

SACHER ASSOCIATES

success through people and performance

**Creating sustainable
and measurable
culture change -
Case studies from the
field**

Carlton Crest, Melbourne

10th August 2006



CASE STUDY TWO

Electrifying the Electricity Supply Industry

August 2006

By:

Bob Scott
Commissioner
Essential Services Commission

John Grundy
Chief Executive Officer
Grundy Consulting Group

ELECTRIFYING THE ELECTRICITY SUPPLY INDUSTRY

EXECUTIVE SUMMARY

In the late 1980s, organisations around the world, with particular emphasis on the electricity industry, were recognising the need to substantially improve their efficiency and reduce operating costs. The former State Electricity Commission of Victoria embarked on a program termed “Structural Efficiency” in 1989/90, which set the scene for what was to come, reducing staffing numbers from 21,900 in 1990 to 14,800 in 1992.

Early in the 1990s, in response to the signing of the National Competition Agreement which mandated the national reform of the electricity supply industry, the State Electricity Commission of Victoria was broken into three internal strategic businesses, generation, transmission and distribution as a precursor to full corporatisation, which subsequently became privatisation under a newly elected government.

The distribution unit was reorganised in 1992 into 18 semi-autonomous businesses responsible for all customer service functions within their respective areas. South Eastern Power, the largest of the businesses with 186,000 customers, was created from two previously separate district operations and faced the challenges of delivering world best practice performance while at the same time preparing for full privatisation.

Sacher Associates was engaged to facilitate a series of workshops for each organisation unit within South Eastern Power, designed to deliver a self-generated set of values and objectives under a strongly team-flavoured environment. The results were astounding, with top-class performance consistently delivered by teams comprised of people who had been previously regarded in the main as only average performers.

Similar efforts were being made in the other 17 business units (and in the generation and transmission sectors), all with an eye to the eventual privatisation leading to what became the five distribution businesses sold by the Kennett Government in 1995 as part of a major privatisation deal which returned approximately \$28 Billion against an expected outcome of only \$13 Billion at best.

The positive commitment to team values and goals developed prior to the privatisation not only delivered outstanding performance, but allowed the newly privatised businesses to continue with a program of productivity improvements leading to a current estimated 7,500 employees doing the work of what at its worst in the mid 1980s required some 22,800 employees. This has been achieved while also delivering performance and price improvements, with a state-wide average time off supply for each customer of 132 minutes in 2004, from a figure of 430 minutes in 1992 and real price reductions of around 30% to 50% for business and 23% for domestic users. Today we have businesses comprised of teams of employees genuinely committed to common goals, rather than people who simply turned up at the workplace most days with no sense of belonging amid the worst excesses of large, uncontrolled bureaucracies.

The history of one thread of this change initiative is traced from its beginnings in Melbourne’s southeast to the overall benefits experienced today.

South Eastern Power was the largest of the 18 semi-autonomous customer service businesses created in 1992. These businesses connected electricity to customers' premises, repaired faults and maintained the local power lines, undertook upgrades on the local electricity power systems by replacing poles and wires, operated a call centre which provided customers with information regarding their electricity accounts, connections and power problems and operated a complete front office including bill payments and face to face customer enquiries.

South Eastern Power was located in Moorabbin. It was formed from two smaller customer businesses (one at Oakleigh and the other at Cheltenham) and serviced 186,000 customers (residential, industrial and business) in the southeastern suburbs. It began with 240 employees and its key functions were to provide a better quality of service to residential customers and a high quality electricity supply to business and industrial customers.

The goal at South Eastern Power was to make significant performance and cultural changes to this customer business. This was done by welding the business together through a team-building program, which initially involved a three-day workshop for every natural work team in the business.

The team building workshops were conducted by *Sacher Associates (Australia) Pty Ltd*. The workshops focused on creating a business vision and team missions, performance levels, feedback on performance, and ongoing performance maintenance systems to ensure that the changes did not end with the completion of the workshops.

The ongoing maintenance program meant that an internal program facilitator was responsible for the continuation of the performance maintenance systems. Each manager became accountable for the success of the program by linking it to his or her performance contract and targets.

Over a two-year period, the key results achieved at South Eastern Power were:

- A number of step improvements in business performance levels, such as reducing customer electricity connection times from 5 days to 0.7 days; and slashing electricity minutes off supply for all customers from 325 to 89 minutes average per customer per year.
- There were major team environment/culture changes, reflected in the internal communication measure improving from a score of 3.5 (out of 5) to 4.0, where the average expected score was in the range 3.0 to 3.5.
- Business profitability improved by \$3m against a \$220m budget in a year when the economy was declining and customer demand for electricity dropped by 10%.
- A number of major changes occurred in the employee culture, indicated by a 30% reduction in sick leave, 100% improvement in health and safety performance levels, and a reduction of industrial disputes from 250 days lost in 1991-92 to 15 days lost in 1993-94.

INTRODUCTION

The reform of the electricity industry in Australia has been a major agenda item for federal and state governments since the early 1990s. When the reform program was commenced, the then National Grid Management Council (formed in July 1991) was charged with delivering the estimated \$3.4B annual savings estimated in the Hilmer Report. These savings were anticipated to be derived from the elimination of the formal state-owned monopolies and the introduction of true national competition to achieve world best practice standards both in price and service.

The paper explores the overall benefits delivered in Victoria from this starting point in 1992 up to the present, followed by a more detailed study of the processes used to set the reform process in motion at the local business level.

In Victoria, the process was able to build on the momentum established by the former State Electricity Commission of Victoria (SECV) which had already commenced a program entitled “Structural Efficiency” in 1990 to reduce personnel numbers from 21,900 to 14,800 in 1992 utilising a multi-skilling approach and a program of voluntary departures. The response to the national reform initiative began with the separation of the SECV into three strategic business units responsible for generation, transmission and distribution.

Back in 1989, the distribution business unit had already commenced an internal reform process, having reduced its number of field units from 81 to 54 and introduced a program of voluntary departures to facilitate the concomitant reduction in personnel numbers. With the reform process accelerating, the 54 field units were in turn reduced to 18 customer service businesses in 1992, each intended to be a semi-autonomous unit responsible for all customer serving functions and network construction and maintenance. The paper examines in more detail the steps then taken in the largest of these businesses, South Eastern Power, which began with 240 employees to serve some 186,000 customers.

The Major Industry Structural Changes

The overall reform program transformed the former SECV in a series of stages:

- In 1992, the organisation was broken into three strategic business units, generation, transmission and distribution, each independently responsible for its business performance, based on a transfer pricing methodology.
- The generation and distribution strategic business units were then further disaggregated into smaller business units which again were expected to take responsibility for their own business performance. The generation sector broke into natural small units based mainly on individual power stations, while the distribution arm was divided geographically into 18 customer service businesses.
- In 1994, the 18 customer service businesses were, together with 11 previously independent municipal-owned local distribution units, amalgamated to form 5 stapled retail and distribution businesses, each of which was established as a company limited by shares. The generation businesses were likewise formed into individual companies, as was the transmission company, all as a prelude to privatisation.

- Also in 1994, a wholesale electricity market (VicPool) was established in Victoria, whereby all energy generated was required to be sold through a spot market to licensed participants.
- The individual companies so formed were then sold over an approximate two-year period to private owners.
- In December 1998, a national wholesale market was established, which subsumed VicPool and introduced stronger competition in the generation and end-use retail markets. This national structure is scheduled to be further reformed and streamlined in 2007/08 to centralise the regulation of the distribution sector at a national level.

The Stimulus for Performance Improvement

The major stimulus for improving performance at all stages of the reform process was the introduction of competition. This was first evident in the 1992 formation of the 18 customer service businesses, which all operated under a common performance measurement regime, introducing competition by comparison. Further stimulus was provided by the knowledge that privatisation was to be introduced by the incoming Kennett government, which in turn encouraged each business to prepare itself for the future commercially competitive environment.

A similar, but more obvious, stimulus was provided in the generation sector by the operation of a competitive spot market (VicPool, later followed by the current National Electricity Market), where each generator was forced to bid competitively into a pool so as to be scheduled to operate and earn revenue. The operation of this market has been extremely volatile, with selling prices usually averaging around \$30 per MWh, but sinking as low as \$22 for extended periods (months) and varying wildly in the short term with a current maximum of \$10,000 per MWh. Performance in this sector has also shown dramatic improvement, with average power station availability rising from a typical range of 60% to 70% in SECV days to in excess of 90% today, mainly due to cultural factors in operation and management of the stations.

Some Measurable Results

Although it is extremely difficult to measure the actual number of personnel occupied today in the Victorian electricity supply industry because of the extensive acquisition, merger and outsourcing which has taken place, a generally agreed figure seems to be around 7500 employees when summed across all contractors, businesses and regulatory agencies. This contrasts with a figure of 14,800 in 1992 for the SECV and that in turn must be recognised as a substantial improvement on the 1991 figure of 21,500.

Electricity prices to customers have also reduced dramatically, with large business customers frequently enjoying price reductions of the order of 50% from 1992 to today. This is a result of their substantial market power and the keen competition that has developed between retailers. In Victoria alone, there are around 25 retail licences currently on issue, with new licences being issued on a regular basis.

Residential customers have also shared in this price reduction, with the typical retail price for one KWh of electricity having changed from 12.61 cents in 1992 to 12.94 cents in 2004. Over that

period, the national CPI has changed from 107.6 to 144.1, which means that the real price of electricity has reduced by 23.4%.

Performance has also soared, with the most common measure of average minutes off supply per customer per year falling from 430 in 1992 to 132 in 2004.

The Cultural Change Program at South Eastern Power

The major driving forces for the cultural change program were:

- The combining of two different local customer businesses with different cultures, managers and two sites.
- The existence of the old electricity industry attitude that there was no need to change or to improve productivity as workers had a job for life.
- There was no need to change, as the business was a natural monopoly.
- The entrenched industrial relations problems on one site which had developed into a poor workforce/management relationship and allowed the unions to hold a large amount of power within the business.
- The "us versus them" syndrome between unions and management was well entrenched.
- The rate of performance improvement had been slow and gradual, but a major change was urgently required.
- The old methods of management were still in place; employees' outdated attitudes were reflected in the high incidence of industrial disputes, poor health and safety record, and high sick leave.
- The key customer service performance levels were unsatisfactory, with slow electricity connection times and lengthy delays in fixing faults. Service levels were generally provided at the business's determination, not the customer's.
- There was no input to performance levels from customers. The organisation was largely product driven and internally focused in its performance standards.
- The business had a number of good traits upon which to build, one of which was the high level of technical skills and knowledge within the organisation. The business needed to make the best use of its technical skills while improving its customer service and customer image.

Strategy

The strategy behind the cultural change program in South Eastern Power was based around the following:

- To weld South Eastern Power into a coherent team with common focus, lots of trust and a clear understanding of individual roles.
- To build South Eastern Power Customer Service Business into a lean, efficient and powerful competitor.
- To develop a customer service and performance culture by focusing on putting in place basic business performance systems.

Team Building Workshops

The first stage of the cultural change program involved a number of team development workshops. Each natural work team spent three days in a planning session focusing on developing basic team performance systems.

The philosophy behind the workshops was that a successful team or business must have in place the basic systems to allow it to achieve an improved performance. These basic systems are:

- Having a goal or mission which involved developing a team mission linked to the overall South Eastern Power vision.
- Having a performance measurement system with an agreed set of performance measures and targets for each team in the business.
- Feedback systems with each team providing feedback to their employees on a regular basis.

The workshops were conducted as an action-planning forum where the groundwork was laid to provide the performance improvement for the team and South Eastern Power.

The philosophy throughout the workshops was that the team members should take responsibility where they had control, and all employees had the opportunity to have an input. The team members were considered to be experts in their own jobs. Therefore they were the ones who were in the best position to bring about a change. The workshops gave all employees in each team the opportunity to consider the changes necessary and to commit to bringing those changes about.

Anchoring the Workshops

The second stage of the project involved actions to anchor the workshops. This involved putting in place the feedback systems to provide each team regular performance feedback; a performance management system to ensure the vision, performance measures, and targets were regularly communicated to employees; and the strategic Human Resource systems to ensure that all of the needs of the teams were provided for (e.g. availability of training resources).

Following the workshops the internal facilitator worked in collaboration with the external consultant to ensure that the workshops were not merely an event, but were ongoing. The teams set minimum improvement standards in the workshops and the internal facilitator had to ensure that each team was provided with feedback to monitor their performance improvement.

Each natural work team arranged its own meeting (at least one per month), agenda, chairperson, and feedback report. In terms of the overall project, the anchoring of the workshops involved about 70% of the effort and that was where we achieved 70% of our improvements.

The Results After 18 Months

The key pointers used to assess the success of the workshops were as follows:

- financial performance measures
- technical performance measures
- human resource/culture change measures

- communication measures
- team environment/culture measures

Financial Performance Measures

The business had set a difficult profit target; the continuing economic downturn resulting in reduced revenue made the target even more difficult to attain. South Eastern Power was able to exceed its profit target by 11%. In financial terms the improvement amounted to several million dollars.

Some specific financial improvements were as follows:

Financial Improvements

Improvement in workforce availability	\$368,000
Improvement in pole replacement times	\$272,000
Reduced collection times for accounts	\$200,000
Reduced grid fees	\$2,700,000

Technical Performance Improvements

In the 18 months since the workshops there have been improvements in all of the key business performance measures. Some of the major technical performance measures and their levels of improvement are as follows:

Performance Measures	Improvement on target for 1992/93	Improvement 1991/92
Telephone service	4%	6%
Connection of domestic customers	138%	200%
Time to repair public lights	5%	19%
Time customers off supply	241%	260%
Accounts rendered on schedule	4%	10%
Time to connect business customers	202%	200%

Human Resource/Cultural Change Measures

There are a number of key human resource indicators which reflect the relative health of the organisation and the current culture. These indicators are sick leave, time lost due to work related accidents and time lost due to industrial disputes. The following figures show the changes in these indicators over 1992/93:

	1991/92	1992/93	% Reduction
Sick leave	2.7%	1.9%	30%
Time lost due to accidents	322 days	33 days	757%
Time lost due to industrial disputes	250 days	15 days	1600%

It is clear from these results that patterns of employee behaviour that had been common prior to the culture change program have been reversed. The increase in workforce availability that resulted from these improvements in performance - reduction in sick leave, etc. - has been a major factor in the overall improvement in business performance, as more people have been available to complete the work.

Communication Measures

A communications survey was conducted at each team's workshop. The survey was designed to determine if the actions taken to improve managers'/ supervisors' communication with employees had been successful. The communication survey results show that there was an improvement across South Eastern Power (all employees were surveyed) in all of their five areas of the survey and in particular:

- there was a 23% improvement in the feedback to employees on performance,
- a 22% improvement in the perception of employees that their managers were listening to them, and
- a 9% improvement in overall communication across the business.

In addition, in an employee survey across all 18 customer service businesses, South Eastern Power received the highest score on communication of all the businesses. In an earlier survey taken before the workshops, South Eastern Power had ranked in the bottom half of the 18 customer service businesses.

Team Environment/Culture Measures

This survey measured what employees felt about the various components of their work environment such as:

- unified sense of direction,
- outputs/measures,
- objectives,
- feedback,
- training,
- organisation structure,
- obstacles to achieving objectives.

There was a 10 to 15% improvement across all of these components of the team environment measure since the workshop. All teams had achieved the minimum standard, established at the original workshop, of 60% for all measures.

Why This Project Succeeded

There are a number of key features of this project that were important in assuring it succeeded in achieving substantial performance improvements. These key factors are as follows:

Support of Manager, South Eastern Power

- It was critical to the success of the project to have the CEO actively supporting the program. Some examples of the supportive role played by the manager include:
- Opening each workshop, providing a clear overview to employees of the direction of the business, and emphasising how important the workshop was in terms of the business direction.
- Attending the plenary session at the end of each workshop, commenting on what the group had developed, and demonstrating support.
- The CEO also demonstrated ongoing support for the program by attending a monthly meeting of each team to discuss their performance and any issues they had in achieving their targets.

Support of Management Team

The entire management team attended the plenary sessions at each workshop to offer their support to the team and to answer any operational questions they may have.

Utilisation of External consultant for Project and Link to Internal Project consultant

The workforce often listens more carefully to an outside consultant than they do to someone from within the business. In this project it was beneficial to have someone who was not seen to be biased or management-oriented facilitating the workshops.

The consultant utilised was *Sacher Associates (Australia) Pty Ltd*. This company has successfully introduced this type of cultural change program into many private and public sector organisations in Australia and overseas. Their expertise in this project was invaluable.

In addition to the external consultant, an internal consultant was put in place to ensure that the fieldwork leading up to and following the workshop was completed. Ensuring that the program was implemented in the field was as important as conducting the workshops.

Over the last 18 months, the internal consultant has had to keep the project alive by ensuring that actions arising from the workshop were completed, conducting evaluations, and maintaining a close contact with the external consultant to discuss the progress and options for improving internal performance.

Clear Evaluation of Project on Ongoing Basis

It is important for the workforce to see that the project is not finished once the workshops and "hype" have dissipated. To ensure that this occurred, it was agreed immediately after the workshops that a formal review of the project would be conducted within 12 months. The evaluation criteria were agreed to by the management team and communicated to employees.

The review findings were reported to all employees through team meetings. This was done to demonstrate that management was committed to the continuation of the basic changes emanating from the workshops, as well as to provide employees with continuing feedback on their performance.

Follow Through On Agreed Actions

A list of action items to be followed up on by members of the team was presented at each team workshop. To ensure that the team saw that this was not just another training session, the internal facilitator assisted in ensuring that the actions were completed and that the team received feedback that they had been done.

The completion of the action items allowed the team to feel they had some early wins, had management support and could achieve what ever they wanted through this cultural change program.

What Could Have Been Improved?

Evaluation of this project revealed a number of items that could have been done better.

Management of Industrial Dispute

About the time the workshops were completed an industrial issue arose that impacted on the field workers in South Eastern Power. Management decided to take a firm stance on this matter to show that the commitment to changing the employee culture and improving customer service were real. Unfortunately, this led to some ill feelings between the field workers and management which obviously had a negative impact on the strong team relationships that had been built.

While there were considerable improvements over the last 18 months, there still exists some mistrust of management amongst the field workers relating back to this issue.

Problem Solving Skills for Employees

Although employees in the teams were empowered to fix their own problems, they lacked the skills necessary to tackle more complex issues. Therefore, many of the more complex issues were left to be resolved in the traditional way by management or supervisors.

Changing of Management Styles

As part of empowering the employees to take responsibility for their own jobs, managers and supervisors need to drop the reins and become facilitators rather than directors. More could have been done to ensure that all supervisors and managers not only understood the changed roles, but also knew how they should change their behaviour to fit into the new role.

Managing Difficulties of Two Site Locations

Bringing about a cultural change within a business located in two different sites presents a number of logistical and communication problems. To bring together a team that has half of its workforce at two sites is difficult. A number of teams had limited interaction over the first six months of this program, until the workforce was moved onto one site.

Working with teams separated by geography makes it difficult to hold team meetings, put feedback systems into place, contact employees for follow-up, etc. Most of the major problems were overcome by careful planning. For example, employees who worked on one site were temporarily moved to the other site to work with the other members of their team on a rotational basis.

At the end of the day the results were achieved and the logistical and other problems overcome.

Size of Workforce Teams

It was decided early in the project to conduct the workshops for each functional group in South Eastern Power. In some cases this resulted in workshops of up to 40 employees who belonged to the one functional team.

It would have been far more effective to have conducted the workshops by breaking up some of the larger functional teams into smaller, natural workforce teams. The smaller groups would have provided more opportunity for active employee participation, made it easier to arrive at a team consensus on each issue, and ensured that all items discussed were relevant to the whole group (and not just to some of the group).

Conclusion

The following key points summarise how the Cultural Change Program proceeded in South Eastern Power:

- The program focussed on implementing the basics in terms of performance improvement systems, i.e. clear vision, performance accountabilities and targets, feedback systems, and other basic systems essential to business performance.
- The program produced performance improvements across a wide range of areas, and provided a major cost benefit to the business.
- The employees in the business recognised that the changes were necessary, and moved towards making these changes.
- The natural work teams developed a strong sense of team identity and pride in their performance. Overall, there was a strong allegiance to the business of South Eastern Power.
- There were changes in the employees' culture, reflected by the performance improvements and improvement in areas such as communication, sick leave, industrial relations and health and safety.

■

