

Leading change: An interview with the executive chairman of Telefónica de España

Julio Linares explains the design of the company's big turnaround program. Third in a series of interviews with leading executives on change management.

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In the late 1990s, Telefónica de España's position seemed parlous: the incumbent telecom operator's fixed-line business was declining and gross earnings had fallen for three consecutive years. From 1999 to 2000 alone, the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) declined by 10 percent and its cash flow by 15 percent. At the same time, the sector was liberalizing, competition was intense, and growth opportunities were unclear. Consequently, employee morale was low and the future outlook gloomy.

Yet during the past four years, the organization has transformed itself: its cash flow keeps climbing, the declining earnings trend has been reversed and the workforce drastically reduced, and the return on invested capital (ROIC) has almost doubled. Telefónica de España is the only wireline operator among its peers that has grown in terms of revenues and EBITDA. And it is now a leading European broadband operator, with a stronger customer focus and a compelling vision.

Telefónica de España's turnaround was part of a wider change at the parent Telefónica Group, which over the past decade has expanded into 40 countries and achieved the highest shareholder returns among its industry peers. Telefónica de España experienced one of the biggest business transformations in the Telefónica Group. We talked about the issues regarding the importance of program design with the company's executive chairman Julio Linares.

McKinsey: When you began, back in 2000, did you have any particular aspirations you wanted to realize?

Julio Linares: Rather than realize any specific aspiration for change, the company needed to change completely to survive. The market was very mature, and the forecasts for the company's economics, if we did not change, were particularly bad. I think we were fully convinced that change was absolutely necessary.

McKinsey: How was the program designed?

Julio Linares: We designed the program around three modules—growth, competitiveness, and commitment—with midterm objectives and a series of "waves," each lasting a year. The top-management team would get together in November and design the wave for the next year, keeping the modules consistent over time. This wave was then communicated to the top 500 people in the organization at an event every January—at the same time we explained how we had delivered last year's wave. By having the waves as annual cycles, we were able to tie the waves into the budget cycle and to keep the transformation initiatives, budgets, and financial targets knitted together. A yearlong wave is enough time to have an impact, and that impact becomes very visible in the annual results.

McKinsey: What were these waves?

Julio Linares: The waves were designed to meet the goals and priorities for the year. They were made up of three or four large blocks of work, which together would deliver the year's performance and transformation goals. Each of the smaller projects that formed part of the transformation found a home in one of the larger blocks or modules. We discovered that this approach is a useful communication device—it helped people understand how the project they were working on would contribute to that year's targets and, therefore, to the overall transformation program.

McKinsey: Why did the waves need to change every year?

Julio Linares: They did not change radically—the initiatives that made up each wave were certainly recognizable and consistent with the three modules from one year to the next. What changed were the types of efforts within the different modules. However, I don't think you can succeed with a program that is very stable or rigid. People need to feel that the transformation effort is changing and moving forward; otherwise they will believe that there has been no progress and that they are not changing.

McKinsey: Did the process of designing each wave of the transformation program involve a lot of people?

Julio Linares: At the beginning, no. It was basically a top-down effort because of the need to change quickly. But I realized that it was very important to change that approach. When it is top down, it is very difficult to engage people, to convince them to make the effort. So we changed by involving different levels of the organization as much as possible, although I recognize that we haven't yet reached the kind of engagement we need.

McKinsey: When did you realize that you needed to involve more people?

Julio Linares: I don't know exactly when, but my biggest effort has been to convince people of the need for the program and to involve people in it. That is, from my point of view, the biggest challenge in the whole process, the hardest part of the transformation. I think it is much easier to design the program than it is to involve and engage everybody in the transformation process.

McKinsey: What have you done to involve people?

Julio Linares: Initially, we thought that it would be enough to use a cascaded communication program, but over time we realized that it wasn't enough. And although we increased participation in the cascaded communications every year, I would say that it is difficult to engage everybody just through communication. If people do not participate in the design of the program—if they feel it is something imposed by top management—then it is difficult to make them feel engaged.

But involving everybody in the design would take too long and be difficult to manage. Telefónica de España is a very large company and we have people located throughout the country. From my point of view, the real difficulty here is to try to find a balance in the whole process so as to give relevant people at different levels of the organization an opportunity to participate in the transformation program's design and then to complement that with a strong communication program. That way, we are more likely to reach 100 percent engagement, which is the objective we should have.

I think it is more important to involve people from the very beginning than to have a perfect design, because the result depends more on the engagement and commitment of people than on the design. So in the first waves of the program, I spent 90 percent of my time designing the program and 10 percent communicating it to people. And now I do exactly the opposite: 10 percent for the design of the program and 90 percent for involving people.

McKinsey: Have any pockets of the organization been involved in the program in an especially productive way?

Julio Linares: I see a big difference in the involvement of people when they have a clear objective as compared with an objective that is complicated and difficult to understand. If the objective is clear, then everybody has a very good view of the progress made against it. I have come to believe that this is very important.

Take, for example, the objective of having one million ADSL1 subscribers by 2003, which we set at the end of 2000. This objective may seem obvious now, but it wasn't then.

And, fortunately, the objective was very simple, very clear; it was recognized and understood by everybody. It was easy to track because everybody knew the number of ADSL subscribers we had, and so it was easy to share with the whole organization how well we were progressing. And, fortunately, at the same time this was an objective that required many people to be involved: salespeople, installation and maintenance people, technical people. Almost everybody seemed to have a part in attaining the objective. Also, it had a very clear connection with our view of the company's future.

But when we tried to set up the same kinds of objectives in other areas of the company, it was not so easy. It's very difficult to find objectives with such power, but it is necessary.

McKinsey: When you had identified the objectives and the people to deliver them, how did you bring them to life?

Julio Linares: One issue was whether we should make a specific part of the organization responsible for achieving these objectives. We decided not to, so we kept the organization as it was and worked on the transformation efforts in parallel with day-to-day business. Each module was championed by a senior executive and had a full-time manager with high visibility in the organization. Apart from this manager, most participants in the different initiatives combined them with day-to-day work.

McKinsey: Was this effective?

Julio Linares: Yes. For instance, I think people are more open and able to work on a project basis than they were before. Everything used to be regimented and organized by functions or business units, but today I see people more open to cooperating with people from different parts of the organization and more willing to work on a project basis. I think it's easier to share common objectives.

McKinsey: How has management's behavior changed throughout the process?

Julio Linares: I believe we have changed a lot. Nowadays, the organization is more oriented to results. Also, we all have understood the need to balance the focus on short-term results with efforts to gradually change our capabilities and attitudes. Finally, I would highlight the fact that the organization has advanced significantly in its customer orientation and has also become really conscious of efficiency—critical requirements for our current and future success.

McKinsey: You moved to another stage of the transformation after four years. Why?

Julio Linares: We had made small changes to the program every year as we launched each new wave. After four years, however, we thought that people were a little tired of the program. We believed that it was necessary to push further and to relaunch the program with more vigor and energy.

At the same time, we believed that this was a good moment to celebrate the results of the program so far and to recognize that it had been very good for the company, that we had reached many of the objectives we set forth at the beginning, and that we had made progress in the transformation.

But it was also necessary to recognize that a changing market and different conditions made it necessary to give more energy to the program. This was a difficult message to combine with the message of celebration, because you are in effect telling people that they have been working hard and that the program has been successful, but now they need to change how they work. Communicating this message needs to be done carefully if it is to be done well.

McKinsey: So you needed to reinvigorate the program?

Julio Linares: Yes, summing up I would say that three things—the fact that people were a little tired with the program, that we needed to emphasize new things such as novel capabilities, and that more energy was required—made us make the decision to move into a new episode of our transformation. By this, I mean a set of new initiatives, also organized in waves, that will emphasize new change topics, such as integrated solutions for customers.

McKinsey: So you have created a culture where people expect change every year?

Julio Linares: I see the process as something that will not end, ever. Because I don't think the market is going to stop changing. The market is going to change constantly, and because of that you need to make a constant effort to adapt your company to the market. Of course, some parts of the program will end, but new ones will come up. It's a never-ending journey.

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