

# EXECUTIVE BRIEF

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## **ENERGY: Winning on Points**

Creating an Enterprise-Wide Framework  
for Continuous Improvement  
Across Diverse Businesses

SIXSIGMAQUALTEC



When it comes to improvement, conglomerates, multi-nationals, and multi-division companies face a daunting challenge: creating and sustaining enterprise-wide improvement across highly diverse businesses, geographies, and cultures. Many such companies, believing that improvement is its own reward, fail to address the fundamental issue of incentives and, as a result, eventually see their improvement programs falter. By contrast, Entergy, a highly diverse energy company, found a ground-breaking way to answer the most basic question about improvement for people at all levels of the organization and across all of its businesses: "What's in it for me?" The result: a continuous improvement program that will continue to generate substantial benefits across the enterprise far into the future. For complex organizations, regardless of industry or improvement methodology, the company's experience holds some valuable lessons.

## Creating an Enterprise-Wide Framework for Continuous Improvement Across Diverse Businesses

Entergy's operations and employee population are diverse. Headquartered in New Orleans, Louisiana with revenues of \$10 billion, the company owns and operates five electric utilities with 2.7 million customers across Arkansas, Louisiana, Mississippi, and Texas. As the second-largest nuclear generator in the United States, it operates five nuclear units in the Mid-South, five in the Northeast, and one in the Midwest. It also owns substantial non-nuclear wholesale assets. Not only do the cultures and geographies of these businesses differ, the company also operates in competitive and regulated markets, and has union as well as non-union personnel among its 14,000 employees.

Given this complexity, the company committed to embed in its culture a systematic approach to improvement that would engage all employees and generate substantial benefits, including:

- Improved safety performance
- Reduced process costs
- Increased shareholder value
- Increased customer satisfaction, and
- Improved operational performance

"Beginning in early 2005, we embarked on Entergy Continuous Improvement (ECI), an ambitious, enterprise-wide program that would reach throughout the organization, down to each process and employee," notes Jeanne J. Kenney, vice president of performance management. "But it was equally important that we remain flexible enough to fit into the unique culture of each business. Through ECI, we wanted to do nothing less than change the way we work," Kenney added.

To spearhead the program, the company formed the ECI Core Team, led by Kenney. This team has an ECI coordinator from each business and external partners, including Six Sigma Qualtec. Meeting weekly, even in the aftermath of Hurricane Katrina, the team hammered out the organizational philosophy, an improvement framework, and – perhaps most importantly – the management and rewards processes to support ECI.

All of these elements were laid out clearly in a playbook, an enterprise-wide document that guides all employees in the philosophy and deployment of continuous improvement. The playbook explains in detail ECI's essential management processes including: organizational structure, prioritization of resources, project selection, tracking results, program metrics, change management, training, development, and rewards and recognition.

A living document, the playbook is updated and improved, but only with the input and approval of Core Team members who represent all areas of the company.

The team started with a fundamental philosophical orientation about improvement, incentives and methodology, which was critical to the program's ultimate success.

### A Methodical Approach

First, following the lead of the great quality pioneers, the Core Team understood that all work takes place in

processes and that continuous improvement comes only through improvements in those processes.

Second, unlike companies that reward employees only for performance against existing standards, the Core Team knew they needed a transparent, uniform system that quantified process improvements throughout the company, and linked a portion of performance rewards to those improvements.

Third, they knew that in such a large, diverse company they needed a technology for tracking progress, enabling analysis and communicating success. In essence, the team began with the end in mind – a highly motivated culture of continuous improvement – rather than starting with a methodology, assuming that the methodology would produce the desired culture change.

### Process Improvement Framework

The focus on process improvement was crucial. Traditionally, there are two fundamental ways to improve – improve employee productivity, or improve work processes. Entergy's ECI Core Team understood that employees can work only so many more hours, or achieve only so much more proficiency. They have limits, and when those limits are reached – usually sooner rather than later – improvement stops. Processes, by contrast, can be continuously improved, redesigned, and interrelated in more efficient and effective ways.

“By focusing on processes, the ECI Core Team shifted the emphasis away from simply improving our existing ways of working, moving instead toward an environment of continuous improvement throughout the organization,” Kenney explained.

Moreover, for the ECI Core Team it is improvement – not methodology – that is paramount. The team therefore collaboratively created an improvement framework that is open to different methodologies and tools, so long as those tools produce improvement. To provide an umbrella for those tools and methods, the team adopted two proven approaches to continuous improvement: Natural Work Teams and Charter Teams. These two types of teams let employees suggest, scope and implement process improvements.

Natural Work Teams (NWT) undertake improvements initiated by employees who are closest to a particular process. Typically, an employee will see an opportunity for process improvement – usually addressing an issue of waste, safety, or ease of work – and discuss it with his or her supervisor. If the supervisor determines that the improvement is viable, a Natural Work Team – “natural” because it is composed of the people associated with the process – undertakes the project using appropriate ECI tools, which could be Six Sigma, Lean, 8 Step Process or whatever other tools work best to achieve and formalize the improvement.

By creating the opportunity to initiate improvements quickly, with minimum bureaucracy, NWTs empower and energize all employees and creates an improvement-oriented culture.

Charter Teams undertake projects management initiatives to address a major process or strategic initiative. A Champion or Process Owner will propose an improvement project after considering a process, performing a gap analysis, and developing a business case tied to the company’s critical success factors. However, the proposed improvement project must first be approved by a Continuous Improvement Council – business-level teams composed of the organization’s senior management, who charter the appropriate team, oversee and phase-gate its progress, and validate the results. Depending on the nature and scope of the improvement, these teams may be cross-functional and can include local experts. In cases where the solution is unknown, the causes of sub-optimal performance are complex, and the problem requires complex analysis, a Charter Team leverages the company’s Black Belts, which are ECI resources who have been trained in Six Sigma methodology and lead those complex projects.

### The Way Entergy Works

To institutionalize the effort, Entergy created a leadership infrastructure that begins with Executive Champions and runs through all levels of the company, including all employees, and back to the Executive Champions in a virtuous circle of continuous improvement:

- **Executive Champions** own the vision, direction, and strategy for ECI and set expectations.

- **Deployment Champions** direct and manage change, provide leadership and commitment, and drive Charter Team project selection.
- **Function and Project Champions** identify, scope, and prioritize projects. They also recommend, coach, and develop Black Belts.
- **Process Owners** sustain the results of the improvements in their processes and actively monitor process controls. At the same time, they continue to identify potential improvement projects for the future
- **All Employees** apply ECI to their work responsibilities, participate on project teams as part-time resources, and remain on the lookout for further improvement opportunities, which feed back into the overall strategy and direction of the program

At the center of the virtual circles within various businesses, sites, and functions sit the Continuous Improvement Councils, whose membership is identified by the appropriate Deployment Champions. A chief financial officer for each area defines, quantifies, and validates the results of each completed improvement project with financial benefits.

### Rewards: Answering the Question All Employees Ask

“Our ECI Core Team knew that simply focusing on process improvement and establishing a leadership infrastructure would not create a culture of continuous improvement within Entergy, especially given our company’s diverse businesses,” says Kenney.

“No matter how inspiring the goals, or impressive the results in terms of revenues, spending reductions, or operating efficiency, each employee would ask that one fundamental question: ‘What’s in it for me?’” Kenney explained.

If it’s true that what gets measured is what gets done, it’s doubly true that what gets compensated for is what gets done. The ECI Core Team therefore determined to tie at least a portion of employees’ incentives and rewards to continuous improvement – not to spend more money in compensation, but to re-direct existing incentive dollars to change employee focus toward continuous improvement.

Creating such a system brought the team squarely up against the daunting diversity of the company. With so many different geographies, businesses, operating environments, and cultures, it appeared that improvements in different parts of the business, as well as the rewards for such improvements, could not possibly be truly comparable, nor would employees perceive them to be fair and objective. Rewarding continuous improvement had to truly be, and be seen as, consistent and objective across the company.

### How ECI’s Success Is Measured?

“Our team solved the problem through a two-pronged approach that addressed both the need for uniformity throughout the company and the need for flexibility in individual businesses, locations, and functions,” reports Kenney.

First, they devised an ingenious system of points. The points system measures any improvement project's level of success against a number of dimensions, including: magnitude of financial impact; impact on safety; quality; improved customer results, operations or production; repeatability in other parts of the company, and a number of others – with points weighted by areas of impact.

Once a function or business unit's CFO quantifies and validates a project's financial results, the CIC awards points in each area of impact. The points are then added to arrive at a single, total score.

### Fairness Across the Board

This approach lets improvement projects in any part of the company be consistently and fairly evaluated and rewarded.

For example, a Natural Work Team in a nuclear facility might achieve an improvement that saves \$100,000 annually, improves safety, and can be replicated in other nuclear facilities. Meanwhile, another team might improve the billing process for all utility customers, resulting in a \$500,000 annual savings and improving customer service but having no impact on safety.

Despite the apparent differences in the specifics of the two projects, the system for quantifying impact and translating it into points provides an objective and consistent basis for comparison. The formula,

including the weighted values for each area of impact, is explicitly laid out in the company playbook as a guide for all employees.

### Flexibility Counts

The Core Team then addressed the issue of flexibility. Instead of rigidly tying points to an inflexible system of rewards, they left it open to individual businesses to use the point system at whatever level and in whatever way was appropriate for individual parts of the company.

A mature business within the company might want to measure the number of points per department against targets for each department, and then structure rewards accordingly.

Another business might start by rewarding senior managers for completed projects. Yet another business might wish to reward individuals for their participation in ECI successes. These multiple possibilities and permutations enable different businesses and functions to stimulate however, whenever, and whatever makes the most the sense according to the situation.

### Tracking ECI

To document and manage ECI projects, the team developed the ECI Tracker, based on Six Sigma Qualtec's SixNet Intelligence™ System, a program that provide reports that show the number of points awarded and benefits from ECI successes – in

aggregate or by strategic initiative, business unit, department, project, participants, and numerous others. Linking project tracking to results measured in financial and non-financial terms and to the rewards point system, the ECI Tracker provides management with the information required to analyze progress, highlight actual results for action by the Process Owner and Project Sponsor, and tracks benefits as well as their timing over the next twelve months.

In addition, all completed NWT projects, along with relevant documents, are entered in the system. The Tracker also provides a repository of improvement tools that Charter Teams can easily access and put to work.

ECI Tracker enables the company to:

- ✓ Facilitate knowledge sharing throughout the company
- ✓ Communicate success company-wide in concrete, quantifiable terms
- ✓ Provide a transparent, uniform, comparable record of all projects
- ✓ Keep the attention of the entire company focused on continuous improvement, not just day-to-day performance

Most importantly, the ECI Tracker makes visible – and therefore stronger – what might otherwise be an invisible and far weaker sense of common purpose and common progress throughout the company.

## Results That Can Be Counted

The results of the ECI program have been impressive. With Charter and Natural Work Teams covering functional and business areas throughout Entergy, the company has pursued a portfolio of value-creating improvement projects and maintained a full pipeline of future projects.

The benefits ECI gives to Entergy are measured both in non-financial and financial terms. In 2006 approximately 4,200 employees from across Entergy, about one in three, working together completed more than two thousand ECI successes. Teams used statistical analysis and proven methodologies to improve safety, operations and quality, and generate financial benefits. They made Entergy a safer, better, more profitable place to work.

Using ECI, these four thousand plus employees redeployed more than 285,000 person hours, saving time and demonstrating their commitment to continually finding better ways to do their jobs.

In many cases, proven ways to do jobs safer and smarter were shared across the company, yielding over 300 shared successes. Employee commitment to ECI also yielded over \$50 million in bottom line benefits during 2006.

To gauge ECI's growing role in Entergy's business success, in 2005, a year marred by two major hurricanes, Katrina and Rita, employees' ECI efforts produced approximately \$15 million in benefits.

"Most importantly, with the playbook and the ECI Tracker serving as the bookends of ECI, Entergy is successfully embedding continuous improvement throughout the company," Kenney notes.

The playbook provides the philosophy, guidelines, and marching orders for deploying and maintaining ECI. The Tracker records and analyzes the results of those activities. And at the core of both stands the points system that translates all of the disparate elements of Entergy into a common language of success across the company, aligns the effort of every employee, and motivates them to keep their eyes on the prize – today and far into the future.



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