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**From the Middle East
to the World**
*Building a Global
Telecom Operator*

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EXECUTIVE SUMMARY

Fueled by their financial strength, and compelled by increasing competition and saturation of their home markets, Gulf Cooperation Council (GCC)¹ telecom operators have launched unprecedented international expansion programs since 2004. Their combined footprints now extend across 78 markets globally, from Indonesia all the way to South Africa, and revenues from international subsidiaries will become a key contributor to their growth. Going global, however, comes with a new set of challenges, which most of these operators now are facing—in varying degrees—for the first time.

When operators expand globally, they tend to follow a three-stage evolutionary pattern, from an overwhelmingly domestic focus to a regional focus to a truly global focus. The leaders of GCC operators seeking a sound foundation for this evolution must address organizational challenges in five areas: governance models, organizational models, management processes, values and culture, and talent management. The operators that most effectively address these challenges will be best positioned to capture maximum value from their investments and earn a place among the world's leading global operators.

Key Highlights

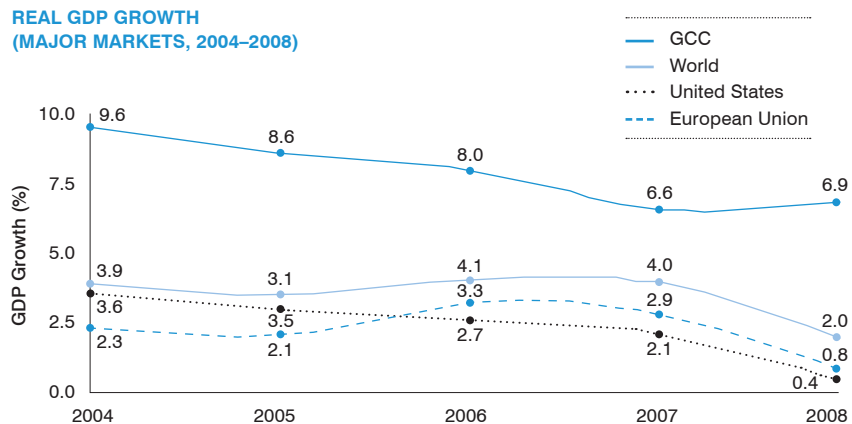
- Good cross-border corporate governance results from headquarters streamlining group strategic planning processes and ensuring strategic alignment with the boards of directors of its international subsidiaries.
- Globalizing GCC operators often need to restructure their organizational models and develop world-class core support functions, such as human resources, procurement, and finance.
- Global expansion requires management processes that create scale while permitting local customization.
- Effective global organizational cultures marry corporate-level values and performance standards with the best local values and cultural elements.
- Successful global expansion requires a comprehensive talent management strategy that places the right people in the right position at the right time.

CROSSING BORDERS AND BREAKING BOUNDARIES

GCC operators have undertaken unprecedented global expansion programs in recent years. Prior to 2004, all GCC incumbents combined were operating in only six markets outside their home countries. Today, this number stands at 78 markets and continues to grow.

Government policies in the GCC countries have stimulated this drive for corporate globalization. To create sustainable economic growth, the

Exhibit 1
GCC Economic Growth Greatly Exceeds That of Other Regions



Source: Global Insight; Booz & Company analysis

GCC nations have sought to diversify their primarily oil-based economies by investing in infrastructure, privatizing state-owned monopolies, liberalizing markets, and developing transparent legal and regulatory frameworks along with business-friendly and tax-free environments. As a result, GCC economies expanded at an average rate of 7.9 percent between 2004 and 2008 versus 2.4 percent in the United States, 2.3 percent in the European Union, and 3.5 percent globally (see Exhibit 1).

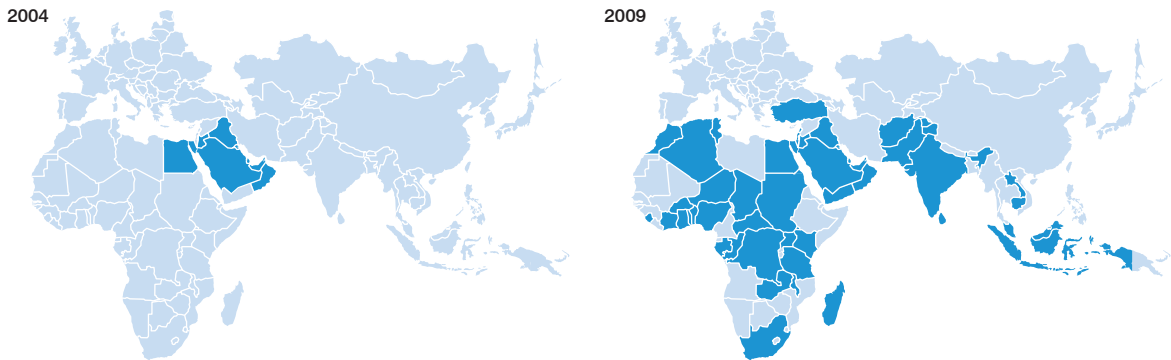
The profitability and financial strength of GCC operators have grown apace. So, too, has competition in their home markets. This combination naturally created a surge in globalization, as operators sought growth through regional and international mergers and acquisitions (see Exhibit 2). The disclosed value of GCC incumbents' cross-border M&A activity between 2004 and 2009 exceeded US\$33 billion.

Going global, however, comes with a new set of organizational challenges,

which most GCC operators are facing for the first time. Operators that successfully address these challenges will be best positioned to earn a place among the world's largest and most successful telecom operators. Now is the time for the leaders of GCC operators to create a sound foundation for successful global growth by ensuring that their companies are properly positioned to capture the maximum value from their international investments.

Exhibit 2
GCC Incumbents Have Been Growing Actively through M&A

GCC INCUMBENTS' CUMULATIVE FOOTPRINT



Note: GCC incumbents include Batelco, Etisalat, Omantel, Qtel, STC, and Zain.
Source: Operators' annual reports; Booz & Company analysis

BUILDING A SOUND FOUNDATION FOR GLOBALIZATION

As operators pursue global expansion, their market and operational footprints tend to evolve in three stages, from an overwhelmingly domestic focus to a regional focus to a truly global focus (see Exhibit 3). Most GCC operators are in the first two stages of this evolutionary

pattern: They have begun to extend their operational and market reach, but they still have a strong domestic focus, with home markets contributing significantly to their revenues (see Exhibit 4). Some GCC operators progressed very quickly to the intermediate stage, but

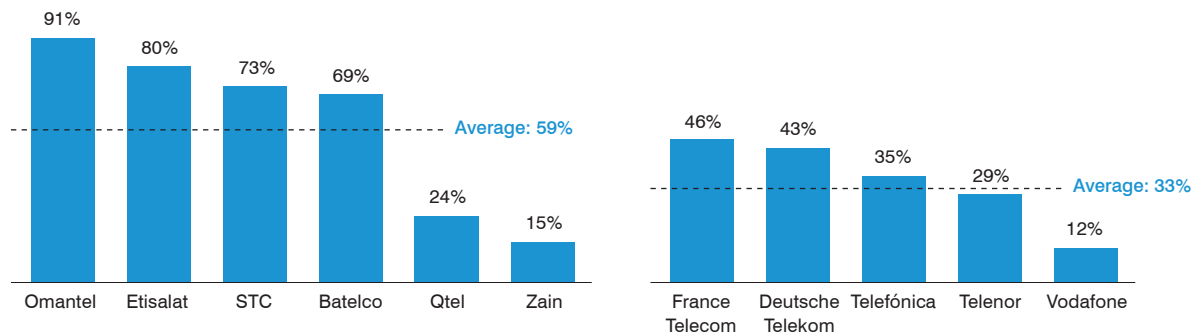
Exhibit 3
Three Stages of Global Expansion

INITIAL	<ul style="list-style-type: none"> • Strong domestic positioning • Income predominantly from home country
INTERMEDIATE	<ul style="list-style-type: none"> • Mainly regional or multiregional • Income from international operations becomes significant
ADVANCED	<ul style="list-style-type: none"> • Global focus with presence in most relevant markets • Diversified income with no predominant markets

Source: Booz & Company analysis

Exhibit 4
GCC Operators Derive More of Their Revenue from Their Home Markets Than Global Competitors

SELECTED OPERATORS' HOME MARKET CONTRIBUTION TO TOTAL REVENUES (THIRD QUARTER 2009)



Source: Operators' annual reports; Zawya; analyst reports; Booz & Company analysis

their operations remain locally or regionally concentrated.

As GCC operators move toward the advanced stage of globalization, they will have to adapt and restructure in many of the same ways as major global operators

that have gone before them. They must become intrinsically global enterprises, creating brands known throughout the world, such as Vodafone, Deutsche Telekom, and Orange. Like these predecessors, GCC operators will have to prepare and align their organizations to

capitalize on their growth potential. The changes that GCC operators need to undertake in their quest to go global can be categorized into five sets of challenges: governance models, organizational models, management processes, values and culture, and talent management (*see Exhibit 5*).

Exhibit 5
GCC Operators Face Five Key Challenges in Global Management



Source: Booz & Company analysis

GOVERNANCE MODELS: FROM LIMITED OVERSIGHT TO STRATEGIC ALIGNMENT

Corporate governance is an ongoing challenge for many GCC operators. To successfully compete globally, they will have to elevate governance from its current oversight role to a vital mechanism for streamlining the strategic planning process across the subsidiaries, thus creating alignments and generating value within the entire group.

In the past, most GCC telecoms were operating in protected markets with high margins and little external pressure to produce results. Consequently, some of these operators have legacy systems of governance that often hinder them as they become global organizations. For instance, the subsidiaries of GCC operators are frequently structured as separate legal entities, each with its own board, working independently and lacking adequate representation in headquarters. This creates a portfolio

of investments rather than an integrated global enterprise, and erects barriers to achieving the international scale required to create value, capture synergies, and share knowledge and best practices. In addition, strategic alignment usually depends on a few trusted managers who serve as the company's sole representatives on the boards of subsidiaries. This leaves the subsidiaries isolated from overall corporate planning and lacking the insight necessary to align their decisions with the overall corporate strategy. Finally, if the boards of directors are not accustomed to taking a proactive role in corporate decision making or do not have appropriate international experience, this can create a barrier to globalization.

Although operators may meet strong internal resistance to restructuring their governance models, overcoming the governance challenges of

globalization is critical, as it is a key enabler in addressing the remaining organizational challenges.

There are a number of measures that will contribute to more effective corporate governance as operators go global. GCC operators can review and adjust the composition of their executive committees at headquarters, by being more inclusive with senior management of international subsidiaries. They should give these executives the opportunity to participate in strategic decision making at the corporate level, as well as standardize decision-making processes across the group to facilitate consolidation and communication.

GCC operators should also examine and, as necessary, redefine decision rights in order to create the proper balance between control in corporate headquarters and autonomy in subsidiaries. The goal is twofold: to ensure clear decision rights that cement the ability of headquarters to establish, execute, and enforce key corporate imperatives; and to provide sufficient authority for each international subsidiary to make effective decisions based on local challenges, within the parameters of corporate imperatives.

Finally, GCC operators should ensure that their corporate imperatives are properly represented within their subsidiaries by training the executives

who will represent the company on the supervisory boards of subsidiaries. These representative directors must be able to identify and analyze the issues that arise within the subsidiary and align them with the overall corporate strategy. One GCC operator addressed its governance challenges by appointing independent outside directors to sit on the boards of its subsidiaries, in order to compensate for skill gaps in its senior management across borders during the early stages of globalization. It also created a specialized team at headquarters to review its subsidiaries' board agendas, ensuring that they have a common perspective and that unified decisions are made by directors representing the group.

GCC operators should redefine decision rights to create the proper balance between control in corporate headquarters and autonomy in subsidiaries.

ORGANIZATIONAL MODELS: FROM OBSTACLE TO ENABLER OF GLOBAL BUSINESS

There is no single organizational model that is best for GCC operators seeking global growth. Models based on geography, product lines, or corporate functions have all proven effective in various cases. As operators go global, however, inefficiencies that currently exist with their organizational structures will be magnified.

These inefficiencies can include misaligned spans of authority, excess layers of management, and paternalistic management models. The inability of support functions, such as human resources and shared services, to cope with global needs can also hinder growth.

When globalizing operators fail to address the shortcomings in their organizational models, they often find it difficult to expand into markets that require approaches and capabilities different from those in their home markets. They also tend to sacrifice efficiency because they must maintain duplicate functions in some of the subsidiaries and cannot successfully share knowledge across geographies.

To overcome the organizational challenges of globalization, GCC operators can restructure to integrate, support, and manage global operations. Although some initial redundancies and inefficiencies are unavoidable when expanding aggressively, centralized core functions that are capable of supporting and enhancing all of the subsidiaries should be developed as quickly as possible.

GCC operators that seek global expansion should also clarify the role of the corporate center, carefully balancing the efficiency of central standardization and control with the effectiveness of local autonomy. For example, one large GCC telecom operator created this balance by restructuring itself as a group organization, introducing a group executive level that included a corporate center and shared services functions. This ensured that the operator paid the proper attention to its respective international subsidiaries and realized synergies across geographies.

When globalizing operators fail to address shortcomings in their organizational models, they often find it difficult to expand into markets that require different approaches and capabilities.

MANAGEMENT PROCESSES: FROM AD HOC TO STANDARDIZED BEST PRACTICES

As operators go global, they often need to improve the flow of information to ensure effective decision making. To do this, they standardize, extend, integrate, and institutionalize strategic management processes in a careful and measured way.

Similar to the organizational model challenges, process challenges can be exacerbated when operators do not already have effective management systems and processes, particularly strategic and financial planning processes, in place as they begin to expand internationally. Adding to the complexity, as operators acquire new operations, they also acquire the legacy systems and processes of the new subsidiary. As a result, the systems and processes that support effective decision making become fragmented, and the information needed to monitor and manage performance across the organization is unavailable.

To successfully meet the process challenges of globalization, GCC

operators need to develop and replicate best practices both at home and beyond their national borders. They should seek to balance global standardization and its potential competitive advantages with local customization and the ability to leverage local differentiating capabilities. As they integrate their processes and IT platforms with those of the acquired operations, companies should also standardize systems and processes to allow some degree of local flexibility while avoiding an overreliance on ad hoc initiatives. Periodic revision cycles should be established, too.

One GCC operator has realized the importance of standardizing the processes across its footprint and sharing knowledge—in both directions—between subsidiaries and headquarters. To that end, the operator established a secondary corporate office, closer to a cluster of its newly acquired subsidiaries, with the aim of supporting standardization of work processes and facilitating knowledge transfer.

VALUES AND CULTURE: FROM A CLOSED TO AN INCLUSIVE ETHOS

GCC operators are at various stages in the development of global corporate cultures. Many continue to struggle with redefining their legacy values and cultures, which can be inward-looking and not readily adaptable to global organizations operating in multiple geographies with varying dynamics.

Like any companies that seek to expand globally, GCC operators will have to adapt their values and culture in each country in which they operate and incorporate the best local values and cultural elements into their own ethos. At the same time, some organizational values are nonnegotiable; they must be preserved and high performance standards institutionalized.

To meet the value and culture challenges of global expansion, GCC operators should establish a corporate culture that can successfully cross borders. They should consider their current global footprint, to identify their own differentiating, nonnegotiable values and traits, as well as the national and corporate

values, attitudes, and behaviors present in their subsidiaries. They should recognize the diversity that exists within their companies, determine how to leverage it, and build relationships with the key stakeholders in each geography.

Global operators should also find ways to engage employees across the organization and instill a unified sense of pride that extends across their subsidiaries.

After extending its footprint across multiple regions, one GCC operator accomplished these goals by including its subsidiaries under a unified brand name and logo. The new brand created a more dynamic and unified corporate identity in the marketplace, and provided employees across the operators' subsidiaries, who work in vastly different markets with varying business challenges, with a common set of values. In addition, the new brand formed a company-wide platform for emotional attachment and cultural exchange without undue focus on the company's home market.

To meet the value and culture challenges of global expansion, GCC operators should establish a corporate culture that can successfully cross borders.

TALENT MANAGEMENT: FROM A REACTIVE TO A PROACTIVE PEOPLE STRATEGY

As companies go global, their talent requirements become more complex. They face an increased demand for skills—often in geographies where qualified employees are in short supply, as is the case in many emerging markets. They also tend to be confronted with a shortage of senior executives with sufficient global experience. In this environment, GCC operators must develop proactive talent strategies that enable them to unleash the full potential of their newly global workforces.

Most GCC operators are still early in the process of developing their talent management capabilities. As a result, they tend to manage global talent on a reactive rather than proactive basis, responding in an ad hoc manner and inconsistently across geographies. The managerial capabilities needed for international operations are not fully understood, which leads to errors in hiring and personnel assignments. Ambiguous processes for filling international job vacancies and secondments mean that they do not always attract top-performing local executives, and thus tend to be filled by less-qualified candidates. Furthermore, operators must contend with attrition of valuable talent when they fail to motivate and retain the key employees that have come into the company through acquisitions.

To meet the talent challenges of globalization and put the right people in the right position at the right time, GCC operators should start by increasing awareness among senior leaders and executives of the impor-

tance of talent management. The leadership team should be aligned in its support for the creation of a comprehensive talent management strategy.

To build successful global organizations, GCC operators will have to identify, measure, and capture the maximum value from their talent base. They should segment employees according to their impact on the performance of the organization; develop tailored value propositions for each segment that balance business requirements with specific segment needs; and cascade these across their people processes.

With this strategic foundation for talent in place, GCC operators can begin to create talent pools to fill international positions. They should determine a standard profile for international hiring and secondment, and coordinate their recruitment efforts across geographies to ensure consistency. They should also invest in hiring executives who are capable of filling international positions in

TOMORROW'S LEADING GLOBAL ENTERPRISES

Many GCC operators are seeking international expansion and growth. Some of them hope to claim a spot among the world's leading global enterprises. The operators that have the best chance of achieving this will be those that are able to successfully transform their structures, systems, and processes, enabling their people to effectively and efficiently execute and compete anywhere in the world.

advance of a specific need and allow them time to establish themselves within the company.

GCC operators should design development programs aimed at creating the managerial and employee skills required to drive performance in an international organization. Furthermore, they should align employee compensation and incentive systems with their global objectives, designing consistent and objective assessment tools and processes. As always, these programs and systems must be flexible enough to adapt to geographic, cultural, and management style differences among subsidiaries without compromising the company's key values and requirements.

Finally, an effective leadership succession strategy is critical to achieving uninterrupted growth in a global organization. GCC operators should be identifying high-potential leaders and providing them with opportunities to participate in high-impact initiatives that will prepare

them for international assignments, as well as continuously monitoring their satisfaction and readiness for larger leadership roles.

One GCC operator has recognized the importance of retaining and motivating talent that came into the company through acquisitions. Accordingly, the operator institutionalized an annual forum for marketing executives from across its global operations. The purpose of the forum is to instill a sense of unity among the executives, drive innovation across the group, and exchange ideas. The event has enhanced the company's retention rate, as the marketing executives recognized their role in a larger group and the potential for evolving their careers beyond the local subsidiary and into a global organization. The event is also a good mechanism for the group to gauge overall satisfaction, identify talent for future assignments, and expose managers from the local market to leaders with strong international experience.

Endnotes

¹ The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

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