

Viewpoints

Why the telecommunications industry must disrupt or be disrupted

By Abhishek Mittal, Yong Fei Tan and Shai Ganu

“WhatsApp is killing us!”

Not the typical response one expects to the simple question, “how’s business?” However, this response from the CEO of a leading telecommunications company poignantly highlights one of many challenges companies in this industry have to reckon with in today’s business landscape.

The financial performance of many major telecommunications operators has come under deep scrutiny in recent times, thanks to rapid declining returns on capital invested and limited growth profitability. Over the last five years, whilst the S&P 500 index may have yielded as high as double-digit returns, a basket of global telecom stocks tracked by iShares barely managed returns in the low single-digits.

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Four key aspects telecommunications companies will face to mitigate this are addressed in this article:

1. How are they organised and do they have the right organisational shape?
2. How can they up-skill and re-skill their key talent and employees in order to develop the right capabilities?



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3. How do they extract value from talent, and how do they hire the right people for the right roles?

4. How do they reward talent and set the right rewards for the right performance?

Right to play ≠ Right to win

Telecommunications companies today find themselves in several perplexing situations. Intense competition has resulted in bloody price wars in many markets. Revenues are being eroded rapidly by over-the-top (OTT) services, with average revenue per user (ARPU) often declining in the same trajectory.

Paradoxically, while they need to be at the technology forefront to provide the infrastructure that enables organisations to go digital, they are being disrupted by the same players and vendors operating in the digital ecosystem.

In the past, licence ownership, access to spectrum and capital would have given telecommunications companies a certain level of opportunity to operate and make significant profits. Today, connectivity has become a commodity. Customers no longer just care about good network performance and responsive call centre support. Today's

highly technologically savvy customers demand more than just minutes and bytes. They expect high-quality content streaming, robust digital solutions and value-added ICT bundles, which often require additional investment in the form of strategic alliances and partnerships.

Ironically, although telecommunications companies have access to a treasure trove of data about their customer behaviours, many still have only basic and traditional customer value management (CVM) and analytics capabilities. Many are still struggling to develop customer management applications to seamlessly engage their customers.

The challenges are many and companies in the industry signalling towards one simple truth: It is no longer business as usual.

There are several fundamental questions telecommunications companies need to ask themselves. From the time of frenzied growth, what has happened to the organisational structure? Does the current structure reflect the new realities of the business? Does it reduce complexity, enhance horizontal collaboration and help enable innovation? Does it allow incubation opportunities? Does it allow for harvesting of data?

Everything must be in place and geared to drive digital

How is the digitalisation strategy driven?

Depending on their digital strategy objectives and current maturity levels, there are several structural archetypes that telecommunications companies could explore.

Prevalent models of organising for digital are:

- **Distributed and fragmented digital:** In this model, digital capabilities are built into each function without central coordination and orchestration of the digital roadmap. The consumer business might be developing an application that empowers customers to customise data packages, whereas similar skill-sets might be duplicated by the HR function to develop a flexi-benefits application which empowers employees to customise benefits options.
- **Digital COE for commercial:** Given the pressure to compete with OTT services, acquire and retain customers and maximise ARPU, some telecommunications companies are prioritising their digital strategies around commercial functions. They install a digital Centre of Excellence (COE) within the Commercial function to

drive consumer digital services and lifestyle solutions, enable salesforce automation and establish non-equity partnerships with the industry ecosystem. Agile teams are orchestrated by the digital COE to work on targeted projects and disband thereafter, once a product is ready for commercialisation.

- **Digital COE for enterprise transformation:** Some organisations are taking a long-term view of the business. They understand that digital transformation is not just about the market-facing side of the organisation. The internal employee experience should mirror the external customer experience and support it. In this model, the digital COE reports directly to the CEO and manages the strategic roadmap of organisation-wide digital priorities. Its focus is on prioritising the right projects, building the roadmap, orchestrating agile teams and managing the digital journey. In addition, the COE drives enterprise-wide programs to drive a digital mindset.

Ensuring the right organisational structure is a critical building block

While working with a telecommunications company in Southeast Asia, our team found through a review of organisational spans and layers that the CEO and C-1 leaders had an optimal span of control but the C-2 and C-3 levels had very narrow spans of control. While this meant that managers could focus on developing their teams, it also implied that the organisation would have needed many more managers. The structure was extremely “top heavy” and costly. It also highly limited horizontal collaboration and fostering of innovation due to the many layers of structure.

In a separate Willis Towers Watson client engagement, industry benchmarks were applied to another telecommunications company to identify potential areas of over-staffing and low productivity. Our databases showed that the marketing function constituted roughly 5% of the workforce, which was in-line with benchmarks. Conversely, the data indicated that the network technology group was highly over-staffed. Closer inspection subsequently revealed fragmented processes and multiple teams of people managing vendors, contributing to low productivity.

Capabilities: Learning at the pace of change

The path to transformation and digitalisation requires smart capabilities in areas such as DevOps, agile techniques, data analytics, machine learning, and partnership management. At a more fundamental level, telecommunications companies need to drive a mindset shift among their workforces to keep pace with a highly evolving digital landscape.

When working with a large organisation driving a convergence strategy across its mobile, fixed, broadband and cable distribution business, our team redefined the core competency framework to align better with their convergence and digitalisation strategy. We recommended a higher emphasis on competencies that are enablers of a digital organisation: learning agility, rapid experimentation, multi-disciplinary thinking, cross-functional operating skills, and digital literacy.

In addition, we worked with their digital COE team to clearly articulate competencies such as social, mobile, analytics, cloud, agile project management, full-stack development, user experience, user interface, etc. This framework informed their workforce planning, talent acquisition, training and development practices.

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Taking a comprehensive approach to acquiring and building digital capabilities is critical for telecommunications companies. They do not just require a digital strategy, but a continuous focus on an ever-changing digital world. To be successful and disruptive, telecommunications companies must learn at the pace of change.

Talent: A globally distributed platform in a borderless world

It is a fact that many organisations do not have large budgets for hiring top talent. Others operate in talent scarce markets, and rely on importing foreign talent which is often not only a high cost to be borne but subject to government regulations.

What should the talent strategist then do to ensure accessing sophisticated talent for the capabilities described above?

Today's businesses need to have a braver response to talent shortages, rising costs and pressures to innovate constantly. Building all capabilities in-house through full-time employees (FTEs) can lead to a 'bloated' organisation. We live in an age of expertise, where expertise can be tapped using a variety of channels. Talent strategists and business leaders need a different toolkit to solve this 'talent shortage' problem. They need to focus on getting the work done through a combination of employee or non-employee talent.

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Talent strategists and HR support functions need to:

- Identify jobs that are either facing a talent scarcity or are not core to the organisation.
- Analyse these roles, and identify tasks that could be outsourced to non-employee talents. Also check out the possibility of outsourcing the entire job.
- Conduct a cost-benefits analysis of the alternatives.
- Develop support mechanisms to hire, on-board, deploy, manage and offload non-employee talent.
- Build awareness and capability in existing managers to deal with the new models of getting work done.

This is critical because our current HR infrastructure is geared towards the FTE model. Innovative approaches are required, when telecommunications companies begin to think about their future talent. There will be a need to have customised deals for freelancers, gig workers, talent platform workers, volunteers all working asynchronously for different engagements, durations and compensation models.

The traditional talent management role will need to be disruptive as well in its approach to be successful.



Rewards: New models to maximise value creation

While telecommunications companies define their future state and organisational structure going forward, and identify new talent and capabilities required for their transformation, they also need to find ways to attract and retain talent in a highly digitalised workplace and workforce (*Figure 1*).

They must consider the following Total Rewards trends:

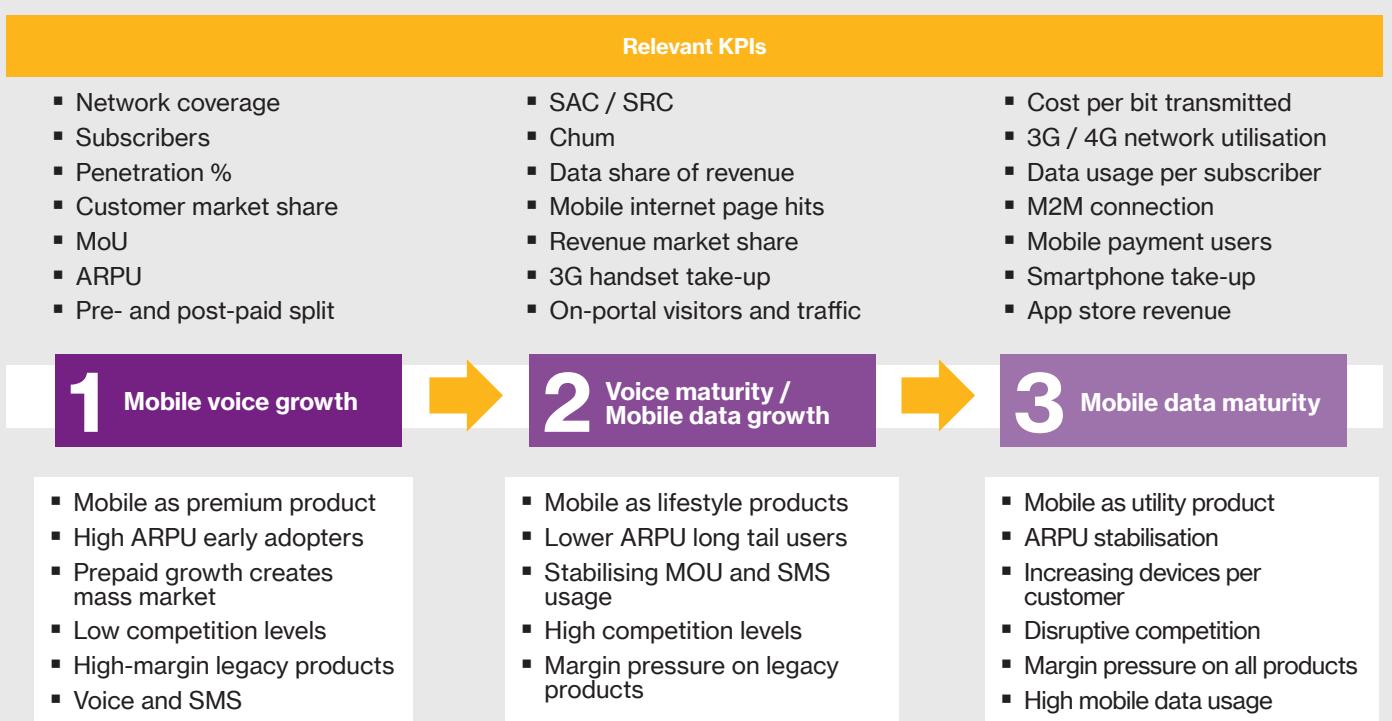
- **Wealth accumulation:** Digital talent may have little interest in a life-long career, but have more enthusiasm in building the 'next big thing'. Telecommunications companies should have flexibility to create competitive reward programs at digital start-ups and consider influence from the private equity/venture capital compensation model.
- **Equity compensation:** Equity grants are common and often expected as a part of total compensation. New hire equity grants and top talent grants are common for tech companies. Telecommunications companies need to consider broadening equity eligibility criteria when making hiring decisions for this type of talent. Granting equity at the parent company level may not even be exciting enough. Real or phantom equity at the business unit level may be what these employees are after, given the direct line of sight towards wealth creation is more apparent.

- **Performance measure:** While the likes of revenue and EBITDA are still common metrics, there is greater focus on value creation and returns above a certain hurdle rate. This is due to some of these digital start-ups being not profitable yet. In designing appropriate rewards plans, it is important to focus on defining where performance lies, and differentiating this based on the evolution of business models.

Through our work with a majority of telecommunications companies in this region, it has been observed that inevitably a separate, independent and nimble organisation is formed to lead the charge of the digitalisation agenda. These organisations formed are often funded by corporate venture capital. They would be empowered with its own set of decision making, approval and funding process. In South East Asia, many telecommunications companies have set up corporate venture capital funds with specific investment mandates. Their value proposition for a potential joint venture or investment is the access to markets, a large platform to leverage the telecommunications company's mobile customer base and enterprise customers through its network of offices.

Compensation practices for executives in these Corporate Venture Capitalists (VCs) tend to be different from traditional telecommunications companies, as these ventures entail much higher risks for individuals involved

Figure 1. KPIs adapt and evolve to reflect new concepts of connectivity, service adoption and usage, and new customer definitions and behaviours.



and there is a need to attract talents from diverse backgrounds, across different industries (digital/financial/telecommunications, e-commerce, media) to engage them to work together.

Figure 2 illustrates some key differences in the design of incentive plans between traditional telecommunications companies and Corporate VCs. Telecommunications companies need a sufficiently flexible reward platform to experiment with new ideas while maintaining certain compensation philosophies intact for the majority of the employee population. This arrangement resonates well with the telecommunications companies we have worked with in the region.

Progressive companies must start to plan for systemic shifts and start aligning their people practices with their company's strategy as well as the principles underpinning the new economy.

Conclusion

The forces of change in the new economy will redefine the nature of organisations, people practices, and reward systems. Progressive companies must start to plan for systemic shifts and start aligning their people practices with their company's strategy as well as the principles underpinning the new economy.

In particular, the telecommunications industry will benefit immensely from the shift of "it is time to stop doing digital, and start being digital".

Figure 2. Key features differences in the design of incentive plans between traditional Telcos and the Corporate Venture Capitals set up by telecommunications companies.

Incentive plan features	Traditional telecommunications companies	Corporate Venture Capital
Plan type	<ul style="list-style-type: none"> ▪ Bonus/STI plans and multiple LTI plans based on equity 	<ul style="list-style-type: none"> ▪ Modified carried interest plan ▪ Not all investments are exited unlike a typical carry plan
Plan objective	<ul style="list-style-type: none"> ▪ Talent attraction, retention and motivation to drive headline KPIs 	<ul style="list-style-type: none"> ▪ Reward for value creation and contribution to core Telco business
Performance metrics	<ul style="list-style-type: none"> ▪ Market-based measures and operational measures linked to group performance 	<ul style="list-style-type: none"> ▪ Value creation/Return of investment specific to fund performance in excess of hurdle rate
Time horizon	<ul style="list-style-type: none"> ▪ Typically 3-4 years 	<ul style="list-style-type: none"> ▪ Typically 7-10 years or longer
Risk vs Reward	<ul style="list-style-type: none"> ▪ Lower risk, lower range of reward 	<ul style="list-style-type: none"> ▪ Higher risk, higher range of reward (might be less than typical VC)

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