

SHAPING A NEW ERA IN ENERGY

THE ENERGY AND UTILITIES PROJECT



VOLUME 9

www.UtilitiesProject.com

Including...

Lighting the Way
The Smart Grid in Malta
PHEVs are on a roll

Thought Leadership From



Sponsored by



Business Process Improvement

How the Baldrige Criteria for Performance Excellence can help today's utility industry meet tomorrow's challenges.

www.UtilitiesProject.com

The consumer's concept of quality will no longer be measured by only the physical attributes of the product—it will extend to the process of how the product is made, including product safety, environmental compliance and social responsibility compliance.

-Victor Fang, chairman of Li and Fang, in the 2008 IBM CEO Study

In the past, the utility industry could consider itself exempt from market drivers like those listed above. However, today's utilities are immersed in a sea of change. Customers demand reliable power in unlimited supply, generated in environmentally friendly ways without increased cost. All the while regulators are telling consumers to change the way they are using energy or be ready to pay more, and the Department of Energy is calling for utilities to make significant reductions in usage by 2020 [1].

If these issues are not enough, couple them with a loss of knowledge and skill due to an aging workforce, an ever-increasing amount of automation and technology being introduced into our infrastructure with few standards, tightening bond markets and economic declines requiring us to do more with less. Now more than ever the industry needs to redefine our core competencies, identify

key customers and their requirements, and define processes that meet or exceed their expectations. Business process improvement is essential to ensure future success for utilities.

There is no need to reinvent the wheel and develop a model for utilities to address business process improvement. One already exists that offers the most holistic approach to process improvement today. It is not new, but like any successful management method, it has been modified and refined to meet continuously changing business needs.

It is agnostic in the way it addresses methods used for analysis and process improvement such as Lean, Six Sigma and other tools; but serves as a framework for achieving results in any industry. It is the Baldrige Criteria for Performance Excellence (see Figure 1).

The Criteria for Performance Excellence is designed to assist organizations to focus on strategy-driven performance while addressing key decisions driving both short-term and long-term organizational sustainability in a dynamic environment. Is it possible that this framework was designed for times such as these in the utility industry?

The criteria are essentially simple in design. They are broken into seven categories as shown in figure 2; leader-

ship, strategic planning, customer focus, measurement, analysis and knowledge management, workforce focus, process management and results.

In this model, measurement, analysis and knowledge management establish the foundation. There are two triads. On the left hand side, leadership, strategic planning and customer focus make up the leadership triad. On the right hand side of the model, workforce focus, process management and results make up the results triad. The alignment and integration of these essential elements of business create a framework for continuous improvement. This model should appear familiar in concept to industry leaders; there is not a single utility in the industry that does not identify with these categories in some form.

The criteria are built to elicit a response through the use of how and what questions that ask about key processes and their deployment throughout the organization. On face value, these questions appear to be simple. However, as you respond to them, you will realize their linkage and begin to identify opportunities for improvement that are essential to future success. Leaders wishing to begin this effort should not be surprised by the depth of the questions and the relatively few members within your organization who will be able to provide complete answers.

In assessment of the model's ability to meet utility industry needs, let's discuss each category in greater detail, provide relevance to the utility industry and include key questions for you to consider as you begin to assess your own organization's performance.

WRITTEN BY

Sam Turner Jackson Energy Authority

Sam Turner is the senior manager of marketing and communications for Jackson Energy Authority and serves as an examiner for the Malcolm Baldrige National Quality Award, Washington State Quality Alliance and Tennessee Center for Performance Excellence.

Leadership: Who could argue that the current demand for leadership in utilities is more critical today than ever before in our history? Changes in energy markets are bringing with them increased levels of accountability, a greater focus on regulatory, legal and ethical requirements, a need for long-term viability and sustainability, and increased expectations of community support. Today's leaders are expected to achieve ever increasing levels of operational performance while operating on less margin than ever before.

The leadership category examines how senior leaders' personal actions guide and sustain the organization. Also examined are the organization's governance system and how it fulfills legal, ethical and societal responsibilities as

well as how it selects and supports key communities [2].

Strategic Planning: Does your utility have a strategic plan? Not a dust-laden document sitting on a bookshelf or a financial budget; but a plan that identifies strategic objectives and action plans to address short and long-term goals. Our current business environment demands that we identify our core competencies (and more importantly what are not our core competencies), identify strategic challenges to organizational success, recognize strategic advantages and develop plans that ensure our efforts are focused on objectives that will ensure achievement of our mission and vision.

What elements of our business should we outsource? Do our objectives utilize

our competitive advantages and core competencies to diminish organizational challenges? We all know the challenges that are both here today and await us just beyond the horizon. Many of them are common to all utilities; an aging workforce, decreased access to capital, technological change and regulatory change. How are we addressing them today and is our approach systematic and proactive or are we simply reacting to the challenges as they arise?

The strategic planning category examines how your organization develops strategic objectives and action plans. Also examined are how your chosen strategic objectives and action plans are deployed and changed if circumstances require, and how progress is measured [2].

Customer Focus: The success of the utility industry has been due in part to a long-term positive relationship with its customers. Most utilities have made a conscientious effort to identify and address the needs of the customer; however a new breed of customer is emerging with greater expectations, a higher degree of sensitivity to environmental issues, a diminished sense of loyalty to business organizations and overall suspicion of ethical and legal compliance.

Their preferred means of communication are quite different than the generations of loyal customers you have enjoyed in the past. They judge your performance against similar customer experiences received from organizations far beyond the traditional competitor.

You now compete against Wal-Mart's supply chain process, Amazon.com's payment processes and their favorite hotel chain's loyalty rewards process. You are being weighed in the balances and in many cases found to be lacking. Worse yet, you may not have even recognized them as an emerging customer segment.

The Customer Focus category examines how your organization engages its customers for long-term marketplace success and builds a customer-focused culture. Also examined is how your organization listens to the voice of its customers and uses this information to improve and identify opportunities for innovation [2].

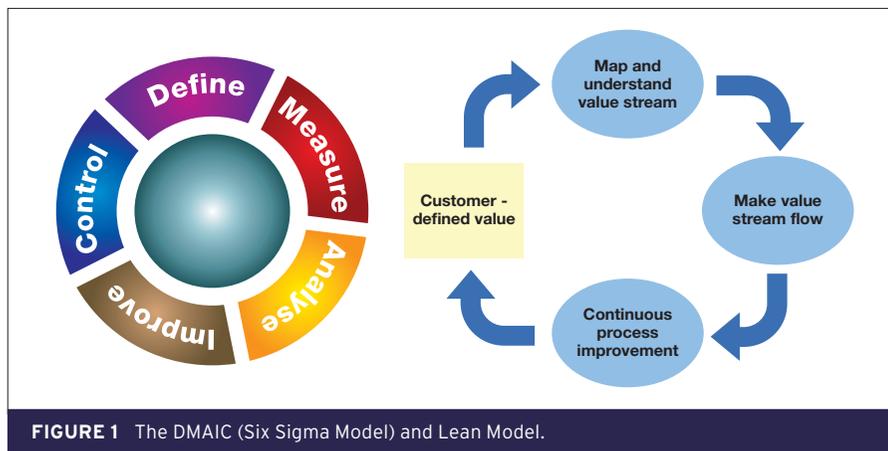


FIGURE 1 The DMAIC (Six Sigma Model) and Lean Model.

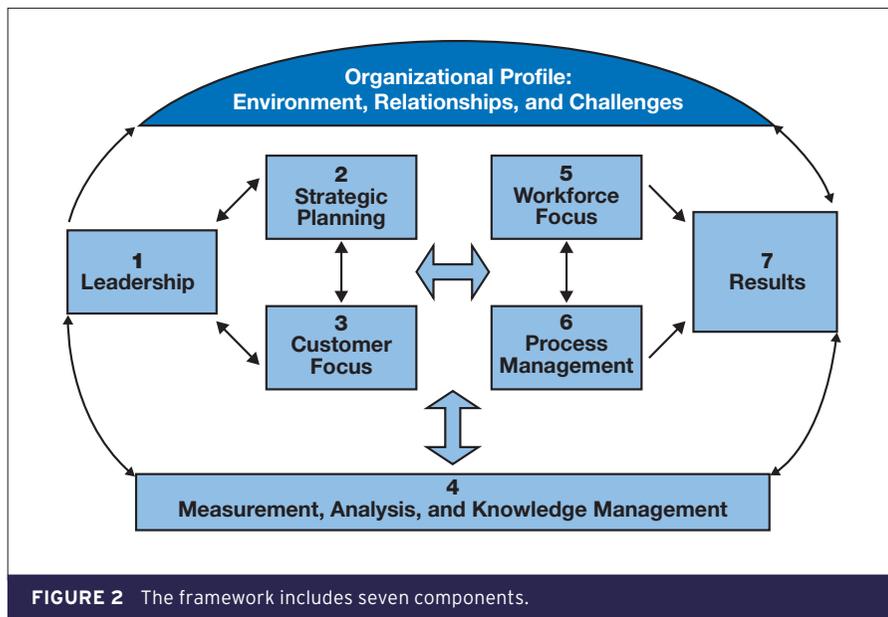


FIGURE 2 The framework includes seven components.

Measurement, Analysis, and Knowledge Management: The data created and maintained by GIS, CIS, AMI, SCADA and other systems create a wealth of information that can be analyzed to obtain knowledge sufficient to make rapid business decisions. However, many of these systems are incapable of or at the very least difficult to integrate with one another, leaving leaders with a lot of data but no meaningful measures of key performance. Even worse, a lack of standards related to system performance leaves many utilities that develop performance measures with a limited number of inconsistently measured comparatives from their peers.

If utilities are going to overcome the challenges of the future, it is essential that they integrate all data systems for improved accessibility and develop standards that would facilitate meaningful comparative measures. This is not to say that comparative measures do not exist, they do. However, increasing the number of utilities participating would increase our understanding of best practices and enable us to determine best-in-class performance.

The measurement, analysis and knowledge management category examines how the organization selects, gathers, analyzes, manages and improves its data, information and knowledge assets and how it manages its information technology. The category also examines how your organization reviews and uses reviews to improve its performance [2].

Workforce Focus: We have already addressed the aging workforce and its impact on the future of utilities. Companion challenges related to the utility workforce include the heavy benefits burdens that many utilities currently bear. Also, the industry faces a diminished interest in labor positions and the need to establish new training methods to engage a variety of generations within our workforce and ensure knowledge acquisition and retention.

The new workforce brings with it new requirements for satisfaction and engagement. The new employee has proven to be less loyal to the organization and studies show they will have many more employers before they retire than that of their pre-

decessors. It is essential that we develop ways to identify these requirements and take action to retain these individuals or we risk increased training cost and operational issues as they seek new employment opportunities.

The workforce focus category examines how your organization engages, manages and develops the workforce to utilize its full potential in alignment with organizational mission, strategy and action plans. The category examines the ability to assess workforce capability and capacity needs and to build a workforce environment conducive to high performance [2].

Process Management: It is not unusual for utilities to implement new software with dramatically increased capabilities and ask the integrator to make it align with their current processes or continue to use their current processes without regard for the system's new capabilities. Identifying and mapping key work processes can enable incredible opportunities for streamlining your organization and facilitate increased utilization of technology.

What are your utilities' key work processes and how do you determine them and their relationship to creating customer value? These are difficult for leaders to articulate; but yet, without a clear understanding of key work processes and their alignment to core competencies and strategic advantages as well as challenges, it may be that your organization is misapplying efforts related to core competencies and either outsourcing something best maintained internally or performing effort that is better delivered by outsource providers.

The process management category examines how your organization designs its work systems and how it designs, manages and improves its key processes for implementing these work systems to deliver customer value and achieve organizational success and sustainability. Also examined is your readiness for emergencies [2].

Results: Results are the fruit of your efforts, the gift that the Baldrige Criteria enables you to receive from your applied efforts. All of us want positive results. Many utilities cite positive performance in

measures that are easy to acquire: financial performance, safety performance, customer satisfaction. But which of these measures are key to our success and sustainability as an organization? As you answer the questions and align measures that are integral to obtaining your organization's mission and vision, it will become abundantly clear which measures you'll need to maintain and develop competitive comparisons and benchmarks.

The results category examines the organization's performance and improvement in all key areas—product outcomes, customer-focused outcomes, financial and market outcomes, workforce-focused outcomes, process-effectiveness outcomes and leadership outcomes. Performance levels are examined relative to those of competitors and other organizations with similar product offerings [2].

A CHALLENGE

The adoption of the Baldrige criteria is often described as a journey. Few utilities have embraced this model. However, it appears to offer a comprehensive solution to the challenges we face today. Utilities have a rich history and play a positive role in our nation. A period of rapid change is upon us. We need to shift from reacting to leading as we solve the problems that face our industry. By applying this model for effective process improvement, we can once again create a world where utilities lead the future. ■

REFERENCES

1. Quote from U.S. Treasury Secretary Tim Geithner as communicated in SmartGrid Newsletter
2. Malcolm Baldrige National Quality Award, Path to Excellence and Some path Building Tools. www.nist.gov/baldrige.

WEBLINK

More information and additional material can be found online at: www.utilitiesproject.com