

Creating a Management Decision-Making Framework

Industry & Client Situation

Facing impending industry deregulation and intensified competition, a mid-sized energy company needed a way to effectively evaluate strategic and financial options at the corporate, division, and business unit levels.

A framework was needed to allow for qualitative and quantitative analysis of various business decisions, including such analyses as potential acquisition targets and alternative share repurchase programs. Additionally, there was a need for improved alignment and communication across this decentralized organization.

Approach

We first began by analyzing each key business area: commodity (generation and power marketing), transmission, and distribution. For each business, we identified major industry drivers and plausible strategic options. We then created a financial profile for each business, resulting in full financial statements.

As a way to assess the contribution of each business, we recommended a shareholder value analytical framework. This framework would provide:

- A focus on future value creation, rather than past performance, and
- A shift from a regulated to a competitive mindset, by managing towards increasing returns to investors

This framework also provided a simple and straightforward, yet powerful, method for evaluating different business options at the BU level. After working with key individuals at the corporate level, BU profiles were aggregated up to division and then corporate level profiles in order to assess the impact of decisions under consideration at those levels of the organization.

Results

The proposed decision-making framework, centered on shareholder value, was accepted at all levels of the organization. Implementation, including the integration of organizational linkage models, is currently underway.

Short-term results indicate the effectiveness of a shareholder value framework as an aid to this organization's management decisions. First, formerly overlapping processes are becoming more streamlined as different groups across the organization adopt a similar analytical approach. Second, an understanding of strategic direction has improved as a result of better communication.