

By O. Mark Marcussen

Managing Discontinuous Change *in the Water Industry: Part 1*

In 1986 Charles Handy, the British management thinker, published *The Age of Unreason*. The book is full of provocative prescriptions for organizations, individuals and societies.

Handy's tale of the behavior of frogs is particularly eye-catching. It turns out that if a frog is placed in a pan of water and if that water is heated gradually, the frog will allow itself to be boiled alive. It is too comfortable with continuity to realize that continuous change at some point can become discontinuous and demand a change in behavior.

There is an axiom that change is the only constant. However, that usually means change with a pattern. Discontinuous change is the opposite. Today, most organizations find themselves in environments where this type of change can occur at any

great detail. It should be sufficient to provide a few observations in support of the supposition that managers operate in particularly treacherous times. We then will proceed with the expectation that while the following discussion of management issues is generic it is, in our experience, applicable.

Water supply clearly is one of the most important functions in society. As such, it is and will be scrutinized by many people including customers, its own managers and staff, legal professionals and politicians. In addition, there are many important issues being discussed right now.

Perhaps the most pressing of these issues is the need for infrastructure financing. According to the AWWA, the capital requirements of the water distribution sys-

that are worn out or below currently required capacity and results of deferred maintenance. In addition, water conservation will require new construction to deliver reclaimed water wherever this can be used safely.

The impacts of various forms of physical technology, media attention, customer attitudes and customer demands are separate yet inseparable. Physical technology should lead to improved efficiency but does not always. It has the potential to lead to quality improvement and this is regularly reported in the media. Customer attitudes reflect this coverage and encourage new forms of regulation and legislation. Much of this is both desirable and necessary as in the case of continuous attention to water quality. However, the simultaneous pressure on quality and rates creates an equation that is difficult to solve. Service equals fast, good and cheap, all at the same time.

Whether or not to engage the private sector more extensively is another issue. Rebuilding and updating of infrastructure together with improvement in quality and customer service were key factors in the

As water industry managers continue their efforts to steer their organizations through day-to-day improvement, they will be faced with issues such as technology, media attention, customer attitudes, customer demands, privatization and outsourcing.

time led by technology, customer preference, competition, regulation or legislation.

The Environment

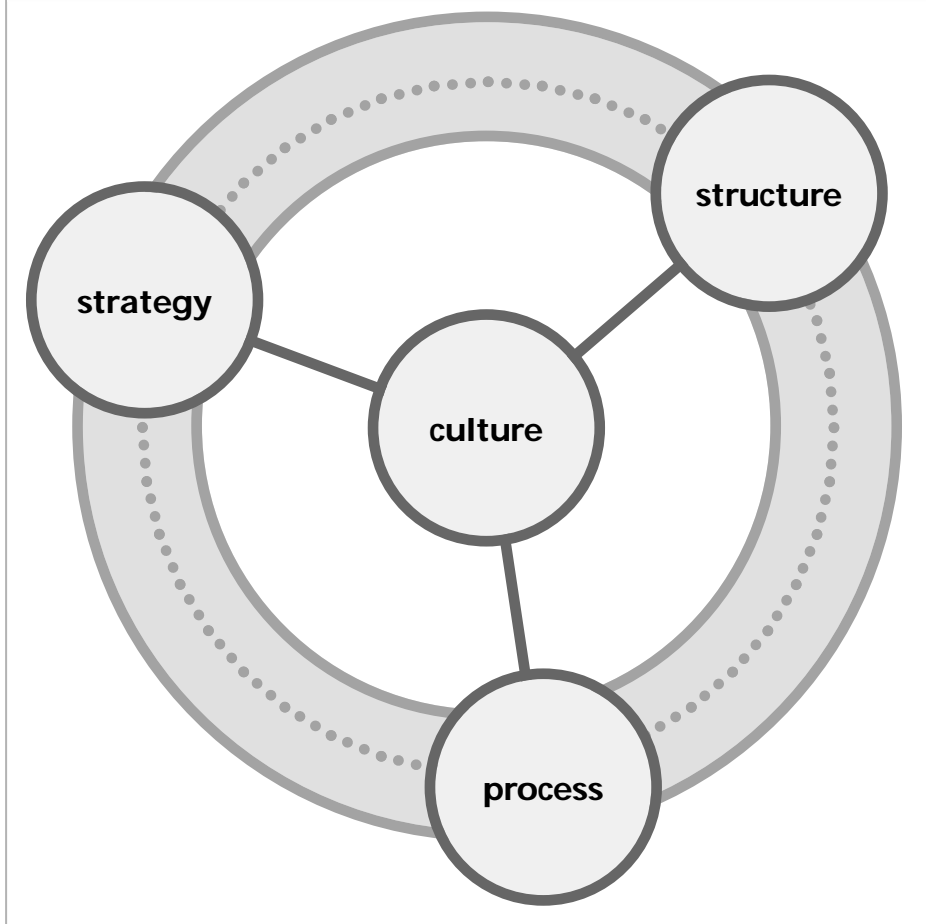
This material does not intend to portray the water industry environment in

tem for the next twenty years will run around \$325 billion. When wastewater plant requirements are added, the total is around half a trillion. The causes for this need include new and more aggressive environmental regulation, mains and pipes

decision by the British government to sell the regional water authorities in England and Wales in the privatization program of 1989. The French have taken the outsourcing route for most of its water industry whereby private firms finance and



Figure 1: The Elements in Transformation



manage total systems through long-term contracts. The need to keep the infrastructure current is a motivation for this type of de facto regionalization combined with private sector management of operations and maintenance.

The French conglomerates, British water utilities and American private water management companies are now making competitive inroads into the United States water industry. Private competitive involvement is expected to expand. Managed competition is one such form. Our firm has observed positive experiences with these types of arrangements for non-core activities in the UK. However, these water companies are in the private sector, and in labor/management relationships that are different from those in the U.S. In the view of industry executives in this country, the results have not been encouraging, and this form of public/private relationship is not likely to expand.

The direct outsourcing of selected activities is another form. This method faces two concerns. One is the need to draw bulletproof lines of demarcation between those functions that will be handled by the contractor and those that will remain with the owner. The tentacles of one often tend to invade another, causing avoidance of accountability. The other concern is management of the contracts, making certain that hidden costs and associated aggravation do not absorb available benefits or turn the arrangement sour. Such concerns may lead water organizations to outsource their activities more comprehensively, accelerating design/construct and operate arrangements for facilities or adaptations of the French model for the whole.

There are about 55,000 water delivery systems in the United States. For all of the debate about the merits of the British privatization, the 1974 combination of hun-

dreds of local water, wastewater, flood control and river management activities into the ten authorities has been regarded as a model of the value of regionalization. After a period of painful integration, improvements in both cost and service took hold as would intuitively be expected. There is a trend toward combinations in this country that will no doubt accelerate.

As water industry managers continue their efforts to steer their organizations through day to day improvement, they will be faced with these types of issues. There also are growing needs for new management technology and the demand for a coherent response to a customer base that grows more articulate and organized in its demand for improved quality at lower cost. How will the seventy five percent of water systems that serve one hundred thousand customers or fewer (according to a 1996 AWWA survey) attract and retain the talent they will need?

Any one or more likely a combination of such issues can create what Andy Grove of Intel calls a strategic inflection point. This is a development that potentially can change the landscape so fundamentally that it cannot ever be the same again. While there will be those that can weather this type of discontinuity, many more will need to seriously re-examine their reason for existence and/or focus on the transformation they may need to embark on.

The Elements in Transformation

Transformation may sound like another dreary “consultese” buzzword. By definition, it is a process that changes the condition, character or function of something. In our terminology it means seeking ongoing congruence in culture, strategy, structure and processes. In our experience, any organization, large or small, must maintain such a fit to remain viable. Culture is intended to mean the underlying beliefs and values of the organization, its *raison d’être*. Strategy is the vehicle for creating and maintaining competitive advantage by identifying the desired future and choosing those activities that will serve to achieve it. Structure is the means of realizing the strategy through an effective mix of resources. Processes are the ways in which chosen activities that provide strategic advantage

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are carried out. Keeping these elements in harmony under the pressures of ongoing operations and discontinuous change requires continuous management sensitivity and attention.

**Culture -
The Soul of the Organization**

Archeologists and historians may take a dim view of the term culture in the context of plain and simple organizations, but organizations do develop cultures. In a start-up company this may be just an unspoken product of ambition and an outrageous work ethic. But somewhere along the line, the founders or others in the organization will begin to articulate it more formally. At that time it will capture the essence of what the organization is, although not necessarily reciting what it does. In a management consulting firm, we had a statement that described our desire to help companies and government agencies be all they could be, but we also added to have fun doing it. When recruiting MBAs on major campuses, this adjunct made candidates look up from their brown bag lunches. Having fun working in a stressful and demanding setting was apparently a novel and exciting idea. It was a big hit.

Culture may provide competitive advantage but does not always do so because that is not expressly its point. It is in the background, attracting and energizing those who feel comfortable, perhaps repelling others. Over time, culture develops norms, practices and folklore that enhance its strengths but that also can get in the way when radical change is required. The message is that culture is

hard to define, but we know it when we see it. We also associate culture with distinctive behaviors we are comfortable associating with.

The management literature is replete with terms attempting to define culture. We read of philosophy, purpose, vision, mission and other expressions, each with its own definition as proposed by the particular author. Since culture is such an elusive concept, perhaps it is best to describe it as an attitude toward the constituencies such as customers, employees and others together with a behavior that fulfills that attitude. If factors such as service, fairness, quality, concern for the society, the community and the environment, respect for the individual, dedication to affordability, drive to enhance technology, commitment to ongoing learning and teamwork are important, then they are part of the culture. If not, then they are not. Getting the culture right and communicating it properly and often in words and in deeds is necessary. In good times and in bad it is the difference between playing a Stradivarius or fiddling along.

**Strategy -
The Will of the Organization**

While culture prescribes basic beliefs and values and is eternal, strategy is situational. It lays out where the organization wants to go and how it wants to get there. It can be expressed—meaning that it has been formulated “top down” more as a ritual than as a tool—or it can be realized. In that event, it has most likely been hammered out with broad participation by those who will make it happen. It is practical, doable with a stretch effort and ener-

gizing. In describing the quest for a strategy, it is useful to consider Why, What, When and Who.

An organization needs forward momentum, for the sake of its own well being and for that of all of its stakeholders. Since few people are adept at formulating and articulating “the vision thing,” it is practical to consider goals. Goals need to be projected with vibrancy. A goal is clear in terms of what it will look like when it is achieved and at what time that will be. “I want to lose weight” is an aspiration. “I want to lose twenty pounds” is an aim. “I want to lose twenty pounds by year end” is a goal. Goals can be quantitative and qualitative or both. They must be accompanied by a convincing road map of how to get there so that the entire organization can sense excitement, belonging and urgency.

Strategy is about making choices. In a commercial environment this can mean selecting the products or services to offer and then choosing how. In a water utility it means selecting those activities to engage in and then choosing how. In both instances it is just as important to exclude as it is to include. Successful water organizations, therefore, are careful about their definitions of the core components of their business, those tasks that matter to the delivery of a high-quality product to the customer at a fair and acceptable rate. They focus their technology and training on those activities and, if necessary, con-

tract out peripheral work. Such selection and focus help to create a seamless operation and effective outcomes.

The strategy literature often cites Southwest Airlines as an example of an organization that succeeds in a highly competitive field. The company serves high-end travelers as well as others such as vacationers on short hauls with frequent flights, quick turnarounds, standard equipment and no frills. This is accomplished through a tailored set of activities designed to do just what is necessary, which are executed seamlessly and are difficult to imitate in the aggregate. The chain becomes as strong as its strongest link.

The answer to the question of when to think about strategy is simple: Often. Strategy is no more static than an organization's environment. Progressive organiza-

tions continuously review their operational performance and the external forces that affect their lives. They design and use systems that provide real-time information. This allows proactive responses to changes in customer reactions, competition and regulatory and legislative machinations. Good intuition is a key to rapid reaction and it is based on repetitive analytical experience.

Strategy formation requires broad participation through the two interrelated components of imagination and programming. Setting the stage should come from the top but input should come from everywhere. This includes both hard data when it is current and relevant and informal contributions that can and should contain hunches, rumors and even gossip. Synthesizing this information into tangible goals and into ways to move toward

their achievement constitute strategic thinking. The programming of the material into detailed plans for action needs to retain fluidity. Strategic thinking, intuition and fluidity are not the tools of traditional planners. Their craft was more formal, exclusive, rigid and perhaps more elegant.

Part 2 of this article will focus on the structures and processes of an organization and will appear in the February issue.

About the Author:

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