February 2019

McKinsey Quarterly

Ten years at the top of a telco: An interview with Vittorio Colao

The former CEO of Vodafone, who stepped down from the top job last September, reflects on the industry's challenges and what he learned as a successful global dealmaker.

Not many CEOs stay in their post for ten years, especially in a demanding and fast-changing sector like telecommunications. But Vittorio Colao did more than guide this European multinational for a decade. He transformed it into a global player with a coherent set of mobile and broadband assets. And he pulled off two of the most ambitious deals in the industry's recent history—Vodafone's $130 billion sale of its 45 percent stake in Verizon, in 2013, and last year's €18.4 billion acquisition of Liberty Global's German and Eastern European cable-TV operations. He recently sat down with McKinsey's Guido Frisiani and Tim Dickson to reflect on the state of the industry, what he looks for in people, and some lessons from his M&A playbook.

The *Quarterly*: *What do you see as the main challenges facing the global telecom industry?*

Vittorio Colao: I see three. The first two are self-inflicted—the lack of a genuine customer orientation, which, if you have it, makes customers truly love your services and thereby drives value, and the prevailing short-term focus of management incentives. The third is endogenous, namely regulation.

Steve Jobs was right when he told me, in 2007, that "people hate their phones." At the time, I thought he was mad, but I was wrong. By and large, as an industry we have failed to create enough trust in our brands and a sufficient sense of loyalty and appreciation for our products and services, despite the fact that they are essential for people's lives. Because of this lack of trust, the telco industry has not fully monetized its large investments. Be it because of roaming charges, hidden price increases, sloppy customer care, overpromising of connection speeds, or whatever else, I don't know a telco in the world that has really been able to create an outstanding level of personal relationship and affection.

Sometimes it is small things. Take a recent experience I had cycling in the Italian Alps. I never actually crossed the border with Switzerland but was close enough that my phone repeatedly connected to the Swiss network. As a consequence of the extra charges, I ran out of credit, and my exercise-tracking app ceased to operate. When I called to complain, I was, obviously, offered a refund, but it was in the spirit of a gracious gift to a good customer. The operator did not even entertain the possibility that the system was wrong in reporting me as being in Switzerland. I am sure she genuinely thought she was offering a good service, but it was not the supreme customer experience of an Apple or an Amazon.

Several European and Asian operators, including Vodafone, are now investing to improve their customer experience. But this has to be a long and sustained effort. There is also a significant new opportunity with 5G and IoT.[1] I hope the industry has learned the lesson and moves consistently to achieve both value creation and customer appreciation, to support the innovation and development opportunities of the next five years.

The *Quarterly*: *You mentioned the way the industry structures its management remuneration. What is wrong here?*

Vittorio Colao: Many industry executives—especially at incumbents—have bonuses based on single-year financial metrics, but with no link to value creation. Inevitably, this encourages them to chase short-term economics and creates a collective pressure in the industry to adopt marginal pricing. The first player to do so gets a temporary advantage, the second neutralizes that advantage, and the third destroys everyone's return on capital. That makes it harder to justify new capital investment.

I think the only way to change behavior and focus attention on the balance sheet is to pay executive-board members in shares, which they should not be allowed to sell for ten years. At Vodafone, for years we've given all senior executives—not just the ones sitting on the board—a bigger proportion of their remuneration in shares than in fixed salary.

[1] The Internet of Things.

The *Quarterly*: *Don't investors and stock-market analysts bear some of the blame for short-termism?*

Vittorio Colao: I don't agree with those who say that all investors are short-termist. The good ones do think long term. The problem, in my view, is the role split and the disconnect between the corporate-governance people and the investment managers. I cannot remember any fund voting against a remuneration package on the grounds that it was too short-term focused. Nor has an institutional investor ever challenged me on diversity policies, on the share of women in top positions, or on environmental-sustainability concerns. Yet if these are important topics, as I believe they are, then they should be part of the dialogue with investors, just as much as returns on capital. This split between investment teams and governance teams is simply unhealthy.

The *Quarterly*: *Let's turn to the issue of regulation and what companies can do to influence it.*

Vittorio Colao: If I were a policy maker—and, in particular, in these times of transition to a digital society—I would like to have the best networks, the best mobile coverage, and the most extensive fiber footprint. I would want to use technology, in particular the Internet of Things, to help manage the environment, to improve health—better monitoring of patients at home, connected ambulances—and to increase safety and security. All this requires investing more, not less.

I am afraid many regulators don't draw this conclusion when they focus on introducing new competition, which is intended to produce consumer benefits but has the inevitable effect of reducing the returns and therefore the appetite for investment. As an industry, we have not been good at explaining that profit is not really profit unless you have taken into account future investment demands and the necessary returns to make investments sustainable and stable over time. We also need to emphasize what we can do to improve people's lives. In Milan, for example, everyone takes it for granted that you can make calls and have data services from trains, including when they are in tunnels. But except for Wi-Fi-connected stations, that's not the case with the Tube in London.

There are some physical constraints, to be sure, but having ubiquitous access would be of high value for society. Think of the increased security for women traveling at night, for example, or the reduced stress for commuters trying to rearrange an appointment. With hyperconnectivity and IoT potentially set to reshape the way we live—transforming health, our security, and our mobility—telcos can be the best partners to any government, city, or local administration over the next ten years. Together, we can not only solve problems but reduce the cost of delivering public services.

The *Quarterly*: *Do you think industry consolidation is one of the answers?*

Vittorio Colao: Well, this is a slightly hyped concept. I've seen consolidation leading to good industry outcomes and also to bad. Much depends on the intentions of consolidating companies. If you get a new operator springing up every time you consolidate, I'm not so sure it's an advantage. If instead it leads to better conditions for investment, it is good. Take Italy, for example. It was already a very cheap market, but the third and fourth operators merged, and a new one came in and took prices even lower. If we acknowledge the need to balance short-term consumer benefits with the requirements for long-term infrastructure, is the country better off today?

The *Quarterly*: *Is it sustainable to have three to four operators in each European country?*

Vittorio Colao: From a competition perspective, I think you probably need three mobile and two fixed-infrastructure operators per country. With one fixed or two mobile, the consumer may suffer. But three fixed and four mobile players can be a waste. That said, we must never sacrifice competition. The incumbent telco industry's allergic reaction to the very word "competition" is what has taken away the industry's credibility. My exhortation is "always talk about investment and competition in the same sentence." I am convinced they can and should coexist for the benefit of users.

The *Quarterly*: *Let's shift from the industry at large to your experience at the helm and talk about team building and what you've learned about people. How did you build up the executive muscle at Vodafone?*

Vittorio Colao: I don't think you can be a good CEO unless you are both an optimist about human beings and their potential, on the one hand, and paranoid about the potentially negative consequences of what could happen externally, on the other. I always hire people more on their potential than on their past experience and on what's now called "authenticity"—though I only knew the word "genuine." I don't like it when someone starts bragging in an interview or they try to spin two stories.

One of Vodafone's top executives is a Turkish lady who got hired because she took out a newspaper article from her purse during our interview and told me, quite bluntly, that she didn't understand our advertising. That led to a discussion on strategy, customers, perceptions, and other things and made me realize her great potential. Conversely, I didn't hire another candidate with a wonderful résumé when she told me, with great pride, she had won tens of advertising awards and prizes . . . but then couldn't locate a single sample of her work on YouTube!

The *Quarterly*: *Did you encourage the whole company to adopt this approach?*

Vittorio Colao: At every monthly executive-committee meeting, I introduced a full discussion of every hire, every fire, and every lateral move or promotion for the top 250 managers. So the "owner" of a specific area would say, "Oh, my marketing

Rapid reflections

Vittorio Colao

What is the best piece of wisdom about life that you've received from a creative work, such as a book, play, movie, or opera?

The section "Get in shape for the race" in James Citrin's book about CEO life, *You're in Charge—Now What?* Physical stamina and exercise are essential for me.

If you had the power to order up a consumer tech product not yet invented, what would it do?

Something that could massage and manipulate my back, just as my osteopath does, while still talking to me knowledgably about cycling and windsurfing!

If you could have chosen to play one sport professionally, which one would it have been?

Judo, basketball, soccer, French boxing, skiing, windsurfing, cycling—any of these or the others I have been always mediocre at . . .

If you hadn't been a business executive, what other full-time job would you like to have held?

Officer of the Italian Carabinieri (something in between working for the US Federal Bureau of Investigation and the police)

What is the worst bit of management advice you've ever heard?

"Self-cannibalize your revenues!" If the company has time, it is much better to eat them politely and slowly, with silverware, and pausing between courses.

director in Hungary needs to move. Who is available?" Many thought that this was a way for me to exercise power and control, and to some extent it was. But the real intention was to have an open debate in front of everybody about what makes a manager effective and what doesn't.

At first, many would challenge the value of partaking in discussions about individuals and geographies they knew nothing about. And my answer was always, "Because it's not the person per se that is important; it's the discussion." You hear that someone is starting to become a really good coach and mentor or another person is giving too many interviews to the press. In this way, my colleagues learned—as did I—about what constitutes good and bad behavior.

The *Quarterly*: *What about younger talent? How do you face competition from exciting and inspiring employer brands such as global internet and tech giants?*

Vittorio Colao: I'm not pretending that we have cracked this nut, but I do know that older companies need to change the way they recruit: there has to be less process, more substance, and more personal engagement. Traditional career-path incentives and motivational tools are no good. The classic example at Vodafone was that we used to discourage our people from going to conferences unless they were speaking, and required multiple authorizations. But young people don't accept this anymore. They want to share information with their peers; they want to be able to get out and about. The real challenge, as it happens, is not so much how you change that for new recruits—that's relatively easy—but how you avoid giving certain freedoms to a section of the company and not to the rest, thereby causing resentment.

It's clear to me that the classic organizational model, based on functions, highly centralized architectures, and waterfall-type development of products and services, is gone. It's also clear to me that the complete adoption of a nonstructured, delegated, uncontrolled model, especially at scale, is impossible in a large company.

The challenge is to find the right balance. I think it's a waste of time to try to define the boundaries too precisely. Eventually, you will feel the limit, but it's worth going there and experimenting. Some people worry that giving too much freedom is a recipe for messing up, but I've never seen big disasters made by people taking actions in good faith. I go back to my point about the good nature of people, combined with paranoia about the consequences of negative events.

The *Quarterly*: *What other sorts of organizational actions have you taken to encourage greater agility?*

Vittorio Colao: We started breaking down the barriers through the creation of agile teams; when I left, there were about 100 such teams involving perhaps 1,500 people. Now, Vodafone probably has close to 2,500. There are always practical challenges in establishing new ways of working, one being how to reconcile the agile approach with long budget or approval cycles. If you don't change finance processes, after all, people will feel frustrated and decisions get blocked. And then there's what do you do with more flexible working to accommodate parents with small children when agile teams have daily meetings at, say, 8 o'clock? If you shorten development cycles and decision-making cycles in the pursuit of greater agility, missing half a day becomes much more important. I am a pragmatist, and I'd allow people to organize themselves and try to work out their own problems rather than trying to resolve everything from the top.

The *Quarterly*: *When people look at your M&A track record, your timing looks impeccable. Was that luck or good judgment?*

Vittorio Colao: Luck plays a part in whether you are in the right economic cycle. But there are three things that you and the company can control. Firstly, as a leader you need to have very clear ideas of what you really want to do but resist the temptation to talk about them. Secondly, you need a good board because the problem with M&A is that it's fun, and everybody wants to stick their fingers in. Boards should be informed but not become involved: the moment the other side in a negotiation detects that there is more than one actor, you immediately lose your leverage. Finally, you need to be patient. A good deal may take one year, two years, or even three. We started talking about some of the Liberty assets in 2013, but there were many complexities and we proceeded first with the Dutch joint venture and then the other European acquisitions.

Many executives underestimate the psychological and personal elements and believe M&A is a matter of money and a good investment bank. It's not. It's about motives, incentives, whether you're liked, or whether somebody else is more liked. The personal relationship is important. With Verizon, we needed to work out whether a merger or a partial merger made sense. It did not, and we ended up getting a much higher price than everybody thought we would get.

I also dedicated a huge amount of time to investor relations, doing every single announcement and road show myself and never just delegating to the CFO. As a public company, you always have to face the intrinsic difficulty of balancing what you say publicly—"I'm not selling France" or "I'm not selling Verizon"—with what you can say privately to trusted counterparts—"I don't want to be a minority shareholder forever"—to respect the law and to be genuine at the same time. For example, I realized back in 2009–10 that Vodafone would not be just a mobile operator in the future, but if I had said so bluntly, then investors would have asked me what we were going to buy and how much it would cost. They would have worried that we would spend on the wrong things. Or take Idea Cellular, in India. We only just closed the merger, but when I left, last September, I found internal presentations talking about Idea dating back seven years.

The *Quarterly*: *Besides M&A, you also have a reputation as a "details man." What's the secret here?*

Vittorio Colao: I remember one of my first jobs as a McKinsey business analyst was visiting scrap-metal dealers in Italy. It was quite an experience that helped me understand the importance of getting to the bottom of how business really works! I also like looking inside shops, something that probably goes back to my days as an officer in the Carabinieri, when I learned to inspect barracks at 10 p.m. and not at 10 a.m., when they have cleaned everything up and are expecting you. When I visited our operations around the world, I always popped unexpectedly into a competitor's store, together with the country CEO, to see things first hand. This attention to detail comes pretty easily to me . . . and it is also fun.

I think it also helps that I like gadgets and I like testing new things myself. I've always been impressed by how much Silicon Valley and West Coast CEOs know about their products, and how little some telco leaders know. By understanding what data or apps you can download to a phone and what that looks like, you can see problems from the customer's perspective. It's also a reason why I never accepted a CEO job in a sector whose products I don't relate to—it's much better to do something that you are passionate about.

In addition, I always tried to get others' input. I'm lucky: I communicate easily with every level in the company, and that's superimportant because you get feedback about how things are or at least helpful hints for you to interpret. It's too easy to start working in your office, spend your time in meetings, and forget to go out.

The *Quarterly*: *How much of your time did you spend networking?*

Vittorio Colao: In the first six or seven years of my tenure, I was called the media-shy Colao, the guy who doesn't want to go to social events. That was partly driven by family needs, but it was also the result of some great advice I got from Ivan Seidenberg, former CEO of Verizon. When I became CEO of Vodafone, he advised me, "Don't go to business dinners, don't go to charity dinners, keep a low profile, don't give interviews about yourself, and you will put all of them into their graves!" As you approach the end of your tenure, of course, that changes a bit.

As a CEO, it's really important to remain self-aware and listen to what I call "quality connectors." These are the people who give you real feedback and good advice. As a leader of a company like Vodafone, you can meet anyone, and it's easy, if you want, to build up thousands of contacts. It's a mistake; all you get is lots of noise. I always tell younger executives to find, say, one journalist or editor, one magistrate or judge, one regulator—people in the outside world you respect—and listen to them about what's going on. They don't have to be friends. But a small number of quality connectors is much better than a huge network.

The *Quarterly*: *Looking back over your ten-year tenure, how do you think you changed?*

Vittorio Colao: I think that, as with everything in life, you become wiser over time. In the first period, I don't think I took prisoners. I changed the organization and changed the team. Somebody told me recently, "At some point, you became softer and more of a people leader, less of a decision-making leader." Still, at my farewell dinner, I was defined as "a benevolent dictator"! By definition, a CEO is an autocrat but being benevolent is a good thing.

The *Quarterly*: *Do you think each CEO is best in a particular situation? In other words, can someone be both a turnaround expert and a growth leader?*

Vittorio Colao: People change over time—look at Kasper Rorsted, who did a great job at Henkel and is now doing a similarly great but very different one at Adidas. Some CEOs go from running big companies to helping small ones turn themselves around or maybe they try to help young people to grow. It's always about motivation, interest, and ambition. What is the motivation for doing certain things? What is a person interested in? And at the end of the day, what's her ambition or his ambition for that phase of life? And it could be different in different phases of life. If you're an intelligent person with the right motivation, you can have six lives.

The *Quarterly*: *What do you look back on with the most pride?*

Vittorio Colao: Being a truly international and diverse company in technology is very difficult. So the human environment—the values, the adherence to a set of common principles on how to work together, and the relationships among colleagues—has been remarkable at Vodafone. Fostering and preserving that spirit is the best way to guarantee the longevity of a business. It has allowed us to be clean, respectful, professional, to have fun, and to do a lot of amazing things. And if I have to mention one specific thing, I am really proud that the senior female representation of the group rose from 20 percent to 31 percent and that we were recognized as a very inclusive organization. This was one of our key international values, across geographies and cultures, which we always celebrated along with our local roots.

Vittorio Colao is the former CEO of Vodafone. This interview was conducted by **Guido Frisiani,** a senior partner in McKinsey's Milan office, and **Tim Dickson,** a member of McKinsey Publishing who is based in the London office.