



UFONE'S PERFORMANCE AND IT'S PMS

Industry Report

Abstract

A brief study of Ufone's Performance over the years, it's Performance Management System and link between Organizational Objectives & rewarding mechanism under PMS

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Executive Summary

Over the last two decades, Pakistan's telecom market has seen rapid growth, however in the later part of the decade that growth slowed down – thanks partly to the government's policies for the sector and partly to the saturating market. In this stagnant market the most recent entrant – zong has still been growing but obviously at the expense of other operators. Ufone, whose business model had been low cost leadership since inception was the most seriously hurt by this growth posted by Zong. The growth in Zong's customer base and simultaneous shrinking of Ufone's Customer base closed the Gap and finally in late 2014, Zong bypassed Ufone to become the 3rd largest operator in the country in terms of customer base.

As this was going on, Ufone kept on rewarding its employees through bonuses and salary increments. Cost optimization projects were undertaken to control the falling profitability, however on the compensations side people were still rewarded, despite of the bad performance. This gave rise to the all-important question; how can a company reward its employees at a time when it's overall corporate objectives are not being met? In my industry report, I have analyzed the shortcomings in Ufone's performance Management System that has allowed this mismatch and have tried to identify the possible reasons for it. Key possible reasons discussed and analyzed are:

- Clarity of the organizational Goals
- Transparency of the objectives of higher management
- Rewarding Employees while company under-performs

Ufone – A brief Introduction

Ufone, incorporated in 1999, started its commercial operations in January 2001. Starting off with a small initial investment, Ufone has grown enormously over the last 14 years to become one of the leading Mobile Operators of the Country. With Competitors bringing in huge investments in the shape of FDI, Ufone had to rely on the finances generated internally through its operations and on bank loans to grow over these years. With competition stiffening after arrival of Telenor and Warid in 2005 and then Zong in 2008, Ufone did well to compete with those Foreign Giants and continued to post steady growth in the Competitive Industry.

However, the fact that the Industry attained maturity by 2012, which combined with some unfriendly policies from the Government for the Telecom Industry over the past five to six years, growth in Telecommunication Industry became somewhat stagnant. Zong, being the latest operator kept on investing heavily in Sales and Marketing to gain some market share that resulted in shrinking of some other players. Ufone, being the low cost leader before Zong had entered the Market suffered a great deal from Zong's growth and lost a great deal of its market share and customers.

PMS at Ufone

Ufone had attained all this growth organically and at such a pace that the Management itself was late to respond to the growth on many arenas. One of those areas was the Performance Management. At a time when Ufone was doing wonders and was posting 30% - 50% growth per year, employees were being highly rewarded for such wonderful performance. 4-6 bonuses and double digit increment percentages was a norm in those days, but all this was done in far less systematic way than it was supposed to be. If you ask then CEOs of Ufone, or the higher Management, their defense would be that they were so busy in posting performance that nobody cared about gauging it. The high flyers were apparent and were given the highest of the rewards while the mediocre and low performers too got away with good rewards owing to the rapid growth. This all changed when the growth slowed down and ultimately reversed. More focus was put on cost cutting and at the same time Performance Measurement started becoming important.

Until 2009, appraisal was a manual once a year exercise. Employee and the line manager would sit together on a blank appraisal form at the end of the year to conduct an appraisal exercise. There were no formally communicated objectives against which performance was to be measured, whatever came out of the discussion would become an objective and measurement was made against it. However, in 2010 a big leap was made as the appraisal exercise became electronic. SAP's HR module was used for Appraisal exercise between Year 2010 and 2012. There was hardly any difference between that SAP based electronic exercise and its

predecessor paper based one. Objectives setting and appraisal was still a one-time end of year exercise.

By 2012, Growth in the industry had significantly stagnated, and almost all operators were looking to cut the costs one way or the other. This is when Ufone too started to put more focus on Performance Management. Until this time, Line Managers had full authority over the whole Performance Management Process. From the performance measurement to Reward / feedback, everything was under Line's control. From 2013 onwards, things started changing for good. Ufone Performance Management System was launched. This system measured employees on the following scale:

Outstanding – Exceeds Expectation – Meets Expectation – Needs Improvement

This scaling system replaced the old A-F grading system. The system was based on the forced bell curve mechanism, whereby it was mandatory to mark 5% of the employees under Need Improvement from each team. Once grading was done, the reward system was based on that and line's authority was limited to appraisal process, based on which HR decided on rewards. The system however, did not cater for any improvement plans for the bottom 5% who were marked under need improvement. A major Highlight of this changeover was the implementation of Objective setting. Employees were encouraged to set their objectives at the beginning of the year in consultation with the line.

In 2014, further changes were made, forced ranking for bottom 5% was waived off, and it was up to Line Managers / HODs to mark someone as Need Improvement. For those who were marked in the bottom rating, Improvement plans are being devised in 2015. Those markings are not without consequences anymore either, with Improvement plans in place, an employee marked in bottom category for two years in a row would be laid off.

Ufone's performance over the years

Starting off its operations in 2001, Ufone was the 2nd GSM operator and fourth Mobile Operator at that time. Back in those days, Mobile Phone was considered a luxurious commodity and was only meant for the elites. The first thing that Ufone did was to change that perception. Ufone, being state owned mobile phone service (a subsidiary of PTCL – which was a government entity back then) devised its pricing strategy in a way that soon Mobile phone became popular and affordable to the masses. This strategy, combined with the unique Advertising campaign by Ufone started showing wonderful results as Ufone not only became popular in the market, but was also able to capture a significant market share and started making profits quiet early. Ufone, distributed its first dividend in third year of its operations which reflects greatly on its performance in early years. With revision of Telecom policy in 2004, which was followed by auction of two further cellular licenses, competition stiffened which led not only to price wars but resulted in a coverage race as well. By 2007, mobile phone was available in almost every town of the country and prices were amongst the lowest on the planet. Years 2007-2010 can be termed as the years of Mobile boom in the country. At a time when the world economy was undergoing tough times, Pakistan's booming Mobile Cellular market, kept Pakistan's otherwise weak economy afloat. Mobile Sector became the biggest contributor to the national exchequer in terms of Tax collection and grew exponentially. Ufone too, like other operators took full benefit from the period and its revenue grew by remarkable 7 multiples between 2005 and 2010.

By 2010, market had saturated and the growth in the Industry slowed down. Zong, a subsidiary of China Mobiles entered the market in 2008 through acquisition of Paktel. It took Zong about 2-3 years to strengthen its network to make sure that they were able to compete with already established players in the market. Through heavy investments and expertise brought from the Chinese parent, by 2010 Zong's Network Coverage was bypassing the already established Networks. Zong's business strategy was to be the low cost leader, and this combined with its aggressive Sales and Marketing Campaigns helped Zong grow quiet rapidly. By 2012, it had started threatening the existing operators, and Ufone being the low cost leader before Zong's entry in the market, was the greatest hit operator with growth figures falling to single digits

between 2010 and 2012. After 2012, things started to get even worse; saturation in the Industry and Government's negative policies – which were evident from the increase in taxes and forced disconnection of services on important days and events in the name of Security – caused the industry to almost stagnate. With Zong still being on the early growth stage, meant that some operators actually started to Shrink. Warid owing to its financial difficulties was the worst hit operator but Ufone was not much ahead of Warid. Ufone too, owing to all the above reasons started to shrink in 2013.

In 2014, much awaited 3G spectrum was finally auctioned in Pakistan. There had been a great deal of debate about 3G, whether Pakistani Market is ready for it as yet or not, but every operator understood that not having the 3G spectrum will surely put them at a competitive disadvantage and thus all operators except Warid participated and acquired 3G spectrum. Zong, took another step forward and acquired the 4G license as well, investing an enormous 500 million dollars in the spectrum purchase. The payback on 3G and 4G in Pakistani market – where 70% of the subscribers cannot afford a smartphone – is still a debate. Zong after having invested heavily in 3G and 4G became even more aggressive in its marketing campaign and despite having spent so much on licenses, kept on upping the tempo in its aggressive marketing campaigns which further hurt the already bleeding Ufone causing it to shrink further in 2014.

2015 started with further bad news for the telecom sector in Pakistan, as Pakistan, owing to continued terrorism threats, became the first telecom market on the planet to get its full customer base verified through Biometric Verification Devices. All operators were given 4 months to verify their full customer base with instructions to block any unconfirmed / unverified customers at the end of the period. Resultantly, Industry blocked approximately 30 million SIMs at the end of this exercise. This sudden decrease in subscribers did not help already shrinking industry that shrank further owing to this change. Ufone, too was not much different from the industry but problems for Ufone have become graver than others as Ufone even before this was in hot waters. With falling revenues and perishing customer base, Ufone's outlook looks bad. Ufone certainly need to take bold, and probably unpopular measures to arrest the collapse and get back in the race.

Problems for Ufone – Questions to Answer

The shrinking revenues and worsening performance have raised many questions for Ufone in last 1.5-2 years. One important question challenges the legitimacy of the way in which Performance Management System is working. That question is, whether *'Employees should be rewarded for performance in a time when Organization is under-performing'*.

Many arguments can be provided for and against the above question, however one strong argument, which is being put forward for quiet sometime within the organization as well is, *"If Organization is underperforming, in-fact shrinking, and still employees are getting Outstanding – the highest rating in Ufone's PMS, then there is some serious mis-match between the Organizational Objectives and the individual's objectives."* Figures from 2014 strongly back this argument as during 2014, Company shrank in terms of Revenue, Market share and Customer base and despite of all that, on average 1 employee per team (lead by a Manager) was rated as 'Outstanding'.

One basic issue identified in discussion with the HR and some staff members including Managers and Senior Managers is the visibility of the Organizational Objectives and more importantly the objectives of the department Heads. A Marketing Manager who is responsible for the Management of Media Campaigns for different products admitted that the Objectives of his boss (Head of Commercial) were not visible to anyone in the department and he lacked clarity over the short-term and long-term objectives. According to him, he was not clear whether the organization is planning to sustain the current position or is planning a counter attack and expansion. Lack of clarity in that perspective, according to him was a source of great confusion as he believes that in either of the case, campaign strategies would be entirely different.

The debate on whether to reward the employees in these testing times or not, was expanded within the organization as I held discussions with employees across departments (*See Annexure for responses*). Those discussions yielded different opinions / verdicts from the employees. Employees from the support functions believe that they have been doing their work with same enthusiasm and zeal and some – the ones from Finance specially (who have been given

additional responsibility to identify cost savings initiatives and to implement them) believe they have been exceeding expectations during these crunch times as they have been delivering the bottom line through cost savings despite of the under-performance of the top line (revenues). Similarly IT believes that their workload has increased in terms of the attempts made by sales and marketing to seek support from analytics in trying to come up with different strategies to control the situation. Employees from IT department argue that whether those (strategies) work or not is entirely up to Marketing, as far as IT is concerned, they have been doing their best to support the commercial functions.

Even the front-line departments argue that they have been trying their best to control the situation and blame the market dynamics, regulatory issues and etc. for the situation. Their claims however, if analyzed rationally, do not seem legit. At the same time, claims from IT and Finance etc. seem legitimate to an extent.

Another interesting perspective comes from the technical side, who in these testing times are busy expanding the 3G Network base. Some of them say that this is the time in which they have outperformed rest of their careers and expect rewards for the performance. This situation puts HR and Strategic Management in a difficult situation. Basic question for them to answer is, “should ‘some’ of the employees (from the support and technical functions maybe) who have actually been performing above par be rewarded to maintain some motivation?”

Looking for Solutions

We have so far identified three basic issues, which to an extent are inter-linked and need to be answered. The very basic of these is, ‘whether to rate the employees as “Outstanding” and to ‘Reward’ them in a time when the Organization is under-performing, in-fact shrinking’. The next is the ‘lack of clarity of the CXO / Department head’s Objectives to their respective teams which gives rise to confusion’ and then last and most important issue is the possible miss-alignment between the strategic Objectives of the Organization and Individual Objectives of the Employees.

Starting with the first one, a perspective of looking at ‘no rewards’ option is the analysis of negative effects of not rewarding the employees. Ufone, since its inception has been paying out

annual bonuses to the employees, which in the eyes of many have created a constructive obligation - no matter what the performance is, people will expect a reward. Considering the relationship of Money with Motivation and knowing that lack of money is a de-motivator, one of the biggest risk that company faces in such a situation is the risk of brain-drain. There is a fair chance that good Performers, who can help the company come out of the situation, will either leave the company or will be too de-motivated to perform. In both the cases the company will lose further.

Another perspective of looking at this is through the eyes of B.F. Skinner. According to his theory, behavior is a function of its consequences. This would imply that rewarding under-performance will re-inforce further under-performance and some sort of positive punishment is required, which in this case would be a lack of reward for under-performance.

The problem does not end here, the above discussion is based on the assumption that employees are actually under-performing. We have seen in the discussion above that some have been performing above expectations even during the bad time – the ones from the technical and Finance. There needs to be some reward, a positive reinforcement to encourage their performance.

This leaves HR in a Paradox. The best solution to this is to limit the rewards, and link the rewarding criteria to the achievement of Organizational Objectives. Considering the fact that HR needs to maintain Equity within the organization, the validity for rewarding or not rewarding will need to be demonstrated and validity could only be achieved through clarity and communication of Organizational Objectives. Those who have performed towards the achievement of those objectives (or have helped reduce under-achievement) can be rewarded.

An organization exists to achieve its Long-term objectives. In order to achieve those long-term objectives, it needs to set certain short and medium term targets / objectives. Once set, these Objectives need to be communicated clearly across the Organization. Everyone in the Organization should know the reason Organization Exists. It gives them a clarity of Purpose. Everyone wants to be part of an organization that strives for the best, or is best at something.

They need to know exactly what needs to be achieved, which not only motivates them but gives them a clarity and importance of their role as well.

Considering the above discussion, **Clarity of Organizational Objectives** will serve two purposes, (a) it will help improve employee motivation and, (b) will give more validity to evaluation criteria for Performance Measurement and rewards.

Another way of adding clarity is to clarify the role of the Department Heads. Higher Management is the Key to success for any Organization. An effort needs to be made to align their Individual Objectives with overall Organizational Objectives. For Example if short term objective of the Organization is to sustain the current customer base and improve its quality of service and customer experience for Existing customers, then it needs to be reflected in the Individual Objectives of the Chief of Commercial. If his objectives describe addition of 'X' number of Customer with the highest weightage, then there is a serious miss-match between his objectives and the overall Organizational Objectives which needs to be addressed.

Once Objectives have been aligned, next step is communication of those Objectives to the respective teams. An employee must know what his boss's objectives are so that he could set his objectives accordingly, and knows exactly how and against what he would be evaluated. Without this clarity, even linking the Rewarding mechanism to the Organizational Objectives (as discussed above) will not achieve any validity. In the absence of proper communication of Organizational and Higher Management Objectives, the employee will not accept "non-achievement of Organizational Objectives" as an equitable reason for a no reward against his efforts and performance.

Recommendations

As we have seen in the above debate, Ufone lacks clarity of Overall Organizational Objectives, which then stems into lack of clarity in Management's Objectives and thus ultimately effects PMS, which is rewarding under or no performance to an extent. In order to overcome these issues Ufone needs to adapt the following approach.

- a) **Futuristic Orientation**; one of the basic factors that Ufone lacks in its strategy is the Long-term-ness. The fact that it started Paying out dividends in third year of its operations shows short-term approach towards achievement of its goals. Even in the current market, with cost savings initiatives being carried on, Ufone is looking at its short term gains, current and next year profits etc. In order to survive in this competitive market, Ufone needs to adapt a long-term approach. Currently, Ufone is fighting a war for its survival, it needs to decide whether it wants to stay here for another (say) 5 years or maybe 50 years. If it is here to stay for longer, then focus needs to be shifted from short term gains to a longer term bigger picture. Higher management and the Board needs to demonstrate this long-term orientation through their actions e.g. by setting longer-term challenging Goals.
- b) **Clarity of Purpose**; No organization can survive without knowing its true purpose, the reason that it exists. An Organization needs to have a long-term Vision, and a Mission Statement suggesting the road map for 'how' to achieve that Vision. Vision and Mission should be obviously be reflective of the Long-term approach as discussed above.
- c) **Setting Challenging Objectives**; Once Vision and Mission have been set, the next step is to Identify and set Challenging Objectives.

In the words of Jim Collins, Objectives should be "*Big, Hairy and Audacious*", which he calls *BHAGs (Big, Hairy and Audacious Goals)* in his article Published in Harvard Business Review in July-August 1999. He further goes on and calls for the need to have catalytic mechanisms, i.e. the means to achieve those Goals.

Ufone too, needs to ensure that such BHAGs (Challenging Objectives) are set not only at Organizational level but at individual level as well. Individual Objectives should be set taking into account the Vision, Mission and Organizational Objectives and should be free of any miss-match to provide a clear line of sight to everyone.

- d) **Core Values**; Ufone has certain core values, which reflect greatly on the effort put on by the Management and HR in arriving at those 5 core values. These are:
 - a. Leadership with passion

- b. Entrepreneurship, Freedom with Responsibility
- c. Teamwork & Innovation
- d. Commitment & Fun
- e. Humility in relationships

These Core Values, although they provide an excellent direction for the employees at Ufone, are not demonstrated by the Employees in their day to day routine. The living, breathing examples of these core values are missing.

As the saying goes, *'what gets measured and rewarded, gets done'*, so one of the easiest way to get these values reflected in day to day behavior of Ufone's employees is by gauging them against these core values. Performance Management System, along with other parameters, should give due weightage to Measurement of performance against Core values, as it will help improve the overall culture and will aid in alignment of Objectives.

To summarize the above discussion, recommendations can be summarized as follows:

- Organizational Goals should be clearly defined and explicitly communicated across Ufone. Implementation of the above four steps will not only help Ufone in setting up Long-term Vision, Mission and Challenging Objectives, but will also provide a Road-Map for implementation for the same.
- Once Goals have been set, there should be clarity over HOD (CXO) level objectives and team members should be aware of their respective Chief (HOD)'s Objectives. This will be helpful to the employees in setting their own objectives and will ensure that line of sight is maintained.
- PMS and rewarding Criterion should be linked to the achievement of Organizational Objectives and Demonstration of Core Values. Only those efforts that have helped achieved the objectives (or have helped close the gap) or have demonstrated Core Values should be rewarded.

References

Article referred:

Turning Goals into Results, the power of Catalytic Mechanism, *by Jim Collins*

One-to-one interviews were conducted with the following personnel at Ufone

Anas Bashir Sipra, Senior Executive Organizational Development

Mariam Sohail, Regional Manager Employee relations

Abdul Qadir, Manager ER, QA & Standardization

Syed Saad Waqas, Senior Manager Budgeting, Planning and Reporting

Ali Hassan Bokhari, Senior Manager, MIS

Ammad Mansoor, Senior Executive, IT

Faisal Nadeem, Senior Manager QA & CE

Faisal Mumtaz, Manager Administration

Mahmood-ul-Hassan, Manager Marketing (BA)

Muhammad Adeel Atif, Manager Media

Muhammad Fawad, Manager (B & C) Technical

Shahzeb Mansur Khan, Senior Manager Technology Strategy

Qanit Khalil, GM Financial Accounting and Operations

Abdullah Rafique, Assistant Manager Financial Control

Abdul Salam, Assistant Manager Accounts

Annexure

Following are the interview responses from Management Staff from different levels interviewed for the project:

Anas Bashir Sipra, Senior Executive Organizational Development

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing well?
No	No, and we need to do something about it	Probably not

Mariam Sohail, Regional Manager Employee relations

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing well?
Not much	Not really	You need to look for other ways to keep motivating employees, clarity of communication is the need of the day.

Abdul Qadir, Manager ER, QA & Standardization

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing well?
No	No	Probably not

Syed Saad Waqas, Senior Manager Budgeting, Planning and Reporting

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
Not much, except for making profits	No	Yes, maybe some of them should be rewarded, who are still doing their best, like e.g. the support functions. We are saving costs, and doing more than what we were doing in good times. We need to keep the motivation going.

Ali Hassan Bokhari, Senior Manager, MIS

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
Not entirely	No	Yes, we are doing our job, infact doing more.

Ammad Mansoor, Senior Executive, IT

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
3G is the strategy	No	Yes

Faisal Nadeem, Senior Manager QA & CE

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
No	No	Not sure, but those who are performing need some motivation.

Faisal Mumtaz, Manager Administration

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
No	No	Yes, if there is no strategy, Management should and Board should be punished, not us.

Mahmood-ul-Hassan, Manager Marketing (BA)

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
There is no single direction	No	Reward should be linked with the effort we are putting in, Results are effected by many things beyond our control.

Muhammad Adeel Atif, Manager Media

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
No	We are doing whatever we can	Probably yes, you need motivation to ensure important resources stay.

Muhammad Fawad, Manager (B & C) Technical

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
Network Expansion for 3G, will think about profits later, maybe	No	Obviously yes, we are performing at our career bests on 3G deployment. Give me one reason we do not deserve rewards.

Shahzeb Mansur Khan, Senior Manager Technology Strategy

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
Invest in 3G	For returns no, but we are doing good on technology side	At a time when you expect your technical teams to out-perform competitors in 3G deployment and quality of service, how can you expect to do that without rewarding those teams?

Qanit Khalil, GM Financial Accounting and Operations

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
No	No	Not at all, if Organization is not making anything, you cannot reward the employees. You need to communicate this fact to the employees, with reasons and they will understand the situation.

Abdullah Rafique, Assistant Manager Financial Control

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
Cost Savings is the way to go for now	No	As far as support functions are concerned, yes, as they are still performing at their best. E.g. we are saving costs and doing more than we were doing before.

Abdul Salam, Assistant Manager Accounts

Do you have clarity over Organizational Objectives and Strategy?	Do you think Organization is Heading in the right Direction according to its long term strategy?	Do you think employees should be rewarded when organization is not doing Well?
Cost savings	No	Yes, atleast for support functions. What do they have to do with Marketing not able to sustain the position