

**PROMOTING A PLANT-LEVEL COMPETITIVE CULTURE  
THE ROLE OF VALUE-DIRECTED MANAGEMENT  
ID#/THE IMPACT OF PLANT CULTURE ON PROFITABILITY  
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Mark Twain’s classic comment about the weather can also be applied to organizational culture—“Everybody talks about it, but nobody does anything about it.” Organizational culture is something we experience and are influenced by every day, but despite this ubiquity, we often fail to understand and effectively apply what influence we may have to shape it to our advantage.

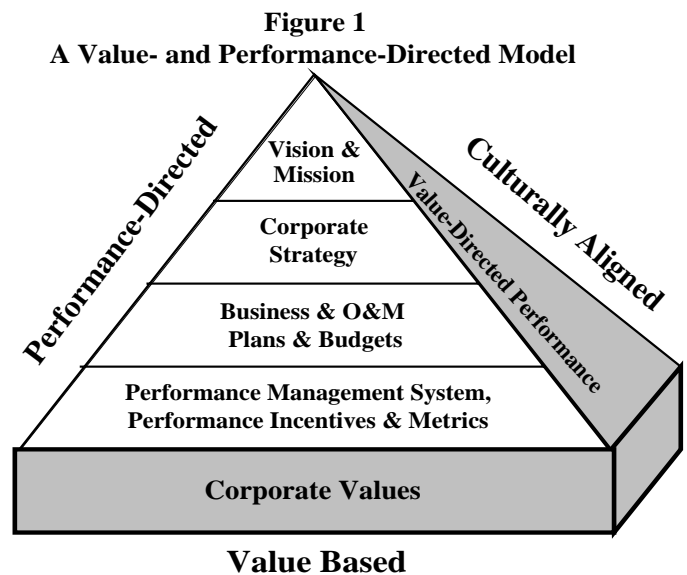
With the advent of a competitive power market, power-generating companies can no longer afford to ignore culture—particularly at the power plant level. A power generating company is only as good as its operating plants and these plants are only as good as the people who operate, maintain and support them. Thus the work ethic, core values and behavioral norms of plant employees have a direct influence on cost. In this regard, it is important to recognize that wages, which typically represent less than 15 percent of “all-in” direct operating cost, are the most obvious but not the most significant consideration.<sup>1</sup> Of greater import is attaining a plant culture grounded in operational excellence that can allow plants to be operated and maintained in a manner that ensures a 45-to-50 year plant life—i.e., asset preservation—and low planned and forced outage rates—i.e., minimal down time for environmental exceedances and safety-related accidents.

This paper discusses how PG&E Generating (PG&E Gen) has, in fact, done something about plant-level culture. The first part outlines the role of Human Resources (HR) in introducing culture as a vital strategic variable that can be addressed in conjunction with traditional management practices. The second part discusses how the company originally established a value-based foundation based on five Guiding Principles and provides examples of how these principles have been applied in recent years to promote a competitively oriented plant culture in response power market deregulation.

**Value Based, Performance-Directed and Culturally Aligned**

The first step in addressing overall corporate culture and plant-level culture as a distinct sub-set is simply recognition and assignment of responsibility. Figure 1 depicts an approach that Human Relations first introduced in 1994—when PG&E Gen was still young and deregulation had not yet begun in earnest.

This was a significant step for two reasons. First, it staked HR’s claim as a strategic partner with other members of the executive team in influencing business direction and development through HR programs including compensation and benefits, training and development, performance management, and organizational effectiveness. Second, it introduced the pivotal notion that the ongoing process of shaping the business to adapt to a changing environment is bimodal—i.e., comprised of both a



“performance-directed” and “value-directed” mode.

**The Value-Based Counterpart to Performance-Directed Management**

The face of the pyramid in Figure 1 depicts the traditional performance-directed management process: defining the corporate vision and mission; translating this into a business strategy and plan; and engaging organizational units via plant and department level plans and budgets and individual and team-based performance objectives and associated performance metrics. The key to promoting a plant-level competitive culture is recognizing that resident in each of these management activities are opportunities to shape values, norms and behaviors—i.e., opportunities for value-directed interventions that promote cultural alignment. Too often companies miss this opportunity by addressing culture in isolation. The performance-based operational, administrative and financial management and reporting that comprise much of the structure of corporate activity should be viewed as crucible within which personal interactions can be used to influence the behavioral norms and values that ultimately define organizational culture.

**Table 1**  
**Performance Based Versus Value-Based Management Modes**

<b>Management Levels</b>	<b>Performance Directed Attributes</b>		<b>Value-Directed Attributes</b>
<b>Individual Employee</b>	Logical	Versus	Intuitive
	Analytical	Versus	Creative
	Maintenance Factors	Versus	Motivating Factors
<b>Power Plant &amp; Functional Departments</b>	Managership	Versus	Leadership
	Work Process	Versus	Work Ethic
	Core Competencies	Versus	Core Values
	Skills/Knowledge	Versus	Behavior
<b>Overall Corporation</b>	Mission	Versus	Vision
	Goals	Versus	Values
	Org. Structure	Versus	Org. Culture
<b>Business Environment &amp; External Stakeholders</b>	Shareholder	Versus	General Public
	Market Positioning	Versus	Community Contribution
	Economic Role	Versus	Social Role
	Economic Impact	Versus	Social Purpose

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For each performance-directed level presented in Figure 1, there is a value-directed counterpart. Table 1 provides a list of the performance-directed and value-directed attributes at four organizational levels—individual employee, business unit, overall corporation, and the external business and social environment. At the individual employee level, the left brain logical and analytical functions are juxtaposed by the right brain intuitive and creative functions. In addition, what motivational theorists have identified as “maintenance factors”—e.g., financial security safety, salary—are similarly paralleled by “motivating factors”—e.g., peer recognition, achievement, responsibility, and advancement.<sup>2</sup>

Moving to the organizational unit level, which includes power plants, we can again distinguish what we have defined as performance from value-directed modes. For example, more traditional management

functions such as planning and budgeting, staffing consistent with required skills and knowledge (technical competencies) setting goals and objectives, overseeing implementation and monitoring results through business processes, are all grouped as performance-directed. These “managership” responsibilities can again be contrasted by value-directed “leadership” responsibilities which involves inter-personal motivation, visioning and personal example (role model behavior that reflects core values.)<sup>3</sup>

At the overall corporate level, the value-directed counterparts to mission, strategy and structure are, respectively, vision, values and culture. Finally, the external business and social environment can similarly be shown to have performance-directed (e.g., shareholders, market, economic, financial) and value-directed (e.g., general public, local, community, social welfare) segments. In recent years there has been an increasing emphasis on a social mission or purpose, including environmental impact, in addition to traditional economic goals such as increasing shareholder value via market positioning. As indicted in the table, the business environment is often discussed in terms of external stakeholders.

### **Establishing A Value-Based Foundation**

As discussed above, the concept of value-based and performance-directed management was introduced to PG&E Gen in 1994—in conjunction with the annual planning and budgeting development process. This timing is significant because it marked the beginning of a shift in the strategic center of gravity from development and construction to plant operations. It was the first full year of commercial operation of the Company’s power plants as well as the year that heretofore-separate development and operations businesses were integrated.<sup>4</sup> 1994 was also the year of the Company’s first acquisition of power plants.<sup>5</sup> The result was a threefold increase in the number of employees, the large majority of which were in operations.

The 1995 HR plan and budget submitted in 1994 emphasized the department’s role in promoting cultural alignment based on the companies five “Guiding Principles”—teamwork, growth, excellence, trust, and stewardship. These guiding principles represent the common set of values that define the Company’s shared commitment to its employees, the communities it serves, and the broader PG&E Corporate family—i.e., the levels identified in Figure 1 and Table 1 above. One of the primary HR goals in 1995 was to integrate plant operations within the overall business with regard to HR programs, processes and practices and the overall business culture grounded in the Company’s Guiding Principles. Maintaining cultural alignment has remained at the center of the HR strategic agenda.

### **The Challenge Posed by Deregulation and Competitive Markets**

The value-based foundation first put into place in 1994 has proved to be an important element in coping with the dramatic changes that have taken place in the power market in recent years. In 1995, PG&E Gen, like other IPPs, depended on a PURPA-mandated process for market penetration and financial growth. This was competitive to the extent IPPs bid head-to-head to win power sales agreement, but once such a bid was won, contractually-based energy and capacity payments largely insured a future stream of revenue as well as the opportunity for generous profit margins.<sup>6</sup>

By 1997, ISO-based competitive dispatch structures were operational in several regional power markets making acceptable revenue, profit margins and dispatch levels dependent on being amongst the low-cost producers selling into such markets. Not only were profit margins lower, but plants now had to be cycled to match market-based price fluctuations increasing maintenance costs and outage rates and shortening plant operating life due to the impact of cumulative creep stress and metal fatigue on plant components.

Moreover, market penetration and growth now depended on building merchant plants and/or acquiring power plants divested by utilities. The resultant boom in merchant plant construction in fully deregulated markets not only further eroded profit margins, but also increased competition for experience plant

workers—raising labor costs and making low turnover rates a must. In addition, growth via asset acquisitions meant step-function jumps in the number of employees—all of which come into the acquiring company with a completely different business history and culture.

### **Promoting a Competitively Oriented Plant Culture—Some Examples**

These changes underscore the need to promote a competitively oriented plant culture—i.e., maintain cultural alignment. PG&E Gen's Guiding Principles have proved to be an effective means for accomplishing this. The following provides examples of applying the three Guiding Principles presented below to promote a culture.

- We will demonstrate **Growth** by increasing the value of our Company and employees through innovation, progressive leadership, and personal and professional development.
- We will demonstrate **Stewardship** by taking personal responsibility for achieving desired Company results with special regard for each other and our customers, communities and the environment.
- We will demonstrate **Trust** by relying on team members and by engaging in respectful, open communications based on fairness, honesty and integrity. All of this reinforces the clear linkage between Company values and personal behavior.

**The Principle of Growth** has been successfully applied to align individual success with business success. Plant workers at all levels understand *and accept* that their personal success is directly linked to the success of: (1) the plant where they work; (2) the portfolio of plants that sell power within this plant's region, and; (3) the financial success of the entire business. This has been validated by employee feedback obtained through annual plant management assessments, which include queries regarding organizational effectiveness. This alignment is further validated by the business savvy demonstrated by employees when discussing how their bonuses depend on profitable and safe plant operations. However, the best validation is how eager plant employees visiting the PG&E Gen headquarters are to go to the power trading floor and watch the market in action.

The process by which this learning and acceptance has come about is revealing. As with all value-based change, there is an initial change in attitude, which begins by recognizing and accepting the need for change. In this instance, employees were initially told about the need to be more competitive by plant general manager discussions of plant-level business plans and performance objectives. In ISO-based markets this was reinforced by giving workers access to daily power bid and ask prices along with information on where operating costs had to be for profitable operations. The link between personal and business success was ultimately demonstrated by the year-end bonus, which was substantial when business objectives were met or exceeded. With each planning cycle, a competitive work ethic was rewarded—reinforcing the learning and value-based acceptance and promoting a competitive work culture.

There are two key points here. First, culture is changed through an experiential learning process that begins by intellectual accepting change, which ultimately leads to a change in the work ethic—i.e., behavior and underlying values.<sup>7</sup> Second, in the final analysis, culture represents the sum total of common values, beliefs and norms shared by employees as a function of a common work experience. (See the text box insert for a definition of organizational culture.<sup>8</sup>)

#### **Organizational Culture Defined<sup>8</sup>**

"Organizational culture is a unique blend of values, beliefs, attitudes, norms, practices, myths, history and self-image that becomes the 'way things are done'. It creates meaning and reference points for organization members and is what most differentiates one organization from another. Culture is particularly important because of its effect on employee actions...."

**The Principle of Stewardship** is demonstrated by the emphasis operating plants place on environmental, safety and health excellence. Such values support a competitive plant culture by contributing to reducing the downtime associated with exceedances and safety and health related accidents. Moreover, it contributes to the pride workers have in working at plants that are responsible members of the local community.

Environmental excellence has been a core value since the company was founded in 1989—long before it was expressed as part of this principle. This value has been reinforced as part of the plant work ethic by a strong environmental program. Employees receive regular training and guidance on environmental policies and procedures and are actively encouraged and rewarded for contributing innovative solutions to improve environmental performance.

The safety and health program is directly based on the Company's five guiding principles. It is structured to continuously improve performance by promoting value-based safety as an implicit part of the culture of each operating plant. Top-down management commitment and accountability is supported and reinforced with bottom-up employee responsibility and first-line supervisor coordination.

**The Principle of Trust** is demonstrated by an ongoing effort by HR working in conjunction with operations to improve the compensation program at the Company's non-union plants. This program is designed to reinforce competitive plant performance by increasing opportunities for cross training and other value-added practices as well as lowering turnover rates. It was specifically designed to meet the needs of plant employees as revealed through a series of worker focus groups. In particular, workers wanted a clearer link between their technical capabilities and their pay. To ensure that this was accomplished non-exempt employees were asked to participate in series of meetings to define the skill and knowledge requirements of non-exempt positions including operations, maintenance, material handling, and plant chemistry.

The trust placed in the work force to define their own job requirements paid off. These workers actually increased requirements for skills and knowledge over what they had been. The willingness of plant employees to 'raise the bar' to a new standard of performance excellence will prove a critical contribution to winning in an increasingly competitive power market where the hallmark of success is operational and environmental excellence.

### **Advancing on Your Belly—Culture is the Pacing Factor**

In conclusion, organizations like armies advance on their belly. For power generating companies, the "belly" is the power plant and "advancing" is measured by the pace at which a competitively oriented culture can be established and improved—i.e., the pace at which the behavior and underlying values the workers directly responsible for operating, maintaining and supporting operating plants can be shaped to support a competitive business posture.

### Endnotes

<sup>1</sup> This statement is made primarily with regard to the wage bill of IPP (independent power producer) plants

<sup>2</sup> Frederick I. Herzberg's motivation-hygiene theory identifies maintenance factors as salary, job security, and good working conditions and motivating factors as the challenge of the job itself, achievement recognition, responsibility, advancement, and growth. See Montana, Patrick J., page 77, "Management", Copyright 1991 by Barron's Educational Series, Inc.

<sup>3</sup> The Gibb Systems Model introduces the terms "Camp Mode" and "Field Mode" based on the novel *Clan of the Cave Bear* which distinguishes two different modes of leadership and management when performing value-directed

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functions such as celebrating accomplishments and visioning (i.e., the clan in a Camp Mode) and executing strategy and tactics—more performance-directed (the clan in a Field Mode which tends to follow a chain of command). Bruce Gibb, unpublished paper entitled “Systems Model”

<sup>4</sup> The PG&E Gen was originally founded by PG&E Enterprises and Bechtel Enterprises as, U.S. Generating Company (USGen) whose mission was to develop and construct IPP plants. These two corporations also established U.S. Operating Services Company that served as the contract operator for plants developed by USGen. In mid-1994 these two businesses were integrated under USGen.

<sup>5</sup> In the fall of 1994, PG&E Gen acquired A. J. Makowski which included several gas-fired plants operating in the Northeast.

<sup>6</sup> To a large extent, profit margins and the rate of return on investment could also be contractually “locked-in” through EPC contracts, which defined capital costs and key operational parameters (e.g., heat rate, rated capacity, emissions), long-term financing, which established debt service costs, and long-term fuel contracts, which established fuel costs.

<sup>7</sup> The sequence of change, from a cognitive learning process to an attitudinal, value-based acceptance and change in behavior is also demonstrated by psychologists in applying cognitive therapy to patients dealing with mood swings. The first principle of cognitive therapy is that all moods are created by thoughts—that is you *feel* what you *think*. Think positive thoughts and you will feel good. See David D. Burns, M.D. *Feeling Good; The New Mood Therapy*, Published by Avon Books, June 1992

<sup>8</sup> Jane Carpenter “Organizational Assessments—Helping You Be The Best You Can Be”, MAC Analysis, April, 1991