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Does Controlling need a Strategy?

ELMŰ/ÉMÁSZ is one of the biggest electricity supplier in Hungary with 120 years experiences. Annual volume of electricity transferred to 2,3 million customers is 10 TWh. Service area is Budapest with its surrounding and North Hungary via 45.960 km grid lines. Close to 3000 employees have been working on permanently to fulfill the needs of Business customers from small bakery to big high tech manufacturing/service companies like Bosch, or Budapest Public Transport Company and Household customers. Service orientation and customer focus helps to understand and develop product and services on demand.

Electricity supply is one the classical infrastructure service with big organization, but when I'm looking back the 120 years History of ELMŰ/ÉMÁSZ I can find innovative ideas, solution and technical development. Just the beginning was quite unique as the headquarter in Budapest was a multifunctional building: primary function was a coal fired power plant. Coal was transmitted from Danube trough horse powered small trains via tunnel and the steam engine produced the electricity. Electricity service was new, with some doubts against security therefore was not easy to convince the customer to switch from "classical" product to a brand new one. The main focus was the technical and security development, but lots of things have been changed then...

What are the key challenges in overall Energy industry today? This industry is an asset heavy industry but with shutting down coal-fired power plants and targeting lower lever of CO₂ output more and more assets have been losing their value. Why? Supplier capacities are increasing via renewables and demands are decreasing via energy efficiency measures. Prices of based products cut by 50% after 2008 to 35-40 EUR/MWh. There is a pressure both in price regulation and open market competition to push the prices further down.

Innovative thinking is necessary to have for finding new ways and answers for every day and system relevant challenges. All elements of value chain of electricity supply are effected:

- GRID: there is an “ex-ante” regulatory regime where all Investment and Cost had been approved and built in end consumer price by regulator. Technical condition of grid developed significantly in last 20-25 years however customer purchase power in Hungary did not follow the price change. Maintaining and developing service level with economically feasible solution is a key business focus of grid parallel with introducing and testing smart technologies as digital transformation effect the whole business dramatically.
- RETAIL: There was only “one” product in the past. Business customers wants to have a product where they can define the volume and peaks and lows regarding consumption. More flexibility is necessary in product development and service delivery. Non-Commodity products like e-charging pools and energy efficiency services need new culture in thinking and find solution to customer’s needs. Co-working and Team-working will be more in the focus with external partners. Household customers are interested in low prices and security therefore cost efficiency and process simplification are in the focus of Innovation.

Parallel of the development of ELMŰ/ÉMÁSZ lots of function and activities are developed together, even in management and administration area as well. Accounting based external reporting was quite important in the past but beside increasing of uncertainty there was a demand to build up controlling activities are focusing on planning, forecasting, reporting and analysis of profitability and economic returns. Management of ELMŰ/ÉMÁSZ needed more support in a better organized way, therefore controlling became more and more important and got more responsibility to steer and support business areas. Controlling started to grow, there had been more than 20 employees by 2010. After Financial Crisis and more and more challenging created by energy market and regulatory environment, whole organization of ELMŰ/ÉMÁSZ needed to find new ways of operational models.

What can be the vision and role of Controlling in this situation? Does Controlling need a Strategy? Controlling had to think about its roles and responsibility and even its function and relation to operational business and management levels too. I was looking for a methodology how to push this situation forward and how to create a high-performance, efficient team. As I interested in Formula One I started to analyze more deeply why Formula One Racing is working well, efficient. Based on that I saw ELMŰ/ÉMÁSZ as a Racing Car on a Racing Field of Energy Business. Racing Field has some specific features like business: there is a competition, there are chances, risks, competitors, winners and sometimes losers. Conditions can be changed quickly and Racing Strategy has to be updated quickly, Racing Tactic has to

be maintained permanently. Every Player has the same target: to win the Race, means value creation for shareholders. Four wheels has to be connected keeping the car on the right track and support the car to go into the targeted direction. But what these four wheels can represent in a company and especially in controlling. What can be the four key elements (4 Wheel Model, 4WM) can give stability and permanent improvement in controlling.

Controlling is supporting management in the realization of the short-term, mid-term and strategic goals of ELMŰ/ÉMÁSZ.

When I asked my colleagues what and why are they doing their jobs they often gave non-clear answers, sometimes it was mentioned only “I inherited this job”. It was clear that something has to do. As Controlling works with lots of data and information there is a danger that number crunching is coming more into the focus losing the interest and demands of Customers. First step was to identify, segment and understand the need of Customers of Controlling:

- (1) Internal Customers like Parent Companies, Board Members, Managing Directors and Department Leaders,
- (2) External Customers like Hungarian Energy Office, Statistical Office, Auditors and Advisors in case of Projects.

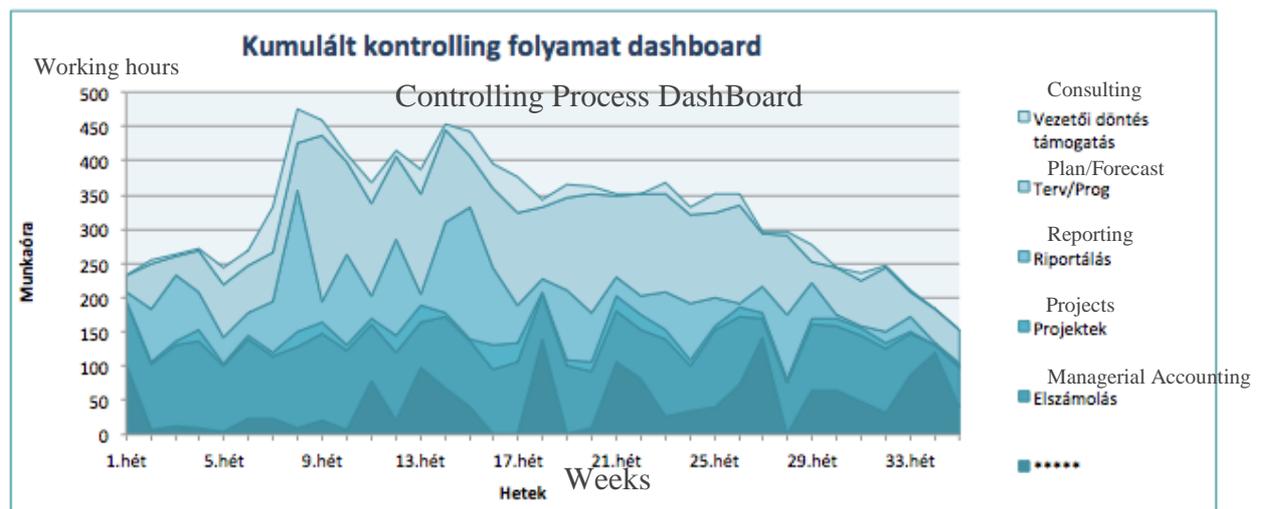
They are defining and representing the demands. Based on customer needs products and service has to be developed and delivered to them on an end2end way. Definition of E2E processes based on customer needs is the 1st WHEEL. Why this Wheel is important? As a head of Controlling I have to spend lots of time on controlling processes. They are time-consuming and sometimes are not so effective. Delegating task can't be a solution, therefore new way of thinking is necessary. Why? Delegating roles and responsibilities gives more space for personal development and process improvement parallel.

The Process Owner manages processes and leading sub-processes. They are responsible for the quality of the output and define the milestones, deadlines beside taking care schedules. They permanently give status about the process (readiness of product) and measuring the process KPIs and gave proposal to develop it further.

The Business Partner is the sole contact for a Business Unit: (1) leading the communication between controlling and business unit, (2) leading planning, forecasting and reporting of the business unit and spending time to understand what is the business about.

The Controller is responsible for the financial analysis and reporting to the customers means: (1) collecting and analyzing financial information of management topic, (2) giving financial guidelines to business decisions for business units.

Process and Customer oriented view helps to understand customer needs better and make the processes leaner and faster. What does it mean? Based on TimeWriting controlling processes



can be analyzed from timing and loading point of view. It is a good basis for capacity planning and figure out the right focus points of the activity. It helps to develop the skills and knowledge of the controllers. This is the 2nd Wheel of the model. Beside customer oriented E2E processes (1st Wheel) controllers have to understand what are they doing, how and why. Both personal and team skills has to be developed as this is the key element of successful performance based cooperation. Let's think about Formula One where a tire change needs a combination and harmonization both personal and team performance based development.

Customer- and process- oriented view has to be realized in organizational structure therefore a matrix organization can move this approach forward: (1) Process owners are dedicated to main processes with appropriate authority and responsibility, (2) Every customer has its dedicated contact person in controlling called Key Accounts, (3) Process Owner leads Key Accounts and controllers in the process however these roles are equally important in the structure. It is important that roles are different dependent on the process: process owner of one process can also be a key account as well as controller in another process.

Having customer oriented E2E processes (1st Wheel) with good skills and knowledge and cooperation of the team (2nd Wheel) is necessary and not enough. Challenges, changes are

often needed more speed. Automatization can help and support fastening processes which is mainly IT tools in Controlling represents the 3rd Wheel. If all three wheels are developed, it is a good starting point to find out the right focus points. Everything can be worked well, however there is no right focusing, the target of the activity will not meet. Focusing means doing the right things, doing the things right. There is no car with 3 wheels therefore the 4th one is important too. Based on my experience I recognized that communication is a very key point in right or proper focusing therefore communication and meeting are important part of the operation of controlling organization. I renamed Communication to CommuniACTION represent the proactive and meaningful way of showing up controlling messages, proposals. It is the 4th Wheel.

I believe that 4WM (Four Wheel Model) can be contribute to any enterprise to set a new way of excellence operation.

What I recognized that beside a volatile business environment where business models are disrupted controlling operational model¹ needs to be thought further:

- (1) Future Focus: if there is certain in product/service cycle or business environment, future can be predictable, planning and forecast has accuracy and gives a proper picture of possible directions and development of the future.
- (2) Solution Focus: if there is an uncertainty in product/service cycle or business environment, future can't be predictable. This is the situation where business case/option analysis can support decision makers to set the directions. Analysis of actual development describe the as is situation and gives a mirror to understand the performance and hell to identify the challenges.
- (3) Performance Focus: if there is a complete uncertain situation where usually business models are under attack or disruption. Performance and multidimensional analysis can create transparency and support to find the route courses and setting new ways of solutions.

Switching between different focus model is the art of controlling. The key issue how to find the signals and signs to change the model. This is the reason why Controlling needs a Strategy. Controlling support business leather in decision where understanding the operation and steering business is a key role, therefore controlling as organization and controllers as business

¹All the findings were based on 4 years time-writing and detailed analysis of jobs, deliverables and performances in cooperation with 15 controllers at ELMŰ/ÉMÁSZ Group

partner has to have entrepreneurial mindset more than number crunching skills. How? Self-awareness about the job, tasks via time-writing is a key element of changing focuses and manage capacities (both personal, and team) between controlling processes defined by 4WM. Developing skills and capabilities are the key factor to be more agile, proactive, fast and collaborative.

How to drive and achieve the change? Changes don't happen from one day to another. It needs to make efforts and develop skills, mindset. Mindset change is the focus and I developed and used a methodology by Balance Scorecard (BSC) tool. There is a so called "Week Close" meeting where each colleagues of mine have to present their achievement in 4 dimensions of their Personal BSC:

- (1) Finance: cost of controlling the workings hours spent on different products/services created via controlling processes. Datas are based on daily time-writing split on hourly basis.
- (2) Customer: controlling has to understand the demands and needs of the customer who is the management, business leaders and operative managers. Customer experiences, touch points are the basis of develop services and create value to ELMŰ/ÉMÁSZ.
- (3) Processes: what is finished or in delay is the experience worth to share to learn about the success, failures or mistakes.
- (4) Learn&Develop: from number crunching to entrepreneurial mindset is a journey where colleagues have to formulate their proposal or key findings on this journey.

Every quarter there are process reconciliation workshops, meeting where process owners present the Process BSC to show the cost of the processes/services, key achievements and possible learning and developments. Everybody is invited how who contributes.

The transformation is still ongoing but there was a project took 6 months.

Lesson learnt:

- Prepare the project in advance: create space and time
- Trainings in the beginning helped a lot to get together and having same understanding of goals, expectations
- Changes are not happening from one day to another, therefore it is a task every day to work on that makes it happen and visible
- Experiences lead to learn and develop (try and error, repeat the success)
- Customer focus means talking to each other, understanding each other

- Automation can accelerate the processes if they are working well, otherwise nightmare will come
- Simplification can help in focusing what is matter
- Both Personal and Team Coaching can support the transformation
- Sustainability takes bigger effort than to achieve mindset change...