
Power To Change: The Case of TVA

The Tennessee Valley Authority's new leader understands that one of the first steps toward change is involving employees in the process.

When Marvin Runyon was sworn in as Tennessee Valley Authority's chair, many hoped he would be the knight in shining armor that would save the agency from financial ruin.

Runyon had been a successful automobile executive at Ford and Nissan. When he took over the TVA on January 25, 1988, it appeared that nothing short of a superhero could turn the agency around.

The Tennessee Valley Authority was created in 1933 by an act of Congress, with the mission of improving navigation on the Tennessee River, controlling destructive floods, producing electric power, planning for the proper use, conservation, and development of natural resources, providing for agricultural and industrial development, and promoting economic and social well-being.

Its noble mission began to fizzle when, in the early 1970s, TVA began an overly ambitious program to construct 17 nuclear power plants. Of the 17, only two are currently on line; there are plans to restart one unit this year and bring another one on line in 1992. The \$15 billion nuclear program had absorbed much of the agency's capital and led to an \$8 billion con-

**By Roger L. Cole
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struction debt. Nearly 40 percent of TVA's power assets are tied up in unfinished nuclear plants.

In addition, TVA's 12 coal-fired steam plants were suffering from sporadic breakdowns because of insufficient maintenance. A long drought in the Tennessee Valley had

salaries is mandated by Congress. That makes it difficult to attract top managers, who in private utilities can easily make four times more.

Clearly, TVA needed to change the way it did business. Runyon was appointed to lead that change. Soon after Runyon became TVA's ninth chair, he wasted no time before outlining steps toward change that he and the board felt were needed in the coming months:

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seriously reduced the utility's capacity to produce hydroelectric power from its 30 dams—forcing the country's largest power system to buy more than 10 percent of its power from nearby utilities.

Because it had been forced to raise its rates an average of 4.5 percent a year since 1985—most of which was passed on to its industrial customers—TVA faced the threat of losing many customers to utilities that could offer lower rates.

In addition to these power-related problems, TVA's management was perceived as weak, bureaucratic, and short-sighted. Because TVA is a government agency, its ceiling for

- to reexamine TVA's purpose and establish a clear plan for the future
- to restore TVA's nuclear program
- to seek laws that would help TVA operate with the flexibility of private enterprise
- to improve leadership, teamwork, and communications.

The signs of change

One of the first changes began in April when Runyon created a management committee consisting of 20 executives. The group began to meet weekly in order to plan and manage operations at TVA.

One of the conclusions Runyon reached early in his assessment of the

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agency was that there were several "TVAs," each going its own way without a sense of cohesiveness and teamwork. He envisioned that one of the primary roles of the new committee would be to get everyone working together as a team—to have a common mission and goals.

At the first off-site meeting, the management committee worked to determine the future direction of the agency and to arrive at ways in which TVA could best meet its objectives and serve its customers. The major goals of TVA were reviewed and an action plan was developed for each. The management committee also developed a plan for guiding the restructuring of the agency.

On April 26, 1988, Runyon reported to the entire agency via satellite on the outcome of the off-site meeting. He conveyed his theme of "a new way of doing business" as he spelled out how

office managers became senior vice-presidents, and division directors became vice-presidents. Runyon hoped the changes would result in greater responsibility and accountability in moving decision making to the lowest operating levels possible.

Runyon confirmed that restructuring would eliminate programs and jobs. Job insecurity was a reality in varying degrees. Many felt a sense of powerlessness and uncertainty regarding the future. Observations and conversations with employees left little doubt that TVA people had their minds on things other than their jobs. That may have resulted in a drop in productivity.

RIF incentives

The reduction-in-force (RIF) process was examined in June along with an announcement of double severance-pay incentives. To encourage

The following 90 days were difficult for both the "victims" of the RIF and the "survivors." Productivity appeared to be at an all-time low. The several thousand who had been laid off spent much time and energy looking for new jobs. The survivors had to try to regroup and identify new roles, relationships, and responsibilities.

After the August layoff announcement, all senior managers met together for the first time. This not only brought together about 220 senior-level managers, but also demonstrated that the new TVA was ready to move ahead and not languish in the past.

The purpose of the meeting was to solicit input from the new team of top managers regarding their perceptions of major concerns about TVA's future. Runyon hoped that the agency was ready and able to let go of the past and move on.

Throughout the reorganization and layoff process, the management committee met regularly. The management committee and the board orchestrated the entire process with the help of internal and external consultants. The consultants' role was to establish and facilitate the weekly meetings and the off-site ones.

In September, at the second off-site gathering, management committee members developed key performance targets for the six focus areas:

- organization performance management and accountability
- competitive power system
- morale and teamwork
- HR management systems
- public image
- mission.

Before the meeting, the management committee asked the senior managers to identify performance targets for each of the six focus areas. Then the committee members developed some critical organization-wide performance targets. They also discussed TVA's current business situation and what it would take to hold firm on power rates for the next three years. They decided that the senior managers would be best qualified to identify ways to cut expenses.

At their second meeting, the 200-plus senior managers did just that. They focused on group problem solving—how to reduce fiscal year 1990 expenses by \$154 million. The managers were divided into seven small groups. Each group was as-

Runyon had brought with him a reputation for a participative management style

the agency would reach its goals. He also announced a painful change: the workforce would be substantially reduced by October 1 of that year.

Runyon also mentioned that six task forces would examine the major issues facing the agency. For employees this was the beginning of anxiety regarding their own job futures. It was also the beginning of a rumor mill that, for the next three months, would feed everyone's anxiety levels.

In May, the reorganization was announced. The new structure resulted in name changes of organizational units, new reporting relationships, the consolidation of some offices, and the elimination of others. For example, the office of employee relations became human resources; the office of policy, planning, and budget became finance; and all programs funded by Congress were consolidated into resource development.

To convey a businesslike approach that would more closely resemble private industry, the general manager became an executive vice-president,

employees to leave the agency voluntarily, people who had worked full-time for TVA for five years were offered eight days of severance pay for every year of TVA service.

At the same time, a comprehensive outplacement effort was mounted. It included outplacement training (resume writing, letter writing, and job search skills), resource centers, job fairs, and a computerized job bank.

For some employees who were near retirement, the RIF package was a welcome incentive. Those who were unhappy and frustrated in their jobs also welcomed the RIF, since it gave them an opportunity to look for other jobs on TVA time and at TVA expense. But many others suffered various emotions including denial, disbelief, frustration, anger, and depression.

Just five months after Runyon became chair, he announced the layoff of 7,500 TVA and contract employees. In addition, employees were informed that management benefits such as paid health-insurance premiums would be eliminated.

signed one of the following topics for brainstorming ideas to save money:

- resource development
- fossil and hydro power
- nuclear power
- transmission expense
- customer accounts
- fuels
- administrative and general.

Each group reported the results of its discussion, listing what could be done and how much money the suggestions would save.

Participation model

Runyon had brought with him a reputation for a participative management style. By soliciting input from senior managers, he was providing a model for them. This new way of doing business engendered a feeling of hope for the future of the agency, despite the pain of the past few months.

By September 30, TVA began anew as the last of the RIFed employees walked out the door. Over the next several months, the remaining employees tried to settle into their new roles and relationships.

In October, Runyon discussed with them TVA's new mission statement. The statement was aligned with the original mission and was designed to provide a common direction for the agency.

The new mission statement did not put an end to the confusion and role ambiguity. Many departments had to do the same amount of work as before, but with half as many people. Smaller corporate staffs needed to develop new working relationships with decentralized field staffs.

Beginning in November the composition of the management committee began to change. A new senior vice-president for nuclear power was hired and a new vice-president of human resources came on board. During the next several months, many of the names and faces at top-level positions would change, particularly in nuclear power.

A significant effort began to take form in December that had the potential for changing the entire corporate culture of TVA. During the previous off-site meeting, the management committee had informally recommended that the agency move to increase employee involvement. A task force had been assigned to study

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What We've Learned About Change

The organizational change at TVA is still in its infancy, so it may seem premature to draw conclusions concerning its effectiveness.

Nevertheless, today's TVA is decidedly different from the TVA of four years ago. Since then, TVA has experienced the total reorganization of the agency, the layoff of more than 10,000 people, and the institution of a whole new way of doing business. It is leaner, flatter, and more fiscally sound.

It takes time

Employees still experience some confusion and frustration. Low morale is still a problem in many parts of TVA, as employees continue to struggle with the effects of the reorganization. As one manager put it, "I believe some have too high an expectation of how quickly after you take the medicine you get well."

We have learned that an organization must allow a transition period—a time for letting go of old ways and moving ahead toward new ones. We're not convinced that this happened completely during the months following the RIF in 1988. TVA made a commendable effort to help the laid-off employees, but didn't pay enough attention to those left behind.

We've learned that employees will not suddenly become productive and energized unless someone helps them through the change process. Top management should help employees through organizational change by recognizing and addressing some of their basic needs.

Different employees need different amounts of help to adapt to change. The amount of help an employee needs may depend on such variables as tolerance for stress and ambiguity, commitment and job involvement, locus of control, the ability to see change as an opportunity rather than as something to avoid, and availability of social support.

Some attempts were made to allow TVA employees to express their negative feelings and to

share their experiences with other employees. But more time and greater commitment should be spent to help employees adjust to the change. Organizations can expedite the process by allowing employees to acknowledge and experience the transition phases completely.

Communication is crucial

Another lesson for managing change has to do with communication. One of the criticisms frequently heard after the RIFs was that management did not convey the information quickly. For example, employees were told that they would know their RIF status by a certain date, but many did not know until weeks past that date.

A key to the successful management of change is simple communication through employee meetings, listening sessions, and employee news releases. No matter what medium for communication is chosen, the message itself must tell employees as much as possible with no false promises or inaccuracies. Many organizational problems at TVA and elsewhere can be traced at least in part to communications problems.

Participation pays off

It is an axiom of organizational change that employees will tend to change when they have participated in the decision to change. They will resist change to the degree that they feel it is imposed upon them.

Runyon assessed TVA's situation in the spring of 1988 as critical. He later acknowledged that some quick decisions had to be made that did not allow for as much employee involvement and input as he would have desired.

We strongly recommended that whenever conditions permit, employees be allowed to have a voice in decisions involving change that affects them. The participation hypothesis is simple, yet powerful—people support what they help create.

other companies and to develop a recommendation for implementing such a program.

Despite the efforts of the task force, the program was put on indefinite hold at the next management committee meeting, held in March 1989. The committee agreed that the timing was not appropriate for implementing a new corporate program. Still, the agency would encourage and support any local employee involvement efforts within organizational units.

Other topics discussed at the third off-site meeting included human resource issues such as training and development, labor relations, compensation and employee information systems, and EEO/AA.

The senior managers' meeting allowed key managers to participate in small work groups to give input on 11 topics. Each group discussed the important issues related to its topic (mostly human resource and other issues related to business performance). Groups came up with specific action plans to address the problems.

In April 1989, TVA experienced another major change: 3,000 more employees would have to be laid off over the next 18 months. This again stirred up the feelings from the previous summer—uncertainty, confusion, and frustration. It also reminded employees that TVA was not yet a stable organization.

Employees continued to adapt to changes in job responsibilities, but little evidence showed that they had truly internalized TVA's new goals and values. An essential ingredient seemed to be missing—trust.

Many employees did not trust top management. They felt that management did not value their contributions. Of course, all of this contributed to low morale.

Because employees still lacked a clear sense of direction, duties, and responsibilities, they did not appear able to continue moving through the change process to reach the final stages of acceptance, involvement, and commitment.

Since April 1989, there have been significant changes and turnover among senior managers. In almost every case, the changes involved bringing in managers from outside TVA, usually from the private sector.

New vice-presidents at the corporate level included new vice-

presidents for finance, information services, strategic planning, communications, and minority resources. Two of the positions were filled by either a minority or a woman—a reflection of TVA's commitment to workforce diversity.

Recent events in TVA

TVA's hallmark of the past year has been a commitment to becoming the most competitive and best-managed utility in North America and the most efficient and productive agency in the federal service. Various events and activities are evidence of that:

- the refinancing of long-term debt, which will lead to substantial savings
- the approval and implementation of a growth credit program to encourage industrial development and expansion
- a two-year achievement of no rate increases for power
- an emphasis on strategic planning and setting an agenda for the 1990s.

Most of TVA's employees are still adapting to doing more with less. Employee morale overall has improved, despite a great deal of uncertainty and confusion. Senior managers looked ahead early on, but many members of the rank-and-file are still having a difficult time letting go of the past—they have not reached the level of complete buy-in into the new TVA.

Becoming a business

Runyon wanted to establish a more businesslike organization; a visible sign of this is the refinancing of more than \$6 billion in long-term debt by issuing bonds in the agency public debt market. This was the largest public sale of securities ever undertaken by a United States utility, and one of the largest underwritten public debt sales ever.

Before the changes, more than a third of TVA's expenses had gone to paying interest on borrowed money. The refinancing at a lower interest rate is projected to save the agency more than \$100 million a year.

In 1989, the board approved a growth credit program that offers discounted rates to industries that locate or expand in the Tennessee Valley. More than 75 percent of the agency's distributors have registered for the program, indicating their commitment to TVA as their source of power for the next 10 years.

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The agency is committed to a third year without rate increases, in order to meet the goal established almost two years ago. And key managers say that a fourth year of no rate increases is not only desirable, but attainable. Because of the rate freeze, more than 900 businesses have announced plans to expand or move to the valley region.

The new business will bring \$7.5 billion in investment and more than 55,000 new jobs to the region. It will also help reduce the chances of losing distributors, particularly those on the borders of TVA's service area. Recently the agency's largest distributor announced that it would extend its contract with TVA.

In recent months a great deal of time and attention has been directed toward strategic planning and mapping out TVA's agenda for the 1990s. The following five strategic areas have been identified:

- environmental leadership
- economic growth
- excellence in customer service
- a high-quality workforce and workplace
- excellence in TVA's nuclear-power operations.

TVA will seek ways to demonstrate environmental leadership by going beyond basic compliance with laws and regulations. This means solving environmental problems in innovative ways such as developing new pollution-control technologies. TVA will also direct its energy toward encouraging economic growth and creating jobs. This will be accomplished largely through keeping power rates stable.

A "consumer first" philosophy will be stressed throughout the 1990s. That means providing reliable, inexpensive power. Another goal is to maintain a high-quality workforce and workplace by stabilizing the workforce and expanding employee involvement. New compensation policies and plans to offer a flexible-benefits package as well as dependent-care programs and fitness centers have demonstrated that commitment.

Finally, TVA hopes to achieve excellence in nuclear-power operations through safe, efficient, and high-quality generation of power. Runyon has said that by focusing on these areas, TVA can meet its goal of becoming the most competitive electric utility in North America. ■