

Lisa Norcross – Global Operational Excellence Leader at **e-on**

Lisa Norcross is SVP and Head of the Center of Operational Excellence for E.ON, one of the world's leading energy companies. Lisa was recruited by E.ON in 2013 explicitly to design and set up a group wide approach to OE. She built on some early beginnings in some business units to architect and implement a consistent approach to enable and embed continuous, sustainable, measurable performance improvement at all levels of the company. Her deep experience in Operational Excellence has allowed her to shape and drive a program at E.ON that meets the needs of a culturally and operationally diverse business. This successful approach has gradually delivered significant improvements and major cultural change across many parts of the business and strong commitment at the most senior leadership levels. The company's commitment to OE has been tested through several major strategic and organisational changes and has been repeatedly reaffirmed.

Lisa is a Mechanical Engineer who has been working in operations and operational performance improvement for over 20 years across several different industries. She started her career as a Graduate Engineer at Ford Motor Company, and after completing a post-graduate qualification in Manufacturing Management, moved into Management Consulting, working as an Operations Expert for McKinsey and Company for more than 8 years. Between McKinsey and E.ON, she was head of Operational Excellence for Europe and China for an aluminium manufacturer.

Program Overview

Program Start:	2013
Objective:	Enable continuous, sustainable, measurable performance improvement across the whole group
No. of colleagues engaged:	~30,000 (approx. 68% of total workforce)
No. of OE team members:	~500 (mix of full time and part time, spread across the business)
Business units involved to date:	<ul style="list-style-type: none">• Regional Units (networks and customer solutions): in Germany, UK, Romania, Hungary, Czech Republic, Slovakia, Italy (7 out of 8)• Power Generation Units: Renewables (Europe and North America), Nuclear• Finance Shared Service Center
New areas of the business starting OE in 2018:	<ul style="list-style-type: none">• CFO organization in Group Headquarters• New businesses in Customer Solutions: Solar PV & Battery, eMobility, Virtual Power Plants (VPP)• 50/50 Joint Venture in Turkey (networks and customer solutions)
Example impact:	<ul style="list-style-type: none">• 23% increase in customers served per colleague across all in-person customer contact centers in one country (~1000 people) at the same time as customer waiting time was reduced by 67%• 10% productivity improvement in a call center of 400 people• 10% productivity improvement in a field meter reading force of 2000 people• Complete restructuring of a ~4,500 FTE business area done by the OE team without external consultants• 73 point improvement in Net Promotor Score (NPS) for new gas connections in one country• 32% reduction in customer complaints escalated to the regulator, achieving best-in-market level of performance• Improving error rate from 50% to 0%• Increasing complaints resolved per person by 80%

Introduction to OE at E.ON

E.ON is one of the world's leading energy companies, with revenue in 2016 of €38bn, 33 million customers and 44,000 employees across Europe, North America and Turkey. We operate a broad range of operations in energy networks, renewable and nuclear power generation facilities and customer solutions. Customer solutions ranges from large scale sales and customer service operations through B2B energy management services, to new and innovative B2C products to municipal services such as public lighting.

The energy industry itself is going through a period of profound change, and a tough regulatory environment is making it ever more challenging to be profitable. The energy companies of the future have to reinvent themselves from slow moving monopolies with heavy investment in legacy "dirty" generation to become innovative, customer-oriented, climate friendly and flexible.

Operational Excellence (OE) started in 2013 in response to these challenges and after a significant top down cost reduction program (E.ON 2.0) that saw 22,000 jobs lost and costs slashed by €1.4bn. This was a necessary but painful step for the company. The intention of OE from the beginning was to make E.ON "fit for the future" and to avoid ever having to launch E.ON 3.0. It was also seen as a way to heal the wounds of E.ON 2.0. The objective is therefore to change the way we work and build a continuous improvement capability embedded in the business that enables people to meet or exceed their objectives on any performance dimension for the long term.

Strategic Objectives and Scope of the Operational Excellence Deployment

At the outset, OE was set up based on a business case of delivering 3-4% cost improvement year-on-year. However, in the early days, we had very intensive discussions with the Board of Management about whether or not we should have a top down target and track progress against that. The eventual decision was not to do this, for a number of reasons:

- Coming so soon after E.ON 2.0, they felt it would be rejected by the organization if there was a similar top-down target, PMO, impact tracking, etc...
- The ambition was (and is) to build a capability over the whole organization to be able to drive performance improvement, in a sustainable way, against whatever was most important for their area – this could be safety, customer service, lead time, quality, or any other measurable objective
- Several senior leaders made it clear they backed OE but did not want to waste time splitting costs and trying to determine who did what and who made what contribution
- The Board appreciated the power of OE to drive cultural change and they wanted to use it as a way to heal the wounds after E.ON 2.0 and to make people proud to work at E.ON again

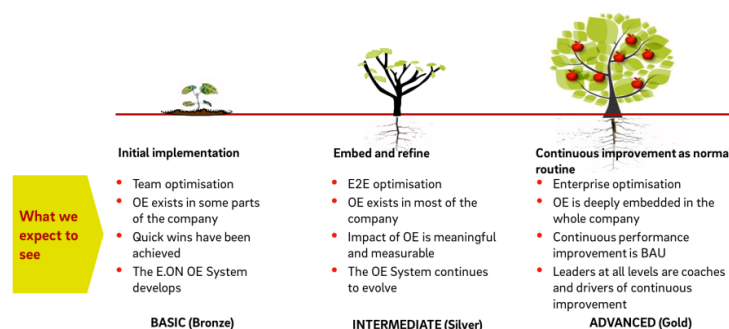
We have instead implemented a less formal governance, with our board sponsor visiting every business unit that is active on OE once or twice a year. We conduct a site visit, meet employees and then discuss with the people locally responsible for OE, including their own business unit board sponsor, about their objectives (quantitative and qualitative), how they are doing against those, how OE is contributing and, most importantly how they are embedding sustainability.

Thus, our mission is to transform the way we work at E.ON and to enable **every employee** to contribute to driving continuous, sustainable performance improvement. We deliberately have not gone down the road of creating a "belt" system which we believe makes problem solving exclusive. Instead, we are gradually building the capabilities of individuals across the company, and at all levels, to be able to identify and solve problems for themselves and to sustain the solutions.

Operational Excellence is changing the way we work at E.ON

- Operational excellence enables **continuous, sustainable performance improvement** ...
- ...by **engaging every employee**, every day in identifying and solving problems...
- ... and ensuring that everyone has the **skills and tools** they need...
- ... to meet or exceed the needs of **our customers, our people and our business**

E.ON still has a long journey ahead to embed continuous, sustainable performance improvement in our DNA



We have made it very clear right from the beginning that we see this as a long journey, requiring leadership commitment for the long haul. We have used the analogy of a tree to reinforce that we are talking in years, if not tens of years, before the system fully bears fruits. Importantly, we have already survived a number of disruptive changes in overall strategy and direction of the company, such as the split into 2 companies in 2015/16. The Board have repeatedly reiterated their commitment to fully implement OE and their belief that it fully supports the realisation of our Vision, our Strategy and our new Brand.

We have established a maturity system to allow teams to be recognised for their progress and given structured improvement feedback as they develop. We also have a certification

program accredited by the Lean Competency System from Cardiff University, that allows us to certify individuals as their own understanding and skills progress. The Certification program is available to everyone in the company, and our very first certificate was earned by our Board Sponsor.

The Operational Excellence Implementation and Timeline

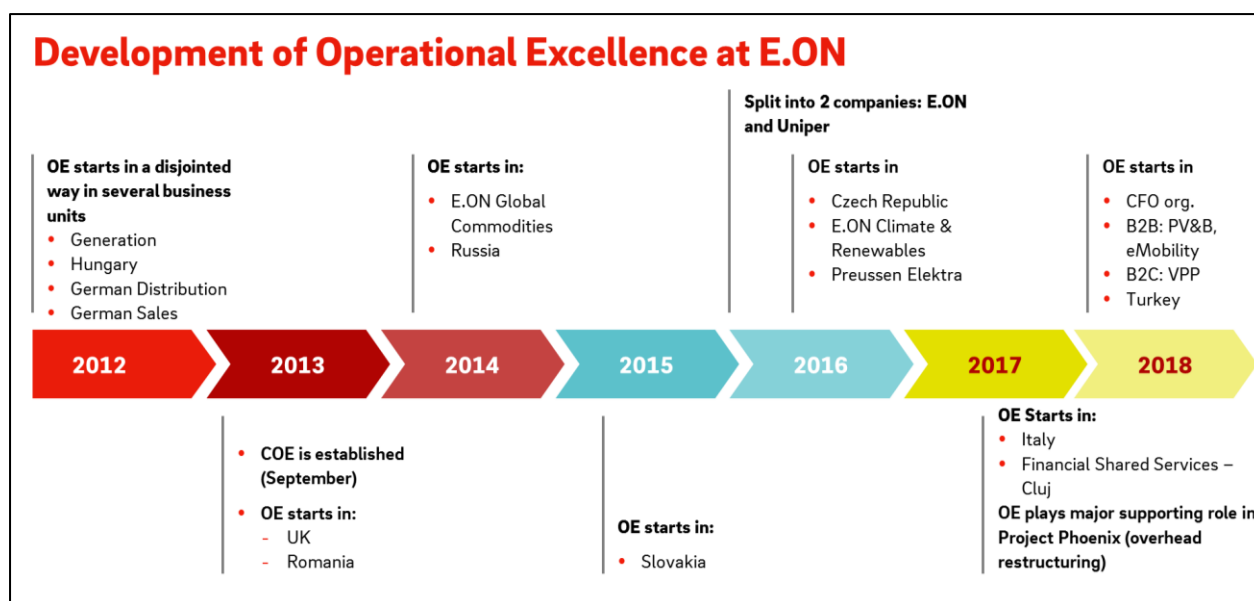
Several business units had started doing versions of Operational Excellence in 2012, prior to the establishment of the Center of Operational Excellence (COE) in 2013. Each business unit worked with a different external consultant and every consultant brought in a different approach with different strengths and weaknesses.

The COE was set up explicitly to develop a single, consistent approach to OE and to deploy that across the whole group. However, E.ON is a quite decentral organization which does not necessarily accept diktats from "Group" and we have had to work very collaboratively with the business units to build an approach that everyone buys in to. Each business unit has a level of customization to suit their needs but everyone is working towards a common goal, which is defined through our group standards and assessed through a Maturity Assessment process.

Each business unit develops their own implementation plan, with COE support. They establish their own OE organization, usually split into a central team who drive the implementation and locally embedded change agents who support their local area over the long term. Most business unit OE people are recruited from within the business so they do not necessarily have much OE knowledge. The role of the experts in the COE is therefore to focus on steering the central teams to ensure they do the right thing, and building the capabilities of their team to be able to become stand alone. Typically, this takes around 2 years, although the roll out of OE Basics in the business is usually longer. Only two business units, Romania and Hungary, have completed their roll out to all areas of their business, and they are now working on developing their maturity beyond the basic level.

Since the COE was set up, we have built up a central team of around 30 people and we have mostly been able to support the business units on their OE journeys with our own people. In some instances where language constraints apply (e.g., Russia) or we have not had sufficient capacity (e.g., Italy), we have worked with external partners who have followed our internally defined standards and approach.

Capability Building is at the very heart of our approach. We strongly believe that long term sustainability is based on the ability of individuals at all levels to apply OE tools for themselves. This means that the OE organization does not solve problems for anyone, rather we support the line organization in solving problems for themselves. We do not overwhelm people with bootcamps or "death-by-powerpoint" style of training. Instead, we drip-feed topics over the course of an implementation wave, which typically takes 16-20 weeks. Each module consists of a very short introduction to the theory, followed by practical exercises and each individual then has "homework" that they go back to their area and complete in their real work environment. While they are working on implementing new tools or techniques, they receive coaching and hands-on support from their OE colleagues. We apply this approach even when we work with Senior Executives.



The Size of the Deployment Challenge

Our ambition is to reach **every single employee** in the whole group. The unit structure is somewhat misleading as there are also wholly owned daughter companies which operate independently:

- Full scope is Group Management, 8 Regional Units, 2 Power Generation Units, 1 50/50 Joint Venture
- Geography is 8 countries in Europe plus Turkey and North America
- OE has already started in 7 out of 8 Regional Units, both Power Generation Units, a daughter company of Group Management (financial shared services) and will start in 2018 in Group Management itself and the JV in Turkey

- Each business unit is progressing at its own speed but we estimate that of our 44,000 employees, roughly 30,000 have gone through an OE implementation (~68% of the total work force)
- We are particularly proud that we already have a number of business units who are applying OE top-down and bottom-up, with several senior executives, including our own sponsor on the board of management, and business unit management boards actively applying OE to the way they work



CEO of the Renewables business (second from right) visit doing a "Go & See" on site at a wind farm



Board sponsor of OE (on right) working on developing his own performance board



Board of Management of Preussen Elektra (nuclear business) conducting a performance dialog – note: charts are obscured for security

The Impact and Organizational Results of the Operational Excellence Deployment

As explained earlier in this document, we deliberately decided not to track savings, and we do not promote running projects, rather we enable line leaders to identify and solve their own problems and to sustain solutions, as part of their normal daily business. Some example impacts were given on Page 1 to illustrate the type of impact that line people have been able to achieve through the application of Operational Excellence in their area of responsibility. These examples are fairly typical of the scale of the improvements that have been delivered and, more importantly, sustained over time.

We have approximately 500 people who are actively working on implementing or sustaining OE, these people are all part of a vibrant and active OE community. Of these practitioners, approximately 350 have achieved Level 1 certification, around 25 have achieved Level 2 certification and 3 people have achieved Level 3 (the highest possible level in the LCS system).

While we are unquestionably delivering value to our business, our greatest achievements have been qualitative as we see countless examples of people who have developed as individuals and areas of the business where the culture is truly changing. It is easiest to illustrate this with some quotes:

- Unit CEO: *"OE is a core capability for the future of our business and one of our top 5 priorities for the foreseeable future"*
- Unit Board member: *"Our greatest challenge, but also our greatest success, has been in turning people from Bosses into Leaders".*
- Front line team leader: *"I was team leader of fifteen people when OE came into our area. Until OE started I was a typical team manager of the E.ON group: "Oh, there's a problem? Just one second, here's the solution!" Did that work? Yes, of course- but without knowing I often created more problems or the same problem came up again later. But during the implementation a change in my mind started. I became more and more aware of the importance of KPI's, started to think about existing problems and their root causes together with my employees, structured my day... And as a nice side effect my team raised their overall performance by more than 20% without any pressure. All in all and afterwards there was a complete change in behavior. Of course it was a slow process but after 2.5 half years dealing with OE I now recognize that I am NOT the same person compared to March 2015."*



As the overall architect of OE at E.ON and the driving force behind the momentum of the program, Lisa Norcross has made a huge contribution to the future of our business. She is a well-liked and respected leader across all geographies and at all levels of the organization.