Getting Lean, Agile, and Strong: Transformations in the Telecom Industry

An analysis of 40 A.T. Kearney projects and our interviews with more than 50 C-level executives in the telecom sector highlight what distinguishes successful transformation programs from those that flounder.
As the pace of disruption in the communications, media, and technology sectors quickens, telecom operators are seeking to overhaul many aspects of their business. More than 60 percent of the operators interviewed by A.T. Kearney said that they had implemented at least two transformation programs within the past three years. These were programs aimed at effecting fundamental change in how the business responds to external or internal triggers.

We found that the scope of operators’ transformation programs tends to develop over time, progressing across four main program models. It begins with straightforward budget assurance programs, moves to functional transformation, and then to end-to-end (E2E) company-wide transformation programs that sometimes lead to fundamental cultural or business model shifts.

In cases where there were financial targets, the majority of programs achieved these objectives. But most operators failed to hit all of their transformation goals, stymied by such barriers as weak strategic alignment of their transformation initiatives, inappropriately scoped programs, and often an inability to make the change last.

Based on our research and extensive project experience, A.T. Kearney believes that to be successful, transformation programs need to achieve the right balance between strength, agility, and leanness. In order to structurally shift performance, they need to address misalignment in the operating model. Finally, they must enable the organization to embed the necessary changes. A.T. Kearney has developed the Fit Transformation™ approach to help operators pursue these priorities and successfully address the barriers identified by our research.
The global telecom market is changing fast, forcing established players to adopt new strategies and business models in response to emerging regulatory requirements or to compete effectively with disruptive market entrants. With revenues and profitability under pressure, telcos are trying to increase efficiency and adapt their operating models. Large-scale outsourcing of customer service, IT, and network; network-sharing agreements between direct competitors; a push to increase the wholesale business through various models; and the radical simplification of the company (products, processes, and IT) are just some of the approaches telcos are using to significantly alter the way they do business.

A.T. Kearney defines a transformation program as one that aims to bring about a fundamental change in how business is conducted in response to an internal or external trigger. There are many potential triggers that prompt companies to launch a transformation program, but they tend to fall into four main categories: external, strategic, operational, and people-oriented (see figure 1).

### Figure 1

**Transformation triggers for telecom operators**

<table>
<thead>
<tr>
<th>External</th>
<th>Strategic</th>
<th>Operational</th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>New market entrants</td>
<td>Fixed and mobile integration</td>
<td>Outsourcing of noncore functions</td>
<td>Top management change</td>
</tr>
<tr>
<td>Regulatory changes</td>
<td>New technologies (for example, LTE)</td>
<td>Subpar performance</td>
<td>Poor staff survey results</td>
</tr>
<tr>
<td>Competitor’s launch of new products or tariffs</td>
<td>Acquisition of new businesses</td>
<td>Efficiency gaps versus benchmarks</td>
<td>Wage demands from low-cost units</td>
</tr>
<tr>
<td>Disruptive technologies</td>
<td>Organic growth</td>
<td>Launch of shared service</td>
<td>Difficulty retaining and developing Gen Y</td>
</tr>
<tr>
<td>Mobile data explosion</td>
<td>Increased focus on customer experience</td>
<td>Launch of large-scale efficiency program</td>
<td>Failure to attract targeted talent</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

In the telecom sector, transformation programs are now widespread. Forty-five percent of telecom CXOs interviewed by A.T. Kearney had implemented two or three transformation programs within the past three years. Some 18 percent had implemented four or more programs (see figure 2 on page 2). One of our respondents described how every year a new program started almost automatically. “Everybody was waiting for it. In between, we kept going as usual,” he said.

Based on more than 10 years of experience with such programs, we have observed that their scope tends to evolve over time, driven by increasing pressure on profitability and the telco’s

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1 We interviewed more than 50 executives about their experiences (including learnings on pitfalls and success factors) with transformations they conducted independent of A.T. Kearney.
Growing maturity. The path often starts with straightforward budget assurance initiatives, focused on achieving near-term reductions in operating costs. The next step is a typically functional transformation, designed to improve revenue and EBITDA. Ultimately, a telco will launch an end-to-end (E2E) company-wide transformation program aimed at lifting market share and generating new business. The most far-reaching programs focus on cultural and business model changes designed to bring about a broad and fundamental change in the way business is conducted (see figure 3). This evolution was also confirmed by most of the people we interviewed.

Figure 2
Frequency and types of transformation programs

<table>
<thead>
<tr>
<th>How many programs have been implemented in the past three years?</th>
<th>What kind of programs have been implemented?</th>
</tr>
</thead>
<tbody>
<tr>
<td>18% 4+ programs</td>
<td>1. Overall performance improvement</td>
</tr>
<tr>
<td>36% 3 programs</td>
<td>2. Specific functional improvement</td>
</tr>
<tr>
<td>9% 2 programs</td>
<td>3. Reduction in capital expenditure</td>
</tr>
<tr>
<td>36% 1 program</td>
<td>4. Revenue push</td>
</tr>
<tr>
<td>Source: A.T. Kearney analysis</td>
<td>5. Integration of fixed and mobile organizations</td>
</tr>
<tr>
<td></td>
<td>6. Service improvement</td>
</tr>
<tr>
<td></td>
<td>7. Cultural change</td>
</tr>
<tr>
<td></td>
<td>8. Leadership development</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

Figure 3
Evolution of telco transformation programs

Source: A.T. Kearney analysis
Our research found that these four types of programs differ significantly in a variety of ways, including target setting, sponsorship, approach, and duration (see figure 4). For example, both budget assurance programs and functional improvement programs generally have clear quantitative targets that are aligned with the company’s financial targets. More ambitious transformation programs go further, aiming to achieve more aggressive goals, such as gaining market share in a new business area or increasing customer satisfaction. The typical approach is to set top-down targets that are often supported by benchmarks. However, in more complex transformation projects, such as a post-merger integration, targets have also been developed from the bottom up with the broader involvement of employees. This is especially true for qualitative targets.

**Figure 4**

**Differentiating aspects of transformation projects**

<table>
<thead>
<tr>
<th>Budget assurance</th>
<th>Functional transformation</th>
<th>End-to-end transformation</th>
<th>Culture or business model shift</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical targets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opex</td>
<td>EBITDA</td>
<td>EBITDA</td>
<td>Market share</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Customer and employee satisfaction</td>
</tr>
<tr>
<td>Project sponsor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFO</td>
<td>CMO</td>
<td>CEO</td>
<td>CEO</td>
</tr>
<tr>
<td></td>
<td>CSO</td>
<td>Board</td>
<td>Board</td>
</tr>
<tr>
<td>Approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within line organization</td>
<td>(Cross-)functional project teams</td>
<td>Broad cross-functional teams</td>
<td>Dedicated expert teams with strategy area or HR</td>
</tr>
<tr>
<td>Ad hoc or task forces</td>
<td>Sometimes campus approach</td>
<td>Campus or work cells</td>
<td>Change agents</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project length</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total: 3–6 weeks</td>
<td>Design: 3 months</td>
<td>Design: 3 months</td>
<td>Design: 3 months</td>
</tr>
<tr>
<td></td>
<td>Execution: 6+ months</td>
<td>Execution: 6+ months</td>
<td>Execution: 12+ months</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

Our research confirmed our own experience regarding management’s role as the program sponsor: no matter how targets were derived, consistent sponsorship by the leadership team is a key success factor. In large E2E transformations, the chief executive officer is usually the main sponsor, while cost reduction programs and go-to-market programs tend to be led by the chief financial officer and the chief marketing officer respectively. In all cases, successful programs were characterized by the hands-on involvement of these executives in both the design and execution.

The degree to which the larger organization is involved in these initiatives changes based on the scope of the program. During the design phase, an E2E transformation typically requires the involvement of a broader range of individuals than budget assurance or functional improvement initiatives. Somewhat paradoxically, a business model shift is usually developed by a smaller, more focused team. And execution teams tend to be much bigger than the design teams.
The scope of the program also determines its duration. While budget assurance programs can be short, a more complex transformation requires time. Many executives identified clear communication about project length (that is, a specific start and end date) as a key success factor.

It is important to note that most of our interviewees had only focused on functional improvements at the time we spoke. Many anticipated a more difficult period as they began to implement broader and deeper changes encompassing both business processes and organizational culture.

Key Learnings in Transformation

We also asked the people we interviewed about the main pitfalls in the transformation programs they had conducted either internally or with third-party support. Although more than 50 percent of the transformation programs achieved their financial targets, many telco CXOs believed the programs could have been more effective and efficient with better design and execution.

Several reported that insufficient leadership had undermined their company’s programs. One of the executives we spoke to noted that “we had great targets, but no one was committed to them,” while another felt that their transformation program had been undermined by “too many sacred cows,” and one respondent claimed their “CEO wasn’t directive enough.”

A lack of focus was another theme to emerge in the interviews. One respondent said “we had so many projects at the same time that we didn’t know where to focus,” while another noted “we changed the focus of the program too often—finally nobody knew where to go.”

The old adage “more haste, less speed” can also apply to a transformation program. One interviewee told us, “We started an EBITDA improvement program as we were concerned about achieving mid-term targets. Our CEO decided not to communicate this widely so as not to scare investors. It was all very much in a rush, due to other commitments and running projects. Due to the lack of time, board members delegated work and targets to second-level managers. They started to identify measures, but not enough to hit the targets. In the end, we went through three rounds to achieve what was necessary. We could have easily done the program in less time with less effort and even higher results.”

In summary, our respondents pointed to three major missteps with their transformation programs:

1. **Weak alignment:** Strategy was poorly aligned with program design and operational execution.

2. **Inappropriate program scope:** Programs were either too narrowly focused on one aspect of the operating model or so broad that the program eventually collapsed under its own weight, especially when interdependencies were not addressed.

3. **Insufficient execution:** The sense of ownership and urgency needed to move the program forward was lacking. Ultimately, the organization didn’t have the capacity to transition to a fundamentally new way of working.

What would the CXOs recommend? Several stressed the importance of leadership. One noted “our CEO acted as the lighthouse during the difficult transformation time,” while another stressed that “our board was committed from the first day until the full implementation.”
Another theme that surfaced was the need for a holistic approach that ensures a transformation program isn’t implemented in isolation. One executive warned that “the project team needs to be linked back to the operational team—avoid the ivory tower,” and another commented “we worked cross-functionally, with a clear end-to-end perspective.” Other CXOs stressed the need for “new horizons” and “emotional engagement.” As one respondent noted: “You cannot start [a new business] if your staff are not really thrilled and seeking to go the extra mile—because they truly believe in it.”

Based on our experience, and confirmed by our research, our recommendations fall into five broad categories:

1. **Disruptive permission**: A transformation program should not be constrained by incrementalism or by assuming that what works today will work tomorrow. At the same time, the scope of the program should be clearly defined, based on what must be included and nothing more.

2. **End-to-end thinking**: A transformation program should create interdependencies between functions and building blocks. It should make cross-functional processes the only way of working.

3. **Hands-on senior-level engagement**: In addition to being sponsors, senior leaders need to be active in delivery and maintain a holistic perspective. A transformation program also needs to be supported by consistent buy-in across all senior levels, as there will always be tension between operating units and functions.

4. **Self-replicating change capabilities**: Driving change from the top down isn’t sufficient. A transformation program also needs local ownership and the support of change agents throughout the organization. Ideally, a telco needs to develop a self-sustaining culture of continuous improvement.

5. **Employees’ hearts and minds**: Employees need to be emotionally committed to a transformation program, as well as rationally committed. Staff should be empowered to make decisions, but they also need to be accountable for those decisions. To build momentum, the program needs to achieve and celebrate some early wins.

### A New Twist: Fit Transformation™

Based on our experience working on transformation programs with companies in many different sectors, as well as the results from various surveys, A.T. Kearney has developed the concept of Fit Transformation™, which is characterized by the following three pillars:

1. **Balanced translation**: Translates the company’s strategy into the right combination of organizational strength, agility, and cost.

2. **All-encompassing alignment**: Aligns the different building blocks of the operating model.

3. **Comprehensive, grounded transformation management**: Galvanizes the imagination, enthusiasm, and commitment of the workforce to ensure a sustainable transition and self-replicating change (see figure 5 on page 6).²

² The concept of Fit Transformation™ is explained in more detail in A.T. Kearney’s business issue paper “Fit Transformation™: Making Your Company Strong, Agile, and Lean” at [www.atkearney.com](http://www.atkearney.com).
1. Balanced translation

Indiscriminate cost-cutting can harm customer service, product quality, and the ability to quickly adapt to market changes, putting revenues at risk. Instead, telecom operators should focus on becoming fit organizations, which balance leanness with strength and agility (see figure 6). The trade-offs among strength, agility, and leanness must be defined not only at the company level, but also among divisions, business units, and functions. Depending on the program objectives, the transformation focus might vary, but should generally consider all elements to ensure a balanced translation of the strategy.

Under intense pricing pressure from new entrants, many telcos are trying to streamline their operations without damaging their competitiveness. As a result, the management team needs

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**Figure 5**

**Fit Transformation™ framework**

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**Figure 6**

**A fit company balances strength, agility, and leanness**

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Source: A.T. Kearney analysis
to walk a tightrope. The sidebar Creating a New Operating Model for a Converged Telco describes how A.T. Kearney worked with one telco to create a new operating model that balances cost cutting with operational excellence, while focusing on the customer experience.

2. All-encompassing alignment

Telcos need to achieve alignment across two dimensions.

First, the different building blocks of the operating model should be aligned with one another. When processes are redefined, particularly those that cross functional boundaries, governance issues—such as decision authority and performance objectives—also need to be examined to make sure that accountability remains intact. If the IT governance model is decentralized to meet business units’ needs (for example, for fixed and mobile networks), coordination mechanisms, such as committees, are required to ensure interoperability and limit support costs.

Our work to transform the sales force of one telco illustrated just how important the interdependencies can be between the different parts of the operating model. The company had set ambitious sales targets, while also pursuing improvements in sales efficiency. The structure of the sales force needed to be redesigned, but that was not enough. We also had to reengineer processes, taking a customer-centric perspective. Furthermore, none of this would work without a cultural change that prioritized the needs of customers as well as extensive training to enhance employees’ capabilities.

Creating a New Operating Model for a Converged Telco

**Situation**

A leading telecom operator, offering both mobile and fixed-line services, was seeing a decline in profit margins. Senior leadership believed the root cause was the company’s poor agility, the result of the high number of management layers and its “traditional” segment-oriented business unit model.

**Approach**

A.T. Kearney started by assessing the existing organizational structure, leveraging best practices and industry benchmarks, while factoring in local market and regulatory needs. We conducted interviews and workshops with key stakeholders to identify such critical issues as overlapping, missing, and misaligned functions. This process also helped us identify potential improvement opportunities and generate buy-in.

The next step was to work with the primary stakeholders to design a new operating model that was streamlined, customer-centric, future-ready, and inclusive, as well as aligned with the operator’s strategic objectives. The model established clear roles, responsibilities, and key performance indicators for each level, and defined key processes. Finally, we worked with the operator to develop a transformation and implementation road map.

During the design phase, we included designated change agents (8 percent of staff) in workshops and meetings. These individuals, all of whom were line staff nominated by their supervisors, were tasked with supporting the transformation through continuous communication with peers, as well as with providing ongoing feedback.

This concentrated focus on gaining buy-in during the design phase paid off in a smooth, relatively problem-free implementation phase. We also set up a cross-functional transformation office to ensure coordination and alignment across initiatives.

**Results**

The optimization of processes, the definition of clear roles and responsibilities, and the reduction of management layers has resulted in a significant improvement in the overall customer experience. At the same time, the operator has cut costs by reducing its internal workforce between 10 and 15 percent and outsourcing another 40 percent of its full-time employees. We expect these changes to generate a 3-point increase in EBITDA margin.
Second, there needs to be alignment across functions, and care should be taken to break down silos. Many telcos have experienced barriers between marketing and IT, especially in product portfolio projects. Several measures, such as cross-functional workshops and targets, can help to achieve the necessary alignment. Later, ongoing mechanisms such as team-weighted (as opposed to individual) goals, governance systems (such as setting up a cross-functional B2B board in a functionally oriented organization), and job rotation programs may be required to make the alignment stick.

However, corporate inertia can make it hard to achieve this alignment. When the CEO of a large mobile operator decided to replace a segment structure with a functional structure, he found changing the organizational chart—despite the political headaches—was the easy part. A year later, people were still using the original processes and working around the new structure, so the CEO came to A.T. Kearney for help. When we met with his staff, our conversations revealed that there was insufficient alignment in the responsibilities arising from the new organizational structure, a situation we then addressed.

In the telecom industry, which has seen a great deal of consolidation in the past decade, many companies are struggling to achieve alignment across a group of disparate operations. The sidebar Achieving Alignment across Mobile and Cable Operations describes how A.T. Kearney helped a mobile operator achieve alignment between its long-standing mobile business and an acquired cable company.

### 3. Comprehensive, grounded transformation management

A Fit Transformation™ takes a systematic, focused approach to change management that starts, from the very beginning, to engage people from the top down and from the bottom up. It makes

**Achieving Alignment across Mobile and Cable Operations**

**Situation**

A mobile operator had completely integrated a cable company it had acquired and aligned processes across the combined organization. But it found that the mobile and cable staff were not working together or even communicating with one another. Some departments had experienced an exodus of talent as well. Senior leadership brought in A.T. Kearney to find a solution that would improve collaboration.

**Approach**

We started by analyzing the original culture of each of the companies. Although the cultures had been quite similar at a management level, there were extensive differences in values and behaviors at the employee level. The cable staff tended to be young, international, and results-driven; employees at the mobile operator were more conservative. The divergence in the two cultures was especially apparent in the ways the two groups communicated with one another internally.

It was clear that the original integration effort needed to be bolstered by a change management initiative that would meld the two cultures into one and create a unified strategy. We set up a cross-functional, cross-hierarchical team made up entirely of volunteers. In a series of workshops, the team discussed the cultural elements of the change initiative and alignment to the new joint strategy. We nominated 10 culture agents to communicate and implement the change management interventions. To engage as many employees as possible in the dialogue, the agents held weekly town hall meetings and off-site sessions, and they produced a “culture movie,” which later won a national creativity award.

**Results**

After two years, the merger has achieved the mobile operator’s objectives. The company can now deliver convergent cable and mobile services that generate a high level of customer satisfaction. The operator is achieving customer growth of 3 percent year-over-year and is now number two in a saturated market.
change viral—by identifying and activating the change engines, both formal and informal, within an organization. In our survey, many respondents said this was a key factor in determining the success or failure of their company's transformation. When a transformation flounders, it is often because the focus is more on the “what” and less on the “how.” Ideas are great, but implementation can fail due to a lack of direction, a lack of ongoing support during implementation, or simply limited awareness of the need to transform. Ideally, change management should comprise four dimensions: spread, shift, deepen, and sustain (see figure 7).

Figure 7
Change management engages people from the top down and the bottom up

At the mobile operator referenced earlier, A.T. Kearney provided the transformation teams with design standards for training materials outlining the new sales processes. On our advice, the operator designed and implemented a dedicated communication solution to inform employees about new changes and bring momentum to the transformation.

We believe a Fit Transformation™ program should have a lasting impact on the corporate culture. Ideally, change management will endow the entire organization with self-replicating change capabilities that remain far after completion of the immediate transformation program. The sidebar Winning Buy-In for a Full Transformation on page 10 describes how we helped a European incumbent telco achieve employee buy-in for a major overhaul of its B2B unit.

Ready for the Future

Many telecom operators are facing more and more triggers that require a substantial transformation. For example, the regulated reductions in roaming charges in the European Union will require most telcos to cut costs or find new revenue streams. At the same time, transformations are becoming more complex as the telecom industry matures, increasing the risk of failure. But with the right approach, even highly complex programs are manageable.
A successful transformation calls for a strong grasp of the industry’s dynamics and strategic challenges to ensure the program covers everything that is required without including unnecessary or burdensome components. An accurate diagnosis, supported by a deep understanding of how the different parts of the company work, enables management to design a plan that will achieve its targets.

To produce sustainable and self-replicating change, staff at all levels of the organization need to actively participate in diagnosing the problems and discussing the desired outcomes and options. Everyone must understand how and why these options will work and be involved in putting them into practice. In this way, a Fit Transformation™ can deliver a healthy organization that is always ready and well equipped for the next challenge—not only in the short term, but well into the future.
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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.

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