

Reconciling Growth and Sustainability in the Telecommunication Sector: Case of ETISALAT

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Context

Etisalat was established in 1976 and is now the largest telecom provider in the UAE. The company had a monopoly on the local market until 2006 when Du telecom was established. The headquarters of the company is located in Abu Dhabi and the company serves more than 143 million subscribers in its 16 countries of operation. The company employs 39,508 employees with reported net income of AED 8.4 bn in 2017. Etisalat's current market cap is AED 152 bn and it's 60% owned by Emirates Investment Authority a sovereign wealth fund of the federal government of the UAE and 40% is floated on Abu Dhabi exchange market (ADX). It scored a credit rating of AA-/A+/Aa3 indicating that it has a high investment grade making it quite attractive to investors.

Etisalat's sustainability strategy was transformed in 2012, as the company undertook several commitments to ensure that its efforts are better coordinated across all operations. This included pledging its support to the United Nations Global Compact (Etisalat, 2018). Since 2012, Etisalat has reinforced its focus on important initiatives that help reduce the environmental impact of its business and that of its customers; increasing connectivity to the markets that need it most; and in providing value added and community-enriching services such as healthcare and education. Etisalat has initiatives in 16 countries across the Middle East, Asia and Africa. Below, we highlight three of the most prominent initiatives emphasizing environment and social sustainability in the UAE and abroad.

The Energy Star Initiative: This initiative highlights the environmental factor of sustainability. Energy Star is a fully managed Machine-to-Machine (M2M) solution aimed at reducing the carbon footprint of companies in the Middle East, Asia and Africa (Etisalat, 2018). It was introduced in UAE; the project aims to cut the greenhouse emissions from buildings in the Middle East, Asia and Africa. More than 7 million square feet of facility space from 20 of the largest companies in the UAE are now being managed through the Energy Star project. It has also been calculated that over 3,000 tons of CO₂ emissions have been eliminated in the first eight months of 2012, with participants seeing a 15-25% reduction in electricity consumption.

Origin (Etisalat Egypt): This initiative highlights the social factor of sustainability. Etisalat has launched the Origin initiative in Egypt to assist in resolving/reducing the water dilemma in multiple ways such as bringing safe drinking water to homes, schools and medical units, water purification irrigation, water interventions, water preservation and providing hospitals with dialysis equipment enabling them to provide free dialysis treatment.

Adopt-A-School Program (Etisalat Nigeria): This initiative highlights both social and economic factors of sustainability. One of Etisalat initiatives in Nigeria is contributing toward alleviating the infrastructural challenges faced in the Nigerian education sector. The Adopt-a-School Initiative (ASI) is designed to improve the state of public schools in Nigeria by urging corporate bodies to get involved under this program. Etisalat is also committed to continually providing support in areas such as leadership education, management and direct support for students and teachers' development.

Etisalat in the Telecom Industry

From an industry perspective, the telecommunication sector is one of the fastest growing sectors in UAE and the most developed in the entire MENA region. The UAE telecom market has been a monopolistic market with 100% market share for Etisalat since inception in 1976. Since the UAE is a member of WTO since 1996, the policy of anti-monopoly was pushed to be implemented in the country. In response to adhering to this policy, Du was established in 2006 ending Etisalat's monopoly and creating a duopoly. The industry is regulated by the Telecommunication Regulatory Authority. When Du was established, it was given a separate geographic coverage than Etisalat, hence effectively keeping two distinct monopolies in the country. TRA in 2015 removed the geographic restrictions and the companies were allowed to compete head to head to gain customers. The Telecom providers in the country offer services such as mobile services, fixed line services, internet services (Broadband and Mobile) and wireless mobile services (2G, 3G and 4G LTE). According to Hamburg-based research and information design firm Statista, the UAE has the highest mobile penetration rate in the world at 173 percent. In second place was Greece at 171 percent. This is mainly due to the large population of expatriate workers in the country.

Etisalat & Sustainability: A Customers' focus

An important principle of sustainability is to meet stakeholders' needs. In this case we examine if Etisalat in its claim of being a sustainable company has indeed met the requirements of its main external stakeholders: their customers. Basically, a customer requires few basic needs to be met: the availability of options, good prices, and good customer service.

Offer

Due to the duopolistic nature of the UAE telecom market, customers' options are limited to the services provided by the only two providers in the country: Etisalat and Du. Since both are mostly owned by the government, a lot of the services open to other customers in similar economies are not available for UAE customers mainly due to national security from the government perspective. Even in this context, when Du was established in 2006, a geographic distribution for home services was enforced on the provider to serve mainly Dubai and surrounding areas. This stopped in 2015 when TRA lifted the geographic restriction for the home services and the two providers competed head to head for fixed line customers. This means that Etisalat remained a monopoly for home services for nine years even after Du was established in 2006. Furthermore, even with two providers, the mobile customers were not

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permitted to switch to another provider while keeping their numbers. TRA permitted the Mobile Number Portability (MNP) service in the UAE in December 2013, almost 8 years after Du was established limiting the customers' choice to switch between the providers. Only three months after service was made available, 61,000 users opted to change their providers from Etisalat to Du.

Another restriction on options is the freedom to access some of the services offered by other telecom providers around the globe with similar economies. Let's take the block of the Voice over Internet Protocol (VoIP) in the UAE as an example. VoIP services are blocked in the UAE: e.g. Skype, Google Duo, zoom, viber, whatsapp calls, facetime, etc., because VoIP services fall under the classification of prohibited contents as per the United Arab Emirates' regulatory framework.' TRA Director-General states that VoIP services are blocked for security and cybercrime concerns. The basic idea here is that VoIP, being an Internet-based service, carries risks related to privacy issues, voice phishing and hacking, among other vulnerabilities similar to what you can expect with anything connected to the World Wide Web. In short, it's considered 'not safe' by UAE authorities, so to speak. Despite the security concerns, both providers offer legal VoIP-apps Botim and C'Me as part of "unlimited" voice and video call services, available for a monthly fee.

Prices

Etisalat has limited offers with restrictions on prices due to lack of competition in the local market. Below is comparison conducted on the services provided by Etisalat UAE, Etisalat Egypt, T-Mobile USA and Singtel Singapore. We took the US as a benchmark because it is the largest economy globally and Singapore as a benchmark due to similarities with the UAE economy. The UAE has used Singapore as a benchmark for many other sectors.

Due to the competition in Egypt, Etisalat is offering better combos for the customers. Also, we notice that UAE charges its local customers 60% more for the same service it provides in Egypt. Basically, competition reduces prices and increases quality of the service. Etisalat will not be interested in offering the same benefits because of lack of competition in the local market. The 2018 worldwide broadband speed league report by Cable.co.uk shows that UAE is ranked 97 down from 81 in 2017, USA ranked 20 and Singapore as 1st with speed of 60 mbps, which justifies the high price. The Index report shows that the speed of UAE broadband is 5 mbps.

Customer Service

In the last TRA telecom sector review published in October 2016, customer complaints were increasing year on year. In Customer Satisfaction ICT Household Survey conducted by TRA in 2016, Etisalat scored over 80% satisfied on the fixed lines, internet and mobile services while they scored 64% satisfied for complaints processing and 61% reported satisfied on prices. In 2018 there were 26.2 thousand complaints from Etisalat and Du customers in which they resolved 98% by end of November. 58.87% of Etisalat customers were satisfied with the provided services and 18.67% were not satisfied. TRA confirmed that consumers have the

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right to rise a complaint, which should be resolved within 28 days to ensure high level of customer satisfaction.

Provider		 Egypt		
Number of lines	1 individual	Up to 6 family members	4 members	1 individual
Family calls	Charging for calls	Unlimited calls to family members	Unlimited	Unlimited
Local minutes	1000 min	12000	Unlimited	10,000 min
Data	15 GB	100 GB	50 GB	12 GB
International min	None	90 min	Discounted to preferred countries + unlimited calls to Canada & Mexico	None
SMS	None	2000	Unlimited to 210+ countries	Unlimited
Bonus	None	6000 Bonus points	-	-
Roaming	None	90 min & 50 MB per month	-	-
Other benefits	-	15% discount on OSN + Free WAVO ADSL substitution 10GB Discounts on ADSL	Netflix included Tax and fees included Unlimited entertainment streaming In flight texting + 1 hour of data	Free caller-ID \$500 yearly handset upgrade voucher 2 GB Singtel WiFi
Price	250 AED	2000 EGP = 410 AED	\$35 per line, \$140 monthly/ 4 lines = 515 AED	\$239 = 640 AED

Theory on sustainability

Sustainability - Definition

Sustainable development consists of a long-term, integrated approach to developing and achieving a healthy community by jointly addressing economic, environmental, and social issues, whilst avoiding the over consumption of key natural. Corporate sustainability is defined as a business approach that aligns decision-making on all aspects of the company such as capital allocation, product development, brand and sourcing or human capital resourcing with the principles of sustainable development derived from economic, environmental and social developments. To simplify the definition, for any company to categorize its growth or development as sustainable, that company should consider the social and environmental effects/benefits in addition to economic ones.

There are four pillars in the definition

Economic: the simplest mean to look at economic sustainability in order to be sustainable, a business must be profitable and positive economic growth is required.

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Environmental: companies realized that there is a positive relation between environmental impact and financial profit. For example, recycling packaging material would cut down on the cost of packaging which will improve the bottom line.

Social: the social aspect is linked to the stakeholders on the business. For employees, retention and better working environment is required. For the suppliers, making sure that the company is aware of its suppliers supply chain to avoid issues such as child labor, etc. For the community, a fair distribution of income and assets, availability of education, training, social security and the right to participate in decision making for the society members.

Sustainability – Conceptual origins

The concept of sustainability is, in fact, a combination of several already well-established constructs, mainly: 1) sustainable development, 2) corporate social responsibility, 3) stakeholder theory, 4) corporate accountability theory, 5) ecological economy, and what is commonly designated as 6) the triple bottom line approach. All are discussed below.

Sustainable Development: strikes a balance between the need for economic growth, the need for environmental protection and the need for social equity. The concept advocates that achieving a sustainable environmental, social performance economy requires setting a common societal goal between all companies to work collectively.

Corporate Social Responsibility: tries to answer the question to whether corporate managers have an ethical obligation to consider the needs of society and not just focus on self and shareholder interests. Corporate social responsibility addresses the role corporations' plays in societies and the impact (positive or negative) it has on a community as a whole.

Stakeholder Theory: The definition of a stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives. Corporations can easily identify its stakeholders as shareholders, investors, employees, customers, and suppliers. However, society and environment are neither well understood nor defined as stakeholder in many organizations.

Corporate Accountability Theory: while accountability is defined as the legal or ethical responsibility to provide an account or reckoning of the actions for which one is held responsible, holding corporations responsible for global warming poses a challenge.

Ecological Economy: economists have argued for centuries on what an economy comprises of, how it operates, who are the important stakeholders involved in it and what are the elements that should be considered an externality. Warning signs from mother earth has alerted the world that a change is overdue not only in our perception of an economy but in the way we live as well. The drive to achieve short term profitability in a linear economic cycle is no longer acceptable and corporations have begun to pay more attention to corporate sustainability with emphasis on other stakeholders beside the shareholders. An ecological economy is a new approach of thinking that takes natural capital (all natural resources) and social capital (human values and human well-being) into consideration by building on a circular economy that designs out waste and hopefully secures resources for future generations.

The Triple Bottom Line (TBL) Approach: The concept of TBL demands that a company's responsibility lies with stakeholders rather than shareholders meaning anyone who is

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influenced, either directly or indirectly by the activities of the company through its value chain. The elements of the triple bottom line are referred to as "people, profits and planet."

Sustainability – The Phase Model

The phase model suggests that there are six main phases of the sustainability in any organization. These phases include rejection, non-responsiveness, compliance, efficiency, strategic productivity, and then finally sustainability. **The first stage** is called the rejection. In this phase, the company's main drive is to maximize economic gain with everything else treated as an externality including the wellbeing of its employees and a healthy working environment. It goes further to not caring for the environment and community in whole. **The second stage** is the non-responsiveness in which the organization usually lacks the awareness and business is run as usual. It's a hibernation phase where the company ignores the warning signs around them and is more concerned with business as usual. **The third stage** is where companies show compliance with the standards as a minimum for their employees and the community. **The fourth stage** is efficiency in which the organization shows more concern about other stakeholders in specific the employees and the environment. The main aim is to reduce costs and increase efficiency by elimination of waste. **The fifth stage** is the strategic proactivity phase in which the organization adopts innovation to position its self as a leader in sustainability. The organization builds a competitive advantage around advanced HR practices, quality products that are not only innovative but environmentally safe. The company uses the stakeholder approach and the decisions are taken, keeping in view, the impact of the decision. Finally, **the sixth phase** is sustainable corporate. In this phase, the organization considers sustainability as the important part of the firm ideology. The firm has strong inclination towards corporate ethics and stakeholders benefit. There is constant effort done to improve the workforce knowledge, skills, and abilities. Regular and consistent efforts are done by the firm to improve the quality of life of the society and the firm advocate's just and equitable social practices.

Sustainability – Between Supply Chain, Value Chain, and Stakeholders

The supply chain and value chain are closely related concepts and stakeholder such as customers are a vital to the survival of a company. To elaborate, the adjacent figure illustrates the flow of resources from the supplier to the customer which represents a supply chain. The National Institute of Standards and Technology's Manufacturing Extension Partnership explains that the value chain is the flow of value from the customer to the supplier. If the customer perceives no value in what the supply chain provides, there will be no demand which translates to no money spent to obtain that value and to a business that means no revenues and even an economic loss. If the supply chain cannot deliver resources that the customer values, there will be no flow. So, the main principle of a sustainable development requires meeting the basic needs of all and by all we refer to the various stakeholder of any business. Following that logic and framing it in the practical context of a supply chain and a value chain, customers are the main external stakeholders for any business. So in order for any organization to be sustainable it needs to meet its customers' needs.

Sustainability – An Integrated Model: The Stakeholder Model

Taking the corporate social responsibility and corporate accountability theories as a base, we use the legal and responsibility for corporations to address issues that can highly impact the environment, community and the well-being of humankind and future generations. From that basis, we emphasize the importance of stakeholders' role not only to the existence of a business but to its growth and its sustainability.

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Stakeholders are divided into two groups: internal and external. Internal stakeholders cover shareholders and employees from all levels in the organization. External stakeholders cover suppliers, customers, creditors, government, other companies, the community and future generations. Any company's core activities will eventually impact all stakeholders in various scalable degrees. **Wave one** in the newly proposed model reflects an inward view on the stakeholders. A company in this wave is focused mainly on economic profit and how to maximize shareholder value. The emphasis is limited on increasing sales and the net profit and disregarding any other harmful impact on any other external or internal stakeholders including the employees. We believe that this is due to the fact that when a company is a startup, the likely scenario is that shareholders and owners are the same. Additionally, focus on how to cover costs and increase income is their first priority. We can almost say it is a survival mode for the shareholders/owners to test if the customers are valuing their offerings enough to see it grow. Following the same train of thoughts, at this stage companies are not inclined to implement the triple bottom line concept reflecting on their maturity level and financial oriented focus.

In wave two, a company has crossed the startup status and matured to a small or medium sized company with a relatively good income with its activities' improved and markets in which it operates in better understood. In these two phases, the company's view on stakeholders will start to change and mature as well since the focus shifted from survival mode and customers continue to see the value the company brings to the table. The company view on the stakeholder will move beyond being centered on the shareholders and due to their increased maturity as a business it will recognize the value others bring to the organization. The company is in a stage of understanding that cutting cost by using sustainable methods such as recycling printed papers or even switching to a smart building will increase the value on the financial bottom line in addition to the environmental bottom line. The organization will be more inclined to implement basic concepts of the triple bottom line concept. The organization will also realize that internal stakeholders such as good employees are vital to the growth of the business. More efforts will be spent on improving the working conditions of the employees and enhancing the working environment for a better outcome. The thinking will be again focused on cutting cost, as if trained employees leave for example because they are unhappy more efforts and money will be spent to train the new comers and imbed them in the culture.

In wave three, the company matures to become large with stable income. The focus will shift from simple cost cutting into how to identify pockets of transformations that will sustain this large vehicle through the cyclicity of a market while maintaining customer's interest in their offering. Having the most competitive advantage and the best business model will mean nothing if all stakeholders' needs are not met. If we take an internal stakeholder (employees) need of a healthy working environment as an example, a simple strike of employees can paralyze the business if their requirements are not met. If we take an external stakeholder such as customers as an example, even if the demand on the product is there a reputational damage of the company can immediately impact the sales while the product is the same. Nike for example had the demand and the customer base but because it neglected basic human working conditions, the customers reacted and the impact was immediately shown on the company's bottom line. All stakeholders' needs will be as mature as the company the larger it gets the more the stakeholder will need. For this reason, these companies pay close attention to the triple bottom line concept as not only do they see the benefits but also they see the risks.

Questions for discussion

In relationship with Etisalat's sustainability issues related (1) it's strategy, (2) customers, please follow the below questions to further improve your understanding of Etisalat's case.

1. What is the position of Etisalat in its sector and what could be a priori, the implications of such a position on sustainability? Suggestion: PESTLE approach could be applied to the telecommunication sector.
2. Discuss Etisalat's sustainability strategy from a customer's perspective.
3. How could Etisalat be classified according to the Phase Model as far as sustainability is concerned?
4. Considering Etisalat's approach toward sustainability in relationship with its current business model (Offer, price, customer service), how could you classify Etisalat using the Stakeholder Model?
5. If you were appointed as CEO in Etisalat, what would be your recommendations to the board with regard to sustainability?

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