are." And it's a bit of a trick question because you can't ignore any of these constituents whether private or public. The essence of this to shareholders, they want to know why they should invest in you. Whether you're a private or public, why should they put their money on you? And that's about a financial transaction. And what they want to earn in return for that investment? It has to match the risk associated with the investment. So obviously if you have more risks, people are going to expect higher return potential. And as the company gets more stable and this is measured as we all know it's measured against very safe investments like T-Bills.

But their needs are different than customers. Customers are going to why should they buy from you? They're going to have choices and we think a lot about that at KLA-Tencor as why should customers buy our product? How do we meet their needs going forward? And how do we make sure that we secure the market shares that we've enjoyed. And most of the markets we served were probably somewhere around 70% to 75% market share. And the reason we're there is because we anticipate what customers' needs and we develop solutions for them in anticipation of what they're going to need. We also charge typically we have premiums on pricing. We get anywhere from 20% to 30% higher prices than all our competitors. And you can only do that if you provide unique value. But the other constituent that's very important is employees. And why should people work for you? And clearly in a very small group then perhaps everybody has a large share of the equity and their different motivations. But as any other price gets larger, this becomes more and more important and especially in fields like ours which are high technology, the only real long-term advantage you have is your people because they are the ones that create the new products.

And so, to ignore your people is to lose your competitive edge and a lot of companies have done that. And that's why you see companies go up and come down is they don't understand that they have to motivate their employees. There is a tradeoff that you have to make and in my job, you can try to pretend that you can optimize all three but the reality is you're making tradeoffs. And the things that you would like to do for your customers or your employees might not be beneficial to shareholders. And so, you have to be mindful of that as you manage the company. And clearly you want to take a long-term view but you do get pressures from shareholders that aren't so long to you, not long term.