



# Developing people through decision-making

## Introduction

RWE npower is a leading energy company in the UK. It is part of the German-owned RWE, one of Europe's leading utilities. Part of RWE's strategy is to deliver cleaner, affordable, secure energy supplies for the UK while improving **profitability**.

RWE npower has over 11,000 employees across 60 sites in the UK. It provides more than 10% of all electricity in England and Wales. In the UK, RWE npower provides electricity and gas services to both **B2C** (business-to-consumer) and **B2B** (business-to-business) markets through its retail brand, npower. In 2007, npower supplied over six million residential consumers and 400,000 business customers. Business customers included large corporations such as BT, Ford and Wembley Stadium. Service organisations, such as schools and hospitals, also rely on npower. The UK energy market is highly competitive. Both private and business customers can choose from several suppliers to get the best service and price.

RWE npower relies on its engineers taking appropriate and timely decisions at all levels. The company encourages all employees to become involved in decision-making. An example of this is the 'Strategic Spare Parts Project'. The project was initially set up by RWE npower's parent company RWE, as a strategy to minimise the risk of supply failure. npower Cogen, one part of RWE npower's business, is responsible for implementing this strategy in the UK. npower Cogen generates combined heat and power for large organisations like oil refineries and chemical plants. The project aims to improve availability of vital spare parts for equipment to reduce plant availability costs. This project illustrates the concept of **lean production**, which uses resources more efficiently to lower costs and improve service.

This case study explores the way in which RWE npower delegates responsibility to extend the capabilities of its employees. Jay, a young graduate engineer, has been at RWE npower a relatively short time. He is responsible for the decisions that will achieve the required Strategic Spare Parts Project targets. As a mechanical engineering graduate, he has been involved in many different areas of work, ranging from preparing tenders and contract management to hands-on work activities that include routine maintenance, plant inspections, overhauls and improvements. In his words, 'Working at RWE npower as an engineer is very different to the usual view of workmen in overalls. Engineers at RWE npower can be involved in anything from new build projects or existing plant site activities to office based work and/or projects.'

## The decision-making process

Businesses need to make decisions for different reasons:



### CURRICULUM TOPICS

- Decision making
- Types of decisions
- Values
- Organisational structure

### GLOSSARY

**Profitability:** money which is earned in trade or business, especially after paying the costs of producing and selling goods and services.

**B2C market:** where businesses sell goods and services to private consumers.

**B2B market:** business to business markets, also known as industrial or organisational markets. In these markets, firms supply not the general public but other firms e.g. with raw materials, manufactured components.

**Lean production:** an approach to production that seeks to minimise waste and inefficiency.





**GLOSSARY**

**Hierarchical structure:** structure that has a number of levels and a chain of command by which decisions are made.

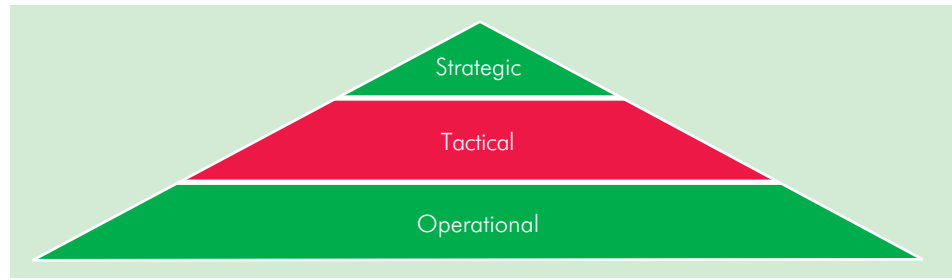
**Strategy:** long-term business plan of an organisation, giving a business a general direction.

**Tactical decision:** decisions based upon strategic policy decisions, affecting shorter-term issues within the organisation.

**Matrix structure:** An organisational structure involving more than one line of communication, often operated with employees working in teams.

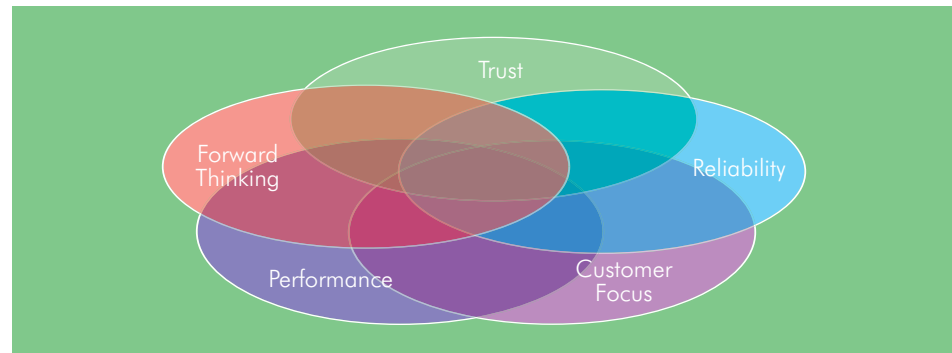
**Values:** what a company stands for.

All decisions have some degree of risk involved. For example, choosing the colour of paint for the office walls carries much less risk (and cost) than choosing the site of a new office. Decisions may be strategic, tactical or operational. These relate to levels in the organisation.



An organisation's structure affects how and where decisions are made. In large organisations, a traditional **hierarchical structure** is typical. Authority for decision-making is concentrated at the higher levels among few staff. Each level of management possesses different levels of authority - directors decide **strategy**; managers decide how to achieve the strategy, i.e. make **tactical decisions**; employees carry out instructions. A **matrix structure**, using people with different skills and abilities in project-based teams, allows more freedom and speed of decision-making.

RWE npower's corporate **values** link the way it carries out its business to its strategic objectives:



Its culture of trust in its people and its emphasis on forward-thinking allow RWE npower to delegate decision-making to all levels through the organisation. This means that young, developing staff are encouraged to use their talents and abilities to deliver the desired performance and customer focus. This benefits RWE npower as it utilises all employees in both decision-making and how the business operates. Each decision relates to business objectives. RWE npower's objectives focus on reliability and consistency of energy supply. If industrial customers requiring combined heat and power (CHP) to meet their process demands lose supply, production may be affected. Spare parts are vital to sustain energy supply. npower Cogen maintains a stock of spare parts. The questions needing to be asked were: are they the correct spares when considered against availability loss? When considering the cost of spare holdings, is the value of stock right?

Jay needed to make decisions based on an assessment of the risks linked to making changes or not doing anything at all. He had to evaluate which Cogen spare parts were 'critical' and what was the best way of managing the supply of these.

Jay's work involved:

- looking at the range of Cogen parts kept in stock
- assessing the costs of maintaining and re-ordering this stock
- comparing these costs to the costs of breakdown and loss of supply.

The project required him to use a wide range of skills including gathering and analysing data, listening to stakeholders, managing his and other people's time and budgets, and communicating with engineers and senior managers in preparing and presenting his findings.



**ACTIVITY:** In pairs, consider the advantages for npower in delegating decision-making.

## Strategic decisions

Strategic decisions are those which affect the long term performance of the business and which relate directly to its aims and objectives. They are usually taken at the highest levels of management and carry higher levels of risk. However, effective strategic decisions bring high levels of reward.

The strategic decision to undertake the 'Strategic Spare Parts Project' was taken by directors at the highest level in RWE npower in order to support its objective of reliable supply. The expected rewards from the project were fewer **availability losses** leading to reduced costs and improved customer satisfaction.

The decision to give this project to Jay to project manage illustrates the way that RWE npower's culture supports the delegation of decision-making powers to staff at all levels, using their known skills and **competencies**. Jay is a graduate engineer and has worked with Engineering and Maintenance staff across RWE npower's portfolio. This experience meant he understood how equipment and the work of other engineers helped operations. He communicated with relevant staff, using his knowledge and experience, and obtained the necessary information to assess the project. A wide range of staff were involved in the project:

- Jay consulted with the Senior Asset Manager and his team to obtain financial data relating to insurance costs should they fail to meet their contractual obligations.
- Site Managers and engineers gave information on what spares were stored on different sites and at what cost. They also shared the availability losses arising from past problems with not having necessary spares.
- The Operations Procurement Manager negotiated the most cost effective deal for the company.
- Jay found that for 75% of spare parts, there was sufficiently low risk to allow time for normal ordering, purchase and installation and that 25% of spare parts were essential for effective energy supply.

Jay concluded that the majority of spares for npower Cogen could be sourced as and when needed without greatly affecting the power supply. However, if the essential spares were not available, heat and power supplies could be affected for a long period of time. These items were confirmed as 'critical'.

With this information, Jay concluded that it was possible to find an alternative way of managing the spares process and make improvements. He went on to investigate the best ways to achieve these improvements.

## Tactical decisions

Tactical decisions are medium term decisions. Whereas a misguided strategy could take a business in entirely the wrong direction and lead to failure, a misguided tactic would have a more limited impact. Strategies are usually in place for a long period of time; tactics tend to be more changeable.

The leaders of the Spares project created a strategy for managing spares, based on categorising parts into 'critical' and 'non critical'. Within the strategy, various tactics were designed to implement it. The key tactic for this project was for Jay to consult with and involve staff at a number of levels. By getting first hand data, outcomes become more predictable.

If a tactic fails to achieve outcomes it can be adjusted or changed. Jay was trusted, given responsibility, but he was also accountable. He needed to present a convincing case that a new system was good business sense. Jay's tactical decisions included choosing:

- which employees to consult with – the managers of each area, the people carrying out the job
- what channels of communication to use – group discussions, one-to-one meetings
- how much time to spend on each aspect
- what levels of improved reliability and therefore availability or reduced downtime for equipment will show that the investment was worthwhile.

Jay's findings will eventually be reported to directors. They have the final decision on whether high levels of investment in the project are worth the cost. This decision will seek to balance the risks with the costs of a significant investment in the strategy.



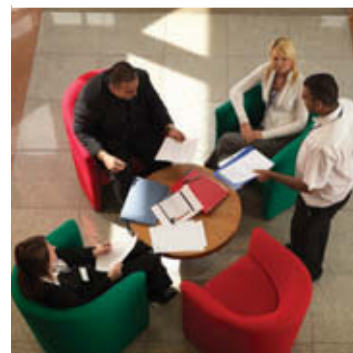
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### GLOSSARY

**Availability losses:** times when the plant is unable to generate energy.

**Competencies:** areas of activity in which a firm is particularly strong, e.g. research and development, product innovation.





**GLOSSARY**

**Empowerment:** giving responsibility for making decisions to lower levels within the organisation.

## Operational decisions

Operational decisions occur on a daily basis and are made considering the risk to the business. Often these decisions are administrative in nature and can be implemented quickly and tend to carry little risk. At RWE npower, employees at every level take operational decisions daily. An example might be when to re-order a particular item of stock. Another could be to determine how many operative staff will be required to complete a task.

Operational administrative decisions may be smaller-scale, but are nevertheless important choices that people have to make to fulfil their roles. As RWE npower employees work in an open culture, where there is exchange of information and mutual trust, they feel **empowered** to take decisions. This sense of empowerment means that the organisation benefits from speed of decision. Open lines of communication encourage free flow of accurate information. Together, these things lead to better, informed decision-making at all levels.

In all levels in a business, there are constraints on decision-making. Jay for instance cannot decide to make an unlimited financial investment in the Spares Project. There may also be technical reasons why an action is not advisable. Constraints on decision-making are sometimes organisational. Some people at some levels cannot have authority to decide because they lack the knowledge or skills. At other times there are economic, political, environmental or legal constraints.

The culture of trust in RWE npower means that even at the operational level, staff can propose to make changes to how they do their job. The over-arching constraint is that such decisions must be in line with company aims and objectives. At an operational level, decisions must support the strategic direction of the business. All job roles carry specific responsibilities. At RWE npower, decision-making powers are delegated throughout the organisation. This means that people do not necessarily have to await a decision from a higher level. For example, an engineer dealing with an equipment fault is able to decide what is wrong and how to put it right without necessarily seeking authority from a manager. In this way, tasks can be completed more quickly and efficiently which is better for the business and the customer.

**ACTIVITY:** Write a statement comparing tactical decisions with operational ones. Try to use examples from a real business you are aware of.

## Conclusion

All decision-making involves elements of risk and reward. For every decision there are risks. Many organisations are structured so that major decisions are taken at the highest levels. This is because decisions at the top can have major effects for the whole organisation. At the tactical and operational levels, the risks are smaller.

At RWE npower, people at all levels are encouraged and empowered to make decisions informed by accurate information. By using the skills of people like Jay and by giving ongoing support and training, RWE npower is able to rely on good quality decision-making at all levels. The 'Strategic Spare Parts Project' project has the potential to create a more secure power supply and guarantee greater customer satisfaction.

## Questions

1. What are the skills and abilities that assist in the decision-making processes within npower?
2. What are the major differences between strategic decisions and other kinds of decisions in npower?
3. Analyse the benefits for npower in appointing a young graduate engineer to take charge of an important project such as the 'Strategic Spare Parts Project'.
4. In your view, what are the advantages and potential problems in adopting a policy of delegation and empowerment of staff at all levels within npower?

