

# TELECOM: THE VIEW FROM THE SKY

## AN INTERVIEW WITH INMARSAT CHAIRMAN & CEO ANDREW SUKAWATY



Andrew Sukawaty

Andrew Sukawaty has been at the forefront of the telecommunications industry for more than a quarter-century. After early-career positions with US WEST, AT&T and Northwestern Bell, he joined Mercury One-2-One in 1989 as chief operating officer, and then, as CEO, launched the world's first digital PCS company. His career also included tenures as CEO of NTL and as president and CEO of Sprint PCS. While at Sprint, Sukawaty led the transformation of the company into the fastest-growing wireless provider in the U.S., growing it from a privately held partnership into a public company valued at over \$50 billion.

He returned to London in 2000 to become president of Cable Partners Europe. Later, his involvement in the private equity bidding for Inmarsat turned into a job running the satellite group. He also chairs the NASDAQ-listed, global storage systems company Xyratex. Today, as Inmarsat's Chairman and CEO, he is guiding the world's leading provider of global mobile satellite communications services to record revenues and profits amid a global economic downturn. Moreover, the company was recently named the best of Britain's top public companies at the prestigious U.K. National Business Awards 2009, where the company was unanimously judged to have demonstrated exceptional financial returns, growth and innovation strategies. Sukawaty spoke recently with Spencer Stuart about what's next for Inmarsat, and to share his perspectives on the fast-evolving telecommunications industry.

### INMARSAT AT A GLANCE

- > Inmarsat, the world's leading provider of mobile satellite communications, delivers voice and high-speed data services primarily to the maritime and aeronautical industries and to governments and aid agencies to maintain their global communications.
- > The company owns and operates 11 satellites in geostationary orbit above the Earth that are controlled from Inmarsat's London headquarters through ground stations around the globe. The satellites provide mobile broadband coverage that is global.
- > Inmarsat was established in 1979 as an intergovernmental body between 87 governments and was fully privatized and went public in 2005. In September 2008, it joined the FTSE 100 listing of top U.K. companies.

Inmarsat has continued to post gains amid difficult economic times. What have been the company's keys to success through the recession?

**Sukawaty:** When I was very young, my father used to say to me, "If you want a wealthy and prosperous life, in good times or bad, focus in your business life on what people need, not what they want." Inmarsat meets a need as a vital service for mission-critical applications. Forty percent of our customers are governmental, and 60 percent are heavy industrial — sectors such as mining, oil and shipping. We are absolutely needed when a ship goes to sea, and the need has also changed. It used to be a voice service, and now we're 85 percent data. Data at sea has become integral to operations, and the volume of traffic and what they're willing to spend on data has grown accordingly.

Ships today have all sorts of monitoring systems, some of the most important being for the engine, the propeller and the mechanical systems behind them. A third of the operating cost of a ship is in fuel. Half of one percent of the cost is in communications. Spending a little more in communications to monitor and adjust the engine systems in real time can save 10 to 20 percent on fuel usage. The cost easily justifies itself there — and that's just one application.

Even in a recession, when there are more ships parked and fewer at sea, ships are transmitting more data than ever, and we've introduced new services in the last three years that have continued to grow right through the recession.

Has the recession changed your internal talent management focus or given you opportunities to attract top external talent that wouldn't otherwise be available?

**Sukawaty:** The recession's impact on the industry has increased the number and quality of engineers, senior systems specialists, and even C-suite executives available. We're still in a hiring mode, so this has caused us to be extremely selective and has probably raised the standard for hiring from what it was a couple of years ago.

Internally, it's a self-motivating thing when a business does well and people can see it in the midst of disaster around them. We have paid full bonuses the last two years.

As you prepare for even greater growth beyond the downturn, what types of talent are you looking for to meet your company's needs?

**Sukawaty:** We are looking for executives in Asia with general commercial experience, because of the growth there, and because it's very difficult to find people there with that specific background. In China, for instance, if you're looking for someone who's both trusted by your customers and has broad commercial experience in the area, your options are very limited. We've gone so far as to approach customers who are government-owned entities and say, "We want somebody to support you. Can we hire someone from your team?" And they have anointed someone. In those cases of course you have to treat the situation appropriately.

The other main area in which we are seeking talent is senior general management roles, which

present a different challenge. The telecommunications world is dominated by very big firms, and big firms develop specialists in functional silos. So when you look to fill a general management role, it becomes tricky. Are you going to take a finance executive and move them into a general management job? Are you going to take a legal regulatory person and move them into a broader commercial role? Which risk are you going to take? Because finding really good executives who have the broad picture and experience is difficult to do.

**As someone who's been a pioneer in the paging and cellular industries since their inception, where do you see the communications industry going in the coming years?**

**Sukawaty:** Wireless is clearly moving more into data and information services. Smart phones are a reality, and they're going to become more integral to people's lifestyle than we anticipate. The challenge is how wireless firms will keep up with that investment cycle and keep the customer satisfied because that will be an enormous challenge, and the networks today are not fit for that purpose.

If the wireless network operators don't get a share of the value chain for the delivery of these services, the investment required to support them will drive operators either to fall behind because they don't make the investment, or into dire financial straits because they make the investment and can't get a return on it. I equate it to the airline industry, where companies are so focused on trying to please the customer and keeping their market share that they lose sight of the fact that the capital required to keep them there

just drives them further into a hole. The wireless industry, if it doesn't get a piece of this pie, could very well be the airline industry 10 years from now in terms of losses.

Fixed telephone networks are going to continue to shrink in number of connections as wireless and personal devices become the device of choice, particularly for voice traffic. For broadband, if telephone networks do not invest in fiber to the home, cable will dominate it. So there's huge pressure on the telecom companies to do something that most would argue is noneconomic. If you have a 20-year time horizon, does fiber investment make sense? Absolutely. But I'm sure I would not want to be the executive of a publicly traded company that has to stand up and say, "Don't worry, even though the numbers may look terrible for 10 years — it will all come good in the long term."

**How much of a role do you expect the satellite industry to play on the consumer side in the delivery of TV and radio?**

**Sukawaty:** The satellite industry divides into two distinct areas. One is fixed satellite services, of which a huge amount is video delivery, and the other is mobile satellite services, which has its prime business in areas where terrestrial networks don't go. In fixed services, there will be an infrastructure play behind the scenes helping facilitate economic and efficient delivery both ways for IP traffic.

I think we'll benefit from that infrastructure, and the pie will grow greatly for fixed satellite services. Mobile satellite is more an extension of whatever you're delivering wirelessly to a remote area.

So that pie will grow, as well, because people have found it vital to have “always-on” Internet access on a laptop. When they’re on a ship, they want it. When they’re sitting in the middle of the desert, they want it. The satellite industry overall will benefit from this ongoing expansion of video and audio delivery, but the fixed satellite sector will benefit in a different way and probably at a greater speed than the mobile satellite sector.

**What trends have you seen in your government work? Are governments becoming resistant to people from outside providing service, and more inclined to take things back to local control?**

**Sukawaty:** Certainly, that’s a trend, and we’ve seen it since our inception. In the global services business, I think you’re going to see a real battle occur around nationalistic approaches to how people go global in communications. Part of it is a security issue. Part of it is a dominance issue. You’re starting to see governments weigh in to provide independent access, and I think you’ll see a continued expansion in global networks and multiple alternatives, some of which aren’t very wise economically but can be very wise politically.

The U.S. put up GPS, and applications exploded. When they went into Iraq, other governments questioned their access to the GPS system. Everybody said, wait a minute — we thought this was always available. It may not be — somebody controls it. Now, Russia’s got a partial system, and will soon have a full system up. Europe’s got Galileo going up, and China is in the process of putting a system up.

Our approach to it is to play by local rules wherever we go. Some people want to land the traffic

themselves. But if you want to land traffic, it’s at your expense, not ours. Today, this is not often economically feasible. Historically, that’s the approach Inmarsat has taken, and we’ve continued it. That’s how we maintain a global service.

**In a recent survey, Inmarsat was named the most innovative company in the U.K. What is your approach to creating a culture of innovation throughout the organization?**

**Sukawaty:** We are a company of 1,400 people, about 400 of whom are engineers, application developers and scientists of the highest caliber. At budget time, we always joke that this isn’t rocket science, so let’s just get this done. But our business actually *is* rocket science, so our people are bursting with ideas and innovation.

Our goal is to channel that into practical commercial ideas without creating so much bureaucracy that it stifles the good ideas. We try to create an open culture and forums for ideas. When we finished our last constellation of satellites, some people were looking around and saying, “What do I do now? The European Space Agency has some projects I could work on . . .”

We had a number of good commercial ideas in the pipeline, but it was only when they started getting funded that people started to say, “Great, I can stay here and continue to have meaningful challenge and work, both personally and intellectually.” That’s very important for engineers and scientists. Encouraging innovation, for us, is making sure we always have a pipeline of projects that make commercial sense and give them the challenge they need. If we don’t do that, people will leave.

In your career, you've held combined CEO and chairman roles, and other CEO positions where you were not chairman. What are your views on combining versus separating the two roles?

**Sukawaty:** At Inmarsat, I actually favored the split between chairman and CEO, despite the fact that I now hold both roles. Circumstances took us in a different direction. I've worked on both sides of the Atlantic. In the U.S., the roles are combined most of the time, and on this side they usually aren't. Either approach can work, but in certain situations, it's valuable to have a chairman independent from management. It can be quite important for the stewardship of investors' assets. Separating the management from the governance and shareholder point of view allows judgments to be made on things like incentive plans without involving anyone with a vested interest in it. Also, the most important thing a board does over time is plan succession to ensure that the company doesn't become too dependent on a person or persons. If the two roles are combined, it's a challenge to do this, again because there's a vested interest at work.

When the roles are combined, it's important to have an independent deputy chairman, and Inmarsat has had one the entire time I've been here. I chair the nominations committee, but when it comes to the role of the CEO, John Rennocks, our senior independent director and deputy chairman, is the chair. He also has regular meetings with the other nonexecutive directors to discuss anything he wants to discuss, as well as meetings with investors. So it's almost as though we're functioning with John as

a quasi-chairman in order to keep the separation that's required. There's always a need for checks and balances in the system.

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#### About the interviewer

*José María Añón is a core member of the firm's Technology, Communications & Media Practice and works with communications organizations around the world.*

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