



# TAKING A HEALTH CHECK

*When global economic recovery eventually takes place, it is essential energy trading organisations are in a position to capitalise on market changes. Julie Shochat and Ryan Rogers of Enite set out some guidelines*

Energy trading organisations have recently been impacted by global price volatility, counterparty credit concerns, the threat of new compliance and an uncertain political landscape. Responding to these events over the past 12 months has negatively impacted the operational activities of many businesses. Compounding the issue, the global downturn has slowed or paused investments in people, process and technologies, reducing the ability of such businesses to anticipate and respond to further change.

As a result, energy trading executives have been on the frontline in implementing emergency measures to ensure survival during the economic crisis. As an eventual recovery begins to seem more likely, senior executive tasks may become even more complicated as employees, investors, boards of directors and regulatory entities seek assurance of investment strategies and controls.

Even for those whose companies



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avoided the most severe effects of the crisis, uncertainty about the future is abundant and credit remains tight, impacting operational cashflow.

Large numbers of executives now face career insecurity and are considering disaster scenarios that would have been unthinkable until recently. In anticipation of an eventual market recovery, capital and management's time are available to evaluate and implement a number of significant options, each accompanied by a heightened sense of risk.

The executive's ability to execute change in order to capitalise on market movements will be critical in aiding the management team to evaluate opportunities and cast a dispassionate eye over the costs, benefits and risks of pursuing such opportunities. Carrying out a structured assessment that leverages business and technological understanding can offer executives valuable insight into current trading and risk management weaknesses and identify opportunities to support an

organisation's growth strategy. We call this exercise an 'executive operational assessment' (EOA).

Consider the following questions about growth as a result of an economic recovery:

1. What potential shape will the recovery take? Are we prepared to take advantage?
2. Do we have the operational infrastructure in place to take advantage of an upturn?
3. Have we taken advantage of the buyers' market for talent and other resources?
4. How familiar are we with the impact of a recovery on our operations?
5. Are we prepared to speak to our employees, investors and board of directors about the recovery and our plans to meet the challenges?

## Identifying the symptoms

The EOA provides an executive-level view of trading support capabilities, identifying key functional gaps and

opportunities within your ecosystem of people, trading processes and the systems that support your business. A properly executed EOA will leave you with a summary of categorised and prioritised opportunities for improvement, a list of gaps to be addressed and, where possible, a gauge of the implementation effort to address them.

The assessment is not intended to function as an in-depth review of your business practices, but rather as a measure of health and an executive summary of operational holes in your trading and risk management capabilities. The purpose of the exercise is not exclusively to gain knowledge but to develop an action

plan, building the foundation for growth in anticipation of change.

Benefits of the EOA include:

- Executive-level view of supporting functions, highlighting gaps and opportunities
- Visual map that provides insight into the intersection of relevant processes
- Inventory of gaps and opportunities within your specific environment
- Quantification of identified issues and impact to the organisation
- Concise package for communicating improvement opportunities across the organisation
- Forum for staff to provide suggestions and/or vocalise concerns to the executive team

- Recommendations and roadmap for addressing gaps and opportunities

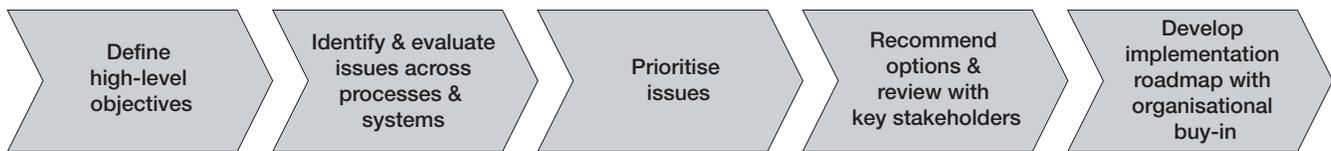
## Course of treatment

The EOA is a five-step process (see figure 1) involving key members from your business, including executive stakeholders, business and technology users, and functional leaders.

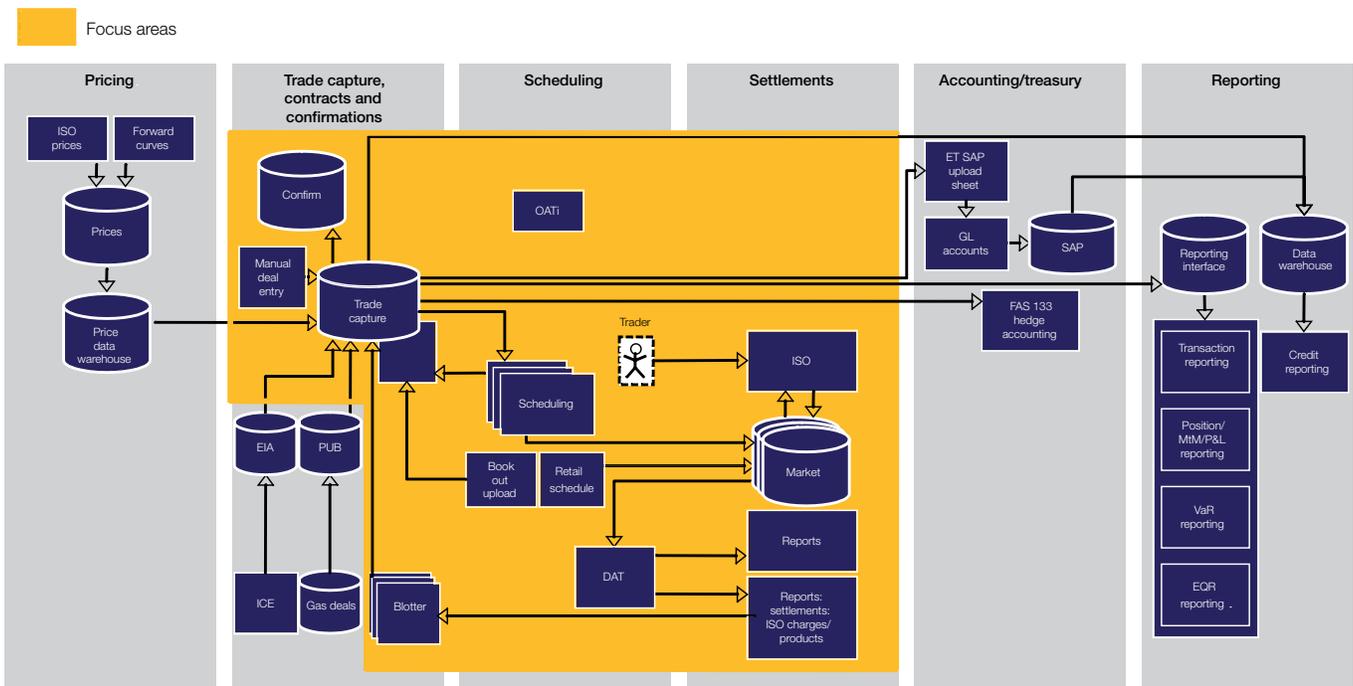
### 1. Define high-level objectives

Begin the EOA by identifying your key stakeholders (executive and functional) and mobilise the EOA team, including both internal and external resources. Choosing the best independent consultancy to assist you is critical to producing valuable

## F1. Assessment process – the five steps of EOA



## F2. Architecture map: process and systems architecture evaluation



## F3. Identified improvement opportunities

✓ Improvement opportunity

← Process-based inefficiencies →

Cross-process themes	Pricing	Trade capture, contracts and confirmations	Scheduling	Settlements	Accounting/ treasury	Reporting
Internal process and policy		✓	✓	✓		
Regulatory	✓					✓
Systems and IT infrastructure		✓	✓	✓		
Resources and personnel			✓	✓		
Accountability		✓	✓	✓		
Capability gaps			✓			
Master reference data		✓	✓			✓
Estimate to actuals	✓	✓	✓	✓	✓	✓

results. A firm with deep expertise in your specific industry and market is best positioned to provide an unbiased recommendation for the quick wins as well as staging long-term solutions.

The external team typically consists of one energy trading and risk management technology expert and a trading process subject matter expert. The internal team typically consists of one technology expert and a business representative from each function included in the EOA. The team should begin by defining the scope of the business under evaluation and then by defining the specific goals of the EOA project.

### II. Identify and evaluate issues across processes and systems

The next step is to create an architecture map of your company's processes and technologies within the in-scope functional silos (see figure 2).

In the course of developing the map, you will flush out issues and inefficiencies within and between processes and systems. Once you have completed it, begin to identify and analyse improvement opportunities. Using the map as

a reference, work with business and technology users to determine potential causes of the issues you have identified, the potential impact on other functions when these issues are addressed and the resources that will be needed during the improvement initiative.

During this exercise, it is helpful to bucket the issues into 'themes' such as 'internal process and policy issues', 'regulatory issues' or 'system and IT infrastructure issues'. Organising them as such will help you understand and communicate the general types of problems identified.

Figure 3 shows an example of a high-level visual summary illustrating the themes of specific issues found.

### III. Prioritise issues

Once you have documented and analysed your issues, prioritise them.

The first step in this exercise is to complete a scorecard to determine the criticality of each issue (see figure 4). This allows you to assess all the issues on a constant scale across several categories, such as internal process and policy, government and regulation, systems and IT infrastructure, and resources and personnel. These categories can be weighted to reflect the unique strategy and principles of your organisation.

The output of the scorecard is a quantitative score and severity level for each problem:

- **Critical:** significant impact on the business and should be addressed immediately
- **Improvement under way:** issue recognised, mitigation on the way but may need additional attention
- **Non-critical:** to be addressed as business grows but does not require immediate resolution

The next step is to evaluate the cost and benefit of addressing each issue, as well as the relative ability of your organisation to implement solutions. A 'valuation matrix' can

*The purpose is an action plan in anticipation of change*

**F4. A scorecard to determine the criticality of each issue**

Category	Weighting	Rating	Rating guideline	Process A
<b>Internal process and policy</b>				
Control	10%	1	Frequent inaccuracy due to lack of controls, versioning, validation, data integrity and/or user error	2
		2	Moderate accuracy but somewhat lacking in controls and versioning	
		3	High degree of accuracy	
<b>Regulatory</b>				
Compliance	10%	1	Complying with regulatory requirements presents significant challenges in running the process efficiently	1
		2	Complying with regulatory requirements presents moderate challenges	
		3	Complying with regulatory requirements does not present any material challenges	
<b>Systems and IT infrastructure</b>				
Speed	10%	1	Frequent delays in processing create significant bottlenecks	1
		2	Some delays in processing with limited impact on other processes	
		3	Infrequent or no delays in processing	
Automation	20%	1	Process is manual and requires a human resource to start, monitor and/or stop	1
		2	Process is semi-manual and requires a moderate amount of human monitoring	
		3	Process is mostly or fully automated and requires limited to know human monitoring	
Integration	10%	1	Process runs separately from other processes and requires manual integration	1
		2	Process is somewhat integrated with other processes and requires some manual integration	
		3	Process is fully integrated with other processes	
Reliability	10%	1	Frequent downtime due to stability issues	2
		2	Some downtime	
		3	Limited or no downtime	
<b>Resources and personnel</b>				
Support needs	10%	1	Highly dependent on vendor support and maintenance with limited ability to scale userbase	3
		2	Moderate user independence where some support issues can be handled internally	
		3	High degree of independence where most support issues can be handled internally with reasonable time & resources	
Accountability	10%	1	No single resource is accountable for the process and there may be debate over who is responsible	1
		2	Clear accountability has been established but is not always being enforced; responsibility may or may not be clearly defined	
		3	Clear accountability and responsibilities have been established and enforced	
Functional capability	10%	1	The organisation has significant gaps in the experience and/or expertise required to run the process properly	1
		2	The organisation has some of the required capabilities but could benefit from more experience and/or expertise	
		3	The organisation has sufficient expertise and experience to run the process properly	

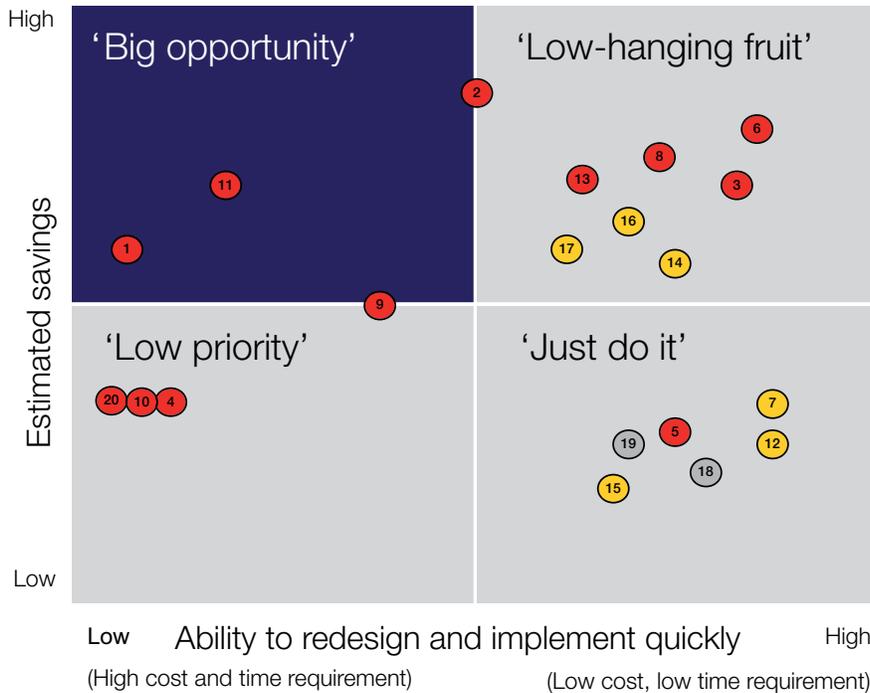
be used for this (see figure 5 on page 54). The output of the matrix is a prioritisation of each issue into one of four categories. Note the initial ‘criticality’ of each issue remains depicted through colour-coding.

- ‘Big opportunity’ issues are costly to address but the solutions can result in significant savings and efficiencies. Such issues should be addressed as soon as possible, but will require time, resources and investment.

- ‘Low-hanging fruit’ issues require relatively low cost and time requirements to address and can also result in significant savings. These issues should be addressed as soon as possible.
- ‘Just do it’ issues should be addressed quickly only if the benefits of the resolution are expected to outweigh the costs of implementation.
- ‘Low priority’ issues should be addressed over time as resources become available.

**IV. Recommend options and review with key stakeholders**  
 After reviewing and prioritising inefficiencies and gaps, plan near-term solutions to address immediate issues with a strategic approach, while simultaneously identifying a long-term integrated solution. These recommendations should be fully vetted by key stakeholders to ensure your organisation’s unique requirements and objectives are considered and addressed.

## F5. Issue prioritisation



## V. Develop an implementation roadmap

Once solutions are agreed, develop a high-level roadmap for implementation (see figure 6 on page 54). Enite's approach is to first ensure the appropriate people (resources) are deployed to manage the current and future business. This allows you to then improve and streamline your processes and implement the necessary technology solutions.

### Prognosis

Upon completing the EOA, management and executives will have a thorough overview of the health of your organisation and of its strengths and weaknesses. Understanding your capabilities and where to focus improvement efforts will leave you fully armed to capitalise on future market changes as they occur and will ensure operational support for your business's growth strategy. The outcome of this study serves as a blueprint upon which strategic investment can be based. ■

## F6. Timeline and tasks

