

grinnancey

Leading change:

An interview with the CEO of Banca Intesa

Corrado Passera explains how he pulled off two successful corporate transformations.

**Giancarlo Ghislanzoni
and Julie Shearn**

Newly installed CEOs have the advantage of starting fresh when they join an organization that needs deep-rooted change. But typically they are also cast in the role of “corporate savior” and expected to demonstrate rapid improvements in performance—even when market conditions are tough and they are struggling to familiarize themselves with the details of the business. Recent history is littered with the reputations of people and organizations that failed the test.

In fact, few chief executives can claim to have successfully transformed even one large, foundering organization. Yet Corrado Passera has already transformed two.

Passera joined Carlo De Benedetti’s business empire in 1985 and thereafter served as CEO and COO of the holding company CIR (Compagnie Industriali Riunite), deputy chairman of Credito Romagnolo, COO of Arnoldo Mondadori Editore, deputy chairman and CEO of Gruppo Espresso-Repubblica, and managing director and co-CEO of Olivetti. Although he forged his reputation at these businesses from 1985 to 1995, nothing could have fully prepared him for the challenge he faced in 1998, when the Italian government asked him to take over the reins at Poste

Article at a glance

In this interview, Corrado Passera describes the turnarounds at Poste Italiane, Italy's state-owned post office, and Banca Intesa, the country's leading bank.

Each case was different, but common themes emerge: the need to rediscover earlier roots of success, the importance of balancing sacrifices with benefits, and the challenge of managing internal and external expectations.

Passera's experience shows that change initiatives work well only with a well-functioning top team and committed leadership across the organization.

He is convinced that executives need to manage restructuring and growth at the same time.

Italiane. This state-owned postal system—then a byword for Italian bureaucratic inefficiency—hadn't made a profit in more than half a century and was close to collapse. During the next four years, Passera worked with Poste's employees, unions, and other stakeholders to reverse its losses and improve its services. Almost 10 percent of the workforce was laid off. Meanwhile, as part of a wider transformation, Poste's small deposit-making operation morphed into a diversified financial-services company that sells everything from consumer loans to mutual funds. Poste was in the black by 2002 and has remained profitable ever since.

That year, Passera embarked on his second major challenge: taking over the top position at Banca Intesa, then a lumbering institution struggling to cope with a raft of nonperforming loans and to integrate the banks that had merged to form it—Banco Ambrosiano Veneto, the Cariplo savings bank, and Banca Commerciale Italiana. No stranger to the banking business, having briefly run Ambrosiano in the mid-1990s, Passera set out to focus Intesa's strategy on retail banking in Italy, rationalized the group's previously crowded product range, and injected new management impetus into the branch network. Top-line revenue, previously in decline, is back on a moderately upward path, and Intesa's shares have climbed by 145 percent in the two and a half years since the restructuring plan was announced, in September 2002.

Giancarlo Ghislanzoni, a director in McKinsey's Milan office, and Julie Shearn, an associate principal in the London office, interviewed Passera in Milan.

The Quarterly: *To what extent were the turnarounds at Poste and Intesa different?*

Corrado Passera: There are some basic rules that were valid in both, but it's very important to look at the two cases with different eyes. It may seem obvious, but at the beginning you really have to understand where you are, what happened in the past, and why it happened. You have to identify the

remaining strengths and assets you can use to build for the future. You have to appreciate the main constraints on developing the organization.

At both Poste and Intesa, there were large groups of people who did not believe in themselves and had resigned themselves to unavoidable decline. But the reasons were very different. Poste had suffered decades of mismanagement and was perceived as one of the most inefficient postal operations in Europe. Intesa, by contrast, was the product of three previously successful independent banks. People still had those success stories in their DNA, so somehow we had to rediscover the roots of the successes and grow them back again in a way that would encourage everyone to unite. People at Intesa felt they had lost their old home but had not yet gained a new one.

The Quarterly: *How did this translate into new missions and goals?*

Corrado Passera: You need to propose a mission that is, at one level, a dream but is also achievable. Too much of a dream and people will not believe in it. Too much emphasis on survival and they will not accept the sacrifices.

In the case of Poste, we decided that we should aspire to be one of the best post offices in Europe. That was important because it appealed to people's national pride. But we also wanted another mission, compatible and consistent with this, but different, challenging, and almost impossible. That



Corrado Passera

Vital statistics

- Born on December 30, 1954, in Como, Italy
- Married with 2 children

Education

- Graduated in 1977 with honors in business administration from Bocconi University, Milan
- Graduated in 1980 with MBA from Wharton School, University of Pennsylvania

Career highlights

- Banca Intesa (2002–present)
 - Managing director and CEO
- Poste Italiane (1998–2002)
 - Managing director and CEO
- Banco Ambrosiano Veneto (1996–98)
 - Managing director and CEO
- Olivetti (1992–96)
 - Managing director and co-CEO
- Gruppo Espresso-Repubblica (1991–92)
 - Deputy chairman and CEO
- Arnoldo Mondadori Editore (1990–91)
 - Chief operating officer
- McKinsey (1980–85)
 - Senior engagement manager

Fast facts

- Serves on board of directors of numerous organizations, including the Advanced Normal School of Pisa; Bocconi University, Milan; Credit Agricole; International Business Council, World Economic Forum; and Wharton School, University of Pennsylvania

was why we also set out to become the largest financial-services organization in the country—a goal that, if successfully implemented, would involve becoming one of the fastest-growing and most innovative organizations in Italy. I felt that all this was theoretically achievable, though I admit it sounded a bit strange at the time, given where we were starting from. People were skeptical.

Something similar happened at Intesa. I knew that the elements of success were already in the bank. But when we presented a plan that said we intended to be the top bank in Italy and one of the best in Europe, the market did not believe us for a number of months, because it looked like the plan of another bank, not this one.

The Quarterly: *How did you communicate the plan?*


Corrado Passera: At the beginning, it is better to remain as quiet as possible while the plan is being prepared. When you present it externally for the first time, which will involve a lot of publicity, you should accept that the reaction will be skeptical and that this may last for some time, even for years in extreme cases. You shouldn't expect people's minds to change until you have some facts to persuade them—a number of high-profile projects, for instance, which you can roll out and will thereby demonstrate that you are delivering on your promises. At Poste, it was mail delivery in a single day and the BancoPosta current account; at Intesa, it was the *conto Intesa*¹ and the overall financial results.

Some of my colleagues used to get frustrated with analysts and investors, but in such a situation you have to be patient; if I had been in the shoes of those in the markets I would have felt the same way. The bank, after all, had previously presented a number of plans but had not delivered the results that were promised. Why should analysts and investors believe in us any more than in our predecessors?

The Quarterly: *Presumably, in the early stages it is more urgent to convince the internal audience than investors and analysts.*

Corrado Passera: It is certainly a crucial moment when you first discuss the plan with your management team on one side and the trade unions on the other. If you ask people to accept sacrifices merely because the company wants to make more money, you won't bring them with you, especially in a nonprofit-oriented organization like Poste. Obviously, you need to be

¹ A new kind of bank account.



sure that the profit targets are the right ones for the future of the business, but at the same time there has to be a *raison d'être*, a company mission set in the context of the wider marketplace and society at large. Each person in the organization has to find a credible reason for making an effort and supporting the project. I call this the “return on sacrifice.” If you fail to get the right mix of sacrifices and benefits, the process will either start with various components moving in different directions or it will not get under way at all.

When you manage a large organization, one of the best ways to communicate with your people is to do it through the press. Change will only be effective if people are really convinced that they are working for a successful business. Internal results undoubtedly matter, but even they won't count for much if everyone keeps reading in the newspapers that the business is still a poor performer, is not contributing to society, or is letting down the country as a whole. People will not believe you unless you can change the organization's image in the media.

The Quarterly: *Successful leaders must usually be visible and set an example in certain respects. How exactly did you do that?*

Corrado Passera: I devoted a lot of time to the communication effort, which, after all, had to reach 60,000 people at Intesa. For example, I personally wrote what amounted to a short book—not like an analyst's presentation, with figures and graphs, but a book written in human language, telling people where we were, where we wanted to go, and how we were going to get there.

Each individual received a personal copy and could access it via a Web site, and the text also became the foundation for an extensive training program. Just as I did during my early months at Poste, I traveled around the country myself, directly explaining the mission to groups of managers and employees. It is a long process, but you have to put your face in front of the people if you want them to follow you.

Generally speaking, in the first phase of a turnaround, people should feel that their work is being looked at in a very detailed way. I believe that details are as important as the big things. I personally wrote the business plan at both Poste and Intesa, for example, and continue to do so. It's

probably one of my weaknesses that I am not very good at standing back. Detachment is fine, but only when everything is back in line.

The Quarterly: *The CEO is obviously vital in any transformation effort, but what was the role of the top team and of leaders throughout the organization?*

Corrado Passera: Change initiatives only take root through a well-functioning top team and committed leadership across the organization. That means having a credible organization and model in the first place. It has to be clear to everyone who is doing what. And in each of the big boxes of the organizational chart you must have people who are very close to you, who not only support your business orientation but share your values.

People in the company must understand that you are part of a group that works well together. The way to fail in a transformation is to have managers at the top who are fundamentally reluctant to push through change. If that is the case, people will try to exploit the situation and to get between you, as the leader, and your colleagues.

The Quarterly: *One big dilemma for new CEOs is the extent to which they should bring in outside hires. What did you do?*

Corrado Passera: It is a big mistake to change people for the sake of change. In any organization, there is a pride, a culture, an accumulated set of things that you have to understand and respect before changing. At Intesa, I did recruit former colleagues from Poste, though only after making sure that the required capabilities and experience were not already available in the bank. At Poste, it was clear from the beginning that technological and marketing competencies needed to be brought in from outside. But there was no question of changing everything there either.

The Quarterly: *What have you learned about managing teams—particularly when they include both insiders and new recruits—and people from different backgrounds?*

Corrado Passera: Teams do not coalesce overnight, and conflict has to be managed. People must understand that you don't tolerate conflict. Obviously, there are healthy tensions, such as those between marketing and credit staff or between the auditors and administration people. But if such psychological and positive confrontation turns into a personal conflict, you have to intervene immediately. If necessary, you have to

get rid of individuals—even the talented ones—who quarrel and cannot work together. If you choose the right people, everything is a lot easier. If you choose the wrong ones, everything seems impossible.

To develop cohesion, it is crucial to involve your top team in the original building of the plan. You also need to be clear about which responsibilities are individual and which are collective. Some targets can only be achieved by people working together. That calls for a compensation mechanism that simultaneously rewards personal results, group results, short-term results, and long-term results.

It helps to have circles of people with whom you can share your thoughts, your plans, and your actions. You should have an inner circle with whom you share almost everything and a larger group that feels itself to be part of the management team—and you should devote time to both. At Poste,

*‘Sometimes you have to be **courageous** enough to make changes on the front line’*

for example, around 30 of us used to prepare for meetings by getting together late in the afternoon and spending the rest of the evening informally discussing what was on our minds. Next morning we

reconvened with a formal agenda, but our “fireside chats” were a great way of sharing the pain and getting issues that were worrying people out into the open.

The Quarterly: *Are good leaders outside the top team especially important in dispersed organizations such as banks or post offices, where middle managers run branches and meet customers on the front line?*

Corrado Passera: Sometimes you have to be courageous enough to make changes on the front line, not least at a bank because the role of the local bank manager is so different now. It has been more effective and efficient to put young people into that position and to invest in them rather than try to change the outlook of very good but more traditionally minded employees. That’s obviously been painful, as something like 70 percent of the branch managers at Intesa have been replaced in the past three years. But experience has demonstrated that this was the right thing to do.

The Quarterly: *Is physical change a way to drive new attitudes in an organization?*

Corrado Passera: Both at Poste and Intesa, we made investments in technology to spur new services and growth. But the visible merger of the

different legacy systems used by Intesa's component banks, for example, also served symbolically to reinforce a new spirit of unity. The new look and feel of our branch outlets has also sent an important signal to employees and customers alike.

At Poste, new designs for the counter space and public waiting areas at post offices, which were previously dowdy and overcrowded, helped change perceptions. The investment in post offices had to be on a sober scale because Poste was not a wealthy business; we could not afford to spend a lot of money. But because of the potential impact, we started thinking about a new branch design almost from Day One. We first asked employee representatives, as well as a number of customers and consumer associations, to give us their reactions. Then we refurbished a few test outlets, modified these changes, and finally rolled them out nationally in what became one of the flagship initiatives of the whole program. It would have been a total disaster if we had rushed into building the new outlets without first making the necessary changes to our product range, installing new technology, and investing to train our people. That would have been tantamount to giving them the packaging without the content—a sure recipe for disappointment.

The same goes for what we did at Intesa. Once we had fixed the underlying problems—the risk profile, the profitability, and the product mix—we could be more innovative with the retail channels. Yes, you have to work on the symbolic features in mass-market businesses like retail banking and postal services. But you should only do this sort of thing after you have convinced people that you are really doing something serious and deep rooted.

>>> *Europe's banks need strategies for growth. See "How Europe's banks can win in tougher times" (www.mckinseyquarterly.com/links/18009).*

The Quarterly: *Do you think it is possible for companies to manage a restructuring and simultaneously manage for growth?*

Corrado Passera: I would say more than this—if you *don't* manage these two perspectives at the same time, you are lost. They are two eyes of the same face. If you just restructure and manage costs, you don't get people behind you and you will lose the company in the end. Pushing solely for growth without restructuring and getting expenses into line, on the other hand, is never going to be a successful strategy either. While you restructure, you must at the same time build platforms for new growth,

both in the traditional areas of the company's activities and, if possible, in new areas that are compatible with the old ones.

In each part of the company, moreover, you need people who can adopt this approach, who understand how to be competitive in terms of cost, service, and functioning as well as knowing where and how to grow. No matter whether it's a business or a staff function, everyone needs to share the same philosophy. You must care for everything, be responsible for everything, if you want to be a top person in a society or an organization. The Greeks had a phrase for this—*melete to pan*—which I like. **Q**

Giancarlo Ghislanzoni is a director in McKinsey's Milan office, and **Julie Shearn** is an associate principal in the London office. Copyright © 2005 McKinsey & Company. All rights reserved.

E-mail this article to a colleague
www.mckinseyquarterly.com/links/18050

