



BGE Culture Change: Moving to High Performance

ASQ Breakfast Meeting - 3/17/05

David McIntosh—Principal OD Consultant

Note: Original presentation materials from the CBODN Annual Conference
April 3, 2004 with Frank Heintz—President & CEO and Deborah Gadsden—Director, OD



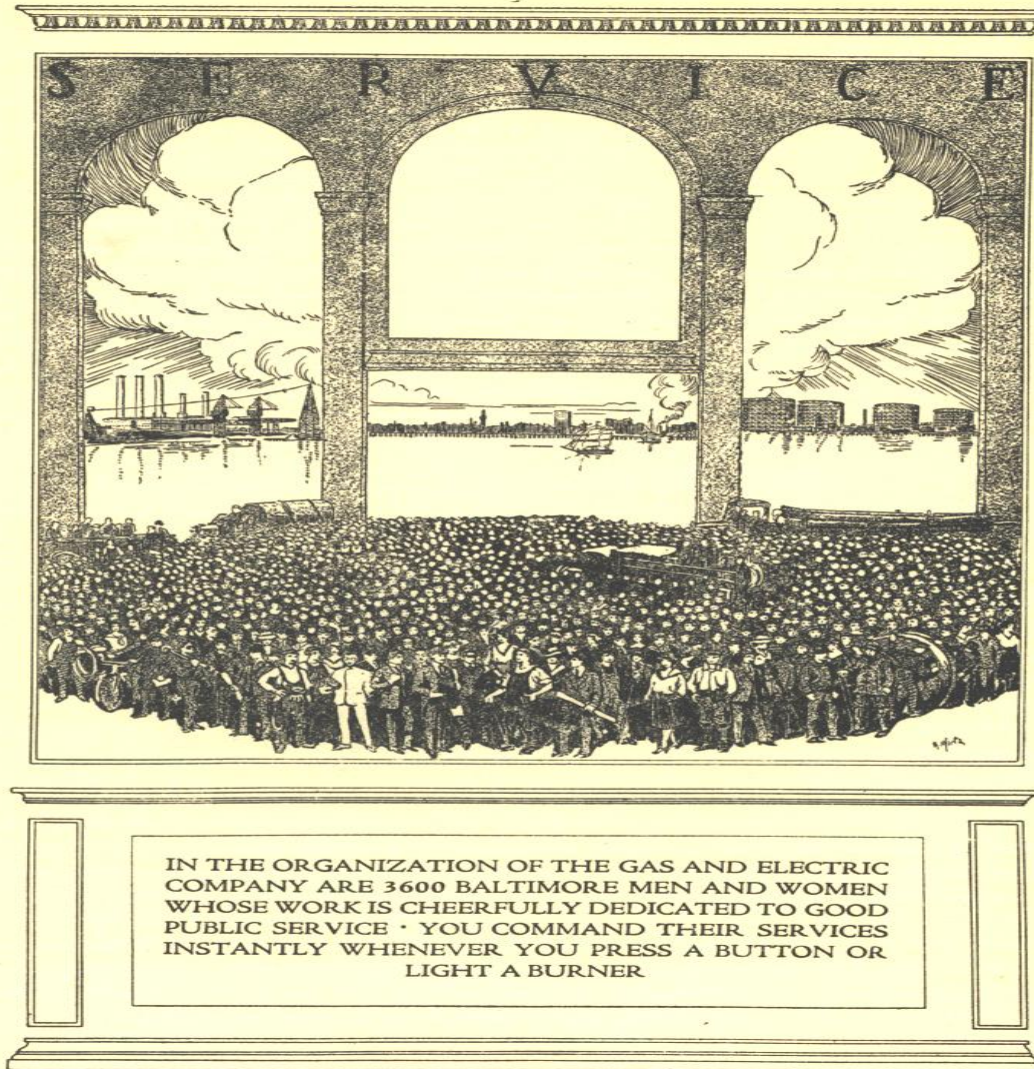
Introduction

The Flywheel Concept*

* “Good To Great”, Jim Collins, 2001



BGE: 1914/2004





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The Business Case for Change

■ Prior to 1998

- 180 years of tradition
- Little incentive for improving efficiencies
- “Job for life” mentality

■ Energy de-regulation legislation

- Signaled change in marketplace
- Restructuring of energy companies
- Plans to decouple regulated and unregulated businesses



Genesis of “The BGE Way”

- Vision
- Mission
- Team Statement
- Core Values



Vision

We will be a recognized leader in energy delivery by enhancing our customers' quality of life, our shareholders' value, and our team well-being.



Mission

We will safely, economically, reliably, and profitably deliver gas and electricity to our customers.



Team Statement

Achievement of our Vision and Mission will flow from the teamwork, dedication, and effort of each member of the BGE team. We will value, respect, and support one another as we apply our skills, knowledge, and creative talents to serve customers and increase shareholder value. We will strive to grow better and to become the best. Together we will create an enthusiastic work environment and provide for our economic future.



Our Core Values



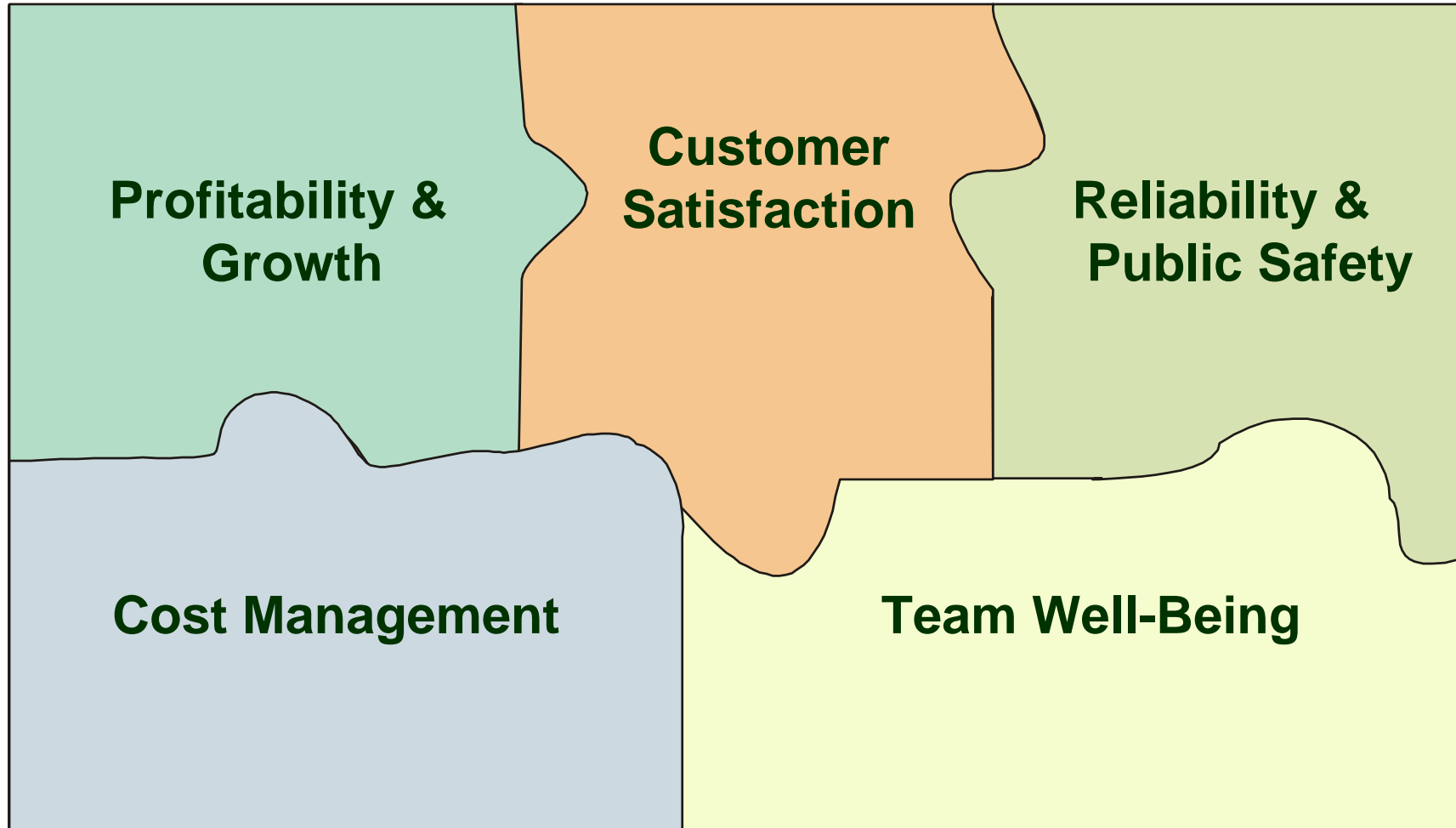


Continuous Improvement

- Seek new ideas and ways of doing our jobs
- Seek the training we need
- Stay ahead of new customer and business demands
- Offer innovative solutions
- View mistakes as an opportunity to learn
- Provide candid feedback
- Sincerely listen to feedback
- Understand how we contribute



BGE Balanced Scorecard





External Recognition

- J.D. Power's Top-Quartile Ranking for Customer Satisfaction
- Southeastern Electric Exchange Industry Excellence Awards for Engineering
- American Gas Association Award for Employee Safety
- Top Quartile in Cost Management – FERC's Industry Data



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The Journey to High Performance

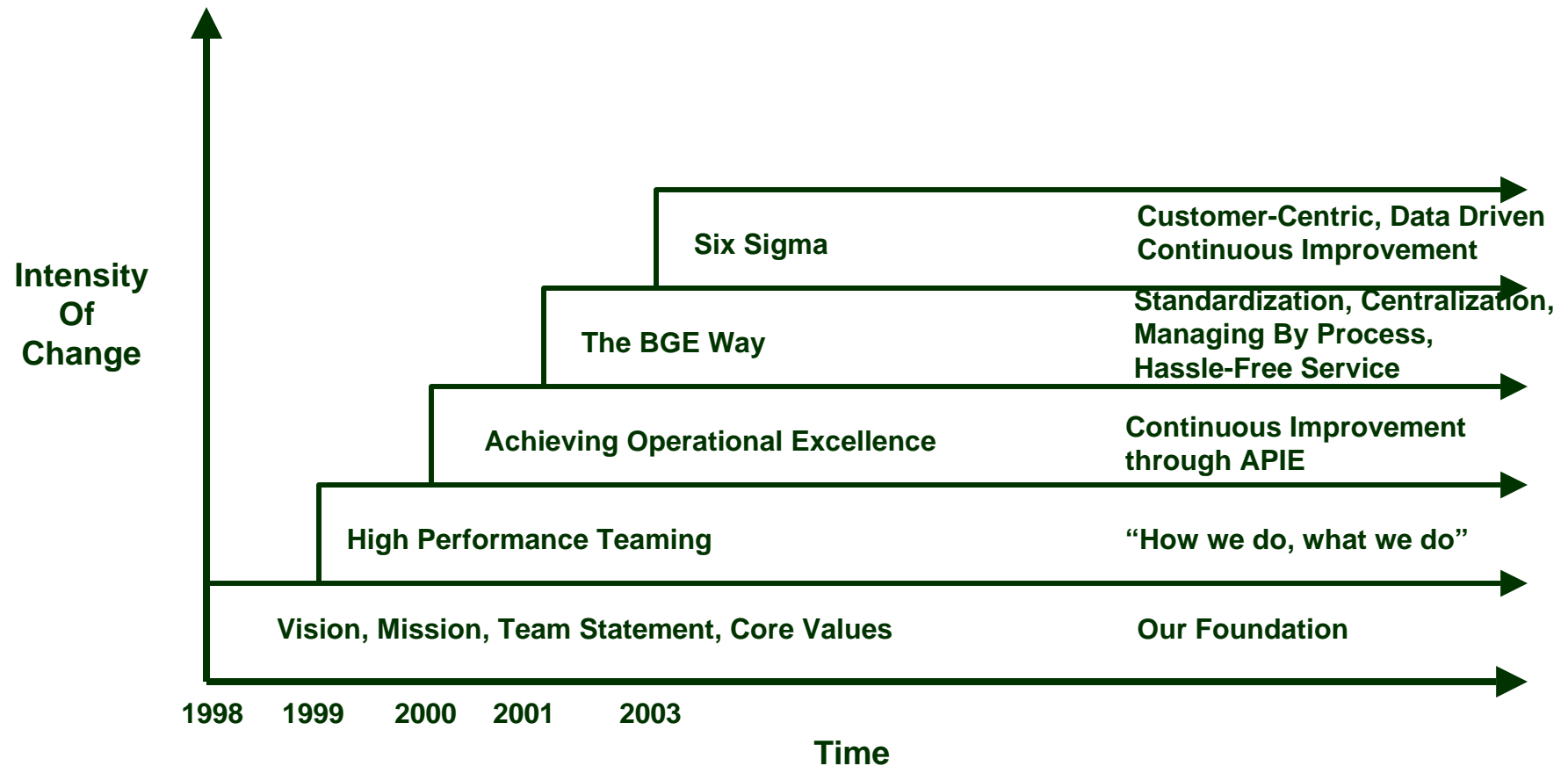


Some General Comments

- This was a journey of discovery - not all initiatives were planned from the beginning.
- We used multiple outside consultants to assist us for specific initiatives, but we developed the strategy and guided the process.
- The “engine for change” was in our leadership team.
 - Starting with the CEO as the model.
 - Cascading through all leadership levels.
- Not everything went as planned. In some cases, if we were to do it over, we would do it differently.
- Time does not permit a full discussion of all the initiatives we undertook. We will list them all, but discuss only a few.



Stages of BGE's Culture Change



It is important to note that each of these evolutionary stages of development of BGE's culture change is cumulative in nature. That is, each successive stage builds on and reinforces the previous stage. Nothing is replaced or eliminated. Each element remains in place as part of the overall culture.



High Performance Teaming

Purpose

- To facilitate culture change
- To institutionalize vision, mission, core values

How

- Established project team
- Visible Champions of Change
- Model High Performance Teaming
- Advocates for leadership development, employee involvement, and performance management
- Strategic communications

Results

- High Performance Teaming Model
- Bi-annual employee survey
- Annual employee action planning process
- Business literacy training
- Leadership development programs
- Leadership competencies
- Leadership 360 feedback process



High Performance Teaming





Values Survey

Purpose

- To measure how well we (BGE) are living our values.

How

- Developed in association with Hughes Research Corporation and launched in April 1999.
- Sent to all employees twice annually.

Results

- Provided a single composite measure labeled the “Living Our Values Index” or LVI.
- Response rate increased from 48% in 1999 to 79% in 2003.
- LVI increased from 52% in 1999 to 68% in 2003.



Employee Action Planning Teams

Purpose

- To develop action plans addressing the results of the values survey
- To involve employees in the business

How

- Multiple teams of 14 - 16 people throughout BGE
- One day process
- Facilitated by OD Consultants and HPT members

Results

- Employee engagement
- Actionable plans at the “grass-roots” level
- Reinforcement of management support and commitment
- Division-level and BGE-level plans for addressing employee issues



Leadership Development

■ Leadership Competencies

- Initially (January - June, 1999) developed a set of competencies for four levels of leadership (Executive through first-line).
- After two years revised to 7 Core Leadership Competencies which apply to all levels.
- Currently examining how to build on the Core Competencies for each level.

■ Leadership 360 Feedback

- Initiated a 360 survey and feedback process during March, 1999.
- Process conducted annually for Executives and on 18 month cycle for mid-level and first-line leaders.
- Revised process in 2002 with the introduction of the Core Leadership Competencies.

■ Leadership Development Programs

- Divisions developed multiple one-time programs to meet unique development needs during 1999 - 2000.
- Revised existing Supervisory Development Program in 2002.



Business Literacy

- Training programs conducted by each division during 2000 – 2001.
- Focus on understanding how the business works and the financial aspects.
- All leaders and employees trained.



Achieving Operational Excellence

- What Is Operational Excellence*?
 - Providing hassle-free service to customers.
 - Executing all processes consistently and extraordinarily well.
 - Focus on effortless, flawless, and instantaneous service to ensure lowest possible costs.
 - Do things right the first time.
 - Develop standardized routine procedures and consistently execute them very well.

*From "The Discipline of Market Leaders," Treacy and Wiersema, 1995



Achieving Operational Excellence

Purpose

- Strategy to achieve the vision
- Better results for customers and lower costs
- To improve scorecard results

How

- Project Team created in January 2001
 - Management oversight team
 - Seven project teams
- Use of A-P-I-E process
- Assisted by Glimmerglass Consulting and Rich Associates

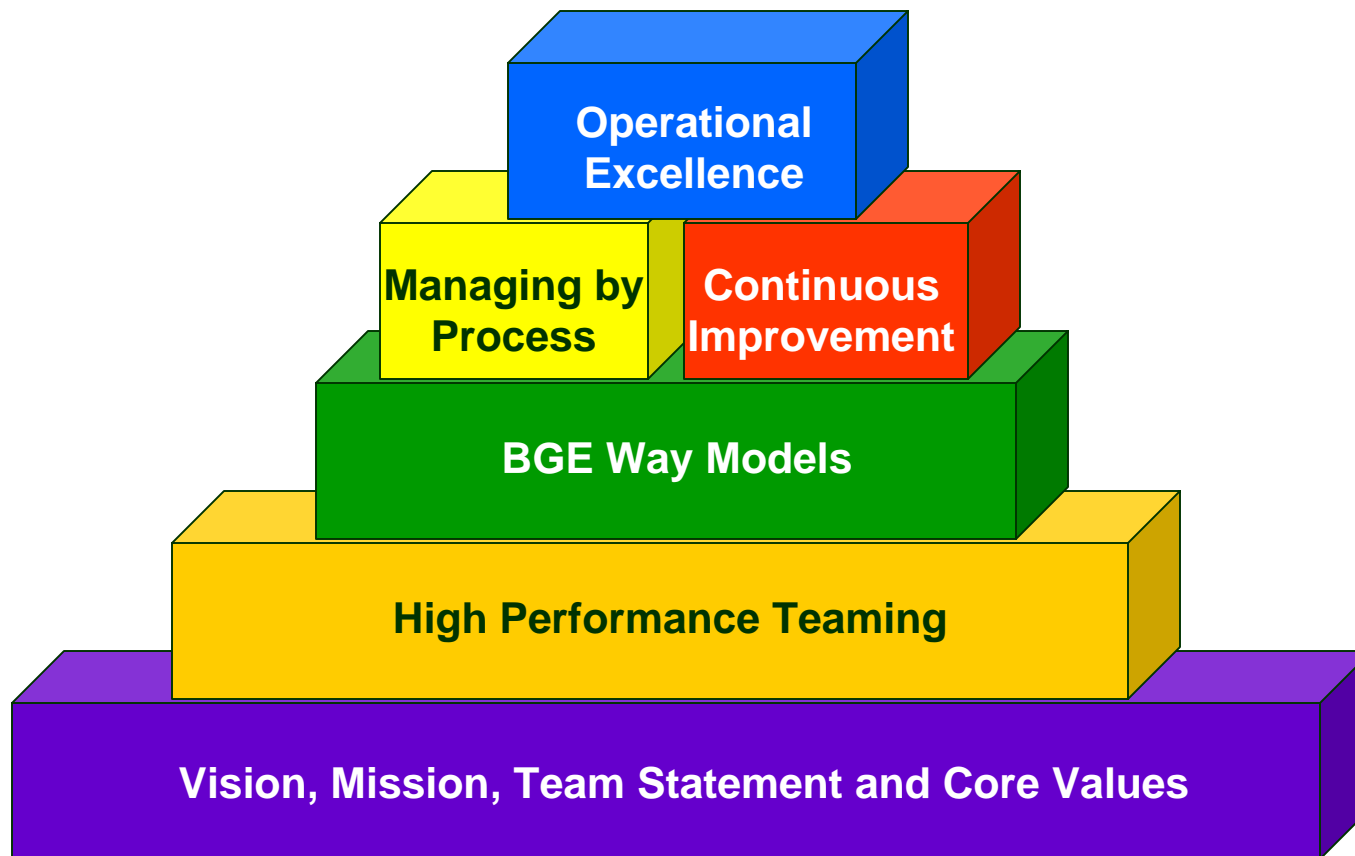
Results

- New business model for energy delivery
- Set of business models to guide daily operations
- Structure for managing by process
- New organization design
- Over \$100 million in real savings



“The BGE Way”

Becoming a Recognized Leader in Energy Delivery!





The BGE Way

Purpose

- To provide a unifying theme for all culture change initiatives.

How

- Model developed showing relationships between various initiatives.
- Interactive workshops for all leaders and all employees to practice concepts.
- Action plan to institutionalize the concepts.

Results

- Over 3000 employees trained in 9 months.
- Concepts integrated into New Employee Orientation Program and leadership development programs.
- Provided a common language.
- Employee brochure.



Managing By Process

Purpose

- To improve efficiencies in each of the seven key organization processes

How

- Seven Process Owner Teams formed to manage each of the key processes
- Process Owner Council established to provide coordination between teams
- Assisted by Glimmerglass Consulting

Results

- Detailed process maps for each process
- Process training for all employees
- Process teams to address specific issues
- Institutionalization of BGE Way models
- Hard and soft dollar savings
- Numerous process improvements



Six Sigma



Purpose

- To find additional process improvements and cost savings

How

- Identified high priority projects
- Trained Executives, project Champions, and Black Belt practitioners
- Created structure and framework for Six Sigma process
- Assisted by BMG

Results

- 4 Master Black Belts
- 5 Black Belts
- 25 Green Belts
- 33 Six Sigma projects
- \$3.4 M in annualized savings
- Numerous incremental process improvements



Other Initiatives

- Performance Management
 - New system for exempt employees introduced in January 2003
 - New system for non-exempt introduced in January 2004
- Change Management Process
 - Standardized approach introduced in 2003
 - Integrated with the BGE Way models
 - Integrated into Six Sigma Black Belt training



Some Results To Be Proud Of

- Evidence of culture change
 - Language
 - Decision process
- Restoration efforts in response to Hurricane Isabel in 2003
 - 790,000 customers restored in 8 days
 - EEI Award
- LVI improvement from 52% to 68%



Sustainment and Growth



Institutionalizing the BGE Way

- Transition of HPT activities from the President's office to OD.
- Continued focus of the Process Owners Council and Teams.
- Integration and reinforcement into current and future leadership development programs and employee orientation.
- Follow up BGE Way training for leadership.
- Integration into new performance management systems.
- Visual reminders - posters and brochures.
- Measurement and tracking through employee survey.
- Continued role of leadership in reinforcing behaviors.



Lessons Learned

What Worked

- Integration into existing and new systems and processes is critical
- Senior leadership ownership and support
- Creation of a shared language
- Use of a survey as a measurement tool
- HPT structure and action planning teams
- Regular flow of information to executive team
- Maintaining our identity while supporting corporate identity
- Use of OD to support the journey
- Organizational ownership vs. external consultant ownership

■ Teams, teams & more teams

What We Know Now

- It doesn't happen overnight - cultural transformation is a multi-year journey
- Continual communication of success stories and concrete examples to the broader audience
- Standardize the training content and approach during rollout
- Keep focusing on making it simple
- Make the connections for people



What's Next On The Journey?

- Fine tune the focus and structure of HPT.
- Potentially transfer BGE Way concepts to other companies in the organization.
- Strengthen our focus on diversity.
- Revitalize our career development programs.
- Integrate and enhance our leadership development system.
- Implement a multi-year hassle-free customer service campaign.
- Evolve manage by process.
- Continue to be strategic in our HR practices.
- Defining our next steps.



Q & A