Communications Review*

A journal for telecom, cable, satellite, and Internet executives

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Keeping the Promise

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Drawing on our accumulated experience, we anticipate and meet the challenges of global regulatory change, and help our clients deal with the impact of industry convergence. We continue to add measurable value to our client relationships through our leadership and innovation, which are evident in our evolving services and products.

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Message from the Editor

Amid the rapid change and increasingly intense competition that characterize today's communications industry, there is much debate over the factors that are critical to success. Many observers point to attributes such as a customer-centric focus, flexible business models, consistently high-quality customer service, and responsive product development and pricing. However, I think all of these sources of competitive edge can be encapsulated in a single phrase: keeping the promise.

Keeping the promise comes down to a business saying what it will do, and then doing exactly what it says it will. To succeed, this principle needs to be applied across every activity and relationship throughout the business. To customers, this means good services delivered for the agreed price and underpinned by effective customer support. To employees, it means remuneration and benefits policies that reward them appropriately for their contribution. And to shareholders, it means ensuring high-quality, cost-effective operations and support services that facilitate executing the strategy and creating value for them.

All the articles in this issue of *Communications Review* reflect aspects of how communications operators can make sure they keep their promise. In every case, delivering on the promise helps to create and strengthen the platform that today's operators need as a basis for innovation, agility, and true responsiveness to customers.

In the first article, "Strategic Alignment," Mike McGrath and Kenneth Neate examine the role that developing and managing distribution channels plays in delivering superior customer value. Intensifying competition makes every transaction and interaction, with each customer, a critical moment of truth for the provider. To make the most of these opportunities, operators need to align their sales and service teams both with their overall strategy and with their use of channels and customer touch points. Optimally, combining this strategic alignment with improved channel efficiency and effectiveness creates a model that engages and enables employees and enables sales and service excellence.

Companies thus keep the promise, simultaneously, to customers, employees, and shareholders. The authors' experience shows that implementing such a model can drive a 20% increase in a communications operator's revenues, plus wider operational and strategic benefits.

Our second article, "Tools for Transformation," turns to a growing trend in the industry: using business process management (BPM) to create a fast and flexible environment for application development and integration. This approach enables companies to transform their organizational productivity and speed to market. While enterprise-wide solutions such as enterprise resource planning and customer relationship management increase productivity by focusing on a handful of common business processes, BPM extends the focus to the literally hundreds of unique processes that exist across most communications companies, from order management to billing disputes to sales commissions.

As authors Chris Bowles and Ron Haas point out, communications operators' rich, complex sets of processes mean they are especially suited to realize major benefits from BPM. For example, operators implementing BPM have achieved major reductions in costs while also shortening their new product development life cycles by 50% to 70%. Gains of that order are certainly worth pursuing.

The next article, "Tackling Complexity," looks at one of today's most critical board-room issues for any company: pensions. Mark Abbs and Raj Mody focus on the critical requirement for operators to keep their promise to employees by delivering a fair deal on occupational pension provision. With pension liabilities rising on the corporate agenda, communications operators are facing particular challenges, especially when they are carrying a pension scheme deficit or are formerly state-owned incumbents with legacy liabilities or employees from their public-sector days.

As the authors point out, however, communications companies can regain control over their pension schemes and manage the associated costs and risks by applying holistic, commercial thinking as well as corporate and actuarial skills. Mr. Abbs and Mr. Mody examine companies that have used innovative, integrated approaches to pensions in order to realize benefits—for both the business and its employees.

Our last article, "Working in Partnership," looks at a major global operator's drive to keep its promise to the markets to optimize its information technology (IT) delivery. In an extended case study on the practicalities of implementing a major IT outsourcing, John-Paul Barker, Mohi Khan, Neil O'keeffe, and Andy Woodfield describe PricewaterhouseCoopers' (PwC's) role in helping this organization outsource key areas of its IT function within a tight time frame. This outsourcing journey involved planning through negotiation to cutover, internal transformation, and embedding cultural change. By the end of its fascinating story, the operator had stabilized the outsourcing and started moving toward the targeted cost benefits, with a longer-term view to further increasing its agility and IT effectiveness.

In our Perspectives section, we again meet a key mover and decision maker in the global communications space. This time, Jon Fredrik Baksaas, president and CEO of Telenor, tells us how keeping its promises has enabled this former monopolist in a country of just 4.6 million people to become the world's tenth largest mobile operator. Mr. Baksaas goes on to describe Telenor's continuing appetite for growth in the fast-expanding markets of Asia and sub-Saharan Africa.

On reading this issue of *Communications Review,* I feel we, too, have once again delivered on our promise—which is to provide you with practical, industry-leading insight on key issues for the global communications industry. But, as ever, we remain eager for your feedback to ensure that we keep this publication as relevant and compelling as possible. Whatever comments or suggestions you might have, please feel free to send them to me at paul.g.rees@uk.pwc.com or to call me at [44] 20 7213 4644.

Paul

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Strategic Alignment

Amid the ongoing decline in the communications industry's traditional barriers to entry—geographical, technological, financial, operational—every customer transaction is becoming a moment of truth. To capitalize as fully as possible on each transaction as an opportunity, sales and service teams need to align their use of channels with the organization's overall strategy. The solution lies in creating a model for sales and service excellence that combines this strategic alignment with improved channel efficiency and effectiveness, and with enhanced employee engagement and enablement. Our experience shows that communications companies who successfully implement such a model can boost their revenues by up to 20%—as well as unleash wider operational and strategic benefits.

by Mike McGrath and Kenneth Neate

Business is becoming more competitive around the world, and many companies find themselves at a crossroads regarding strategic direction. While they face exciting prospects for expanding into new markets and using innovative business models, they also must deal with broad shifts in the marketplace that force them to reevaluate the fundamental ways they do things.

The convergence of communications and entertainment services has led to shorter product life cycles, high innovation rates, intense product-based competition, and greater choice. Furthermore, consumers—increasingly knowledgeable about communication products and services—are creating a more fragmented market due to the changing nature of their needs and wants.

The low-cost delivery of services online and stronger antitrust regulations are lowering barriers to market entry despite incumbent organizations' significant advantages in scale and scope. These advantages include greater marketing communication expenditure and broader sales coverage. As a result, incumbent communications organizations find themselves competing with smaller, more nimble competitors for the hearts and minds of once-loyal customers. Incumbent players may be left behind not through the failure to identify consumer trends, but through the failure to execute a flexible in-market response. Therefore, as sales and service channels provide the touch point between a business and its customers, they represent a vital lever for organic growth.

Each sales and service transaction provides a moment of truth between employees and customers—an opportunity to engage customers across thousands of points of presence, replicated across millions of customer interactions per annum. Customers' experiences of these combined interactions drive the overall perception of the organization's brand. This direct form of customer engagement, then, is a powerful method of differentiating the organization's brand and creating a sustainable competitive advantage.

More directly than any other function does, sales and service teams create the experiences—daily, across thousands of points of presence—for which organizations are remembered. Consequently, focused sales and service improvement initiatives can deliver significant growth opportunities.

Common performance issues of sales and service channels

A major cause of poorly performing sales and service channels is a lack of alignment between the objectives for sales and service channels and the organization's overall strategic direction.

This happens when organizations change their strategies to address shifting markets and the challenges of rapid growth without effectively realigning channel mix, capability, and processes. This lack of alignment manifests itself in a number of ways, including:

- **Unclear role expectations leading to duplicated capability.** The roles of various channels become unclear as markets fragment, resulting in over-investment across the channel network and increased channel conflict. Such changes create suboptimal behavior and lead to a poor customer experience. Examples such as pushing customers toward any sale rather than offering the right solution lead to increased customer churn in the first month after signing.

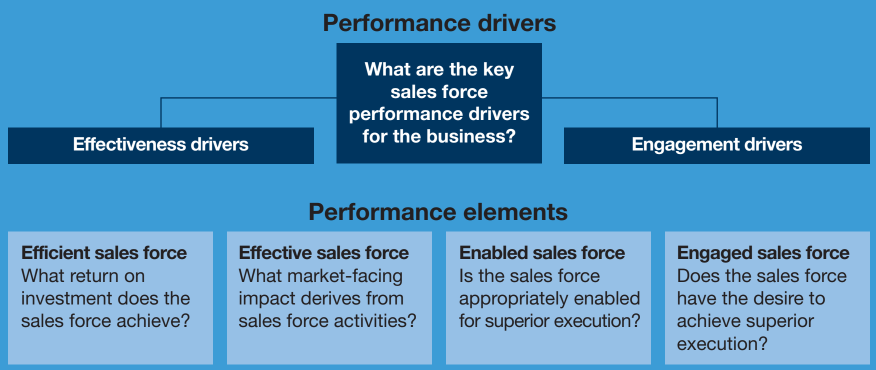
- **An undifferentiated sales and service approach to the customer experience.** As markets fragment, greater understanding of what customers want, and of the customer segment's relative profitability, is required to both align channel capability to value-added service and eliminate low-value activities. For example, lower-value transactional activities are moving out of call centers to be either conducted offshore or migrated to low-cost, self-service channels. To counter this trend, call centers must move toward higher-value conversations based on providing solutions to customers' needs. That shift, in turn, will create a more personal, relationship-based customer experience.

- **Uncertain return on channel investment.** Poor understanding of channel economics leads to assumptions about which channel investments to make. Outcomes can include value propositions misaligned with customer segments. For example, from an intuitive perspective, a direct sales force or retail network may be seen as superior for servicing a market segment, whereas an understanding of channel economics based on return on channel investment (ROCI) reveals that model to be unprofitable unless focused on high-value segments or on acquiring high-value customers.

- **Poor channel governance framework.** The lack of a rigorous governance framework leads to unclear plans with ambiguous targets and to debate over validating results rather than focusing attention on key strengths and development opportunities. For example, one client found that its channel capacity was significantly reduced because the sales staff frequently took phone calls from marketing teams to brief them on product campaign performance. These briefings were often more about the communication strategy and demands for particular customer behaviors than about giving details on the key triggers in the offer. Meeting the conflicting demands of internal and external requirements would put a strain on the most capable, well-trained, successful sales staff.

Various channel structures deliver specific sales and service experiences to an organization's customers—from a face-to-face sales force to call centers and online sales and support capabilities, dealers, and value-added resellers. A siloed channel management layer can lead to internal battles for resources and to funding and productivity losses due to stranded capacity or underutilization across a multichannel network. Consequently, shifts in customers' needs over time fragment market segments and create the need to redefine channel roles and capabilities for delivering the customer experience. Making such adjustments, in turn, creates an opportunity to optimize ROCI rates and redefine specific governance metric and reward requirements to align individual activity with strategy.

Sales force performance drivers



Combining all four performance elements—efficiency, effectiveness, enablement, and engagement—is the key to sustaining improvement across all types of sales channels. Understanding pockets of organizational excellence helps to create a virtuous cycle by adding greater customer value and driving higher employee engagement to improve ROCI. In this way, organizations can ensure effective coverage across all major categories and geographies and support a sales process that targets customers' needs efficiently at each stage of the buying cycle.

Sales and service teams are further enabled through developing specialist capabilities and being provided with effective sales tools and appropriate coaching in the superior execution of the sales and service channel value proposition. The cycle is completed through encouraging high achievement by using well-defined recruitment profiles and incentive programs that help teams deliver on targets and encourage discretionary effort to provide a consistently superior experience to customers.

A model for sales and service growth excellence

Often, channels are inherited, which leads to a requirement to transform operations while fulfilling business-as-usual objectives. Although pockets of excellence may exist within the legacy channel organization, improving effectiveness and employee engagement while balancing customer, employee, and organizational needs is complex. This complexity requires sales and service executives to consider the decision impact on distribution channel performance in several areas: customer experience, revenue growth, and activity efficiency.

The three-phase model outlined below supports building and sustaining high performance in sales and service:

1. **Align to strategy.** Configure channel infrastructure to align with corporate objectives and customer value drivers. Leading organizations improve the alignment of their channels and business strategy by:

- Reorganizing their channels to be better aligned with customer segments based on needs and value.
- Defining an approach and timing for migrating customers among segments and channels.
- Determining the capacity of each channel to handle forecast volumes and new product growth.
- Developing options to manage channel conflict and duplication.
- Understanding the capabilities of each channel, identifying weaknesses, and creating an action plan to address them.

PricewaterhouseCoopers (PwC) recently assisted a client in gaining a better understanding of their channel environment capabilities, market coverage, and economic costs. Market segments were defined and identified across geographic territories, along with the required channel capability, to help the client deliver on customer experience requirements across a clear product portfolio. A gap analysis determined additional channel coverage opportunities and highlighted opportunity within current channel capability that was not being fully optimized. These market gaps have been identified as key growth initiatives within a recognized mature market, and in many cases they represent additional penetration of current customer accounts.

A comprehensive program is now under way to improve overall performance based on understanding the cost to serve and the cost to acquire, balanced with strategic aspects such as market coverage and redefined customer value propositions. The benefits of this program include increased customer penetration, achieving double current market growth, and reduced churn resulting from improving customers' service experience and satisfaction with products.

2. **Improve channel efficiency and effectiveness.** Optimize ROCI through a focus on sales and service process efficiency and effectiveness by:

- Gaining an end-to-end view of the customer experience across all channel touch points.
- Building sales tools and processes that deliver a single, seamless view of the entire customer experience.
- Aligning staff and channel resources with segments according to customer value.
- Developing seamless, integrated campaigns across all channels.
- Increasing the amount of time staff can spend with customers or in improving their skills by aggressively automating processes and eliminating low-value tasks.

For example, channel staff may be spending a fairly small proportion of their time dealing with customers because they spend too much time

Case studies

Refocusing a division
One global telecommunications service provider used the three-phase model to refocus a division that serves small to medium-sized organizations as an integrated, market-facing business.

PwC helped this company become more productive by developing a more effective and enabled sales organization. We assessed the company's channel coverage and identified significant opportunities within its existing sales territories. The company streamlined its back-of-house operations to better support an improved customer experience and made a series of tactical organizational changes to improve segment sales and service focus.

The results included significant revenue growth, improved productivity, and a better customer experience. The benefits included short- and medium-term opportunities estimated at up to US$150 million.

Enhancing call center operations
Another PwC client used the three-phase model to develop and introduce a combination of sustainable process improvements and management tools and techniques that enhanced call center operations. The model helped identify opportunities for improving productivity through process changes, coaching, and leadership. PwC worked with the client to develop a range of tools for measuring productivity and performance and found ways to sustain improvements through behavioral and cultural changes.

These changes delivered productivity improvements and an increased capacity equivalent to 19% of the client's call center FTE baseline. This was double the client's anticipated business case benefit for streamlining its call center operations. Additional benefits included improvements in customer service levels and a dramatic reduction in complaints.

doing administrative work. In some cases, customer-facing activity may account for less than 30% of the total available hours. For an organization with thousands of customer-facing staff, this represents a misalignment of a major investment and therefore an opportunity. Automating activities that add low value gives staff additional time to engage with customers and provide a significantly better experience, stronger sales performance, and increased ROCI.

3. **Improve employee engagement and enablement.** Ensure that sales and service employees are engaged and enabled to provide superior service to their customers by:

- Empowering staff and front-line leaders.
- Coaching staff to develop and drive sustainable performance improvement.
- Recognizing and rewarding staff who display high-value, customer-centric behaviors.
- Attracting and retaining exceptional talent.
- Diagnosing and addressing skill gaps through targeted development programs.

In a recent PwC survey, 70% of the executives interviewed said that the major issue that might hold back their growth strategies was difficulty in finding staff with the required skills. In contrast, an Australian communications client has provided an improved capability development and variable incentive program to enhance the current level of employee engagement and improve revenue productivity 10%–15% per employee across the sales organization.

Business benefits

Deploying this model has the potential to realize a range of business benefits. In our experience, clients we have worked with who successfully addressed the performance constraints described here have improved revenue per head 15%–20%. The areas where companies usually benefit include:

- More customer-facing time for sales and service staff.
- Increased revenue per salesperson.
- Reduced sales or service channel costs.
- A better customer experience, leading to improved satisfaction.
- An improved employee experience, leading to ongoing performance, sustainability, and retention of the most talented staff.
- Incentives that help align employees' behavior to corporate objectives.

Conclusion

In response to market shifts and the continuing march of globalization, many CEOs are looking to take bold, adventurous steps to sustain corporate growth. They are putting their faith in high-risk strategies such as opening up new markets, acquiring new capabilities and markets through mergers, and developing new, innovative products and services. While such strategies are laudable, executives should not overlook the significant benefits that can be achieved by improving the returns from their existing sales and service channels.

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Tools for Transformation

Over the past 10 years, enterprise-wide solutions such as enterprise resource planning and customer relationship management have increased productivity for most businesses—including telecoms operators—generally by focusing on less than a dozen common business processes. In reality, most organizations have hundreds of processes, most of them unique to the business. Over the next 10 years, the route to further productivity gains will lie in building automated, integrated solutions to transform these unique business processes. By providing a fast and flexible environment for application development and integration, business process management (BPM) tools are enabling companies to join this next wave of organizational productivity advances.

Communications operators—given their rich and complex set of processes in areas from order management to service delivery and provisioning to billing—are especially suited to realizing the benefits of BPM.

by Chris Bowles and Ron Haas

When it comes to major process change and IT development for a large operator, most communications executives have personally experienced the constraints, challenges, and extended timelines. As in other industries, operators and their information technology (IT) functions struggle with limited resources, tight budgets, and a plethora of forms, processes, business cases, and technical approval requirements. At the same time, they generally are applying the traditional "waterfall" approach to development projects.

The good news is that there is another approach, one that can drive a dramatic reduction in both development and delivery time and cost, while increasing flexibility and productivity: business process management (BPM).

Before examining how BPM delivers these benefits, let's take a closer look at the established approach to IT development. Traditionally, a technology project begins with a substantial requirements assessment phase, which is followed by back-and-forth dialogue between IT and the business during development, and then a lengthy testing period before the new process or application is implemented. The result, ironically, is that the method for introducing process and IT changes to increase integration and efficiency is itself both fragmented and inefficient. Also, experience shows that each disconnect and delay in the development cycle can add friction and dissatisfaction between the business and IT, ultimately driving a wedge between the two partners.

Going to the next layer of processes

Many hoped that in the post–enterprise resource planning (ERP) and post–customer relationship management (CRM) world, lack of integration would be a thing of the past. Sadly, this is far from reality. Enterprise-wide implementations of ERP and CRM aimed to improve and automate business processes along companies' value chains, creating end-to-end integration and a single view of the truth for decision making. However, not everything can be automated in that way. Just below the overarching enterprise level, major organizations have scores or even hundreds of processes that fall below the radar of ERP because they are unique to the business.

Addressing such unique processes represents a further—and often unarticulated—wave of opportunity for automating and improving processes. Invariably, these "second-level" processes involve significant human-to-human and human-to-system interaction. And because of the sheer number and variety of unique processes, the key to addressing them effectively lies not in seeking out best-of-breed IT applications, but in developing a standardized, repeatable process that draws on reusable components and development methods. These components can be leveraged to speed up the IT development cycle and to make each process easier to maintain and extend over time.

BPM in action: Transforming customer service and returns management

A household-name mobile operator faced significant process challenges in its reverse logistics, including the processing of handsets returned by customers. Its problems were affecting customer care and limiting the ability of in-store representatives to cross-sell and up-sell. So the company decided to use BPM to transform its reverse logistics supply chain—a program that would affect not only retail sales clerks but also customers, billing, contracts, warranty groups, and help desks.

The business case for the reverse logistics BPM project was compelling. The cost efficiency and revenue gains were such that breakeven was reached within 72 days. Over 36 months, the BPM initiative generated a net present value of well in excess of the original business case. Today, US$110 million of gross annual savings can be directly attributed to the BPM program around reverse logistics.

Along with these financial benefits, the company has realized major gains in customer satisfaction, with the waiting time for customers exchanging a handset having fallen from between three and five days to just one to two hours. The new process also captures additional data to improve product quality. As a result of such benefits, the in-store customer experience rating is up by 8%, and the complaint index is down by 19%.

A further benefit that the operator has gained from the BPM initiative is improved decision making. Product life-cycle decisions are now made from real-time data derived from each unit in the customer base, and the process identifies automatically which products are to be added or removed from the repair list. New product purchases are made on the basis of the best quality metrics. And original equipment manufacturer relationships have been improved by moving negotiations from anecdotal claims to fact-based discussions.

Why operators need a new method

For communications operators, these issues are especially pressing. An executive with one leading fixed and wireless carrier summed up the situation recently: "We have done a good job of addressing the low-hanging fruit [in terms of process improvement]. But now we need to move to the next stage of streamlining processes and removing duplication. This means achieving true integration between systems and processes to take out costs."

So, why are communications operators more in need of a new process improvement method than other types of business are? One reason is the nature of the business they are in. Communications operators' operating models are packed with complex processes in such areas as customer acquisition, order management, fulfillment and service delivery, customer care, and billing. At the same time, the industry has been plagued for years by fragmented processes and legacy OSS/BSS environments that are not well integrated, resulting in excessive fallout, exception-handling, and challenges to effective customer service.

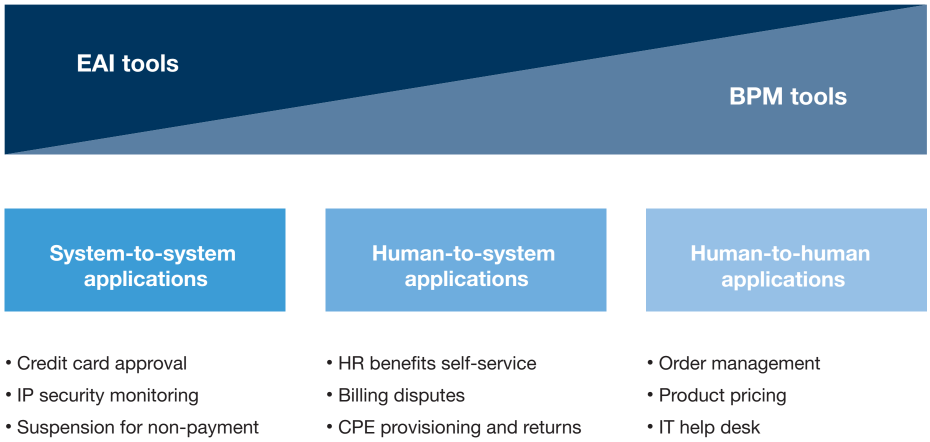
This lack of integration reflects the industry's history of headlong consolidation through mergers and acquisitions and its tendency to develop, for example, a new "siloed" order and billing process for each new product. Taking a piecemeal approach—as opposed to defining a repeatable process that does not rely on individual interpretation and/or involvement—has often resulted in fragmented, inconsistent processes whose smooth execution may even depend on a particular individual. Whatever their causes, these disconnects are now being thrown into sharper focus as operators bundle products and deploy emerging services that demand the integration of supporting operational processes across previously distinct product lines.

What is BPM—and how can it help?

A basic definition of BPM is process-centric software that allows organizations to build applications quickly to automate processes and workflow that ultimately increase productivity, quality, and the ability to manage and monitor business process performance effectively. By bringing together multiple development technologies, BPM software enables a tool set that business and technology staff use to collaborate and develop solutions in weeks, rather than the months that traditional tools require, while always keeping the core needs of the business in view.

As a result, applying BPM can transform a communications operator's agility and responsiveness, enabling it to become much more nimble in tackling issues that arise in areas ranging from supply chain and logistics to customer satisfaction *(see the case studies on pages 20 and 24)*. The processes that can be transformed through BPM are not just customer-facing, such as ordering and billing, but also include those with an entirely internal impact, such as payroll, labor relations, and orienting new employees, to name a few.

Figure 1: Tools for addressing the process continuum



In most cases, the question is not whether to employ enterprise application integration (EAI) or business process management (BPM), but rather which set of tools will play the dominant role in transforming the operator's unique human-to-system and human-to-human processes?

Whether customer- or employee-facing, processes that are ripe for a BPM solution tend to include those that span multiple functions or organizations and have limited integration and repeatability and that result in excessive e-mails, human intervention, and/or fallout and rework. Operators using BPM experience improved cycle times and quality and realize greater returns on their investments in ERP, CRM, and OSS/BSS.

A characteristic of the second-level processes with the greatest potential to benefit from BPM is that they tend to involve interaction between human and system, or, more commonly, between human and human. If all of an operator's processes were mapped along a continuum from, on the left, system-to-system interactions with no human involvement to, on the right, human-to-human interactions, the most natural territory for BPM would be on the right, in those company-specific, people-based processes that characterize the second layer of processes. This layer includes processes in which the core interaction is human-to-human but relies critically on the ability to interface with various systems and pull in data to support the process. *(See sidebar on page 22.)* BPM can transform these processes in terms of both efficiency and effectiveness at a fraction of the traditional time and cost.

The benefits of drilling deeper

How does BPM produce benefits? Let's take a deeper look at BPM itself. In essence, BPM represents the packaging of historically disparate software tools that enable businesses to streamline, automate, and manage processes. The tools provided in a BPM suite include formerly separate but interrelated components such as business modeling and simulation, workflow engines, business rules engines, business activity monitoring, application server, enterprise application integration (messaging layer), portals, and dashboarding/reporting. When integrated and applied together, these tools constitute a suite of technologies that enables businesses to build Web-based applications very quickly and at low cost.

The BPM discipline contrasts sharply with the traditional approach to IT and process change, which involves seeking out and implementing specific, best-in-class technology components. Instead, using a BPM suite, the reusable tools listed above are applied in a flexible and integrated way to the specific needs of the individual process. The results are dramatic. Experience shows that BPM can consistently reduce the length of IT

Processes that BPM can benefit

The following are typical operator processes from which BPM can reap dramatic benefits.

Operations:

- Order management for VoIP/ content-rich services
- CPE (customer-premises equipment) provisioning and return management
- Billing disputes and resolution management
- Construction/engineering work order management
- Contract management and individual case basis pricing
- Large deals management
- Product/plan price implementation and management
- Order fallout management
- SLA (service level agreement) compliance

Back office:

- Sales commissions
- Human resources' handling of new and departing employees
- Self-service benefits management
- Transaction tax rate implementation
- IT contractor payment management
- Tax remittance processing
- Closing the books
- New product integration
- Account reconciliations
- IT help desk/project authorization and management

development cycles by 50% to 70%—which translates into far faster speed to market, much lower costs, and, ultimately, greater value to the business.

The business benefits continue after implementation of the new process *(see sidebar on page 23)*. The use of integrated tools across various processes means that subsequent improvements can be made in one place rather than having to be repeated across many processes, making maintenance easier and quicker. Changes also can be made "on the run" and implemented instantly into business-as-usual situations. The result is an engineered step-change in the organization's agility and responsiveness to market change—an increasingly key attribute in today's fast-moving communications marketplace.

Our experience with clients has shown that when an operator fully embraces BPM, it provides a radically differentiated application development environment. Crucially, this environment is process-centric rather than technology-centric, with all BPM applications starting from a process map that establishes and supports the common development framework.

That approach enables two important attributes. One is that the application development process remains completely focused on how the process will be carried out in practice, allowing business and reporting rules to be embedded to ensure that the process delivers the right outcomes and effective monitoring at every step. The second is that it puts the business user in ultimate control of the development process and the final result, ensuring that the deployment of each IT application is always aligned with what the business is trying to achieve.

Challenges in adopting BPM

Given that BPM can produce such major advantages for communications operators, and that it has been around for some years, it may seem strange that it has not already been widely adopted as a standard application development approach across the industry. In fact, BPM is now gaining ground rapidly, with growing numbers of major operators starting to apply it and realize the resulting benefits. But its take-off into mainstream use has been slowed down by a number of factors.

One factor has been a widespread lack of clarity over what BPM actually means, partly because its generic name can be confusing. An Internet search on the abbreviation BPM will find many topics, including business process management (our topic in this article) and business performance management, which is another term for corporate performance management (CPM). CPM refers to business intelligence reporting tools and practices. Ironically, BPM as discussed here includes reporting functionality related to the process(es) embedded into the BPM application. It is clear how this can become confusing.

A second factor that leads to confusion is the debate among practitioners over a common definition of BPM. One camp applies a software-oriented definition under which BPM refers to the convergence of technologies, while the other camp defines BPM as the practice of managing a business through processes. The concept of managing the organization by means of processes, which has been around for a few decades, helped launch the reengineering craze of the 1990s. It was only with the advent of the new software tools that the term BPM became widely used to describe how an organization can start building applications to manage processes using BPM software. For this reason, we are in the newer camp using the software-based definition.

Beyond the confusion over defining BPM, another factor that has slowed down its adoption is that IT often feels BPM poses a threat to its influence, control, and traditional practices. This is one reason why BPM often comes into organizations via the business rather than via IT, as a result of a business unit leader being shown the scale of the benefits it can deliver.

In fact, resistance to BPM by IT is both mistaken and shortsighted. Our experience shows that, on the contrary, IT should embrace BPM because it offers as many advantages to the IT function as it does to the business as a whole. Put simply, in an era when IT is under growing pressure to deliver a demonstrable return and real measurable value to the business, BPM provides a route to achieve both goals. Essentially doing more for less, it solves real business problems more effectively. As a result, BPM brings the IT function an opportunity to re-establish itself as a true enabler in process transformation across the business.

Lessons learned—and next steps

Adopting BPM does bring its share of challenges. Some result from the sheer speed it brings to the application development process. By reducing development life cycles by 50% to 70%, BPM requires the existing methodology and hardware procurement cycles to be adapted to fit such a rapid cycle—or procurement may end up acting as a brake to the newfound speed of IT development. For this reason, hardware and software specification and planning must be started very early in the process and, in many cases, handled in parallel with the application development activities. Similarly, BPM's speed creates a requirement for extremely tight coordination and project management of deliverables to meet due dates and deployment timelines.

Overall, the message for communications operators is clear. As the case studies illustrate, BPM offers a fast, effective route to higher productivity and flexibility without incurring the costs or long timelines associated with traditional IT development projects. In contrast to the legacy approach, return on investment typically is achieved in a matter of months. A growing number of leading communications operators have now seen and appreciated the benefits that BPM can deliver, and have incorporated it into their IT strategy as a means of enabling the business to achieve process transformation quickly and effectively.

If this sounds compelling for your business, the first step would be to isolate an appropriate process to improve. The ideal target process is essentially one that exhibits the following characteristics: excessive manual intervention, fallout, errors, rework, duplication, e-mails, and the involvement of multiple people required to simply make the process work. The second step should be to model and demonstrate the process using BPM to show the benefits that BPM could deliver. These demos produce working application prototypes that the business can interact with and react to, and that typically are developed with business process owners during a process modeling session that can be completed in a matter of hours.

BPM takes process automation to the next level as it brings the business and IT together, literally on a common platform

The proven benefits of BPM

Business process management has shown its effectiveness in enhancing productivity in both the overall business and the information technology function.

For the business
The proven benefits of BPM include the ability for the business to:

- Reduce labor costs through automation of manual tasks.
- Increase quality by automating business rules.
- Optimize business processes by enabling continual improvement.
- Improve management and controls by integrating disparate systems and processes.
- Allow managers to react quickly to events at a time when they could make a difference.
- Enforce process controls quietly and effectively and with a full audit trail.
- Reduce the friction from mergers and acquisitions.
- Achieve results faster through process simulation prior to deployment.
- Provide quicker return on investment due to lower IT development costs and rapid deployment.

For the IT function
The proven benefits of BPM include the ability for the IT function to:

- Earn higher, faster return on investment from IT development projects, boosting IT's standing at an enterprise level.
- Deliver more demonstrable value to business customers and the enterprise as a whole.
- Increase credibility across the business, re-establishing IT staff as key enablers who solve business problems.
- Lower project costs and head count as development timelines are reduced and streamlined.
- Enhance standardization, increasing IT's control and allowing IT to consolidate and rationalize applications.
- Improve processes continually, more effectively, more easily, and enterprise-wide.
- Produce better, faster, and more certain results through process prototyping.
- Achieve more focused and cost-effective management of skills through the use of standardized tools across applications.

or by means of a suite of technologies, to transform processes across the enterprise. With BPM, the need to dedicate increasing numbers of people to highly manual and fragmented processes, and to live with lengthy IT development timelines, can become a thing of the past.

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BPM in action: Transforming the vendor payment management process

A global communications operator was experiencing performance problems and technology obsolescence within its process for paying IT vendors who provided application development and maintenance services under numerous outsourcing arrangements. The legacy process required significant manual intervention to handle the receipt of most invoices from vendors; the verification, approvals, and reconciliation of time charged by vendor personnel; and the back-end financial accruals and related reporting.

Some 30% of the invoices processed required additional manual resolution, with 95% of the errors being incorrect time data provided by the vendor and 5% with no time entered at all. Given an imminent increase in the volume of vendor hours and resulting invoices, the current head count that managed the process would need to be expanded to maintain current throughput. In addition, as a result of the current state, some software development work was being classified as expense vs. capital (approximately 3% to 5% of spending), and much of the work was not being tracked at a level to qualify for state and federal R&D tax credits. Refreshing the technology also was needed since the underlying database that supported the current process was built in a package no longer supported by the software vendor.

With PricewaterhouseCoopers' help, the company used BPM to create a targeted solution that did not materially impact upstream or downstream systems or processes, and which transformed the existing IT vendor payment process while replicating the activities within it. To remove the heavy exception management effort required due to vendors entering time data incorrectly or not at all, the application used business rules to replace manual searches and confirmations. It also required major onshore and offshore vendors to render invoices electronically using a standard XML format, with new e-invoice rules to reduce fallout. At the same time, the new process automated the verification, reconciliation, and fallout over vendor invoices, as well as part of the approval process through a standard, repeatable workflow.

The business case for the BPM application included annual direct labor savings, plus annual savings by accurately capitalizing software spending and accurately supporting R&D tax credits. Payback on the effort took less than a week to achieve, thanks to more accurate software capitalization reporting, plus labor savings that approached $50 million annually. The application also addressed the problem of scaling the operator's process to handle the increased volumes without having to add more people.

Tackling Complexity

Globally, pensions are in turmoil—and are rising rapidly up the agenda for governments, boards, investors, acquirers, unions, employees, and the media. Issues concerning pensions now influence every facet of daily corporate life, especially for those companies carrying a pension scheme deficit. For communications operators, particularly formerly state-owned incumbents, these issues can be especially challenging. But they are not insoluble. Companies can regain control over their pension schemes, and manage the costs and risks associated with them, by applying holistic, commercial thinking in combination with a wide range of corporate skills and deep actuarial know-how. While many companies are still struggling to come to terms with their new and unwanted debt problem, some are embracing more innovative approaches to the whole pension arena.

by Mark Abbs and Raj Mody

Ten years ago, pension schemes generally were an outpost of human resources, separate from the rest of the company's structure. In the early years of this decade, markets took a hit and most defined benefit (DB) schemes moved from a position of comfortable surplus to significant deficit. Then came new accounting rules in many locations, and these deficits started to appear on the balance sheet.

In some cases, the emergence of pension issues has taken company boards and potential acquirers by surprise, even stopping some deals in their tracks. At the same time, pension regulators are gaining increasing powers to protect the interests of scheme members, while employers and individual directors increasingly can be held accountable for any action, or lack of it, that reduces the security of a company pension scheme.

Pension issues in the communications industry

Evolving industry dynamics serve to highlight pension issues that are critical for communications operators. Ongoing convergence at the service and the provider levels is creating a more level playing field in which lean, young companies can compete head-on with massive incumbents—making pensions a key component in everything from recruitment and reward strategies to return on capital.

These dynamics are affected by companies' legacies and organizational cultures. For example, for many incumbents, large workforces and a history of public ownership have made pensions a long-standing focus, especially given the wider social shift from public to private pension provision. However, an effective pension strategy is now equally critical for the young companies, which must ensure that their pension commitments do not start to weigh them down, causing them to lose their operational and financial agility.

The innovation cycle in the sector also has an impact on pensions. As innovation climbs toward a new peak, communications operators face a looming talent shortage, meaning they must be able to compete for the best and brightest individuals. As a result, businesses now jostle to recruit from a relatively small quantity of sought-after individuals. Workforce investments, including pensions, represent a critical human resources tool and a unique opportunity for communications companies to drive financial performance in the coming decade.

Alongside these factors, the increasingly cross-border nature of the industry's offerings and organizational structures is combining with multiple regulations and standards to increase the complexity of pension issues. At the same time, the intensifying price competition seen in the communications sector and the resulting squeeze on margins mean that the substantial costs involved in managing and fulfilling company pension schemes are coming under growing scrutiny. And advancing regulation in the pension environment is creating even further costs for companies.

The widespread shift away from DB schemes and toward defined contribution (DC) schemes in many countries is also raising challenges for the industry. Not the least is that of convincing long-standing employees of the need to rebalance the responsibility for retirement provision from the company to the individual.

In countries where private pensions traditionally have played a small part in total pension provision, changes are under way. For example, the German private pension market is expected to grow significantly in the next few years due to the post-2000 pension reforms (premium income rose by almost 25% in 2005). In Italy, a new law to boost the growth of private pensions was approved at the end of 2005 and is expected to become effective by 2008. Under it, an amount equivalent to 7% of salaries will automatically be paid into occupational pension funds.

Pension strategies for success

In the complex pension landscape, how can communications operators ensure that they are on top of the issues? The answer starts with a strong governance framework, which recognizes that pension issues now cross many disciplines—actuarial, legal, regulatory, financial reporting, and strategic. Today's most challenging pension problems need a connected approach, yet current corporate frameworks for dealing with pensions do not always encourage joined-up thinking. The good news is that companies that use effective pension strategies to approach their pension scheme governance proactively and that negotiate effectively with trustees can maximize business value and minimize business risk.

DB and DC pension schemes defined

In a defined benefit (DB) pension scheme, the final amount of the pension that a retiring employee is entitled to is set by a predetermined formula. The amount the individual receives is often connected to criteria such as length of service and the amount of pension contributions made.

In a defined contribution (DC) pension scheme, the final amount of the pension a retiring employee is entitled to is uncertain and is not guaranteed by the employer. The amount depends instead on the level of contributions put into the individual's fund, the success of the investment of that fund, and the cost of converting the fund into an annuity at retirement.

To create a road map to a successful pension strategy, a company must first decide where it would like to get to—in other words, what success will look like. While the details of the vision will vary depending on a company's specific situation, for most businesses the vision is likely to include most of the objectives and aspirations described in Figure 1.

In creating and executing the strategy, a communications company needs to take into account several objectives and aspects. Our experience shows that the four most important considerations in respect of pensions are:

1. Maximizing business value.
2. Minimizing risk.
3. Designing the pension scheme and the pension promise.
4. Managing financial reporting and governance.

Maximizing business value

Merge pension schemes. One of the most effective ways to maximize business value—especially in a post-merger environment—is to merge pension schemes. Companies can reduce the cost and complexity of managing two or more pension schemes by merging them. A number of symptoms can indicate that merging may be an appropriate step, for example, the company may find itself devoting excessive time and cost to managing a myriad of schemes, trustee boards, and advisors.

Identify the potential cost savings from merging pensions as well as the one-off expense of executing the change. Then investigate the effect on security for each scheme member and any resulting liabilities. Finally, engage with trustees and, if necessary, the relevant pension regulators. The savings can be dramatic.

Following various corporate mergers, a major multinational had 13 DB pension schemes in the United Kingdom. By merging these schemes, the group achieved annual cost savings of more than 1% of total payroll, plus greater control over pension policy and a clearer decision-making framework.

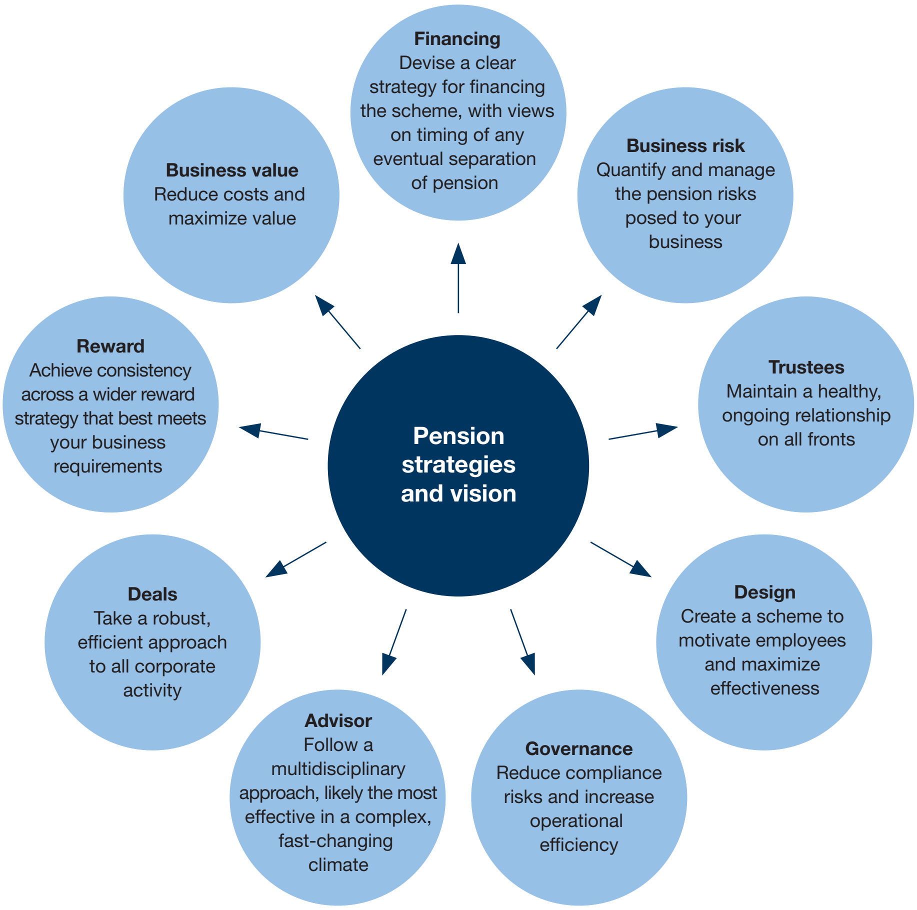
Reduce pension liabilities. As well as rationalizing future benefits, companies can also find ways to reduce existing accrued liabilities that are acceptable to, and even welcomed by, trustees and members.

Identify possible options for reducing existing liabilities, and conduct a cost/benefit analysis on each option. Clearly communicate the desired changes, and obtain any required consents. Also, evaluate both immediate and long-term funding implications of the scheme.

One corporation, looking to reduce the deficit in its main pension scheme, offered the deferred members an enhancement to transfer their benefits out of the pension scheme. This resulted in a US$18 million reduction in the scheme's deficit, for a cash outlay of $3.6 million, and lower exposure to mortality and investment risk.

Enhance tax effectiveness. Take steps to maximize the tax effectiveness of the pension scheme in each location to enable companies to cut the costs of operating their scheme with tax savings.

Figure 1: Key objectives and dependencies of a pension strategy



In formulating a strategy for a successful pension, communications operators must first weigh their companies' objectives and aspirations to define success.

The symptoms that might point to this action include pressure for increases in employee or employer pension contributions, or pressure from unions and employees for greater flexibility on reward.

Carry out a feasibility study to identify the level of savings to both employees and the employer, and any potential roadblocks. Consider the effects on payroll, human resources systems, and employment contracts, and ensure that employees will be no worse off. Clearly communicating the benefits is vital in enabling the employer and employees to maximize tax effectiveness.

The savings often are substantial. One organization converted the employees' pension contributions into employer contributions to cut the costs of operating its DB and DC pension schemes while maintaining the same level of pension benefits. The conversion created savings equivalent to 0.5% of pay to those qualified for the pension and gave employees an effective gross pay increase of up to 0.7%.

Improve pension function effectiveness. Ensuring more cost-effective delivery of high-quality pension services also can reduce the costs of operating company schemes and remove unnecessary costs or reputation risks. The symptoms indicating the need for such a program may include confusion about responsibilities in the pension function, too much manual processing, or poor communication with other functions.

The program should aim to clarify and document all roles and responsibilities across pension-related functions. Review the pension's delivery service, looking at structure, people, processes, and systems. Following implementation, the pension function should run significantly more efficiently and should deliver better value for members.

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Minimizing risk

Make and implement effective decisions. Unclear decision making between employers and trustees creates the potential for conflicts, which can represent a major risk for companies running schemes. Minimize this risk by embedding robust processes for making and documenting decisions between employers and trustees, and ensuring that the responsibility for implementation is clear. Warning signs in this area might include confusion between employers and trustees over which decisions have been reached, and corporate activity being derailed at the last minute by insufficient engagement from pension trustees.

Clarify who is accountable on the employer's side for engaging, consulting, and making arrangements with the trustees and for ensuring that all decisions are documented in a manner that provides clarity and that can be scrutinized. Review decision-making processes to ensure that they are consistent with the powers set out in the scheme's trust deeds and rules.

One global organization was in dispute with its trustees over decisions that each had interpreted differently. The two parties had not revised their processes to reflect the new pension's environment in that location. New processes subsequently implemented resulted in clear, speedy decisions and reduced meeting times by half and advisor fees by one-third.

Create a pension scheme risk register. Financial and other risks associated with pension schemes are frequently of the same order of significance to businesses and require similarly thorough, ongoing risk management. Take control and reduce risk by creating a pension scheme risk register. Symptoms that suggest a pension scheme risk register is needed might include difficulty in identifying, prioritizing, or understanding the effect of pension risk, inability to identify the ownership of pension risks, or the employer and trustees having differing views of acceptable levels of risk.

One organization held an interactive risk workshop for trustees designed to develop understanding of the principles of risk, raise awareness of the advantages of considering risk to be an integral part of scheme responsibilities, and identify, explore, and assess the pension scheme's main risks. Following a detailed review of the risks the scheme faced and identification of the objectives of the scheme, an assessment of the specific risks that could prevent achieving those objectives was carried out. The risks were then classified according to severity and likelihood, and mitigating action and control procedures were identified.

Designing the pension scheme

Given the array of pressures, it is hardly surprising that the landscape of pension design is changing. In many countries there is a trend to move from defined benefits to defined contribution schemes. A recent survey of 464 companies by the UK National Association of Pension Funds (NAPF) found that the main reason for closing final salary schemes was cost control.

Aside from dealing with pension deficits, many companies also have to reassess the nature of their pensions' promise to executives and the wider workforce, both at home and overseas. Employers need to balance inequities arising from the closure of DB schemes and reassess the role that pensions play as part of overall reward in the employment deal.

Defined benefit schemes. A key problem with DB schemes has been the huge increase in cost over the last two decades. To exacerbate the problem, the reward from any investment risk the employer supports is asymmetric. In the event of a surplus, there typically is pressure to award benefit improvements to members. So the sponsor reaps only part of the reward from the investment risk taken. In the event that the investment risk does not pay off, the sponsor has to make good on the resulting deficit. The sponsor may have no leeway to reduce members' accrued benefits.

In the future, it will be desirable for pensions to be designed with built-in safety valves to help mitigate against increasing costs and funding strains that arise in respect of accrued benefits, as a result of external factors. It would also help for the designs to not have such asymmetric risk/reward features.

Defined contribution schemes. The move toward DC schemes has achieved the aim of transferring to members most of the financial risks of final salary schemes, particularly the risk of investments. But for the employer, it has not solved all the problems connected with these risks.

The nature of a DC scheme is that members bear the three principal risks—low-pension risk, mid-career volatility, and preretirement market risk. However, the human resources implications from these risks can be serious for companies sponsoring DC schemes. For example, if members are uneasy about poor investment market conditions, they may make irrational investment selections.

It may be difficult to encourage employees no longer needed by a business to retire if they have inadequate pensions. Companies that question what other incentives to offer employees as the workforce ages substantially might consider a potential shift toward recruiting and retaining selected older workers.

To appeal to older workers, employers may have to offer more flexible income patterns. Options include allowing employees to work part-time and also draw a partial pension, and allowing employees the flexibility to review the balance between work and retirement every few years.

Maintaining a balance between the human resources and the finance functions is desirable. In particular, the human resources function has a role in helping the finance function appreciate that a move to DC does not avoid all the risks associated with occupational pension provision and, in fact, creates new risks over time.

Targeted retirement accounts. The undesirable features of DB and DC schemes have led to an alternative "middle-ground" design, the targeted retirement account—often called a TRAC.

Up to retirement, a TRAC scheme assigns an account to each individual member, as in a DC scheme. However, the investment strategy behind the accounts is not at individual members' discretion but, instead, under the control of the TRAC scheme trustees in consultation with the sponsor.

The employer's and an employee's contributions are both allocated to the individual's account. Then, for example, a TRAC might target cost-of-living revaluations (such as RPI, retail price index) on the account each year up to retirement, but with a guarantee only that the accrued TRAC will not reduce. Such a guarantee gives employers a safety valve in the event of adverse experience. It also gives employees better security than with traditional DC schemes, along with better predictability for projecting their individual TRAC, especially close to retirement.

The TRAC approach provides greater flexibility and certainty for employees than a "pure" DC scheme does, but with more controllable risk for the employer, including protection from potential dramatic improvements in life expectancy in the future. A TRAC scheme also can provide companies with a better distribution of shared pension risk across their workforce. Companies that currently run closed final salary schemes and open DC schemes may have two employees doing identical jobs but with materially different total reward packages. A TRAC can help overcome such problems.

Cross-border pensions. Considering the increasing mobility of employees, employers need to pay closer attention to benefit provision—not just to ensure consistency where appropriate, but also to avoid falling foul of the differing regulatory environments around the globe.

Companies can incur pension costs for expatriates that are significantly higher than those for other employees, often because they resort to various ad hoc fixes as issues arise. The solution in these cases is to develop a consistent strategy to meet the needs of both the business and the employee at a reasonable cost. In addition, any pension policy should be consistent with and should support the business, wider human resources policies, and international assignment policies.

The impact of local pensions and tax legislation also needs to be considered carefully. For example, for employees located within European Union member states, it is possible for employers to make contributions into a UK "cross-border" pension scheme. Doing so requires approval, but can also lead to more stringent requirements for reporting scheme funding. The pros and cons need to be assessed early, as it is possible that such cross-border status can be triggered inadvertently.

An international organization had expatriates in a number of countries and had set up an offshore pension scheme in a low-tax jurisdiction. However, different expatriates had very different benefits within the scheme, which created tension among the expatriates and made the scheme more complicated to run. This complication resulted in the organization reviewing its expatriate pension policy and changing its contribution scale to be more consistent across territories, including the effect of the various tax treatments of the countries involved.

Managing financial reporting

Clarify corporate accounting for pensions. Manage financial reporting around pensions with effective, accurate, and transparent corporate accounting. Balance sheet disclosures about pensions vary widely and are continually evolving—yet they act as a yardstick for corporate transactions and, increasingly, for funding negotiations as well. Absolute clarity is therefore essential. Warning symptoms include balance sheet volatility caused by the pension liability, inconsistent assumptions across different territories, confusion over the correct accounting treatment for overseas schemes, pressure from investors for increased disclosure of benefit costs and assumptions, or pressure from the trustees to set a funding basis for cash contributions no weaker than the accounting basis.

In response, a company should take steps to correct accounting issues. Included are preparing an inventory of all benefit schemes worldwide, implementing robust processes and methodologies for setting assumptions, reviewing current assumptions against appropriate benchmarks, and publishing transparent and comprehensive disclosures.

One organization collated pension disclosures for eleven schemes that had nine actuarial firms as advisors. Reporting templates were then redesigned to help develop consistent methodologies for determining assumptions across all territories, creating a smoother and more robust reporting process going forward. That organization now requires less merger and acquisition assistance for certain overseas territories when preparing businesses for sale.

Review actuarial assumptions. Review assumptions used to calculate disclosures, assess the accuracy and appropriateness of assumptions, and analyze the sensitivity of the results to different assumptions. Also, benchmark assumptions against the market. (Obtain an auditor's sign-off on any proposed changes.) Benchmarking exercises of this type can provide employers with strong evidence to counter increasingly strong funding targets proposed by trustees and challenges from auditors concerning balance sheet disclosures. Equally, they may identify ways in which the existing procedures for determining assumptions could be refined.

One company found that the financial assumptions proposed for pricing a target business were significantly more aggressive than those used at the last balance sheet date, resulting in a higher price for the target. By revising the assumptions, the company was able to improve its negotiating position by around $6 million.

Measure pension obligations. Given the variety of ways to measure pension obligations, employers need to decide which is the most appropriate to use and under what circumstances. Symptoms indicating that measurement is needed might include confusion over why pensions are valued in different ways in different circumstances, a lack of understanding about who sets the assumptions in each case, or a need to understand how to value the pension liabilities of associated companies, competitors, or an acquisition target.

The company needs to gain an understanding of which measure of the liability will affect the scheme and under what circumstances. It also should establish which stakeholders will focus on which measure, and the implications of each measure for any corporate activity.

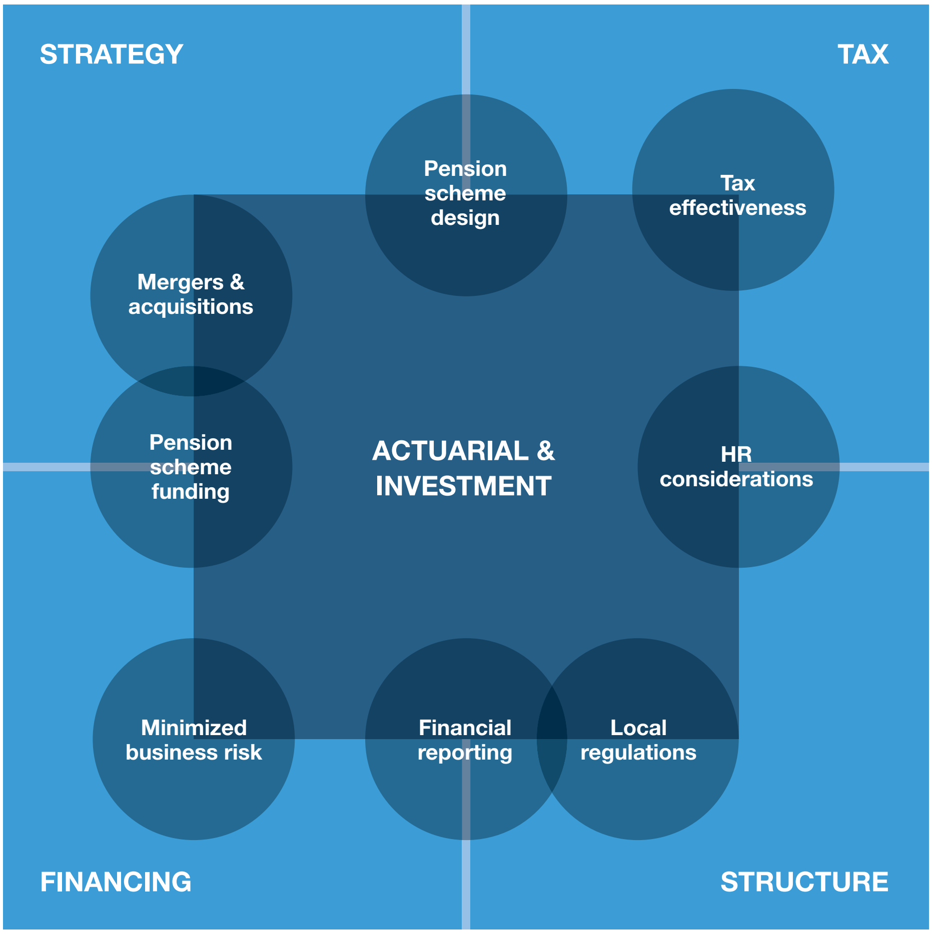
Initially, an organization bidding for an outsourcing contract that involved the transfer of staff with pension rights focused purely on the likely ongoing deficit. A due diligence review, however, highlighted the wider implications, such as the fact that the accounting deficit would affect dividend payments and loan financing, and that the buy-out deficit would affect the exposure of its joint venture partnership. As a result, a more comprehensive funding and investment scheme was put in place, giving management more control.

Key stakeholders and regulators

In today's more transparent pension environment, healthy and ongoing dialogue is essential, not just with the regulator but with all key stakeholders—trustees, pension scheme members, unions, shareholders, and lenders. Conflicts cost money. If nothing is done to manage pension scheme risk, it can damage the share price and, consequently, directors' credibility and personal remuneration. Trustees, as well as the board, have increased responsibilities and risks and are under increased scrutiny from stakeholders, with a renewed focus on auditing the pension scheme as an integral part of effective scheme governance.

Employers should therefore ensure that they engage proactively and continually with key stakeholders and manage those relationships effectively. For instance, companies need to engage closely and continually with trustees to ensure that management has the right degree of oversight and strategic input to what often is, in effect, a financially significant business subsidiary.

Figure 2: The skills required to drive an effective pension strategy and role of the integrated pension advisor



Recognizing the pension scheme as one component of a company's operations and risk profile, communications operators should formulate their pension strategy by taking a holistic approach that builds on actuarial skills.

Conclusion: The need for an integrated approach

Pension issues today—rarely sitting just in the pension box—overlap with corporate financing and structure, tax, and business strategy and valuation. Communications operators' need for advice and guidance concerning pensions goes far beyond actuarial expertise. The key is to build on core actuarial skills but view pension issues in the wider business context. The effective pension advisor, also, will have these broader integrated skills. *(See Figure 2.)*

From a well-informed position of strength, communications operators can capitalize on opportunities to minimize the impact of pension deficits on their balance sheet, and can put themselves in a better position to respond swiftly and confidently to deals and transactions. They also will be better able to anticipate concerns that new regulations or strong-minded trustees might raise. The overall effect is that of enhancing the company's competitive edge in the market and reassuring all stakeholders—including investors—of the business's overall sustainability.

The message is clear. Pensions cannot be run in a vacuum, and an effective pension strategy must be approached holistically as an integral part of the business's operations and risk profile. In the converging communications industry, the right pension strategy and its execution are becoming increasingly critical to success.

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Working in Partnership

When a global communications operator decided to outsource key areas of its IT function within a tight time frame, it turned to PwC for advice. The resulting project amounted to an exemplar of the challenges, pressures, learning, and best practice points involved in a major outsourcing, all the way from planning through negotiation to cutover, internal transformation, and embedding cultural change. Working inclusively with the client in joint teams, PwC helped this household-name communications provider complete the stabilization of the outsourcing and get on the road toward realizing the cost benefits, with potential objectives in view for increasing its agility and boosting the effectiveness of its IT assets and operations.

by John-Paul Barker, Mohi Khan, Neil O'keeffe, and Andy Woodfield

Like other high-performing businesses, the global communications operator that PricewaterhouseCoopers (PwC) supported recently is committed to using outsourcing wherever possible to cut costs, boost organizational agility, and sharpen its competitive edge. This imperative applies especially to the management and operation of its information technology (IT) assets. So the group decided to outsource its application development and maintenance (AD&M) function worldwide, through an approach under which the local operating companies would negotiate their own local agreements within a global master service agreement. The group also decided that one key operating company should go first in an accelerated time frame, to demonstrate the client's commitment to change and ability to execute it.

As a result, that operating company faced a need to negotiate a complex AD&M outsourcing agreement with a major global supplier within a tight time frame. Once completed, the negotiations would be followed by a rapid cutover to the contract, in parallel with planning, managing, and implementing the necessary internal transformation and behavioral change. Identifying a clear need for external advice, the company quickly launched a competitive tender process. PwC's bid was selected.

A senior executive of the client's explained that the choice came down to experience. "The decision to use PwC very much came from seeing an opportunity in a difficult situation," he said. "We were heading towards service cutover. We knew we had a large number of vacancies in the retained organization. And therefore we saw the positive side of not going in and trying to recruit lots of individual contractors to back-fill. Instead, we thought we should go to a competent organization that could offer interims that were experienced in implementing outsourcing, that could help us through the change curve and the culture change, and that could create and embed the new process. We saw real benefit, and value-add would be gained from using someone with the relevant experience. So we went through a quick RFP process—and PwC won."

Key challenges—and mobilizing to meet them

PwC's initial involvement was two months of supporting the client in the complex commercial negotiation of its local agreement. Once the local outsourcing agreement was signed, the focus moved to the cutover, which also was conducted against a tight deadline. This required closely cooperating with the client and supplier to define and implement the transition strategy with the least possible risk and disruption to the business, and then defining and embedding the new behaviors and processes outlined in a piece of PwC thought leadership tailored specifically to the client's needs—the Intelligent Customer Function.

PwC became involved at the time of the cutover. It was clear that the speed and complexity of the project meant PwC's inclusive approach would be essential. So the PwC team set about working in partnership with the client to implement and manage several work streams in parallel, including transition support, finalization of the financials, design and implementation of the vendor management processes, and driving permanent behavioral change.

To support the client across all these work streams, PwC mobilized a multiskilled team that peaked at 30 performance-improvement and people-change specialists. This team ran the necessary work streams in parallel, and collaborated and engaged with client personnel at all levels. Each work stream was directly owned by a member of the client's senior management team, reinforcing buy-in and driving commitment from all client staff. Rigorous management of the program was supported by an evolving and adaptive approach, and by a major program of behavioral change workshops and training. Also, as a number of gaps emerged in the client's retained organization, PwC provided interim executives to fill these roles and share their skills until the retained organization was fully geared up.

We will now look at the various elements of the project, some of which took place sequentially, and some in parallel.

Negotiating the deal

As mentioned above, initially the PwC team supported the client in negotiating its local outsourcing contract within the parameters of the global master service agreement. While the global agreement set the context, the detailed commercial model still needed to be designed and agreed upon. This complex commercial and service negotiation had to be conducted within two months. And it was clear that once the agreement was signed, there would be a need for ongoing fine-tuning and negotiating of the details through and beyond the cutover.

In the initial local contract negotiations, the PwC team supported the client's deal team by helping to analyze and extrapolate the client's existing costs to establish the "do nothing" baseline, and then comparing it with various pricing scenarios over several years. During the negotiations, PwC supported the deal team by running each proposal from the supplier through the pricing model to calculate the potential savings. The negotiations were completed within the two-month time frame, an achievement involving high pressure and late nights. The contract terms were then fed into the design of the new processes and behaviors for the retained organization.

The cutover to the contract took place just 20 working days after the deal was signed. It was then that PwC won the mandate to advise on the post-deal transition and stabilization, including finalizing and interpreting the contract terms. To maintain continuity, the same PwC people who had worked on the negotiations supported those activities.

They focused on three areas:

1. Commercial delivery of the deal itself.

2. Financial management, including forecasting, planning, and tracking the realization of benefits.

3. Decision support, ensuring that all the relevant key performance indicators and management information were in place.

All three work streams involve dealing with detailed—and often conflicting—contract interpretations and multiple stakeholders. To help resolve the issues that arose post-cutover, PwC organized a two-day workshop of senior executives from the client and the outsource supplier.

Transforming the retained IT organization

Optimizing the client's retained organization was a further key focus. The PwC team knew that, as in any major outsourcing, realizing the benefits negotiated in the contract would require a clear and appropriate best-practice structural, capability, and operating model for the retained IT organization. In essence, members of the IT organization needed to make a rapid transition from service delivery to supply management—a fundamental shift requiring new behavior, skills, training, supporting tools, process definitions, and management information for decision support. It was crucial for the people taking new roles to be fully aware and trained from day one in what their new roles involved and how their success in them would be judged.

To help the client tackle all these challenges, the team implemented the Intelligent Customer Function (ICF), PwC's thought leadership tailored to the client *(see sidebar on page 38)*. To create the ICF, the PwC team took the capability model that the client already had in place and infused it with PwC's own proven best practice for effective supplier management in a major outsourcing. This approach enabled the development of a not only groundbreaking but also customized framework for best-practice operation of the client's retained organization. The transition to the ICF was then supported by placing PwC professionals in certain key executive roles for a defined period.

While the ICF was specifically tailored to the client's needs, the framework also has wide applicability to other major outsourcings that require best-practice management both of internal demand and of the dynamic relationship with a third party.

By applying and embedding the ICF model, PwC helped the client's retained IT organization hit the ground running immediately after the cutover, with a clear plan and a schedule in place for ongoing training and orientation in new roles, processes, and behaviors. Crucially, the ICF's maturity model supports ongoing improvement in each attribute, underpinning greater effectiveness, efficiency, and benefits realization by the retained organization over time. Also, senior buy-in was optimized by ensuring that each attribute within the ICF was the specific responsibility of a member of the client's leadership team who had agreed to champion that particular process. This ownership helped to foster ongoing behavioral change at all levels.

Process reengineering

Throughout the transformation of the client's retained IT organization, a central objective was to ensure that the right processes were defined and embedded—a task that was crucial to the function's successful operation and to tracking and realizing the benefits. The basis for achieving the objective was a core

The client's perspective

A senior executive from the client said that a key success factor in the outsourcing was to get the groundwork right from the beginning. "I wasn't surprised at the project's complexity or difficulty—I knew there would be bumps along the road," he said. "That's why we made two very key decisions before going into the outsource. One was making provision to build a team of both internal subject matter experts and external specialists to take us through the initial contract due diligence, contract signing process, and service cutover. The other big decision—which we took because of the amount of change that we were going to have to go through, and the level of vacancies that we had already accumulated through a one-year period of uncertainty—was to bring in external help to take us through the change period, stabilize the transition, and really set ourselves up for success."

PwC helped the client put both of these decisions into effect, as well as supported each critical step throughout the process, from negotiation to embedding new behaviors post-cutover. The client explained: "We asked PwC for expert help on outsourcing. We asked for expert help on the commercial and financial aspects. We asked for expert help on building the processes. We asked for expert help around the leave-behind organization and, finally, the cultural change. And we have seen demonstrable value in all those areas."

Drawing on his experience of the outsourcing, the client added that he would advise any other business entering such a process to focus on a short list of critical factors. "I think the two key priorities are to write the right contract—which is fundamentally important—and to focus on the people. The subsidiary ones beneath those are to focus on building a relationship with the outsource partner and on maintaining good communication with the business. Making sure that the business understands what is happening and what you are doing for their benefit is hugely important to the project's success. Finally, you should not be afraid to focus on getting the details right."

Returning to the key issues of the contract and the people, the client concluded: "The contract is inevitably open to interpretation, and you need to get to a mutual understanding of the detail—we saved ourselves a lot of pain by doing that while the memory of writing the contract was fresh in everyone's mind. And the people side is really important. If we had lost the hearts and minds of our people, we might have succeeded with the outsourcing, but we would have failed to deliver what we needed to deliver to the business. So we had lots of communication going through the outsourcing period itself and after that. Having meetings, sharing the new vision, sharing the new processes—everyone has been through this, and it has been very effective."

The Intelligent Customer Function

As well as all the elements, roles, and responsibilities within a best-practice retained organization, the Intelligent Customer Function (ICF) defines the destination that the client's IT organization is heading toward and provides the road map to get there.

The ICF is based on six key attributes that the retained organization requires:
1. Vision
2. Leadership and talent management
3. Process map (called the Toolbox)
4. Decision support
5. Commercial delivery
6. Governance and communications

The ICF model is a step up from the traditional capability maturity model. Each individual attribute has a maturity model applied to it—categorizing it as ad hoc, defined, managed, or optimized and thereby defining the attribute's current position and the future tasks needed to move it up the maturity curve.

A particular focus throughout the transition and behavioral change effort on this project was the Toolbox, which defines the end-state processes, tools, and management framework. Both the ICF in general and the Toolbox in particular draw on the global-industry-standard ITIL (Information Technology Infrastructure Library) framework, which defines best practice in the management and operation of an IT function.

attribute of the ICF called the Toolbox. A process map, the Toolbox drives the governance model, the roles and responsibilities (accountability matrix), and the operational model for how the retained organization engages with both the outsource supplier and the business.

These various components were combined in the process pack, which defines how the retained organization works and was used to drive the induction and training program. By applying the process pack, and taking a collaborative approach focused on conducting client workshops and gaining senior management buy-in, the joint team was able to meet a tight time frame of six weeks for the process transformation. After the new processes went live, a PwC team of specialists skilled in performance improvement and human resources continued to work closely with the client to roll out a comprehensive process and behavioral change program that encompassed all the retained IT staff plus people who interface with them in the business. This program put 160 client personnel through the induction and training sessions based on the process pack.

Delivering new processes rapidly and effectively created major benefits for the client in terms of business information. In particular, senior executives were delighted with the granular detail of the new processes and related metrics and said they wished they had enjoyed that degree of control and insight before.

Behavioral change

New processes, however, will not work without new behaviors. So, profound and permanent changes in behavior, mind-set, and working practices were also required, both within the IT organization and among customers in the business. To make change stick, the 91 people in the new retained organization and their thousands of internal customers needed to behave in a different way and apply new skills to new processes. To achieve those changes at all levels, senior management needed to lead by example, voicing solid buy-in and exhibiting the right behavior.

Such sweeping change inevitably requires managing behavioral and emotional issues as well as organizational change and new role definitions. So the joint team's implementation of the ICF capability model for the retained IT organization was only one part of the solution. People in the function also needed to adopt a new commercial mind-set and to be shown, and energized about, what to do on day one. Key to making this change happen—and stick—was the comprehensive process and behavioral change induction and training program highlighted above. The program focused both on embedding new processes and on behavior and skills, using techniques that included the infusion of PwC skills into the retained organization via the placement of PwC people in key roles on an interim basis, and coaching to help leaders understand and lead change better.

During this program, the PwC team's approach had to be evolving and adaptive. For example, the pilot induction event revealed that the client staff did not believe that their leaders were aligned around the new behaviors. So PwC asked the client leadership to sign off on the objectives before the next session, and, even though only 10% of the technical content was changed, the second session was a resounding success. As a result of the program, people in the retained IT organization moved rapidly to the required new behaviors after the cutover to the contract, and the organization is now continuing to evolve and improve under internal control.

Interim executives

Alongside its advisory work, PwC also helped to embed the new behaviors and processes necessary for the outsourcing to succeed by providing world-class executive skills on an interim basis. The fast pace of the negotiation and cutover raised particular requirements and pressures around the transition to the new operating model, including a need for the client to assign a number of its permanent IT staff to the outsource supplier to manage the handover of ongoing projects. At the same time, a number of the client's IT staff left the organization, a common side effect of such a radical change program. These factors created some important gaps within the management structure of the retained IT organization, including some in areas critical to the transition.

When the client asked for help in filling these gaps, PwC responded by providing an experienced team to fill a wide variety of executive roles temporarily. Included were senior roles in the testing assurance function, vendor management, delivery assurance, and delivery management. All the interim managers were appointed via an interview process conducted by senior client executives. As well as filling their day-to-day roles, the PwC professionals also were charged with helping to find suitable permanent replacements, either internally or externally, and inducting them into their roles.

Benefits delivered

This operator is now on track to realize major benefits from its AD&M outsourcing agreement. After the post-cutover refinement and stabilization process, a contract was put in place that is precisely geared to the client's business, mutually understood with the supplier, and designed to deliver demonstrable commercial benefits over its multiyear span. Negotiation, cutover, transition, and embedding the new model and vendor management organization were achieved at high speed, with maximum effectiveness and minimal disruption. The transition strategy was successfully designed and executed, opening the way to financial and operational improvement. Early signs indicate that the outsourcing contract and relationship will be durable and fruitful for both sides.

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Perspectives

An Interview with Jon Fredrik Baksaas, Telenor

Since taking over as president and CEO of Telenor in 2002, Jon Fredrik Baksaas has piloted this former state-owned Norwegian incumbent to a position where it is now the world's tenth largest mobile operator, with more than 70% of its revenues coming from outside Norway. Here, Mr. Baksaas talks about the international focus and strategy that have driven Telenor's growth and the company's continuing ambitions.

Communications Review: Could you please explain how a former state-owned incumbent in a small country like Norway started the international expansion and became such a large mobile operator?

Baksaas: It is not obvious that a monopolist in a country with 4.6 million people would manage to position itself as the tenth largest mobile operator in the world.

Early in the 1990s, Telenor had an indomitable belief that mobile communications services would have not just a national but also a substantial international market. Mobile communications services were appealing to all strata of the population—contrary to the common belief that mobile communications were only for the affluent, which had been the situation at the end of the 1980s. However, when mobile handsets appeared in 1993–94, they stimulated high market growth. Mobile telephony became very popular, not least thanks to subsidies from the industry.

Telenor wanted to exploit the experience of providing mobile communications services in Norway. Although Norway was an early adopter, the size of the Norwegian market represented a clear limit to Telenor's growth potential. We therefore participated in a number of consortia in Europe and Asia to expand our business.

Fortunately, we avoided investing in UMTS [universal mobile telecommunications system] licenses at an early stage. The UMTS hype in Europe at the end of the 1990s was led by trendsetting players from the information technology and the entertainment industries in the United Kingdom, Germany, and France. 3G was expected to be just as successful as GSM. But Telenor, like some others, thought that 3G would not really be able to make a corresponding quantum leap, from a growth point of view. Instead of investing in UMTS, Telenor invested in GSM.

Another factor in Telenor's growth was that at that time it suited our size to enter countries that were in an earlier phase of their economic development and therefore had lower admission prices than continental Europe had. Countries with less developed fixed-line infrastructures than Western Europe have benefited even more from the development of a new, efficient mobile communications infrastructure.

A good example is Hungary, the first Eastern European country that turned its attention to Western Europe. We invested in Hungary. We then entered Russia in the middle of the 1990s and Ukraine in 1997. We were warned umpteen times about investing in Ukraine. Mobile communications services would, relatively speaking, become more important in Ukraine than in the Nordic region. Proof came in 2004 when the expansion of mobile communications services really took off. Our providing mobile communications services coincided with the need for communication in the country in connection with the Orange Revolution.

An efficient communications infrastructure in a country helps to increase the gross national product; it also helps to ensure that most people have access to information, thus resulting in more parity in incomes. Research has now been carried out on such relationships. Although when we started working in these countries we were not in a position to define the relationships, we had a hunch that they existed.

We invested in two phases. We tried to participate in as many consortia as possible. In 2001–2002, we tidied up a bit in our portfolio through increasing or selling our ownership positions. That resulted in majority positions in 11 operations and the opportunity to exercise industrial ownership.

A business challenge that arose as a consequence took us into the next phase: How do we exploit synergies from multiple operations that stretch over several continents? Coming from Norway—a country with 4.6 million inhabitants—we are now present in 12 countries with 640 million inhabitants. Our companies in those countries have a market share of 30% or more. Our size enables us to exploit economies of scale that the mobile communications industry is known for.

There are synergies, for example, between Bangladesh and Serbia. We use Ericsson for network components in both countries. Procurement and our relationships with suppliers are important. When we entered Pakistan, we added a new country to our activities and gained access to completely new price levels for such procurement. This resulted in competitive terms from which all of our operations benefit.

There are other types of synergies, for example, market concepts. A successful concept in one market can be implemented in another market. That was the case with the market concept dJuice [which Telenor helped Kyivstar launch] in Ukraine in autumn 2005. Kyivstar went from being no. 2 in the country to becoming the market leader. The dJuice concept [of managing mobile communication expenses and mobile network services online] had already been introduced to youth segments in several countries. Ukraine was the fourth country, and dJuice struck a chord. A year and a half after its launch, the service had 3.5 million customers. That was the fastest implementation of dJuice with the best result—due not least to our experience with the concept [in Norway, Sweden, and Hungary].

Communications Review: In July of 2007, *Business Week* ranked Telenor no. 5 of the top 100 IT and telecommunications companies. The reasons were primarily investments in growth markets like Ukraine and Pakistan. In addition, in August of 2007 the Dow Jones Sustainability Index ranked Telenor no. 1 among mobile providers. Is there a correlation between these two rankings, and if so, what is it?

Baksaas: It is not the first time we've been on the ranking in *Business Week.* We were on the list once before at the end of the 1990s. The reason we are on the list again probably is our growth in 2006, which was atypical in the industry.

There is no obvious correlation between the two rankings; however a certain connection nonetheless exists. Telenor has been among the best mobile companies on the Dow Jones Sustainability Index (DJSI) for six years. A lot of work has been done in areas that are linked with the criteria the index gives weight to because this makes our business model more robust over time. It is this steadfastness that our company culture benefits from as we climb up to first place.

Being first place on the DJSI is primarily about how our enterprise contributes to social and economic development. This applies in all markets but is especially obvious in developing countries. Telenor is currently building important infrastructure in 12 markets. For many people in out-of-the-way regions, Telenor's mobile network represents their first opportunity to acquire access to a telephone. Fixed networks, which are far more demanding and expensive to build than mobile networks, would never have reached out to them.

Corporate responsibility is important for all of the countries we operate in. We hope that the ranking will generate more attention around us as a company related to new projects. Both partners and authorities in countries facing social and economic development challenges—ideally—would seek long-term, robust business partners, not short-term financial ones. Our ambition is thus to consolidate a long-term industrial position by helping to develop the markets in the way we have done, are doing, and hope to be in a position to do in the years ahead.

At the same time, we have to work hard to maintain our top ranking in the DJSI. When you top the index, there is a risk of relaxing a bit too much. It is vital that we continue to focus on the criteria in the index to maintain our ranking.

Communications Review: What are the criteria for selecting countries and investors?

Baksaas: We started with an open mind because we were not automatically being invited to join the collaborative GSM projects at the beginning of our international expansion. Our first breakthrough came when we entered Ireland, alone, in 1996. Telenor was awarded a license as the only mobile operator, together with a local partner. As a result, we became more attractive. Receiving inquiries from players with licenses or potential access to licenses in other countries, we didn't have to travel around to obtain licenses. Although we couldn't pick and choose, our access to new licenses improved considerably.

When the Southeast Asian economies collapsed in 1997–98, a number of telecommunications companies withdrew. Telenor, though, chose to invest in Malaysia and Thailand at the end of the 1990s despite the economic recession, and that sent an important signal to the authorities in those countries. Our belief in the importance of mobile communications to the development of infrastructure in countries like Malaysia and Thailand became a criterion for our entering those markets.

Communications Review: How do you define Telenor's corporate responsibilities, and do you tailor them to the different markets you are in?

Baksaas: Corporate responsibility is a wide-ranging term. For us it is about how our activities can make a positive contribution to social and economic development in our markets. Good communications are an important prerequisite for well-functioning trade and industry, whether we are talking about multinational companies or individual family-based farming.

Good communications also provide greater security for the users. Surveys show that customers appreciate the ability to get help quickly if an accident occurs. Telenor's communications solutions make it easier for friends and family to communicate, and the users gain access to a lot of information that is useful in their everyday lives.

Our corporate responsibility has had a common focus, but naturally we tailor it to local needs. One example is Bangladesh, where the national infrastructure, national coverage, robust networks, and long-term investments are part of our corporate responsibility. We offer Internet access via EDGE technology through 500 information centers, thereby creating a basis for learning and access to competence.

In countries with few physical libraries, we provide students and pupils with access to the world's largest library: the Internet. Using the Internet safely is key. In cooperation with Save the Children and the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim), we have created a filter that hinders access to Web sites that contain pornography. Telenor has also cooperated with Save the Children and the schools to raise pupils' awareness of how to use the Internet.

Communications Review: How do you manage the political and regulatory risk you are increasingly exposed to?

Baksaas: Telenor works on the basis of licenses. These types of activities are easily subject to regulation. One example is the downward adjustment of roaming prices by the European Union. Stable and predictable regulatory frameworks are necessary because of the long-term nature of our investments. It is vital that we maintain a dialogue with the authorities. Telenor maintains an active discussion/exchange of opinions with the local regulator concerning coverage, low prices, access, tax revenues, and the imposition of duties.

Communications Review: What ambitions do you have concerning further international expansion?

Baksaas: Between two and three and a half billion people in the world lack access to mobile communications services (in Africa, South America, and Asia). We want to develop a new market in Asia. As far as the African economy is concerned, Egypt became too expensive but we are interested in business opportunities in sub-Saharan Africa. Several projects have been presented to us. However, the admission price is very different in 2007 than it was ten years ago. Telenor's contribution in relation to national providers is industrial in nature. The interaction between local operations and globally coordinated activities means that we can contribute with competence in distribution and sales, pricing strategies, frequencies, and brand. We normally want to attain a majority position, but we can accept taking minority positions to start with.

Communications Review: How does a group experiencing such formidable growth manage to maintain its focus on governance and control?

Baksaas: Telenor has received excellent help from consultants from PricewaterhouseCoopers. The Sarbanes-Oxley project came at the right time for us—we got an improved internal control system, a platform that resulted in thoroughness, precision, and order in the internal processes for the subsidiaries. A company that is growing quickly benefits from being challenged on the control-related aspects of its growth.

Our companies probably have realized the value of being challenged despite a lot of frustration regarding the benefit of testing the controls. This process resulted in Telenor's achieving the tough compliance milestone, which is characteristic of Telenor. Once objectives are set and understanding exists, there is a great deal of motivation to deliver. Once the motivation of continually improving market shares and the margins is well embedded, and the joy of beating the competition is in place, such a company culture is achieved. It is fascinating to see that our subsidiaries have managed to improve their positions over several quarters.

Jon Fredrik Baksaas is president and CEO of Telenor. He joined Telenor in 1989 and has held his current position since 2002.

During his tenure with Telenor, Mr. Baksaas served as finance director, executive vice president, and CEO of TBK A/S (a wholly-owned Telenor subsidiary) before serving as group CFO from November 1994 until 1997 when he was appointed deputy CEO.

Before joining Telenor, Mr. Baksaas held finance-related positions in Aker AS, Stolt-Nielsen Seaway, and Det norske Veritas. He is also a board member of Svenska Handelsbanken AB. Mr. Baksaas holds a master of science in business administration from the Norwegian School of Economics and Business Administration in Bergen and has additional qualifications from IMD in Lausanne, Switzerland.

For more information, visit the company's Web site at www.telenor.com.

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