MIS case study notes.

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This case study consists of:

1. Some background material on BT.
2. Some press cuttings on BT
3. Some transcripts of interviews with BT staff (in a separate file)

Working in groups and using relevant material from your own experience, your reading or from the lectures, prepare a short presentation that address the following issues:

a. Was BT successful, or unsuccessful, in managing information in Project Sovereign?
b. What were the organisational impacts of the CSS and how well were they managed?
c. Did BT identify all of the relevant factors at the outset and, if not, what was missed?
d. What action should the company take now?

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1. Case Study Background.

1.1. The Emergence of BT.

British Telecom (BT) is an international private sector company operating in the field of telecommunications. From 1912 telecommunications was as part of the Post Office, held in public ownership. It was originally nationalised to ensure the provision of an integrated telegraphic and telephonic service[i]. British Telecom was split off from the Post Office in 1981 as a prelude to its own privatisation three years later. The aim was to make it easier for the management of the two organisations to focus on the business strategies of their respective operations.

Since 1981 BT has undergone major changes first with privatisation in 1984 and then because of Project Sovereign in the early 1990’s. What follows concentrates on the build up to and changes associated with Project Sovereign from the late 1980’s. It is arguable however that this represents some continuation of the earlier corporate restructuring that surrounded privatisation[ii]. The climate for these changes continues to be shaped by several significant factors including: the development of new technology which has changed the nature of telecommunications work; the opening up of the market for telecommunications to competition and the requirement for BT to be able to exploit new international markets for information technology[iii,iv].

BT no longer enjoys the monopoly it once had. At home, competition from Mercury, the cable industry, and an increasing number of niche telephone operators is taking its toll. For example, it is estimated that 40,000 customers[v] a month are being lost to the cable companies who offer cheaper calls, connections and rentals, as well as clearer lines and the advantages of new technology. Cable firms claim to have won 470,000 customers in the three years since they were permitted to offer telephone services. Internationally BT's rivals, such as AT&T and France Telecom, are battling for the custom of the multinationals that want one supplier to service all their telecommunication needs.

As well as new competitors such as Mercury and the cable companies who are attacking BT on price, the regulatory regime is also becoming harsher. OFTEL have recently stated that prices on BT's basic services must now be kept to 7.5% below the rate of inflation. Although many of the same pressures affect BT's rivals, BT argues that it suffers most because it maintains a network that runs the length and breadth of the UK.

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i E. Batstone, et. al. Consent and Efficiency: Labour Relations and Management Strategy in the State Enterprise, Blackwell, 1984

ii R. Hallett. Privatisation and the restructuring of a public utility: a case study of British Telecom’s, in G. Jenkins & M. Poole, ed. New forms of Ownership, Routledge 1990

iii J. Clarke, et. al. The process of technological Change: New technology & Social Choice in the Work-place, Cambridge University Press, 1988

iv J. A.Taylor. & H. Williams, The ‘transformation game’: information systems and process innovation in organisations, New Technology, Work and Employment, Vol 9, No 1, 994, P.54-65

v Reported in Hinde. S., “Paranoid BT fears cheaper cable rivals”, Sunday Times, 31 July 1994, pp 1/9

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1.2. Project Sovereign and change of culture in BT.

BT have launched several initiatives to transform the company however the most significant was the Project Sovereign which involved both adopting total quality management values and encouraging employees to focus on customers needs. In March 1990, the Chairman of BT announced fundamental changes to the organisational structure of BT. These emerged from the findings of the Scoop Project undertaken by a team of BT Senior Managers into how the company should tackle the telecommunications business of the 1990's. This suggested that BT's existing structure would prevent the company from achieving its full potential. Based largely on geography rather than customers or markets, it lacked the flexibility and integration necessary to meet changing market conditions.

The plan for change was called Project Sovereign because according to the Chairman it was:

> "… the single most important thing that we are ever likely to do … because it puts the customer at the top of our organisation".

Over the following 12 months the old structure of BT based on geographical districts and product divisions gave way to 3 customer facing divisions: Business Communications Division to serve the needs of business customers; Personal Communications Division to meet the requirements of the individual customer; and a Special Business Division to manage a range of facilities such as Yellow Pages and Cellnet.

These new 'customer facing' Divisions were to be supported by a division with responsibility for the co-ordination of BT's portfolio of products and services; a World-wide Networks Division to plan, build, operate and maintain the switching and transmission network in the UK and globally; a Development and Procurement Division to provide a broad spectrum of technical services including research, development and design, fabrication, testing, problem-solving, planning and consultancy. In addition, this division was given responsibility for developing and managing a group wide supplier strategy and procurement service. Finally functions such as strategy, finance, personnel running across the business were to be handled by Group HQ.

Figure 1 summarises the organisation structure introduced under Project Sovereign.

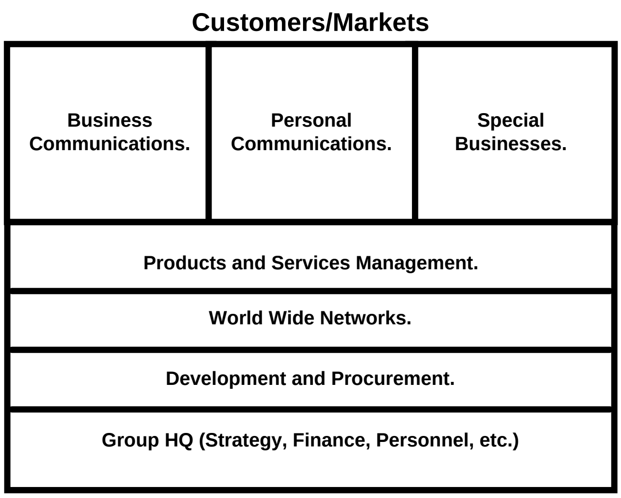

Figure 1. Organisational structure on 1 April 1991.

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Case Study Background

In a briefing session on the changes given by BT Directors to top BT managers the factors which shaped the new structure and its essential features emerged. The new BT required radical change and a more flexible approach to organisation and management. The Group Finance Director[vi] explained that:

> "BT is seeking a fundamental change in its approach to the markets it serves - it is a massive change and not tinkering at the edges. Moreover, it is ultimately linked to a change in our cost base - a leaner organisation and flatter management structure. The most successful telecommunications company in the world has to be flexible around a low cost-base."

In a presentation entitled "Management and Culture" BT's UK Managing Director argued that surveys in the company showed that many employees wanted radical change and the opportunity to contribute more to the company. Managerial leadership he suggested would need to release these pent-up energies. The key will be providing the managerial leadership that will release and make use of these pent-up energies. However, he noted a substantial reduction in the numbers of managers will be inevitable in order to "flatten" the company's multi-layered pyramidal organisation and quicken response between management and workforce. Project Sovereign has reduced the total number of layers of management in BT from twelve to six.

One of the first changes to take effect with Sovereign was the integration of the UK and international marketing and sales organisation under a unified management structure. This was intended as a very visible indicator of the customer orientation of Project Sovereign. This was stressed by the Sales and Marketing Director[vii]:

> "This change allows our people to direct their energies towards meeting customer needs … and nowhere is this more true than with the marketing and sales community that we will be bringing together into one structure. This group of people will be at the forefront of the organisational change, demonstrating our determination and commitment to put the customer first."

In summary, Project Sovereign was to lead to:

- A flexible market-driven structure for business and personal customers, with the necessary technical and commercial functions to meet their needs.
- A single interface for all BT's customers backed up by systems and specialised support.
- An increased sales revenue through protection of BT's largest business customers, capturing the substantial opportunities available in the smaller business market and from the information-intensive personal customer.
- An integrated approach for business customers, to meet their rapidly expanding international needs.
- Consistency for both business and personal customers, with the target to deliver uniform excellence across the customer base.
- Integrated product management, removing duplication, eliminating gaps and managing potential conflicts to the benefit of customers and the company.

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vi BT Management News, Special Supplement, April 1990.

vii ibid

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1.3. Cultural change and the impact on employment in BT.

BT, in common with many other telecommunications companies, has been faced with having to make the transition from a vast state-owned, public-service, bureaucracy to a flexible and responsive, private sector, high-technology company. The challenge of transforming an organisation that was rumoured to have more vehicles than the Red Army is huge. Not only do work practices have to be changed, but the culture also has to be shifted so that the staff are focused on providing services demanded by customers.

In practice, this "cultural shift" has involved in a huge reduction in staff numbers. Many employees who did not like the new ethos, or found it difficult to adapt, simply left in one or other of the company's generous redundancy programmes[viii].

As a consequence of the increased competitive pressures outlined above costs have had to be reduced and the company has to move faster and become more flexible. BT, like many other companies are finding that speed is now a crucial competitive weapon and that several layers of management can slow down the decision making process.

Another source of pressure on management jobs stems directly from the job losses lower down the hierarchy. Technology has had an important role here, as the company no longer needs as many operators, and consequently, it no longer needs as many managers to supervise them. Similarly, as junior staff have left, the company has found itself with too many managers at higher levels. BT currently employs 32,000 managers to organise its workforce of 153,000. The ratio of managers to staff has fallen to one to five although BT plans to lower that to one manager to ten workers[ix].

When the company was privatised in 1984 it employed 244,000 people and reached a peak of 245,700 employees in 1990. In 1994 it employed 185,000 people. Between 1992 and 1994 almost 28,000 engineers and telephone operators, more than 5,000 middle managers and 876 senior managers accepted voluntary redundancy.

The Voluntary redundancy schemes, Release 92 and 93, proved to be run away successes. For example, BT indicated that it wanted to shed 20,500 jobs under Release 92. John Steele, BT's personnel director, later commented in a newspaper article[x]:

> "We were told we would never get rid of 20,000 jobs in a year … We were told it's impossible, it's never been done before … In fact, as many as 45,000 applied to go with 85 per cent of the formal complaints, registered after the redundancy programme, coming from those who were not selected to leave."

Release 92 in particular proved to be almost too successful. Incentive payments to leave before the end of July, worth 25 per cent of salary, caused 19,500 staff to leave on the same day almost causing the company's administration to collapse under the weight of work and

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viii See for example Commentary: "Generous savings at BT", Independent, 21 August 92; Whitfield. M. "BT looks set to exceed target for redundancy", Independent, 30 May 92;

ix Reported in Lynn. M. "Redundancies focus on the white-collar worker.", Sunday Times, 20 March 1994, pp 3 - 5.

x Bassett. P., "BT devises the formula for redundancy without tears", The Times, 12 October 1993, p 29 causing severe disruption to customer services. More than 16,000 people were rejected for severance and courses to maintain morale were instituted in those areas, mainly the operator service and telephone customer contact jobs, that were particularly oversubscribed.

Redundancy payments range from 40 weeks' pay for 10 years of service to a maximum of 72 weeks' pay for 14 years. Staff who were with the company before 1971 get three years' pay. An engineer with long service could qualify for a payment of £60,000 while a manager on £35,000 could receive more than £100,000. Most schemes involved a combination of lump sum and early pension entitlement. The average package of benefits for those leaving cost BT is about £38,000, although a small number of senior managers are believed to have received more than £200,000.

The scheme cost an estimated £1.15bn. Although BT has not revealed a final price of the scheme it did explain that even with more than 40 per cent more people being accepted for severance the total bill did not rise in proportion as ‘the unit cost was lower than BT expected’[xi].

Publicly BT has always said that it tried to make the package of benefits attractive to all ages. However, in 1993, unions representing workers at BT claimed[xii] that the company had introduced a grading system that could be used to target older staff. The system was based upon an individual's annual performance assessment, their attendance records and whether or not disciplinary action has been taken against them. The proposal that age should form part of the points system was dropped by BT after complaints from the National Communications Union and the Society of Telecom Executives. At that time 15,300 people under 45 had taken severance, of the older workers, 4,000 were aged 45-50 and 10,000 were 50-60. The company's standard retirement age is 60. In January 1994 the chairman, Sir Iain Vallance was able to state[xiii]:

> “It is now almost exactly 10 years since BT was privatised, the natural turnover of staff means that many staff have never worked in the public sector. We now have the younger more responsive workforce that this industry needs.”

In 1992 and 1993 the majority of the cuts were voluntary and had fallen on lower and middle management, operators, clerical staff and engineers. However in March 1994 BT announced that 6,900 senior managers out of BT's 32,000 management-grade employees will be targeted for ‘significant compulsory reductions’ as not enough were volunteering to leave under its job reduction programme. It also announced that it was considering compulsory redundancies for its most senior managers as part of a drive to lose 35 of its 170 managers at

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[xi] Bassett. P., “BT devises the formula for redundancy without tears”, The Times, 12 October 1993, p 29

[xii] Reported in Wood, L., “Unions claim BT is targeting for redundancy”, The Financial Times, London Edition, 8 October 93, p 12.

[xiii] Reported in Gray, B., The FT500 (42): “Number one in the UK directory - BT has regained its position as Britain's biggest company”., The Financial Times, London edition, 20 January 94, Page XLIII.

director level[xiv]. All managers at this level earn over £50,000 a year with the average wage being £76,000 a year.

Although the logic of de-layering and downsizing may be clear, it seems that managers that are more senior are reluctant to go and, until recently, BT has been loath to sack them. The reluctance to accept voluntary redundancy may be because senior managers have more agreeable, and better-paid jobs or it may be because they are more worried about finding another job elsewhere - although figures from the International Labour Office[xv] show that only 3% of professionals and only 5% of managers in the UK are unemployed in comparison to 13% of plant and machine operators and 13% of craft workers.

1.4. The Customer Service System (CSS).

In the late 1970's, BT (then part of the GPO) had six mainframe sites and very little local computing. When BT split from the Post Office in the early 80's BT began to set up local computing centres. Each area had set up its own databases and soon similar information was being held in two or even three different places. The cost of attempting to keep all of this information consistent and up to date was spiralling out of control.

The decision was taken to centralise all of the information at a district level and telephone areas began to be amalgamated into districts. This process marked the beginnings of CSS. Essentially CSS was conceived as a “Customer Service System”, i.e. the aim was to provide a single source for all of the information relating to a single customer. An operator could access all relevant information for that customer by telephone number, address or name and could call up the customer's details on to a screen almost instantaneously.

After privatisation BT looked at several systems from a number of vendors and began setting up CSS's in 1985. People from the districts were seconded to the headquarters and a National User Group (NUG) formed to aid the setting up of the various CSS's.

At a national level Setting up CSS involved creating 29 databases for the 29 separate districts that existed at that time with each database containing information about 12 specific areas such as customer records, line records, billing information, etc. Each CSS needed to hold the details of over 1 million customers and service around 2000 terminals. The installation of CSS into the various districts was spread over several years.

The CSS system was initially created as a system to support operations within individual districts and although CSS was almost universally acknowledged as a great help in providing customer support many felt that the management information aspect of the system appeared to have been added almost as an afterthought. While CSS was an efficient in certain respects, such as tracking installations or repair work, it did not really provide the information needed by managers or, if it did, it was in a form that was of little use to them.

[xiv] Reported in Harrison. M. “BT threatens sack for senior managers: First compulsory redundancies loom”, Independent 15 March 94.

[xv] Reported in Lynn. M. “Redundancies focus on the white-collar worker.”, Sunday Times, 20 March 1994, pp 3 - 5.

Case Study Background

The announcement of Project Sovereign in 1990 and the move to three new ‘customer facing’ divisions - Personal Customers (PC), Business Customers (BC) and Special Businesses (SB) - provided a new impetus to the development of CSS although this was not without problems.

Previously every CSS had been set up on the basis that all customers were treated in more or less the same way. There was no distinction made between, for example, business customers or personal customers. The amount of time and effort that had gone into setting up the existing CSS, and the technical problems of splitting the 29 existing databases into three - one for BC, one for PC and one for SB - meant that another way had to be found to make the existing Information Systems work within the new company structure. The solution was to keep the same databases but give more access to people who required it. Thus the decision to create three new divisions meant that in order for CSS to continue to function managers, even at relatively junior levels, had to have the ability to ‘have visibility of other work areas’.

Previously there had been a bureaucratic system of passwords and access codes that limited access to the various areas of a CSS. However, once the principle of greater visibility was established improvements in technology opened other areas for organisational change. It now became possible to switch automatically information between districts so that a person based in one district could update or amend records held in another district. Similarly it also became possible to monitor work loads and allocate resources across the functional and geographic divisions in BT.

Although all of this was now technically possible, some organisational problems remained as, in the past BT had relied on local expertise and each region had done things in a slightly different way. CSS provided an infrastructure that was relatively tightly controlled in terms of what it allowed a manager to do. However, in order to bring about some of the proposed new changes it would, in some senses, need to be even more tightly controlled as every region would now have to operate in the same way.

The need to ensure consistency between regions lead to some dissatisfaction with the speed with which the system could be changed or modified. In the past when the system needed to be changed or updated this could often be accommodated at a local level, now however, each change or update needed to be worked out and agreed across the whole of the national network.

Date	
1912	Private telephone companies become part of Post Office.
1981	Post Office and Telecommunications split.
1984	BT Privatised.
1985	Vendors selected for CSS.
1988	CSS installed in every district.
1990	Project Sovereign announced.
1991	Core businesses split.
1992	Voluntary redundancy scheme - Release 92.
1993	Voluntary redundancy scheme - Release 93.

1994	Voluntary redundancy scheme - Release 94 + compulsory redundancies.

2. Press cuttings.

FT 27 AUG 93 / On the bandwagon: Privatisation need not mean price rises
By MICHAEL CASSELL

To the cynical consumer, the pattern looks familiar. With the government intent on privatising British Rail, leaked BR documents suggest passengers on the south - east lines face fare rises of up to 16 per cent. The move is seen as the inevitable fattening up process before BR is auctioned off. The expectation is of further, stinging fare increases.

But the widely held perception that, whatever happens to the quality of service, privatisation spells bigger bills, can be wide of the mark. The debate rages over excessive profits and executive rewards in privatised utilities, the first of which, BT, has been free of the state for nearly 10 years. But the evidence suggests consumers have few grounds to complain on prices.

Whether or not privatisation is responsible, businesses like BT, British Gas and, for some customers, the regional electricity companies can boast large real price reductions. Low inflation, rising competition and tough regulatory controls have played a part.

The price performances of some privatised businesses may look unduly flattering, since they are being compared with large price rises in the run - up to flotation.

It is impossible to say with certainty what prices would have been if suppliers had remained in state ownership, though some observers believe they would have offered a better deal to customers.

The post - privatisation picture is not all wine and roses for the consumer. The most obvious bad tidings have come from the water industry, where demands for improved quality have imposed high cost burdens, likely to total £45bn, which are being passed to consumers.

Many electricity users, too, have faced significant price rises, although domestic bills this year have been reduced. But UK householders' bills still compare well with others' in Europe.

Of the privatised utilities, British Gas seems best at trumpet - blowing, some claim unjustifiably. It claims prices to its 18m domestic consumers have fallen by 20 per cent in real terms since privatisation in 1986, making them the cheapest in Europe. Even with the planned 17.5 per cent value - added tax rate applied, they will be at the lower end of European prices. For industrial gas users in general, the record is even better - with real reductions averaging 25 per cent since 1986.

Not everyone, however, is prepared to hand a bouquet to British Gas. Mr George Yarrow, of the Regulatory Policy Research Centre, says the real fall in domestic gas prices is almost entirely due to lower prices on arrival on the beach - head.

He stresses electricity prices, which rose sharply prior to privatisation in 1990, have not fallen in real terms since the sell - off. He suggests that average electricity prices were up to 25 per cent higher for domestic customers by 1992 and 19 per cent higher for industrial consumers than they would have been if earlier price trends had continued.

But Prof Stephen Littlechild, electricity industry regulator, says the arrival of competition in 1990 led to big price falls for industrial users; despite rises since then, many prices remain lower in real terms than before privatisation.

Big customers on interruptible gas contracts - they pay less and run the risk of having supplies temporarily cut off - benefit from some of the lowest comparable prices in Europe. Yet some, like ICI, British Steel and Blue Circle Industries are fighting to scale down price rises. Since privatisation, they have had to buy supplies daily on the spot market, whereas before they could strike their own deals with the old Central Electricity Generating Board.

For BT, which in 1984 led the privatisation bandwagon, criticism of some high call charges has obscured the overall real fall in bills. But then the Post Office, too, has done well since it split away from BT in 1984. Postal tariffs will rise in November after a two-year freeze, but average letter prices have fallen by 10 per cent in real terms in the past decade.

BT rates for local calls - covering a wider range than in many other countries - remain among the most costly in Europe and North America. But international call charges - subject to increasing competition from Mercury - are among the cheapest. Transatlantic call costs are down more than 40 per cent since the BT sale.

Oftel, the industry watchdog which regulates BT by monitoring a basket of its services, says overall prices have fallen in real terms by at least 25 per cent since privatisation.

Domestic subscribers with 'medium-sized' bills - an average £44 a quarter - have seen a 5 per cent average reduction since 1989. Significantly, higher line rental charges - up by about 40 per cent since 1988 - have partially offset lower call charges.

The water and sewerage industry has had no good news on prices since privatisation in 1989. But it claims to have to correct decades of under-investment. Average household water bills have risen by almost 37 per cent more than the RPI in the past five years.

Consumer surveys by Anglian Water and Welsh Water have found that consumers will accept still higher bills to help pay for water improvement programmes. If the privatised businesses have a mixed record on prices, their future performance seems as likely to depend on the disciplines imposed by their respective regulators as on the varying degrees of marketplace competition they face.

As for passengers of a privatised railway system, the expectation is that to help revive a loss-making industry in long-term decline, prices will have to rise before and after privatisation.

The government says privatisation will offer more and better trains at attractive fares. In the grand tradition of railway passengers, they will have to wait to find out.

London, p 12

Press cuttings.

FT 03 DEC 93 / Watchdog increases pressure on BT profits By ANDREW ADONIS

Regulatory pressure on British Telecommunications to cut its prices and profits appears likely to increase sharply if interest rates remain low, following a policy statement yesterday by Oftel, the telecommunications regulator.

The prospect was raised by Oftel's settlement of a long-running dispute between BT and Mercury, its main UK competitor, over charges paid by Mercury for the use of BT's network to deliver calls to their destinations.

By reducing interconnection prices paid by Mercury, Oftel's determination will further boost competition in the UK telecommunications market. The settlement is worth at least £60m to Mercury this year in lower prices and back payments.

In reaching its decision Oftel sharply cut the rate of return on capital it allows BT. When setting BT's current price cap in June 1992 Oftel allowed BT a return on capital of between 16.5 per cent and 18.5 per cent. In yesterday's Mercury determination it cut the figure to 15 per cent, citing lower interest rates.

BT's price formula, setting average price rises at 7.5 percentage points below the rate of inflation each year, is to be reviewed in 1996.

Robert Fleming, the brokers, estimated that applying the reduced rate of return to BT's existing price cap would have cut this year's pre-tax profits by about £300m, around 10 per cent.

Mr Laurence Heyworth, Fleming's telecoms analyst, said: 'BT faces a very tough negotiation with the regulator over its next price cap.'

BT said the new rate of return was 'lower than we think reasonable', but said it did not necessarily follow that the same figure would be used for the next price cap, even if inflation stayed low.

Mr Mike Harris, Mercury chief executive, described the Oftel determination as a 'curate's egg'. He welcomed the reduced charges but not the obligation imposed by Oftel to pay BT a special contribution to help cover the cost of maintaining line rental and connection charges at an artificially low level. Oftel ruled that Mercury would have to pay the 'access deficit contributions' when it gained more than 10 per cent of the market for either international or domestic calls, with a sharp rise in the level of payments when it reached 25 per cent of either market.

By March Mercury had 19 per cent of the market for international calls and 7 per cent for domestic calls, so it will have to pay BT contributions for its international traffic.

Inter-connecting payments to BT are Mercury's largest outgoing. With operating profits of £192m last year, the ruling will significantly improve its financial performance this year.

The company intends to use £9m of the proceeds to fund experiments in using radio technology to bypass BT by providing local networks for fixed phones.

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Press cuttings.

FT 16 APR 93 / AT&T intends to compete with BT and Mercury in UK By ALAN CANE

A MOVE BY America's largest telephone operator to challenge BT and Mercury on their home ground by offering international businesses their own private networks was yesterday welcomed by the British government.

The Department of Trade and Industry, which favours opening up the UK's £15bn telephone market to foreign competition, said the application by American Telephone & Telegraph would be considered on its merits.

Moves to liberalise the European Community telephone service by 1998 were backed by Mr Karel Van Miert, EC Commissioner, in Brussels yesterday. Mr Van Miert's comments were the first clear indication that the Commission, the EC's executive body, is likely to endorse a policy paper calling for full deregulation of national telephone monopolies by 1998.

The AT&T application is direct retaliation for BT's application to the US Federal Communications Commission (FCC) for a licence enabling it to sell international customers a broad range of voice, data and video services. The UK company said it welcomed AT&T's application and the prospect of competition, but argued that its success should be dependent on the success of its own application to the FCC.

Mercury Communications' response, however, reflected its difficulties in negotiating access to BT's UK network. The UK's other licensed carrier said it welcomed AT&T's recognition that BT's dominance of the local distribution of telephone calls was the main bottleneck to the growth of effective competition in the UK.

AT&T's initial intention is to offer international business customers a range of services based on the resale of telephone lines purchased from BT or Mercury.

It made clear, however, that the aim was eventually to compete comprehensively in the UK, selling services to both business and domestic customers and creating its own network.

AT&T said it was aware its plans needed the approval of both the UK and US governments. The DTI said yesterday that it welcomed the application as evidence that AT&T believed there were equivalent opportunities for US companies in the UK as for UK telecommunications operators in the US.

AT&T said yesterday that it had been urging the FCC and the Clinton administration to withhold approval of BT's application until US carriers had comparable access to the British market. It said once equivalent access had been achieved, it would support BT's request.

London Page 1

Press cuttings.

FT 02 FEB 94 / Management: Must try harder - Many companies are having trouble with performance-related pay schemes / BT
By ROBERT TAYLOR

Performance-related pay is by no means a trouble-free method for determining individual remuneration, as a growing number of UK companies are discovering.

Recent research carried out by the Institute for Manpower Studies over a wide range of companies across industrial sectors suggests many PRP schemes do not motivate workers effectively, fail to reward individual effort and, above all, do not noticeably improve business efficiency.

The latest example of a PRP scheme in trouble also underlines the dangers of introducing one in difficult times if it makes no commercial sense. BT, the telecoms group and Britain's largest private-sector company, last week suspended its 10-month-old PRP scheme for 26,000 managers and professional staff because it threatened to undermine the pay bill.

Ironically, BT introduced its scheme last year to control labour costs, but it now finds that the PRP arrangements, if applied, would breach the 2.3% overall increase for managerial staff that it has set for 1994. 'This does not provide us with enough money to make our PRP scheme a sensible way of deciding pay rises this year,' says David Scott, BT's industrial relations manager.

The company may improve its present overall cash allocation a little in negotiations with the Society of Telecom Executives (STE), the union representing its management. But it is determined not to apply the PRP system it negotiated less than two years ago.

Under the terms of an earlier deal, the company this year intends to reward only its top 10% of managerial high-flyers with rises of up to 6%, while others can expect unconsolidated payments. Half its managers will get no rise in 1994. But Scott argues pay is not the 'main cause for anxiety' this year among BT's managers. 'Their job security is the more serious problem,' he adds.

The problem for the company though, is not just the short-term one of keeping within a budgetary pay allocation. More fundamentally BT's own pay comparison study, which relates its PRP assessments to outside competitors, indicates that it is already paying its managerial grades 11-14% more than their colleagues in broadly similar jobs in other enterprises.

BT's study covers not just its main telecommunications rivals - Mercury in the UK, Sprint and AT&T in the US - but companies such as Siemens, the German electronics group; Thorn EMI, the UK leisure and electronics group; IBM, the international computer group; Ericsson, the Swedish tele-communications giant; and Hewlett-Packard, the US electronics group, as well as TSB and National Westminster, the UK high street banks, and large retailers like J. Sainsbury.

The basic earnings of the core of BT's managers, the company says, are in the upper quartile of the market range. Scott says: 'We do not want to be upper quartile payers for our managers any more. We want to move down the market.'

BT has, therefore, told the union that it needs to bring its managerial salaries more into line with those in the rest of the telecommunications industry if the company hopes to defend its competitive cost base in the medium to long term.

Scott insists BT has not set itself any precise timetable in which to drive down the managerial pay bill but BT's intention to do so clearly cuts across any plan to use PRP to reward improved managerial performance. He recognises that some of the company's more talented managers might leave as a result of suspending the PRP scheme, but says BT 'has to lose managers in the next financial year anyway', as it restructures in the face of competitive pressures and regulatory changes.

The company's hard-nosed attitude towards its PRP scheme this year has angered many managers. 'BT's aim through its PRP scheme has been to penalise managers, not reward them,' claims Leslie Manasseh, the union's national organiser. 'It took eight months of hard bargaining with BT to reach agreement on a PRP scheme,' he adds. 'We warned the company not to introduce the scheme if they could not make enough money available to ensure its success.'

At the time of its implementation though, the increasingly competitive climate in telecommunications was driving the company towards the PRP option. The full story goes back to just after privatisation 10 years ago when BT took its 7,500 senior managers out of the collective bargaining system and introduced personal employment contracts.

But it continued to pay other managerial grades a general cost of living pay rise every spring and, in addition, what BT called a performance-related pay progression increase in the autumn (to be distinguished from the scheme that is now in question). 'We had to put a stop to this double hit pay round for our managers,' explains Scott.

Last year BT negotiated a single salary increase based on performance assessment, under the new PRP scheme, without a cost of living addition. This enabled it to halve its managerial pay bill. The size of the PRP rises was determined through the application of a computer-generated matrix, which calculated a salary rise for each manager. This was based on assessments by senior managers using the earlier individual appraisal marking system and a more specific zero to 100 performance score.

From the start the company's PRP scheme aroused widespread anxiety and suspicion. The fears were common to those experienced by employees in other companies in the early stages of a PRP system.

'It was not applied consistently. People were not told their assessment score,' says Manasseh. 'Nearly a third raised grievances over this.' In a recent survey, the union catalogued a litany of complaints from BT managers about its first year of operation.

Only 6.5% of the union survey respondents said PRP at BT had brought an improvement in managerial performance, while as many as 63% believed it had been applied unfairly in practice.

Companies have had trouble with PRP schemes have often refined them to convince employees of their ultimate fairness and this is what BT may well have to do. Even the STE wants to see BT continue with some form of PRP.

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FT 02 SEP 94 / BT seeks to make the most of its lower prices: A look at the tactics of telecoms companies as competition becomes keener
By ANDREW ADONIS

It is not just British Tele-communications hype. The telephone really is becoming steadily cheaper to use, particularly for business callers who clock up long-distance and international minutes. And prices are set to fall further as regulation and competition continue to bite.

This week's price cuts from BT mean that UK long-distance calls are barely a third of the cost a decade ago, allowing for inflation. From the end of this month a three-minute weekday morning call from London to Hereford will cost 30p. In January this year it was 50p.

Not all prices have come down. Line rental charges have risen 10 per cent in real terms in the past decade, and will continue rising. Oftel, the telecoms regulator, supports BT's efforts to reduce its deficit on maintaining basic line connections. But it has forced the company to bring its call charges down sharply, reflecting the falling cost of delivering calls as new technology slashes overheads.

Oftel's price cap obliges BT to reduce its total charges by 7.5 per cent a year, once an increase for inflation has been allowed for. In round figures that equals price cuts worth £500m, with £100m recouped from a 2 per cent real-terms increase in line rental charges. BT is free to target the cuts as it chooses.

Mr Michael Hepher, BT's managing director, says three factors determine its price-cutting strategy. Ideally, cuts will stimulate usage. They ought to give BT 'the most favourable stance against the competition' and they should 'do something to sparkle the imagination'.

The abolition of the morning peak rate earlier this year met the last two criteria. This week's abolition of the higher long-distance rate, at a cost of £244m over a full year, was firmly directed at the first and second - particularly at competition in the business market.

Mercury, BT's main competitor, has a quarter of the large business market and about two-thirds of the City of London's outgoing traffic. But it is increasingly hampered by BT's falling prices on one hand and by new entrants pursuing its bigger customers on the other.

The price gap between BT and Mercury is steadily narrowing in the business market. For many big businesses the saving is down to 6 per cent or less for UK traffic.

Mr Terry Rhodes, Mercury's competition director, said his company had to break out of the 'BT-but-cheaper' syndrome. He believes the message still has strong appeal to small and medium-sized businesses - those with annual telecoms bills of less than £150,000.

But Mercury's efforts are shifting to building 'brand loyalty' through added-value business services such as network management and improved data telecoms links. A host of new operators has moved into the City, the UK's telecoms honey pot, and targeting Mercury first and foremost.

The most successful to date appears to be Worldcom, a US group which set up in

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London in 1991. Worldcom re-sells international lines to big business at a discount. It boasts 250 business customers and claims to have cornered nearly 3 per cent of the UK's outgoing international telecoms traffic.

Mr David Hardwick, managing director, said: 'Our marketing is based on 10 per cent to 15 per cent off Mercury's best business price.'

Worldcom is also about to enter the small and medium-size business market, and plans to offer a long-distance UK service in addition to its international service, inter-connecting to existing long-distance networks. MFS, another US group, is already active in the UK long-distance business. Launched in March this year, MFS offers free line rental to customers with usage bills of £600 or more per line per year. Its fibre network covers most of the City and Docklands and is being built out to Southwark and Westminster. The company is considering a plan to extend the network to the Thames Valley, putting MFS within reach of 35 per cent of the UK's big telecoms users.

Long-distance telecoms capacity is abundant, giving plenty of scope for re-sellers to expand. In addition to BT and Mercury, Energis, a subsidiary of the National Grid which has erected a long-distance network on electricity pylons, is opening for business. The regional electricity companies covering Yorkshire and Manchester are building their own networks, and targeting business users.

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FT 25 NOV 93 / Survey finds more stress at BT

A growing number of British Telecommunication's managerial and professional staff are suffering from work-induced stress and are critical of the performance related pay system introduced this year, STE Research, the research arm of the Society of Telecom Executives, said yesterday. Its survey found that 56.6% of staff said they were suffering from work-related stress compared with 47.2% two years earlier.

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FT 09 SEP 93 / Letters to the Editor: Privatisation has made little difference to BT performance
From Mr J M HARPER

Sir,
Michael Cassell's article on privatisation and prices ('On the bandwagon', August 27), raised important questions, but I am afraid fell into some usual traps. There are no absolute yardsticks in the utility price game. Even foreign comparisons are meretricious because of the near impossibility of comparing like for like and the constant shifts in exchange rates.

He also failed to recognise the profound effect of variables specific to the industries. In the case of British Telecommunications the telephone system grew by a factor of three between 1970 and 1992; and usage grew even more. By privatisation, unit costs were steadily dropping; and the sheer volume of revenue was so great and it was growing so fast that the price increases needed to maintain profitability were bound progressively to drop.

The enduring economic boom of the 1980s intensified the effect. History does not begin at privatisation. The useful analysis is over significant periods before and after privatisation; using variables which have an independent meaning. Inflation raised prices generally by a factor of 7.6 over the 22 years 1970-1992. Those of BT rose only by a factor of 4.3 over the same period. They have fallen steadily below general inflation ever since 1982. Privatisation in 1984 had no perceptible effect on this trend - up or down. BT's real output per head of staff, measured at constant BT prices, has been rising remarkably consistently at 7.5% ever since 1970. The only significant setback to this trend was immediately after privatisation. It has been retrieved by the recent staff reductions.

There is a similar pattern in improvement in network service; 3.4% of local calls failed in 1971, but by 1992 the percentage had been reduced to 0.2%. Again, there was a setback after privatisation, but it has now been retrieved. The true lesson in BT's case once trends are measured over time seems to be that privatisation has made little difference. It would be interesting to see a similar analysis for the other industries.

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IND 19 JUL 94 / Answering the call of an emerging market: Mary Fagan reports on the smaller rivals taking the fight to BT and Mercury By MARY FAGAN

BRITAIN has become a focus of change in telecommunications, and nowhere more than London, the corporate heart of the UK.

Mercury, BT's first rival, put much of its efforts into winning business in the capital in its early years, and in the City has achieved about 50% market share. Now it is Mercury's turn to face competition, as newer rivals are luring the large business customers so important to Mercury and BT.

Among the latest are City of London Telecommunications (Colt) and MFS. Although barely heard of in this country, they are backed by big US companies. Their market share in London may be negligible but they claim to have made an impact in just a few months.

Colt is owned by Fidelity, one of the world's largest unit trust managers, with assets of about $360bn. MFS is part of a six-year-old start - up which already has local telephone networks in 32 cities in the US. These enable large American businesses to link into long distance networks, bypassing the local Baby Bell operating companies.

Superficially, they seem very different - MFS oozing entrepreneurial enthusiasm, Colt a more traditional business. Scratch the surface, however, and they have remarkably similar strategies.

They intend, where possible, to build their local fibre-optic networks direct to customers rather than leasing lines from BT or Mercury. They both offer either private leased-line services or full public telephony and they intend to stick to big businesses.

They can barely conceal their glee at being among the first to gain a foothold, however small, in this marketplace. They are arch-rivals but both believe that this market has room for two.
The most striking example of this is the way Colt and MFS have just agreed to share the same ducts - the holes in which fibre-optic cables are laid. 'We do not compete on the basis of ducts,' Michael Storey, chief executive of MFS in the UK, said. 'We compete in the boardroom and in customers' minds. While we are well resourced - and capital is certainly not a problem - if you can do it less expensively then you should.'

The MFS investment this year is likely to be £30m. The company, whose public telecommunications licence is a national one, also plans to launch in most big UK cities within three years. It insists investment is no obstacle. 'We are young and entrepreneurial and we are prepared to take risks. We are investing up front for long-term returns,' Mr Storey said.

He is keen to point out differences between MFS and Colt. His rival does not have a national licence, for example, and is therefore limited to the M25 area, although that is likely to change.

He does have a few scathing comparisons between his company and BT. 'The most important thing we do that they do not is listen very intently to customers and design solutions for their problems. Customers do not want to be sold stuff, they want a relationship with their supplier,' he said. While he stresses that MFS is not trying to be the cheapest option, prices for the public switched service are about 6 to 7% less than Mercury's best discount price, he claims, and there are no connection or line-rental fees.

In spite of his ebullience, Mr Storey is coy about his initial customer base on the network, which stretches from east of London Docklands to the City and into Westminster. He boasts 86 customers but will not name any. Paul Chisholm, managing director of Colt, is less reticent. He lists Robert Fleming, Reuters, Quilter Goodison, Bankers Trust and London Guildhall University among the first customers. The network reaches from Docklands to the City and to Oxford Street and continues to expand to the west and south. He says Colt's prices, at least for private lines, undercut BT by up to 12%.

'Once you have a key base of customers in the capital they naturally push you out as they want service provided to other sites,' Mr Chisholm said. In spite of the M25 limit, the company's five-year plan to invest about £25m annually will take it beyond London.

Colt is studying the potential of other UK cities and expects to apply for more licences in the coming months. Like his counterpart at MFS, Mr Chisholm is not averse to the notion of alliances with other companies. To link far- flung urban networks, the two newcomers will need to work with long-distance operators such as BT, Mercury and Energis, the telecommunications arm of the National Grid Company.

'We see the telecommunications industry breaking down to a combination of trunk services and local feeder networks including the cable television companies and ourselves,' Mr Chisholm said. 'This is the model you see evolving in the US today.'

Although uncertain as to the development of real competition in the rest of the European Union, he also hopes to take the Colt concept to countries on the Continent.

Liberal as the UK may be, neither Colt nor MFS thinks the market is as free as BT would have people believe. There are huge barriers to competition to be overcome. As chairman of the Other Licensed Operators Group, Paul Chisholm is acutely aware that the road to success is not going to be easy. The most notorious obstacle is that of the charges to interconnect to BT's network to complete calls. Like most newer telephone network operators, MFS and Colt need to use BT or Mercury lines to carry the calls beyond the confines of their own networks and for that they must pay. The problem, Mr Chisholm says, is getting a price based on costs.

'You really do not know what you are paying for, or why. Are we paying for bad investments by BT or its inefficiencies? We want to make sure what we are paying only for what we use. BT offers a package while what we want is an a la carte menu.'

Although the regulator, Oftel, is trying to resolve the issues by forcing BT to publish separate accounts, Colt believes that will only be part of the solution.

There is also another payment to BT - the contribution to the losses of about £1.5bn a year which BT says it makes in providing and maintaining local lines.

Only Mercury makes these payments, called Access Deficit Charges, as Oftel recently granted a two-year waiver for newcomers, including Colt and MFS. Mr Storey also cites less obvious barriers - for instance, the allegation that BT and Mercury are less than keen to allow wires from other operators to pass through their pipes, even when there is room. And number portability, which will allow customers to keep their telephone numbers if they move from BT, has not yet arrived.

Ultimately, the problem is simply that BT is almost everywhere. Colt, MFS and others can claim to offer lower prices, a better quality of service, a new approach, but BT is winning sympathy because so many new entrants are snapping at its heels while the regulatory screws turn tighter.

Mr Chisholm has the last word. 'People look at all the competition. But look at the power of BT - the size, the information database, the captive audience.'

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FT 09 FEB 94 / BT and Mercury under attack: Competition will hot up with the launch of another telecoms network
By ANDREW ADONIS

The most significant telecommunications announcement yesterday was not BT's price cuts, long trailed and necessitated by an agreement with the regulator.

It was the launch of a telecoms network in the City of London by MFS, the largest national provider of urban networks competing with the local Bell telephone companies in the US.

The entry of MFS into the UK will greatly intensify competition in the business telecommunications market, with ramifications far beyond. MFS operates fibre networks in 14 US cities, including Chicago, New York, Los Angeles and San Francisco. It provides 'last-mile' connections for large urban users, allowing them to link up to long-distance networks without going through the local Bell companies.

Nynex, the Bell company covering New York, estimates that it has lost about 40 per cent of its private-line traffic - mostly from Wall Street and the business sector - to 'competitive access providers' including MFS. MFS timed its launch to coincide with BT's price cuts, claiming that even after them it would offer City companies large savings on their telecoms bills.

It will levy no rental fee or connection charge, and has only four charge bands, all highly competitive with BT and Mercury prices. But users must have an annual telecoms bill of at least £600 per line, limiting the likely take-up to large corporate customers.

MFS's competition is as much Mercury as BT, an indication of the pressure being exerted on the BT/Mercury duopoly, formally abolished in 1991 but still largely intact. Mercury is estimated to have about two-thirds of the City's outgoing long-distance traffic.

With the entry of MFS the City becomes one of the world's most competitive telecommunications markets.

In addition to BT and Mercury at least four companies - Worldcom, Sprint, ACC, and Esprit - are reselling long-distance and/or international lines leased from BT and Mercury. Worldcom, subsidiary of a large US operator, is making particularly fast progress. It has more than 300 UK customers, most in the City, reselling international lines to them.

Mercury's position in the long-distance market will come under further assault later this year from Energis, the subsidiary of National Grid erecting a national network on electricity pylons. Like Mercury, Energis will reach customers in three ways: by direct connections, by indirect access through BT or other local operators, or by leased lines.

Meanwhile, Colt, another US-owned company, is building a local network in the City and plans to offer a public service, connecting to the public network, from mid-March.

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