

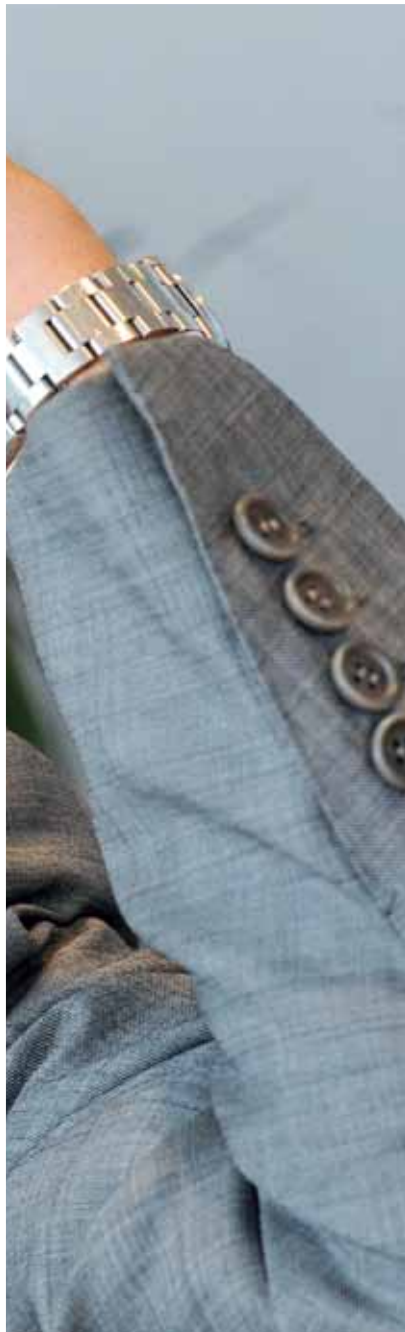


# CALLING ON A

## STEADY HAND

Telecom Italia's Franco Bernabè

BY TIMOTHY HINDLE



ITALY'S ECONOMY IS IN A SORRY STATE. IN THE TWO YEARS after the bankruptcy of Lehman Brothers, the nation's G.D.P. fell by some 10 percent. And the misery did not end there. The G.D.P. decline has resumed in each of the past five quarters, and the European Union is forecasting that the recession will continue at least until 2014.

It is taking its toll across the board — on private income, with unemployment over 10 percent and more than a third of young Italians without jobs; and on public services, constrained by government debt, which within the euro zone is (proportionately) second only to that of Greece.

Leading a business in such an environment is extremely demanding, and *Briefings* went to Rome to meet Franco Bernabè, one of Italy's most enduringly successful chief executives, to hear his views on how to thrive in these difficult times.

Franco Bernabè has been chief executive of Telecom Italia twice. His first stint on the job began in 1998 and lasted about as long as Italy's government at the time — which is to say, not very long.

A month after he arrived, Olivetti made a highly leveraged hostile bid for the company. Once the darling of Italy's fledgling information technology industry but by then fading fast, Olivetti was looking to reinvent itself in telecommunications. For six months, Bernabè fought hard to fend off the bid. But he lost when the government and the central bank ultimately refrained from putting their not inconsiderable weight behind him. He did the honorable thing and resigned.

Bernabè took time to think about what to do next. He was not a wealthy man, but in 1999 jobs were scarce. "I decided to become an entrepreneur," he said. "It was tough. How different it is to being a top manager. All of a sudden you find yourself without assistance, without help."



Eni's CEO, Franco Bernabè (right) with Attilio Ventura, chairman of the board of the stock exchange at the entrance of the Italian stock exchange in Milan on the occasion of Eni's listing in 1995.

But Bernabè's career shift paid off. He started a consultancy and an investment business. Both were successful, and he eventually sold them to the Rothschild Group. In 2007, Telecom Italia's shareholders asked him to come back to run their by-then-heavily-indebted corporation, and he found himself ready for the challenge.

But the timing again was not ideal. Within months, Lehman Brothers collapsed and Italy plunged into economic recession. For years now, his real challenge has been to find growth when all around is shrinking.

### Mr. Nice Guy

**B**ERNABÈ IS NOT A TYPICAL BUSINESS LEADER. HE LIKES TO TELL a story about when he was working for Fiat in the early 1980s. At the time he was chief economist in the sprawling car maker's planning department, not the normal starting point for

an aspiring CEO. He was enjoying the job, but he wanted to get closer to the core of the business. So he went to the head of the human resources department — Fiat had some 350,000 employees at the time — and asked if he could be transferred into line management.

The H.R. boss told him Fiat had two rules that were relevant to his case. One rule said that if you were good at something in the company, you stayed with it. The other said that if there were two people competing for promotion and they had identical skills, C.V.s and track records, you chose the meaner of the two for the job. In his judgment, Bernabè was too much of a gentleman to become a line manager. "Forget it," he said. "You'll never be a manager."

Fiat's loss was to be Eni's gain. In 1983, Bernabè moved to become an assistant to the chairman of Italy's oil-and-gas giant. Eni was a peculiar animal, more like a government

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department than a corporation, with interests spread all across the globe. It was riddled with inefficiencies and with corruption. Its chairman at the time, Franco Reviglio, was a respected economist who had been one of Bernabè's professors at the University of Turin.

After awhile, Bernabè was promoted to head of corporate planning and development. It was a move that gave him an unrivaled view of the organization's structure and shortcomings. It also gave him a unique opportunity to understand what was required to bring Eni into the corporate mainstream at the close of the 20th century. "I am very analytical," he said. "I got to know the organization well, and I developed the analytical framework that was needed to do the right things to take the company where it was needed."

Fate introduced an unexpected opportunity. A new government swept into power in 1992 and Reviglio, Bernabè's mentor, became a minister in the Cabinet. The life of late 20th century Italian governments was measured in days, not years, and this one survived for only 298. But that was long enough for Bernabè to be appointed chief executive of Eni. He was 43 years old and very junior. "People thought it was a joke," he said. "I was completely outside every political circle. They gave me six months to survive." He did much more than survive. He thrived.

Bernabè was in the job for seven years and what he achieved during that time became the stuff of legend and the subject of a widely read Harvard Business School case study. It started in spectacular fashion: A few months after he took over, 20 of the company's top executives were arrested and thrown into jail on corruption charges. A few months later, Gabriele Cagliari, who had been chairman of the company from 1989 to 1993, committed suicide in prison.

It was a challenging time, a vital moment in Bernabè's development. After the arrests, he had to give two speeches — one in Rome and one in Milan — to Eni's employees, thousands of people, most of them hoping to hear that the judges who had carried out the arrests were wrong and that their organization was right. But Bernabè said just the opposite. "We need to do things differently," he said. "We need to create a

new organization. I will not defend the people in jail."

At this point, Bernabè demonstrated courage, steadfastness and an ability to communicate what he wanted to do and then (initially to the surprise of many) to do it. He is a great communicator and he is a man of his word.

It helps, of course, to know what needs to be done. Bernabè spent a long time putting his powers of analysis to work figuring out Eni's problems until the answer became clear. He had to turn what was a mere adjunct of government into a fully privatized commercial corporation. He started by asking for the resignation of 250 of the company's top managers. By 1997, Eni had shed tens of thousands of employees, had sold off 230 different operations and was listed on stock exchanges in both Italy and the United States.

At this demanding time, Bernabè discovered an attribute that he believes is particularly valuable for a leader. "A person who has to make important decisions has to make them alone," he told the *Harvard Business Review* in 1998. "You need an inner compass to indicate the way." He quotes Shimon Peres, president of Israel and a former prime minister, who once told him that a person knows he is a leader when he realizes that there is no one to answer his questions and that he has to answer them for himself. "The more you have responsibility," Bernabè said, "the more you need to be alone."

When he took over as the head of Eni, Bernabè said, he knew as an economist that there was a better way to run the organization, a way that would be fairer to a vast majority of Eni's employees — honest men and women who had the ability to transform the organization but whose lives were undermined by a minority who swayed with the political winds and lined their pockets at every opportunity. He wanted to show that the business could be run ethically and profitably. His method was to take Eni out of the hands of government and put it in the hands of the market.

It was the correct decision, but it was not a popular one. While Margaret Thatcher's Britain had by then wholeheartedly embraced privatization, sloughing off huge chunks of its state machine onto the market, Italy was not yet so enthusiastic. Bernabè had to fend off frequent calls for his resignation from Socialist politicians before Eni first offered stock to the public in November 1995.

### A different style of life

DESPITE HAVING SPENT ALMOST 20 YEARS AS A CEO, BERNABÈ still has an owlsh academic manner, not surprising perhaps in someone who for a couple of years early in his career was a senior economist with the Organisation for Economic Co-operation and Development in Paris. He is analytical and unflappable, a million miles from such flamboyant Italian businessmen as Gianni Agnelli and Silvio Berlusconi.

Bernabè may be a strong leader, but he is also a modest man — modest about his own achievements and modest in

his lifestyle. He admits to being married and having two children, but his family is never seen in public. And for good reason. He himself has been the target of threats in the past.

His upbringing was modest too. He was born in the village of Sterzing, near the town of Vipiteno in the southern Tyrol. Vipiteno is a stop beside a main road and a railway line that wind their way up the Brenner Pass to Innsbruck and the German-speaking world beyond. His father worked on the railways there. Pine trees and Alpine snow provided the backdrop to his childhood, not olive trees and the Mediterranean. It makes for a particular type of Italian.

"I don't play golf," he said. "I have no social life whatsoever. My wife hates social life too." Despite living in Rome, there is no dolce vita for the Bernabè.

His one indulgence is modern art. He is pro bono chairman of the Venice Biennale and chairman of the Mart Museum, the Museo d'Arte Moderna e Contemporanea in Trento and Rovereto, about 90 miles south of his birthplace. One of the best available photographs shows him sitting in front of one of Andy Warhol's Marilyn Monroe prints. He has no art collection of his own because that would present a conflict of interest. "I could profit from my position," he said.

His modesty is not without its own rewards. "I could go back to a normal employee's position tomorrow morning," he said frankly, "without sacrificing my standard of living." Living on the volatile interface between Italian politics and business, he has always understood there were risks.

## Today's telecommunications challenges

HIS SECOND COMING AT TELECOM ITALIA HAS FOUND BERNABÈ at the head of a very different organization. Olivetti is now just a small subsidiary, struggling to keep up with the American and Asian giants of the I.T. industry. And there is a big new partner on the scene. In 2007, a group of investors led by Telefonica, the Spanish equivalent of Telecom Italia, bought a 22.4 percent indirect stake. This brought considerable benefits to both companies in terms of joint purchasing and shared cost savings in Europe.

The savings helped lower Telecom Italia's net debt last year below €30 billion for the first time in over a decade. (It stood at €37 billion when Bernabè took over.) And there is yet more to come. He is currently focused on cost cutting and streamlining the business. Italy was at the forefront of the enthusiasm for mobile phones in the 1990s, and it now has the largest percentage of households in Western Europe that rely solely on mobile service (30 percent). But it is a mature market and competition is fierce. Telecom Italia runs neck and neck with Vodafone Italia; the business's famously fat margins are a thing of the past.

What is required now is not headline-grabbing stuff but just the sort of job that Bernabè is so well-equipped to handle. In the past, the Italian press has called him barra dritta, a steady

hand on the rudder, and that's what is needed. When he was invited back to Telecom Italia in 2007, he told the board not to expect fireworks. He has been true to his word.

What excitement there is — the company's main hope for growth — lies in Latin America. Telecom Italia owns 67 percent of TIM Brasil, the second-biggest mobile operator in a country that is to host the World Cup in 2014 and the Olympics two years after that. And it has a 22.7 percent economic interest in Telecom Argentina, that country's leading fixed-line operator. Recent results from these operations have been exceptionally good. Whereas in the first nine months of 2012

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domestic revenues and earnings both fell from a year earlier, in Brazil they grew by 11 percent and 9 percent respectively, and in Argentina by 20 percent and 8 percent.

But there are potential obstacles to further growth in these markets. In the first place, despite their cooperation at home, Telefonica and Telecom Italia compete fiercely for business in Latin America. TIM Brasil's closest competitor is Vivo, which is owned by Telefonica. Bernabè says there are Chinese walls between the companies' European and Latin American operations. Nevertheless, regulators in Argentina and Brazil watch keenly to see that there are no restrictive practices. Aggressive moves by regulators in recent months have raised the specter in both markets of further government intervention.

In the longer term, though, Bernabè believes that his company's growth depends on reseeding the very turf on which the telecommunications game is currently played. Telecommunications, he says, used to be a business where services and infrastructure went together. But technological development has led to a dramatic separation of the two, and this has allowed a host of new rivals to enter the business — rivals like Skype and WhatsApp (which has done for messaging what


Skype has done for voice calls, and in the process grew more than fivefold in 2012 alone).

These “disruptive innovators,” to use the terminology of the Harvard Business School professor Clayton Christensen, who first described their power to overturn an industry in his book “The Innovator’s Dilemma,” have been much on Bernabè’s mind of late. He talks of the “parasitical” way in which they ride on the back of networks maintained by traditional companies like Telecom Italia. When storms bring lines down, somebody has to mend them. Bernabè has 25,000 people on the job; Skype has no one. “Skype is using our network,” Bernabè said, “and not paying for it.”

At the heart of the problem lies the 1988 agreement of the International Telecommunication Union, based in Geneva, spelling out the first international telecommunication regulations. Much attention was paid at the time to the trading of international voice traffic, but very little to data traffic, which was then virtually nonexistent. Now the reality is very different, but the international regulations are not. A new I.T.U. conference on the subject of data traffic (the first since 1988) was held in Dubai in December 2012, although nothing much was decided. Bernabè’s hope is that sometime soon the parasites will be made to pay.

Disruptive change of the kind brought about by these upstarts means “you have to completely rethink the way you do business,” Bernabè said. That is why Telecom Italia is now considering separating its network from the rest of its operations. The board is in the early stages of discussions with possible partners regarding this strategy, which is trailblazing for a traditional business like Telecom Italia.

Bernabè has surprised critics and fellow business leaders before — and he will have to do it again. He is 64 years old and works in an industry that is fast-moving and for the most part led by people much younger than he is. But he is keenly self-aware and cognizant of his own limitations. He stayed for seven years at Eni and has now spent five at Telecom Italia. He says that he left Eni because he felt he had become slow to change. “I came to a point where I was wanting to hear the same things from the same people,” he said. It had all become habitual, and Bernabè is the first to acknowledge that this is dangerous.

Such self-reflection among leaders of global enterprises is as refreshing as it is rare. But telecommunication companies today are mature businesses fighting to defend and increase their turf against all comers, not just start-ups. In cases like that, brashness, bravado and even youth may not be as important as the power of an acutely analytical mind. And that is precisely where Bernabè excels. What he did for Eni, he is in the process of doing again. 

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Tim Hindle is founder of the London-based business language consultancy Working Words. He was a contributor to *The Economist* for 25 years and was editor of *EuroBusiness* in the 1990s.

EPA/Daniel Dal Zennaro

