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Change is happening: Is your workforce ready?

Many power and utilities companies are not, according to a recent PwC survey

At a glance

Our utilities-industry survey shows that many companies are unsure how to best handle the ongoing dramatic evolution within their organizations.

Successful utility companies are focusing on leadership, performance measurement and technology, organizational structure and HR's role in overall business strategy.

Going forward, achieving sustainable competitive advantage will depend on driving the highest productivity from people at every level.

Introduction

Human capital issues remain at the forefront for power and utility companies. After an extended period of stability, fluctuations in the market have companies reassessing their strategic priorities and increasing their focus on risk. Utility companies are responding to the need for renewable and environmentally friendly generation capacity, safety concerns, and an aging infrastructure. In addition is an aging workforce, the effects of which have been predicted for many years. However, the emergence of those effects has temporarily taken a backseat to other issues as an unpredictable economy has forced many aging baby boomers to postpone their retirement.

Meeting the challenges of a rapidly evolving workforce

While power and utility companies have taken action to address the impacts and risks associated with an aging workforce, utility employees and contractors continue to retire in significant numbers. Many companies are aware that the aging workforce is a significant risk to their operations, but they struggle with how to best address industry changes within their organizations, according to respondents to a utilities-industry survey conducted by PwC Saratoga in May 2011.

PwC's survey looked into four areas in which successful, innovative and forward-thinking power and utility companies are effectively addressing change: developing and retaining leaders, effectively leveraging performance measurement and technology, realigning the organizational structure, and ensuring that the Human Resources (HR) team plays a significant role in overall business strategy. To better understand how utilities are currently addressing these areas, PwC surveyed representatives of power and utility companies whose revenue ranges from \$100 million to \$10 billion annually, with nearly 40% from the Fortune 250. Combined, those surveyed employ nearly a quarter of a million people.

Developing powerful leaders

As power and utility companies grapple with new operational models and technological advances, executives, aware of the accelerated rate of change and how it affects their industry, are seeking leaders who can successfully navigate and lead the way through these changes. To thrive in this evolving landscape, new leaders must possess the skills to build and develop teams that will react to change, as well as proactively address change.

In particular, leaders must have the skills to:

- Offer visionary leadership while maintaining efficient and effective operations and ensuring reliability and safety.
- Manage a workforce soon to be challenged with large-scale turnover. A majority of utility workers are nearing retirement, leaving leaders potentially vulnerable in their key positions.
- Manage a workforce, trimmed through retirements and reductions, that is increasingly being asked to accomplish more with resources that are spread thin, as utilities streamline costs but continue to launch new initiatives.
- Manage the interaction between workers in a multigenerational labor force. Older employees with extensive industry experience are mixing with younger employees who are new to the field and have expectations, work habits, and motivations contrasting with those of their more experienced colleagues.
- Effectively use emerging social media applications and traditional communications methods to interact with the public and regulatory agencies and garner support for rate increases, new technology, new capabilities, and safety issues that arise.
- Successfully compete with other industries to attract high-caliber employees, and keep the most valuable workers on staff for longer periods.
- Build transparency into management and operations, so that advancement and other decisions are based on employees' achievements rather than political alliances or personal relationships.
- Develop the next generation of leaders through formal mechanisms (career development programs) as well as informal methods (coaching sessions).

According to the survey, more than 60% of respondents rated the task of developing new leaders as difficult. Internal politics and lack of management support remain the greatest obstacles in developing effective new leaders, according to more than 50% of the survey respondents. The most critical success factor for C-level executives is the ability to drive shareholder value, according to 60% of respondents. Yet less than 10% consider being “successful in leading and implementing change” or requiring “extensive industry knowledge” as critical success factors, acknowledging the lack of recognition that change is big, unstoppable, and something that many power and utility companies have a difficulty addressing.

While developing the right type of leaders remains a high priority, only 8% of respondents reported having effective leadership or management development programs. Some companies, though, are making strides in this area. A large electric and gas utility that established an

MBA leadership program focused on recruiting talent from top business schools across the United States. The program, launched in 2001, was designed to attract professionals with high-level business and analytical acumen and connect them with internal mentoring and coaching programs to accelerate the participants’ leadership development. The program has evolved as the needs of the company have changed, but its alumni include supervisors and managers as well as executive talent in the director and VP ranks. More recently, this same organization reviewed its pivotal positions to determine whether to groom existing employees for the available roles or to hire talent from outside the company.

When it comes to recruiting leaders, more than 45% of respondents identified industry misperception and higher than expected compensation and benefits as the biggest challenge in acquiring the right candidate. Although over the past two years the majority of new C-level executives—CEOs, CFOs, COOs, and CIOs—have

been hired from within the power and utility industry, the survey did show a rise in hiring from other industries such as government, transportation, and pharmaceutical, among others, as seasoned utility leaders retired.

Utilities must address leadership issues including identifying pivotal positions — roles for which a small variation in performance can significantly influence business performance and outcomes. A small investment in the support for or development of individuals in these roles can provide a large return.

Once an organization has identified pivotal positions, it should focus on understanding and developing the behaviors, skills, and competencies that ensure the greatest effectiveness of the people in these roles. Consequently, leaders of the organization will be able to clearly outline their expectations for employees in these positions and provide a framework for creating focused development programs to support these critical roles.

Enhancing performance measurement through technology

Power and utility companies continue to focus on productivity, efficiency, and effectiveness, and increasingly are emphasizing strategies for driving performance through measurement and technology. However, methods for measuring productivity and employee performance are becoming more challenging given the changes in demographics of the workforce, new metrics, and new technologies.

Increasingly, power and utility companies are implementing more proactive performance management processes. While these companies traditionally have invested in complex and highly integrated Enterprise Resource Planning (ERP) applications such as Oracle/PeopleSoft, and SAP, fewer than half are using a workforce planning system,

according to the survey. In addition, companies don't often integrate their performance management system with their learning management and compensation systems or with the company's larger technology architecture. This approach has limited companies in providing metrics that can support decision-making and workforce planning.

Meanwhile, HR applications are improving dramatically. To obtain better metrics and additional capabilities from these systems, there are several options: extend the functionality of existing applications; replace applications; add applications; or enhance the integration between existing applications. Cloud-based and software-as-a-service applications and capabilities are options to consider as

well, as they are being pursued by many companies outside of the power and utility industry. HR organizations in utilities may also want to pursue this approach to balance their own pressures to improve and expand their support of internal clients while managing increasingly constrained resources.

To better understand the gap between the capabilities of the current systems and desired capabilities, power and utility companies need to develop an enterprisewide information technology strategy that defines the technology required to measure work output and other key performance indicators for measuring human performance.

Realigning the organization's structure for success

It has been said before: The power and utilities industry is going through a lot of change. With the installation of smart meters, customer interactions are in flux, while aging infrastructures are being re-evaluated to address safety and reliability concerns. However, nearly 40% of the leaders surveyed said they were least prepared to address aging infrastructure (including safety), technology (including smart grid), and software. In addition, in the wake of a notable increase in mergers and acquisitions, more than 50% of respondents said they were least prepared to tackle these types of projects.

Customer service organizations, which once focused on billing and problem escalation, are now seeking to understand real-time pricing, change how they interact with customers,

and tackle other objectives. What is the new service delivery model? Is the company structured and the workforce aligned to best support delivery of future-state services? While these concerns are driving the adoption of new operating models, many organizations are re-evaluating how to best restructure in order to maximize efficient operations, cater to customers, and support robust return on investment.

As one large utility discovered upon replacing its financial suite and supply chain system, it is not a matter of just training employees to use new tools. To maximize the benefits available through the new technology, the company significantly redesigned its operations, considered organizational design implications, and determined expectations for employees' analytical

capabilities. To adapt to the new environment of technological innovations, new capabilities, and increasing regulatory scrutiny, other companies are reviewing their entire organizational structure.

Organizational structures most often evolve organically to address internal and external changes. However, due to the degree and frequency of these changes, power and utility companies should consciously redesign their organizational structures with specific goals tied to their top strategic priorities. A holistic approach to reviewing the company's strategy, structure, process, people, and technology can result in the creation of an overall service delivery model and organizational design that better serves customers, regulators, and investors.

Every HR organization should review its approach to driving customer value.

Ensuring that Human Resources (HR) plays a pivotal role in overall business strategy

With workforces often reeling from unpredictable upheavals in the economy, HR can play a pivotal role in engaging employees and developing new leaders. Although new systems are being implemented, and an ever-increasing supply of information is available for decision-making, HR often continues to primarily use that information for compliance and transactional activities, such as administering benefits, recruiting, payroll, and ensuring legal compliance. Power and utility leaders, now outsourcing much of the transactional work, are seeking an integrated approach to leveraging HR's management and advisory capabilities in such areas as improving recruiting, becoming integrally involved in workforce planning, supporting more robust succession planning, and reducing the risk of knowledge

loss. The goal is to reposition HR as a strategic leader and advisor in the company. But to gain a position at the strategy table, HR directors must demonstrate how their input has benefited the business.

HR can be instrumental in:

- **Leading cultural shifts**

While organizational culture at power and utility companies traditionally has been built on a top-down model, some companies are shifting to working end to end, leveraging cross-functional operations. With an unprecedented volume of mergers and acquisitions in the past year, HR can lead the way in orchestrating the integration of cultures and workforces and, in some cases, streamlining the workforce.

- **Supporting expansions**

HR professionals can be invaluable to company leadership even as early as during planning for the building of a plant, and during the process of assessing the capabilities required of each role. As a result, HR can better identify the positions at greatest risk, more easily identify top talent, and help forecast areas where the company will encounter difficulties if recruiting is not intensified immediately.

- **Driving leadership**

Regulators, and the public at large, increasingly require power and utility company leaders to be equipped with extensive industry knowledge. HR can take the lead in creating informal and formal mechanisms to develop leaders and in helping business leaders develop more measures for performance improvement, including linking back to compensation.

- **Cutting workforce costs**

HR can be instrumental in workforce reduction efforts and in helping the company mitigate the burdens of established legacy plans, with, for example, advanced benefits packages and built-in agreements for annual raises.

Now is the time for every power and utility HR organization to review its purpose and approach to driving customer value. It must then outline and articulate the value it is bringing to the organization in a way that demands rather than asks for a seat at the strategy table.

A large US electric utility is realigning its HR function to not only become more efficient, but also to be more closely aligned to the business. The company is evaluating new metrics for measuring the HR function and implementing new technology to provide leadership and management with metrics and dashboards. The company's HR group is also implementing a new function for managing change across the enterprise. All of these strategies underscore the extent to which power and utilities companies are transforming their approach to managing their human capital assets.

Industry changes affecting the aging workforce can be minimized through strategies, processes and technology.

Driving the greatest productivity through a period of dramatic evolution

As the power and utility industry continues to evolve, its workforce is undergoing significant change. During a time of constant evolution, achieving sustainable competitive advantage depends on driving the highest productivity from people at every level. Solid strategies, processes,

and technology alone do not guarantee results, but they can help minimize risk. Realizing tangible results requires the buy-in of leaders who accept, adopt, drive, and sustain the change. Success in business hinges on strategic agility and the ability to execute.

***To have a deeper conversation
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