



ESG Initiative

Abraaj Group's Integration of ESG Policies into the Turnaround of K-Electric (B)

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We feel that we are transitioning to a different era. We can afford to further soften our image. Engage more with people who still have ill feelings. We are still in the initial phases of trying to build infrastructure. We have hired people who can help us to do it ... We are at the start of things. If we are successful in filling gaps with people who know what good is, we will make good things happen.

Eram Hasan, former Chief Supply Chain Officer

Tayyab Tareen had begun his efforts to consolidate the firm's gains by expanding his team of senior managers (i.e., C-level executives and advisors) to propel the firm forward on its journey from a turnaround to a sustainable, growth-oriented, private sector utility. The change in strategic direction that slowly emerged was a product of this collective analysis. The overall goal was to move beyond fighting fires that threatened the firm on multiple fronts (e.g., human resource issues, transmission & distribution [T&D] losses, and government and regulatory affairs) and towards developing a more sustainable and integrated strategy that would enable the firm to continue contributing, long term, to shareholders and society. Such a strategy would shift public attention away from layoffs to employee empowerment and away from the acrimony in the public relationship with the government to the more constructive partnership with the government in seeking foreign direct investment into Pakistan.

Additions to the Senior Management Team, 2015-2016

After seven years, and a notable shift in the environment (e.g., from a short-term battle to turn the firm around to a longer-term effort to ensure the sustainability of the turnaround), several senior managers of the original Abraaj team elected to leave the firm. This opened the door for Tareen to add a few new members to his team.

Asif Saad. Asif Saad took on the role of Chief Operating Officer Distribution. Prior to joining KE, Saad had held leadership positions in various sectors (e.g., chemicals and manufacturing) and he had been affiliated with prestigious organizations in different capacities. For example, he was previously the CEO of Lotte Chemicals Pakistan, worked as executive director of DH Corporation, and served on the boards of Engro Corporation, Engro Polymer, and Engro Foods. He spent the

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Some of the values and numbers (presented in this case study) are disguised or should be considered approximates. Statements and opinions, expressed in this case, are those of the authors. They do not represent the opinions of the Wharton School, the University of Pennsylvania, Abraaj Capital, or Karachi Electric.

early part of his career at ICI Pakistan (in key management roles within various ICI businesses). Asif has also been a director of the Pakistan Business Council, vice president of the Overseas Investor Chamber of Commerce, served on the boards of several nonprofit organizations, and is a business graduate with an MBA from Lahore University of Management & Sciences.

Syed Fakhar Ahmed. Ahmed assumed the role of Chief Marketing and Communications Officer in November 2015. Fakhar holds a master's degree in political science from the University of Punjab Lahore and an MBA in marketing. Before joining KE, Ahmed worked as the Head of Corporate Affairs and Communications for Nestle Pakistan and then as the Head of Creating Shared Value & Special Projects for Nestle China (Greater Regions). Due to his background in business development, marketing, communications, media relations, crisis management, public affairs, and CSR, Ahmed has been able to design and lead international, award-winning, public-private partnership development projects (e.g., partnerships with the U.N. Development Program, USAID, and industry-critical initiatives for policy formation, related lobbying, and communications with stakeholders) — thereby helping to develop business policies for the fast-moving consumer goods (FMCG) sector in Pakistan.

Muhammad Shoaib Baig. Baig became the Chief People Officer at KE in September 2015. He holds a bachelor's degree in civil engineering and an MBA from the University of Leeds in England. Additionally, he has participated in leadership training at INSEAD and Babson College. He has more than 18 years of diverse international HR leadership experience across telecommunications, FMCG, and

pharmaceutical industries. He previously served as Chief Human Resource Officer at Telenor Pakistan (from 2011-2014) and helped initiate a major turnaround that earned the firm the Best Employer Award. He was also part of business-leadership teams (from 2005-2011) within Novartis Pharmaceuticals' oncology division (as Head HR Ireland and, subsequently, Head HR for Asia Pacific and South Africa). From 2000-2005, he rose from an entry-level HR position in Unilever Pakistan to the position of Global Talent Manager in Unilever's London office.

Asmer Naim. Naim is the current Chief of Government Affairs. He began his career in 1987 with Lakson Tobacco Company; over the years, he has held various positions (e.g., Director Production and Commercial, and Director Operations). After Lakson Tobacco was acquired by Philip Morris International, he was appointed to the board of Philip Morris Pakistan and continued on as Director Operations, Government Relations and Illicit Trade. Naim has served on several government boards (e.g., the Pakistan Tobacco Board and the Task Force for Smuggling, Counterfeit, and Illicit Products). Naim is also passionate about CSR and is the Director of Injaz Pakistan, an organization that inspires and prepares youth to succeed in the global economy, alongside partners in the local business community as well as corporate volunteers and educators.

Waqas Bin Najib. Bin Najib became the Adviser to the CEO on Strategy at KE in July 2015. He is an engineer, holds a master's degree in energy technology and management, and has more than 15 years of experience (in research, business strategy, public policy, and energy infrastructure project development). He has previously worked with both public and private-sector organizations.

People

Leading transformation is not any easy task — particularly when change is perceived as a threat (as was the case when Abraaj took over KE, back in 2009). At this stage, KE's HR department endured the arduous task of becoming an agent of change. Thus, some difficult decisions (e.g., layoffs) had to be contemplated, in order to transform a government-owned entity into a private one; indeed, it was a priority to keep the workforce motivated during this time period (and therefore incentive programs were introduced) and much focus had to be directed at cultivating a culture valuing safety, organizational pride, and customer service. More efforts must be directed at developing a customer culture, preventing poaching by soon-to-be-privatized peers, and managing a potential expansion if the firm seeks to acquire privatized assets or advise the management teams of new owners. Thus, additional efforts were required in order to enable the transformation of employees into leaders and team members.

Although, KE has been considered an attractive employer, the ambition is now to make KE a leader across industries in Pakistan. Thus, a newly formed HR team, under the supervision of the Chief Product Officer (CPO), has learned about associated business needs, organized focus groups and surveys (to better understand how employees are perceiving the firm's HR practices), and delivered a three-year strategy (for 2016-2018) that tackles employee issues and fosters trust (that had heretofore been lacking due to previously unpopular decisions). The new — "People Strategy" — follows a customer- centric approach with three pillars that are designed to *enable, energize, and empower* people. Indeed, it has crucial "must-win battles" (e.g., diversity, inclusion, building team culture, the provision of best-in-class HR services, and building frameworks and policies

for learning, leadership, retention, compensation, and benefits) and has sought to utilize digitalization as a foundation for these initiatives.

A strategy was also devised to better manage external environmental factors (e.g., new players in the market, the potential poaching of KE's talent, and the management of a potential expansion if KE seeks to acquire privatized assets or advise the management teams of new owners). The first part of the strategy kicked off in December 2015 with the design and implementation of a new framework that has helped instill a culture of performance and delivery. Additionally, KE has introduced new people-centric policies.

HR has developed new cultural and engagement initiatives through the implementation of a structured approach to cultivating two-way communication (e.g., through more than 50 town hall meetings and activities to promote team culture). Moreover, in line with KE's Diversity and Inclusion Roadmap, major initiatives were announced (e.g., My Child Care Assistance and an improved maternity policy) that support and give flexibility to working mothers. In 2015, the firm had only 243 female (out of a total of 11,000) employees and only four of the women were general managers; in 2016, this number rose to 313 female employees — and nine women in the roles of general managers and above. Another popular initiative was the launch of the KE Employee Advocacy Framework (Awaz Portal), which provided a platform for employees (to voice their ideas, concerns, and issues).

As KE was coping with a volatile business environment, it needed right-and-ready talent to successfully execute business strategy, and thus configured a competency model that aligned with its talent strategy and business objectives.

In 2015-2016, KE's employee retention rate (of over 95 percent) was higher than the prior year and the HR team also created a talent-acquisition team to pursue the best talent when needed. In 2016, HR took its revamped Emerging Talent Program to 14 different universities. During this recruitment exercise, diversity was a key priority and, indeed, one-third of new trainees were female.

In order to move KE into the digitalized era, "Success Factors" were introduced and enabled the organization with state-of-the-art, customer-centric solutions. Another key initiative was People Connect, which streamlined employee-related services. People Connect (i) provided a self-service, one-stop solution for all HR-related concerns; (ii) set a precedent in Pakistan; and (iii) consolidated and synergized various people-service channels (using both digital and physical mediums). Thus, it empowered individuals to access HR-related information with the click of a button. People Connect was designed to support the HR Team's effort to build a service culture and win the trust of customers and employees (which was crucial to the success of People Strategy and other strategic initiatives).

Marketing

Part of the media bashing last summer [of 2015] was our own failure to maintain continuous engagement. We took the media and the stakeholder program for granted and assumed past efforts at goodwill were enough — they never are. We got a bit complacent, even heavy-handed and dropped the ball ... [This resulted in a drawdown of] assets at the brand bank and [we] paid a price.

Waqar Siddique, former Partner, The Abraaj Group

Some anti-theft advertisements in 2013/14 were aggressive and effective but at the same time, you need consistent messaging to restore or build goodwill. Our core job is not to arrest people but to provide electricity.

Muhammad Aamir Ghaziani, Director, Finance

KE is trying to get word out, but it is hard as they have so many audiences. One has to monitor, listen, strategize, and respond every day. KE needed a renewed communications plan just like the government. Very difficult because the political opposition has one and it involves criticizing KE. KE needs to be yet more proactive. Go to media with good news — not just to refute bad news. Share your investment plans. Get back on talk shows. Share your story over five years and plan for the next five. I can assure you that they will be impressed.

Mohammad Zubair, former Minister of State & Chairman of Privatization Division, Government of Pakistan

KE could still do more on its messaging. They often became reactive. Highlighting why bad things that happen aren't their fault (so becoming defensive) instead of proactively highlighting how much better things have gotten and taking due credit for talking more about their achievements.

Kamran Khan, Journalist, Dunya Network

They again needed to articulate their strategy consistently and clearly. Keep telling us what the plan is going forward. Don't shy away from it or stakeholders will assume you are back to doing something fishy.

Azhar Abbas, Managing Director Geo News

KE has had some significant achievements in marketing and communications (e.g., recognition for its extensive and effective use of two-way social media communications, an A+ ranking on its 2014 sustainability report, and numerous CSR initiatives that have delivered value to shareholders and stakeholders); however, marketing and communications had been less of a priority since the heatwave in 2015. Thus, Ahmed's arrival (as chief marketing and communications officer) in 2015 was welcomed as he sought to reactivate the original engagement approach and renew it in order to address the remaining misperceptions regarding KE. He has tried to be more systematic (than in the recent past) at developing a proactive strategy that not only builds on past strengths but also addresses weaknesses (or gaps) that he and others perceive.

He has sought to build a communications plan that highlights (i) \$1.2 billion in capital expenditure with another \$5 billion planned over the next 10 years, (ii) the expansion of supply by 1010 MW, (iii) the reduction in T&D losses from 40 percent to 23 percent (that would enable 60 percent of customers to be free of load-shedding), (iv) improvements in worker safety (from 70-80 injuries per year to five), (v) CSR initiatives in partnership with trusted NGOs, (vi) gains in customer service made possible by IBCs, and (vii) increased transparency in dealings with stakeholders. Still, Fakhar (and other members of the management team) have perceived that despite these accomplishments, the firm has too often been identified with legacy issues associated with overbilling, perceptions of unfair dealings with the government (or customers), underinvestment, and a lack of preparedness for technical challenges. As a result of these

perceptions, KE's position has been tenuous and under potential threat from political, regulatory, and/or stakeholder reactions. Thus, the messaging needed to highlight positive accomplishments; present a strategic, forward-looking plan; and transparently report on progress (associated with the implementation of the plan).

At one level, Fakhar's plan couldn't have been implemented sooner as it would have been unwise to tout accomplishments before the operational situation had been stabilized (after the events of 2015 and when the majority of customers were experiencing involuntary load-shedding). With improved performance and "the product right," the time had become ripe for pushing a more positive message. The upgraded marketing and communications plan renewed and refreshed Abraaj's original communications strategy via (i) stronger media-engagement efforts; (ii) extensive media briefings; (iii) feature interviews; (iv) paid advertisements; (v) digital, real-time, social media, and social CRM strategies; (vi) strategic partnerships in Karachi; (vii) employee ambassadors; (viii) diversity programming; (ix) efforts targeting the media, opinion formers, and multiple levels of government; and (x) a dedicated engagement focus on the governmental epicenter of Islamabad.

Government Affairs

We need to build relationships at various levels with the stakeholders. A composite, all-round engagement strategy is required to build [a] sustainable relationship with all stakeholders.

Asmer Naim, Director, External Affairs, 2015-present

The goal is to improve relations with government, especially Provincial, making them truly understand us better and implement systems that allow us to use data to drive strategy and thus be less reliant on heresy and intuition.

Eram Hasan, former Chief Supply Officer

Engagement is more than relationships because the right relationships today can become a liability tomorrow. We need to deliver on stakeholders' needs. That is sustainable even after leaders or even regimes change. Projects that are good for the country — not just some elements of it — are less likely to be disrupted by politics.

Murtaza Hussain, Managing Director, The Abraaj Group

The company needs to reposition itself as a customer-focused and technology-driven company catering to [the] current and future needs of its consumers. It should bring as much transparency in its operations and stakeholder engagement as possible.

Waqas Bin Najib, Member, Energy/Science, Pakistan Planning Commission

After 2015, we needed to revisit the stakeholder engagement model and renew it using social tools and more precise segmentation. The brand map got lost and we needed to work to set the course and keep sight of the bigger goals — and drive our wins harder. The public forgot what pre-2008 was like; they see a new normal. We needed to make the delivery difference clear and the future vision again crystal clear.

Ovais Naqvi, Managing Director, The Abraaj Group

On reflection, Naim and Bin Najib realized that the relatively aggressive strategy (which may have been required in the initial years due to the types of challenges faced) should have been immediately readjusted as barriers were overcome, and that their relationship with government institutions should have become collaborative and more supportive. Naim began to (i) assume the role of facilitator between government departments and the firm, (ii) establish various communication lines with key external stakeholders, (iii) ensure that the same (or coordinated) messaging was going out to provincial government officials and other public-sector stakeholders, (iv) and served as a collection point and synthesizer of demands of managers across functions from the national and provincial government. A lot of the early work involved drafting a list of public stakeholders (who should be consulted on a regular schedule) and assigning multiple managers the responsibility for those consultations. He then had to develop talking points or presentations for the managers to deliver on assigned schedules — taking into account the likely issues — and demands of various external stakeholders.

The longer-term plan involved alignment with the government's focus on the expansion of privatization to other utilities. The power sector was in the very early stages of a transformation and Abraaj's experience at KE helped position the management team to assist with (and potentially even profit from) that transformation. The turnaround at KE could be replicated by other utilities nearing privatization if a systematic (vs. personality-driven) process was followed and regulatory capacity was enhanced. Indeed, if KE were to invest in the capacity-building of government institutions and in stronger internal systems for corporate affairs, it would set the stage for

substantial future revenue and profitability. Thus, they sought to expand the time horizons of investors (beyond short-term operational turnarounds to longer-term, sector-oriented, holistic planning).

Conclusion

While stakeholder engagement had always been central within Abraaj's strategy for turning around KE, that engagement focused to date on three critical tasks: (i) altering the culture of the workforce, (ii) coping with the culture of theft by customers, and (iii) ensuring sufficient supplies and revenue streams via government policy. As these initial goals were realized, it was necessary to think more holistically. Individual campaigns (directed at employees, customers, and government officials) needed to be better coordinated and more attention needed to be focused on the firm's overall reputation (vs. the execution of isolated campaigns). Renewed effort was required to promote accomplishments and proactively explain inevitable challenges. A longer-term perspective was also required that prepared management for predictable periods of conflict (e.g., the June heat wave, election campaigns, and contract renegotiations). Proactive investments in stakeholder relationships were required during good times — for support during the hard times.

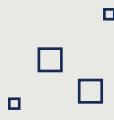
The management team kept in mind the advice of a peer investor who had already learned to survive in an environment characterized by predictable episodes of conflict:

Any kind of regulation should contain fundamental elements and changing elements. In any pattern of change, you have waves. Now, we are in a transient period. There will be times with disputes and discussions and times to focus on the market. It is possible, in such a system, to have investment. How? Through the active management of political risk. You can minimize it, but never fully eliminate it, even under the best regulatory design. You have to dance with the shadows. You have to go beyond what you see on the surface. A lot of it is relationships — not picking the right people but rather articulating your views and cultivating ties with people who share your goals.

Anonymous interviewee in Central European electric utility

Not all internal stakeholders were immediately convinced of the need to change but slowly skeptics either left or were won over by Tayyab and his leadership team.

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