CHANGE IS THE ONLY CONSTANT

Adapting to change is essential for companies in the ever-evolving energy markets. Risk managers are well placed to take a leading role in change management. Jay Jayasuriya and Julie Shochat of Enite set out a change management plan

Participants in traded energy markets regularly face challenges demanding operational changes. Whatever the source of the demand to change – from adaptations in market design to regulatory shifts to natural disasters – affected organisations must react effectively in order to minimise damage and optimise opportunities. Successfully adapting to these regular changes can be streamlined by taking a structured approach. This means forming a readiness plan by carefully assessing the situation and your organisation's capabilities across people, processes and technology, to identify readiness gaps, and then manage the change process by identifying and working towards key success factors.

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Risk managers are often at the forefront of leading adaptive change within the business. They are responsible for identifying, assessing, and controlling risks, and are closely tied to other managers on the trade floor, including trade and scheduling managers, IT business partners, and finance and accounting leads. This set of close relationships, combined with the need to always stay ahead of risk, makes risk managers ideal candidates to lead many types of change across trading organisations.

Types of change

The scope and scale of the adaptation process will depend largely on the type of change that has taken place. There are many sources of change, which can either be exogenous (change originating from external, uncontrollable sources), or endogenous (change originating from internal, controlled sources). Table 1 provides a brief overview of the types of exogenous and endogenous change that market participants commonly experience.

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T1. Overview of exogenous and endogenous change that market participants commonly experience

Change process	Features
Market change Exogenous	Changes in a market that you currently participate in that significantly impact systems, processes, and the training of personnel. Examples include the recent shifting of two deregulated power markets from a zonal to a nodal model.
Regulatory change Exogenous	Changes brought about by governmental decree. May originate at federal, state or local government level, or from regulatory agencies. One of the recent, notable regulatory changes was the *Sarbanes-Oxley Act* of 2002.
Disaster Exogenous	Disasters include calamitous events that disrupt business as usual procedures without warning, such as weather occurrences or political crises. While most organisations have a disaster recovery processes in place, an actual occurrence may bring a new perspective and result in a need or desire for change.
New markets Exogenous	New markets and opportunities are generally in the form of converting an existing market to one with new rules. For example the Midwest ISO first came into existence as a new deregulated power market. It mirrored a similar market from an organisational perspective but operated within new parameters.
M&A Endogenous	M&A activity includes new assets and agreements, ranging from the actual purchasing of assets to managing market services for other organisations. Recently, larger organisations have provided services to smaller asset owners by providing the infrastructure and market-facing capabilities that the smaller organisations lack.
Restructuring Endogenous	An organisational redesign or realignment provides an ample opportunity for change. These days, many organisations are looking to cluster regional level portfolios with a more global outlook.
New business Endogenous	Creating new business lines with an existing organisation is still, technically, change. More than likely instead of adding new system and processes, an organisation will leverage existing technology and business processes to adapt to the new business.

Change is coming – now what?

Implementing change over or on top of existing operations, processes, and technology is a cumbersome task. Realising this is so might be the first step in planning for the change. Whether exciting new opportunities are present or the change is brought on by some market or regulatory shift, an organisation should not expect everyone to embrace it with open arms. To successfully prepare and adapt to change, Enite recommends a structured change readiness approach, as outlined in table 2.

All types of change, both exogenous and endogenous, will impact the people, processes, and technologies within your organisation. The type and significance of impact on these areas will vary with each change. The readiness assessment – understanding the impact to your particular organisation and defining the journey from your current state to desired future state – is perhaps the most important part of any adaptation process.

People

To assess the potential impact to your organisation's people, ask yourself: Does the organisation currently have resources with the knowledge and skill sets to take on the new tasks, and if so, do those resources have bandwidth to take on the new tasks and continue to successfully execute existing tasks?

It can be difficult to balance these new responsibilities with existing tasks and it is commonly assumed that a resource can fill a new role while continuing to perform the existing one. Making this assumption without performing the proper due diligence may result in overburdening the resource and cause other, more significant downstream issues. In

T2. Structured change readiness approach – flow chart of steps

Readiness assessment →	Scope planning →	Implementation & transition planning →	Execution, testing & go live
• Define **current** organisation (people, process & technology); • Define requirements for **future state** organisation; • Identify **gaps** between current & future state & determine impact of gaps; • Estimate **budget** to close gaps.	• Evaluate **market strategy**; • Align with **global direction**; • Evaluate **new opportunities**; • Identify **changes** related to people, processes & technology.	• Select **new vendors** where necessary; • Gather **new requirements** for existing systems; • Determine **HR requirements** for hiring & reorganisation; • Develop **training materials** for new capabilities & processes; • **Redesign** processes.	• **Implement** plan in parallel with current environment; • **Define** testing metrics; • **Test plan** against metrics; • **Modify** plans as necessary; • Begin **utilising** these new people, processes & technologies.

some cases, new resources are an absolute necessity because there might not be an existing resource with the appropriate skill set. For example, new opportunities or products in a market would require new traders or current traders to take on a new type of portfolio.

Market changes may require new resources to handle the implementation of the new market requirements while existing resources operate in the existing market simultaneously.

M&A activity could require the addition of a new trading desk, control group and also back-office personnel.

Process

To assess the potential impact on your organisation's processes, ask yourself: How are the organisation's processes managed? Are the processes built around tools, organisation, regions or something else? Are current processes efficient enough to continue using in the future-state or do they need complete reengineering?

A well-planned process can be cleanly assessed, but a fit-for-purpose process that was developed on the fly to address an immediate need tends to depend on specific resources and performing roles that cannot be easily accessed or understood. An abundance of these processes is a good signal that the organisation could benefit from a review to reduce manual interactions and improvement efficiency.

Technology

To assess the potential impact to your organisation's technology, ask yourself: How is our system's architecture structured? Which systems might be impacted, and what is the scope of those impacts – will vendor support be required, will we need to recode internally, etc.?

Change is often a good catalyst to improve systems-related redundancies, inefficiencies, and inconsistencies that might otherwise go unnoticed. Given the lead time usually required for systems changes, it is critical to identify these issues early in the assessment process. Doing so provides

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the opportunity to implement improvements that can significantly enhance your organisation's capabilities.

Managing the process

Developing and following a thorough adaptation process is a necessity in assessing and managing change, but it is nothing more than a good start. It is critical to closely manage the process throughout all levels of the organisation. From experience, we've identified seven key success factors that have significantly contributed to the success of implementing change (as shown in table 3).

1. Vision

Whatever the change may be, the organisation's vision cannot be stated as adapting to change itself. For instance, a power trading organisation cannot state their vision for adapting to a changing market model, is to just adapt to the new market rules. The vision should have higher goals and even metrics around it. For example, that same power trading organisation should have a vision to optimise its current trading and marketing strategy to take advantage of new market rules. It's easy to say "The market is changing, and we want to be able to play in the market after the change." A more focused vision will provide a clear set of goals. For example: "We want to increase gross margin by 15%", or, "We want to be able to handle more asset management opportunities in the new market".

An effective vision should be supported by a business case that considers opportunity, desired outcome, impact and scope of change. If difficulties are encountered, resist rolling back your vision simply to create a false sense of success. The purpose of visioning is to set lofty goals, and then strive to achieve them.

2. Leadership

A leader or change sponsor must be identified to support and reinforce change throughout the entire process, from planning to implementation. Without strong leadership, change efforts will undoubtedly fail. It is best to select a leader who is trusted throughout all levels of the organisation to act in the best interest of the company and its employees. Such a leader will inspire greater motivation for employees to participate in the change process and, moreover, ensure its success. In addition to the leader, it is essential to build a strong core team to manage the change. This team should be an aligned group of

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people invested in the success of the change. Core team members typically include a programme manager, IT manager, business manager and a subject matter expert(s).

3. Planning

The first step in planning for change is to clear the path for the vision by eliminating potential obstacles, such as internal politics, lack of empowerment, budget constraints, etc. Then, develop a detailed timeline and work plan with both short- and long-term goals. Creating bite-sized, realistic, independent work streams is an effective approach to planning for a wide-scale change.

Throughout the process, the plan should be updated to incorporate changes (in timing and/or budget) and feedback from stakeholders of the change. A process needs to be put in place to allow for modification of the implementation plan, while managing the project's scope carefully.

4. Communication

One of the biggest mistakes an organisation undergoing change can make is relying on the trickledown effect to communicate the upcoming change. Too often, upper management will only notify their direct reports of change and vision for that change and depend on the message cascading down to all the other levels. The downside to this approach is that as the message reaches another level, the redistribution of that message is reinterpreted by the next party delivering it.

To mitigate this risk, create a robust communication plan that includes the "Who, What, Where, When, and How" messages to be communicated. This approach will accurately inform your people about what they must do for the change to be successful. The ways in which information is or is not shared during an implementation process can powerfully influence behaviour.

When communicating change, it is important not to forget to acknowledge the challenges of the change. Many times, changes will be billed as great, effortless endeavours with no drawbacks. Going through a change process can be a tough venture not only for the delivery team, but also for the day-to-day operations resources whose participation is vital to success.

5. Viability

A common oversight is to forget to identify and prioritise project milestones by their impact on the bottom line. Some 80% of an organisation's profitability is usually managed in the simplest form and receives the least attention, while the business contributing 20% of profitability often receives the bulk of the budget and attention.

To ensure economic viability throughout the change process, prioritise the areas that make money early on.

6. Engagement

Throughout the change process, it is important to reach consensus among all who will be impacted by the change. If there is disagreement, it is important to vet issues early on. To ensure adequate engagement from resources throughout the organisation, identify and reward behaviours in line with desired changes and participation in the change process.

7. Measurement

Create results metrics that define success and develop a way to monitor them. Measurement is the process of systematically identifying and monitoring the most effective measures for tracking implementation and progress towards your desired business outcomes.

Going forward

Take the first step with your readiness plan in hand; then, be ready to adapt to obstacles you've anticipated. We see in nature that adaptation enables species to gain an edge, aiding survival in harsh conditions. Without developing the ability to adapt in an ever-evolving market, participants become antiquated at first, then eliminated eventually. For our own organisations, successful adaptation provides options and an advantage over less-adaptive competition. Arming your organisation with a readiness plan and taking a structured approach to implementing changes will aid your organisation in weathering the next storm. ■

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T3. Managing the process: Success factors in change management

Companies that *succeeded* In their efforts to change traced their achievements to:	
1. **Vision**	Agreeing upon and communicating a set of compelling strategic objectives
2. **Leadership**	Senior leadership alignment and participation in the change
3. **Planning**	Develop a timeline and work plan with short- and long-term milestones
4. **Communication**	Enable people to know what they must do for the change to be successful
5. **Viability**	Prioritise tasks and milestones by their impact to the bottom line
6. **Engagement**	Involve stakeholders and reward behaviours in line with desired changes
7. **Measurement**	Create metrics that define success and develop a way to monitor them