Revisiting the transformation of Arizona Public Service Company.

by Samuel M. DeMarie and Barbara W. Keats

Arizona Public Service Co. (APS) implemented an organizational change program in late 1993 to enable it to succeed in an increasingly deregulated environment. The initiative required a cultural invention that would psychologically and emotionally prepare employees for the impending sector changes. The second component of the program was a comprehensive organizational redesign effort. As a result of the change initiative, APS was able to reduce its actual total cost per kilowatt hour from $0.09 in Jan. 1994 to $0.08 in Dec. 1995. It was also able to increase customer satisfaction from 95% in the last quarter of 1993 to 96% in the last quarter of 1995. However, the most significant achievement was the elimination of the need for future rate increases. It was able to reduce rate by 2.2% in May 1994 and announced a 3.3% further reduction by July 1996.

When Arizona Public Service Company (APS) won the 1992 Edison Award, the most prestigious award in its industry, its top management could have decided to rest on their laurels. After all, the company and its employees had endured five tumultuous years -- during which they had survived a hostile takeover attempt, downsized twice, and implemented a major cultural intervention program. The Edison Award was recognition that their efforts had been successful. Employees, customers, and industry peers agreed that almost every area of APS had improved -- significantly. Many believed that management would step back from the rapid pace of change and take some time to reap the benefits of their efforts.

However, quite the opposite occurred. In late 1993, management decided that a whole new round of organizational change would be required to meet the challenge of an industry environment that was moving rapidly toward deregulation. The organization’s proposed new changes were far more radical and encompassing than anything the company had previously attempted. Management developed a plan that included two major initiatives: (1) a cultural intervention, named breakthrough leadership, aimed at preparing employees psychologically and emotionally for the anticipated industry changes, and (2) a complete organizational redesign (reengineering) program.

MEASURING AGAINST TOUGH CRITERIA

When the change initiatives were still in the planning stages, management identified three quantifiable criteria they would use to assess the outcomes: lower total cost per kilowatt hour (KWH), higher customer satisfaction (as measured by a quarterly survey), and elimination of future customer rate increases.

Here’s how the company measured up.

APS did, in fact, lower its actual total cost per KWH from approximately 9 cents in January 1994 to approximately 8 cents in December 1995 (the latest figures available). While this improvement is significant, it falls short of management’s goal of 7 cents. Management anticipates reaching the 7 cents per KWH goal in 1998.

In the area of customer satisfaction, APS has not shown much change in the most recent 18 months. This may be due to the company’s high satisfaction ratings achieved prior to implementation of its 1994 change programs. In the last quarter of 1995, overall satisfaction was 96 percent, up slightly from the 95 percent obtained in the last quarter of 1993. While these results do not represent a statistically significant improvement, they do indicate the maintenance of high levels of customer satisfaction.

Of the three success criteria, the third -- eliminating the need for future rate increases -- reflects the most significant impact. In May 1994, APS implemented an almost unheard of 2.2 percent reduction, the first in its long history. Moreover, APS management announced in December 1995 another rate reduction of 3.3 percent, to be effective in July 1996. The public announcement stated that the company hopes to implement additional rate cuts in 1997, 1998, and 1999, and “at minimum, APS commits to no price increases through the end of the decade.”

While these figures suggest that APS change efforts have produced generally positive results, they do not tell the whole story. In fact, APS experienced both setbacks and successes. To provide a more complete picture, we interviewed several members of the company’s top management team. A brief summary of the interviews follows.

HOW APS MANAGEMENT SEES IT

APS management learned much about organizational change during the course of planning and implementing their most recent initiatives. Aggressive new organizational designs, developed through reengineering processes in many areas of the company, were successfully
Revisiting the transformation of Arizona Public Service Company.

implemented and, in fact, lowered costs and improved performance.

In some areas, however, the new designs simply did not work. Management attributes these failures to two related causes. First, the new designs were not adequate to cope with unanticipated increases in the demand for new services. Second, the new organizational structures were not designed to allow for enough flexibility in terms of changing market conditions.

William Post, the chief operating officer, summarized management’s views of reengineering.

Reengineering helped many groups within the organization better understand themselves. It helped them shed many "low impact" tasks and procedures and focus on the work that added value to the organization.... If there is anything we learned from this, it’s that reengineering is only a tool. It’s not a fix-all. And once reengineered, an organization has to be willing to accept the fact that sometimes the reengineered organization is not working. The company has to be willing to take immediate steps to fix a problem even at the risk of creating doubt in employees’ minds as to the effectiveness of leadership. In the case of our transmission and distribution groups, however, it would have been far worse to continue operating the "new" organization than to acknowledge defeat and reverse some reengineering decisions.

Overall, management firmly believes that their culture change efforts (breakthrough leadership) were central to successful implementation of the planned changes. Several top managers suggested that building an appropriate culture was the most important component needed for continued organizational improvement.

As Post explained, "Once employees understand the growing competitiveness of our industry -- I mean really understand it and believe in it to the point that they think about it in the natural course of their everyday work -- then the task of improving efficiencies and work processes is much simpler."

Finally, Mark De Michele, the CEO, offered the following advice for companies considering similar programs: "First, carefully define what you want to accomplish. Second, be very aggressive in terms of the scope of the project and the time frame needed to accomplish it. Once we had our employees excited about the new changes, we continually underestimated their ability to implement the changes. Finally, you must build rigor and discipline into any change program. It is very easy to get sidetracked from the task at hand by day-to-day decisions."

About the Authors

Samuel M. DeMarie is an assistant professor of management at the University of Nevada, Las Vegas. His research interests focus on restructuring, downsizing, the effects of new technologies on competitive dynamics, and interpretations of strategic issues and their effects on organizational action. He has published articles in the Academy of Management Review, the Academy of Management Executive, and Organizational Dynamics. He received his Ph.D. from Arizona State University.

Barbara W. Keats is associate professor of management at Arizona State University. Her research focus areas are strategic management and organizational design. She has published in leading management journals, such as the Academy of Management Journal, Strategic Management Journal, Organization Science, Journal of Management, Decision Strategies, and Journal of Applied Behavioral Science. Professor Keats served as a member of the editorial review board of the Academy of Management Journal for six years and the executive committee of the Business Policy and Strategy Division of the Academy of Management for a two-year term.