Leading a corporate transformation

Lessons from an executive who has done so three times in the past dozen years.

Few executives lead corporate-transformation efforts at three separate businesses before they turn 50, let alone businesses in three very different industries. Davor Tomašković is one of them.

The CEO and president of the management board at Hrvatski Telekom (HT), Croatia’s biggest telco (and a subsidiary of Deutsche Telekom), first came to wider attention in 2004, when he took the top job at the struggling Balkan retail and distribution group Tisak. After helping the company to stave off bankruptcy and helping turn it into the biggest national player in its sector, Tomašković was, in 2006, appointed CEO of TDR, a successful regional Croatian tobacco manufacturer that nevertheless faced a challenging economic and regulatory environment in the wake of the global financial crisis.

At HT, by contrast, where he became president and CEO in January 2014, Tomašković inherited a company that had been losing market share for at least five years but is now once again expanding after a radical cost-cutting and reorganization plan. In this interview (at HT’s Zagreb headquarters) with McKinsey senior partner Jurica Novak and McKinsey Publishing’s Tim Dickson, Tomašković reflects on common lessons from the three transformations, including the importance of quick results, the value of data-driven decision making, and the particular environment of emerging markets in the Balkan region.
The Quarterly: How different were the three transformation experiences you have been through?

Davor Tomašković: The first company, Tisak—now Croatia’s largest distributor of cigarettes, prepaid vouchers, and newspapers—was on the brink of a new bankruptcy and facing major cash-flow problems when I became CEO, in 2004. To give you an idea of what it was like, it was not certain, during my first week, that the wages of the 3,000 persons then employed by the company could be met. It was a company in dire straits.

TDR, which had some of the same shareholders as Tisak, was much bigger and highly profitable when I arrived, in 2006. However, it also faced an uncertain future owing to the fact that negotiations to sell the business to Philip Morris International—one of five global companies that, between them, control 84 percent of the worldwide market—had just collapsed. As a consequence, PMI had withdrawn its license agreement for us to manufacture Marlboro cigarettes.

Hrvatski Telekom posed, yet again, a different scenario. The challenge here was to turn around a company that had, in effect, failed to meet most of the targets set by its parent, Deutsche Telekom, between 2009 and 2014. What was needed was a program to arrest HT’s obvious decline and a new growth strategy.

The Quarterly: Speed seems to be an important part of your management approach. Why is it important to act quickly when you want to change an organization?

Davor Tomašković: At Tisak, the organization was ripe for change because there was a burning platform. It was obvious that without rapid action, the company would not survive.

At TDR, on the other hand, I initially experienced resistance because the company was demonstrably highly successful—the prevalent mindset among senior management was to preserve the status quo and not to embrace change. Speed, in this case, was of the essence because market trends and fluctuations were already indicating that without early change, the company’s performance would probably have declined within a year.

It is particularly critical to move fast and demonstrate early success when workforce morale and management credibility are low. This was the case at
HT, which was consistently missing critical targets, though employees and managers worked hard and the company enjoyed a good, albeit declining, position in the market. They felt demoralized. In early discussions, it was clear that many were skeptical of my ability to add tangible value; rather than blaming performance, they felt they were battling overambitious targets and other circumstances beyond their control. While it’s true that telcos throughout Europe were in decline, the reality at HT was that profits were falling faster than revenues because the company had failed to adjust its costs. It was important to demonstrate this.

**The Quarterly:** Do you think that managers, more than shop-floor employees, are potentially the obstacles in a transformation?

**Davor Tomašković:** One of my first moves at HT was to de-layer the organization. We not only reduced the number of management positions by one-third—from 300 to 200, in some cases removing two out of six tiers of management—but reshuffled or rotated another third of them. Only one-third of managers retained their existing positions. That reshuffling brought a new pair of eyes to almost every situation. Combined with an early attack on other costs, such as the review of our collective-bargaining agreement and contracts with vendors, it demonstrated unequivocally that there was real scope for improvement.

Everything starts with the managers. In every organization I joined, I started by making changes at the top; I have never made changes from the bottom up. At HT, I also replaced five of the six board members within my first year, for the simple reason that I did not think they had the right mindset or the will to effectively implement change, primarily because they perceived that to do so would be an admission of past wrongdoing.

**The Quarterly:** A lot of CEOs say that after the initial jolt, it’s hard to stop people from falling back into old habits. How do you guard against that?

**Davor Tomašković:** We attempted to circumvent this by launching a comprehensive three-year transformation program at HT. The first year was about building credibility and reducing costs. In the second year, the focus switched to customer experience and to addressing our deficiencies in the marketplace. Year three has been about driving revenues and returning the company to growth.

The first year was vital for gaining initial credibility. It was critical, during that period, to focus on results and to achieve all preset targets. Once that
was done and the dividends of change were obvious, then most people were ready to come on board and to respond to fresh challenges. It is vital to identify the right priorities at each stage of a transformation. We could, for example, have spent more time early on building up the culture of the company, but as far as I was concerned that was not the most pressing issue at the time. It would have been a distraction to devote our energies to this.

**The Quarterly: To what extent do you rely on gut instinct when making decisions, and how much on analyzing the data?**

**Davor Tomašković:** Moving fast and executing well are, as I have said, two of the most vital ingredients of a successful transformation. A third, for me, is to stick closely to the facts when it comes to decision making and not to allow instinct to take over. In the tobacco business, for instance, successive policies to curb smoking mean that tax represents 80 percent of the retail price of a cigarette. It is common knowledge that this tax is going to increase year on year. At TDR, one of the key decisions was therefore how much of that burden to pass on to customers.

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**Davor Tomašković**

**Career highlights**

**Hrvatski Telekom**  
CEO and president of the management board (2014–present)  
Director of strategy and business development (2002–04)

**TDR**  
CEO (2006–13)

**Tisak**  
CEO (2004–06)

**McKinsey & Company**  
1998–2001

**Education**

Graduated with a degree in electrical engineering at the University of Zagreb in 1994

Earned an MBA (summa cum laude) at Bocconi University, in Milan, in 1997
For years, managers used to rely on instinct and tradition, using their own personal predictions of how they thought competitors and customers would respond. As a nonsmoker from outside the industry, I had no idea what impact a price increase might have. So I insisted that we build a model showing the effect, on the profitability of each brand, of passing on or not passing on the tax increase to the customer, or perhaps only passing on part of a particular tax increase. This fact-based sensitivity analysis allowed us to see what the impact of any pricing moves might be on our volumes and allowed the company to make better, more informed decisions.

**The Quarterly:** Do you see no place for gut instinct?

**Davor Tomašković:** I think it is easier for someone to develop a gut feeling when they’ve spent 20 or 30 years in an industry; then, perhaps, some soft factors can be allowed. However, I was an outsider to each of the companies in my custody. Here, working with gut feeling was not an option. I always try to push for an analytics-driven, fact-based approach. Doing so doesn’t mean you get all the assumptions right. By building different scenarios, you can vary the assumptions and at least know how much the output is likely to change with each one. Nothing is black and white. It’s always about choosing between two shades of gray, whether the decision was about building a new tobacco factory at TDR or investing in new telecom infrastructure at HT.

**The Quarterly:** How do you think about leadership during the intensity of a transformation?

**Davor Tomašković:** In all three of the companies where I have been CEO, I inherited bad leaders as well as good ones. I think CEOs have to be comfortable with the people they’re surrounded by. They have to share the same set of values; if that’s not the case, then having conversations and making decisions becomes difficult. In my view, the best leadership style encourages open discussion, but once we make a call, we all stand behind it, no matter how different the views aired previously. When there is a bad decision, I never go back and investigate why or find someone else to blame. I try to look forward and see what I can do to rectify the situation, to make a new decision that will set us on the right track again.

As a leader, I always try to delve into the details myself. There are experts for everything you need in a company—people who have done certain jobs, certain work, for many years and know exactly how things are done. The role of a leader is to aggregate and distill all those inputs and expert views and come to an informed decision.
It is also vital, as a leader, to know what the levers are in your chosen industry. In tobacco, as I said, it’s about pricing—a wrong decision can quickly turn a profitable company into an unprofitable one. In retail distribution, the margins are extremely small. You need to be very, very cost conscious. You need to be very careful about making big bets, because big bets can backfire. The telecom sector, on the other hand, is very capital intensive, so you need to manage investments expertly because you make decisions today whose effect becomes evident only with the passage of time.

**The Quarterly: How do you see the strategic outlook for telcos in Central and Eastern Europe?**

**Davor Tomašković:** The reality is that the European telecom market is in decline. It is highly fragmented, with about 150 to 200 operators serving a population of 250 million people, against just 4 operators for a similar number of people in North America. Incumbents face overregulation, while new, unregulated players—such as WhatsApp, Viber, and Facebook—are offering similar services to the same customers.

Companies like HT, which hold large market shares in their home markets, have little scope to grow traditional products. It therefore becomes imperative to run ultra-efficiently and to find alternative revenue streams outside the core telecom business, be they in digital services or content and IT-related activities. It is also important to grow in markets where regional synergies may be harnessed to justify high capital investment and to maintain competitiveness and long-term sustainability. Large players like Deutsche Telekom, British Telecom [BT Group], Telefónica, Orange, and Vodafone must lead the next wave of consolidation. In the Balkans, we at HT can play a role—in Slovenia, Bosnia, and Serbia, the state-owned telecom companies will sooner or later be privatized.

**The Quarterly: What should companies looking in from the outside know about the Balkans?**

**Davor Tomašković:** The markets in Southeastern Europe are very small and are lagging behind Western Europe in market development. Trends evident in Western Europe will only become apparent here in a few years’ time.

The environment in which companies operate in the Balkans is also much less stable and predictable. We operate in a scenario, for example, in which it is possible to face the sudden introduction of a new government tax that is required to float the budget or perhaps because the government feels that a
particular industry is sufficiently profitable. This is not something which would normally happen in, say, the UK or Germany.

Another key difference is the governance model. There are many private companies, owned and managed by the first generation of entrepreneurs here, which have not made that transition from entrepreneurial to professional management. This will change when the current generation of entrepreneurs reaches the end of their working lives, and there will be an opportunity for foreign private-equity investors to capture and consolidate some of their assets.

The Quarterly: Going back to your own experience of leading three companies, do you personally prefer being in the turnaround phase or plotting new areas of strategic growth?

Davor Tomašković: Turnaround situations are very exhausting and require a lot of effort and energy. It is not possible to be in a turnaround situation forever. That’s why I focus on speed and execution at the beginning, in order to spur fast motion. This then lets me step back and say, “OK, where are we taking this company five years from now? What are we going to do with it? What is going to be the environment in which we’re going to operate? How are we fit for that environment? What do we need to change over the long term?”

For a CEO, it’s easier to manage a company that is currently not doing well, because people understand the imminent need for change. On the other hand, it is far more risky because you may find, when you start, that it’s too late to succeed. Your space to maneuver is very small and the time horizon very short. If you make a mistake in your judgment, the company may fall over. I would always feel more comfortable improving the performance of a company that is doing relatively well rather than one on the brink of bankruptcy.

Davor Tomašković is CEO and president of the management board of Hrvatski Telekom. This interview was conducted by Jurica Novak, a senior partner in McKinsey’s Bucharest office, and Tim Dickson, a member of McKinsey Publishing who is based in the London office.