The CIO Series
Magyar Telekom's István Maradi: Promoting Ideas to Engineer Growth
Magyar Telekom’s CIO Promotes Ideas to Engineer Growth

In search of lucrative business opportunities, Hungary’s Magyar Telekom dares to go where few others in its industry tread. The incumbent fixed-line and leading mobile phone, Internet and IT services operator in Hungary, with international subsidiaries in Macedonia, Montenegro, Bulgaria and Romania, has in the past three years diversified, among others, into satellite TV broadcasting, retail electricity and gas distribution, media and insurance. István Maradi, Magyar Telekom’s chief technology and information technology officer (CTO, CIO) is part of the company’s senior management team that identifies and exploits such new opportunities. He directly oversees annual technology investments of about 50 billion Hungarian forints (about US$270 million).

In one sense, Magyar Telekom is “like any other incumbent telecommunications operator,” says Maradi, referring to its core subscriber base of more than 1.7 million fixed-line subscribers and 5.2 million mobile subscribers in Hungary. “But what makes us different from others is the readiness to innovate and readiness to move in out-of-the-box areas.” His business logic was simple when the company entered power and gas distribution to help offset declining revenues from its voice businesses: “The advantage for us is that customer trust in an incumbent telecom operator is much larger than in anybody else.”

THE CIO AS A PROMOTER OF NEW IDEAS

Maradi has to brainstorm corporate strategy with top management, and then sell it and implement it with the appropriate technologies and talent. His role has changed significantly over the past five years as the company grew to become an integrated telecommunications operator with fixed-line, mobile, broadband, TV and other services. Magyar Telekom is part of the Deutsche Telekom Group, and Maradi occasionally finds himself sitting in strategy discussions involving other markets -- such as Greece or the Netherlands.

“In the previous set-up, the chief information officer reported to different places but almost never to the top or the CEO,” Maradi says. “But now I am part of the very top management, and at the same level as the chief marketing officer, the chief strategist and chief finance officer. Technology is an equal part of the management and sometimes even more important than other functions.” His office, he says, “can be the promoter” of new business opportunities. “I am involved in strategic discussions, and have the right to be vocal,” whether about acquiring an equity stake in another firm,
determining what technologies to adopt or launching new services.

Maradi is able to breeze into those new roles because of an experience he had in 2000, when he was named CIO for Magyar Telekom’s mobile business. He realized he had to reinvent himself as an IT professional from his roots as a telecom engineer to be successful. Maradi had graduated in communications engineering in 1989 from the Technical University of Budapest and later secured an MBA from the Open University of London. For much of his early career, he worked in telecom engineering functions. But after spending 10 years in those roles, in 2000 he made “a conscious decision” to grow into an IT professional.

Since then, Maradi has added a management dimension to his role. He imagines Magyar Telekom as a cruise ship where he spends half his time on the upper deck “with passengers and white collar officers,” representing customers and the company’s top management. He spends the other half of his time “in the engine room” in the lower deck, directing his team of IT and telecom professionals. Those twin roles call for a balancing act. “Any time I walk on the top deck, the questions are about how to acquire customers, what the competition is doing and what direction the whole ship should be turned to,” he says. “When I go down into the engine room, it is about how much [fuel] the engine is consuming, how to serve with fewer professionals or the lifespan of various products. These are not always in sync with the upper deck. I have to find a balance between talking about new stuff and talking about reality.”

Straddling the different roles, Maradi found himself in the thick of Magyar Telekom’s “biggest strategic turnaround” five years ago. Faced with declining revenues from its voice-based services, it broke out of the box and decided to transform itself into an ICT, media and TV broadcasting company. It determined that it had to grow out of the mobile screen market, which was easier “to grab and service” than others. “We had to grab other ‘screens,’ which was mainly the TV,” he says, and broadband offered additional screens such as laptops and the PC. “We realized we have to change our mind and go for the living room and not the working room, where the fixed phone is.”

ENGINEERING A STRATEGIC TURNAROUND

As a late entrant to the TV market, Magyar Telekom faced an uphill battle competing with bigger players like UPC, the cable TV giant that serves 11 major European countries, including Hungary. “But three years ago, we decided to be number two and later number one in the TV market,” Maradi says. It calibrated its moves for a swift entry by first launching IPTV (Internet Protocol TV, or broadcasting over the Internet) in 2006. That was slow to take off because not all homes had access to the required bandwidth but was accelerated from 2009 by the fiber network rollout and further new technologies such as VDSL and EuroDocsis3.0.

Despite those odds, Magyar Telekom resolved to have 100% coverage in its TV services. It found its answer in reaching living rooms with satellite TV services, launched in 2008. “We had found the missing ingredient that helped us offer customers an appealing proposition,” Maradi says. “It was TV in the front,” backed by fixed-line, mobile and broadband services, he adds. “We were the only one to offer all four services.” The company has since rapidly grown its TV services to become the second biggest player. “We are shooting to become number one in a year or two.” Later in 2011, Magyar Telekom plans to upgrade its TV services
with an innovation that will allow it to reach more homes and dramatically grow its TV footprint.

As it reached more screens with its services, Magyar Telekom faced a roadblock. It realized that its legacy copper-wire network would have too little bandwidth to cater to the emerging high-speed Internet (HSI) and high-definition TV (HDTV) market, especially given that many households now have two, three or more TV sets each. In 2009, it embarked on a project costing about 10 billion Hungarian forints (US$ 54 million) in the first year to lay fiber networks alongside its copper lines. “We made a flying jump from zero to 200,000 homes with fiber connections within a year, and we continue that process, although at a lower pace,” says Maradi. Last year the company began bundling its fixed-line, mobile, TV and broadband Internet services, in line with the latest industry advances across the continent. Pioneering the industry, it also included electricity and gas services in its portfolio, offered at 5 to 8% discounts for its telecom customers.

Today, Maradi says the diversifications he helped launch are bearing fruit. Magyar Telekom may be losing revenue in its voice services, but it still has the biggest market shares in fixed-line and mobile as well as IT services. “We have a portfolio that is diverse enough to support the emerging businesses,” he adds. For example, the company recently launched mobile handset insurance services.

CONSOLIDATING SILOS, TRIMMING FAT

In bringing all those to market smoothly and swiftly, Maradi was in the engine room, orchestrating the technological support and restructuring the organization to respond effectively. For starters, he says he had to break the earlier structure, where mobile, fixed-line, cable TV and broadband services worked in separate technology silos. Each had its own technology head, and different systems and processes for billing, customer relationship management (CRM) and so on. He combined all the silos into one core network management and one IT unit, with a single person heading each.

Maradi had also to let go around 20% of his staff, which is now making up nearly a fourth of the company’s workforce. “I realized that in a silo set up, it is mission impossible to start thinking of consolidating our services. This was the point when everything started to fly, in the sense that we got rid of different views and only the company’s interest was important. We squeezed out efficiencies through combining the organization first.” To execute the vision Magyar Telekom partnered with Wipro Technologies, who provided strong domain expertise and guidance on process and technology side.

PICKING UP NEW SKILLS

Maradi acquired some knowledge of those new markets and boosted internal talent with new hires. “I had to learn non-technical things, like how a business case is put together and why it is strategically good to move in a certain direction. But frankly, I am not a superhero; it is a team effort.” He also had to challenge the operational processes so typical of large organizations. “Usually [large change efforts are] a headache for the incumbents -- they are big elephants and you cannot ask them to run.” But when they are running, “it is noisy and you cannot stop them.”

Internally, Maradi ranks effective communication as one of his topmost challenges. Selling his idea of breaking down various silos into combined platforms and trimming headcount was one such communications test. “When they hear the word ‘outsourcing’ they worry about losing their jobs and are happy to make changes immediately.”
Not everybody realizes the cost-saving opportunities available sometimes from reducing the workforce. “These are the gaps where only communication can help.”

But there are other areas where even communication cannot help. Maradi says he attempts to deal with those additional challenges by using the management-by-walking-around style. “You can do it with 2,000 people in front of you, but the efficiency is different when you meet them in groups of 10.” That, however, is time consuming. “We cannot always do it.”

**MODEL BUSINESS LEADER**

One guiding phrase: “If you don’t make dust you eat dust,” Maradi says, quoting Jack MacAllister, the former CEO of US West, a telecom services company. Maradi recalls a photo he once saw that showed cowboys riding horses in the desert. “It was noisy and dusty. There was one cowboy running in the front and all the others were running in the crowd behind. I have to refer to this every time I feel something is risky or dangerous. I have to tell myself to go beyond the line, or others will do it.”
This article was produced by Knowledge@Wharton, the online business 
journal of the Wharton School of the University of Pennsylvania. The project 
was sponsored by Wipro Technologies.

www.wipro.com  http://knowledge.wharton.upenn.edu

The Wharton School of the University of Pennsylvania — founded in 1881 as the 
first collegiate business school — is recognized globally for intellectual leadership 
and ongoing innovation across every major discipline of business education. The 
most comprehensive source of business knowledge in the world, Wharton bridges 
research and practice through its broad engagement with the global business 
community. The School has more than 4,800 undergraduate, MBA, executive 
MBA, and doctoral students; more than 9,000 annual participants in executive 
education programs; and an alumni network of 86,000 graduates.

ABOUT KNOWLEDGE@WHARTON

Knowledge@Wharton is a free biweekly online resource that captures knowledge 
generated at the Wharton School and beyond through such channels as research 
papers, conferences, speakers, books, and interviews with faculty and other 
business experts on current business topics. The Knowledge@Wharton network — 
which includes Chinese, Spanish, Portuguese, Indian and Middle Eastern editions 
— has nearly 1.7 million subscribers worldwide and contains more than 2,000 
articles and research papers in its database.

For more information: http://knowledge.wharton.upenn.edu

ABOUT WIPRO TECHNOLOGIES

Wipro Technologies, the global IT business of Wipro Limited (NYSE:WIT) is a leading 
Information Technology, Consulting and Outsourcing company that delivers solutions 
to enable its clients do business better. Wipro Technologies delivers winning 
business outcomes through its deep industry experience and a 360 degree view of 
“Business through Technology” — helping clients create successful and adaptive 
businesses. A company recognized globally for its comprehensive portfolio of 
services, a practitioner’s approach to delivering innovation and an organization 
wide commitment to sustainability, Wipro Technologies has 120,000 employees 
and clients across 54 countries.