

# **Restructuring of a Vertically Integrated Electric Utility -**

## **A Process Study**

### **Abstract**

#### **Introduction**

This study develops an empirically based, inductively derived process framework for restructuring in the Electricity Supply Industry (ESI). The framework was developed by processual and contextual analysis of the process of restructuring in a vertically integrated electric utility.

#### **Research Context**

The ESI is one of the largest industries and occupies an important position in the world economy today. From the early 90's, dramatic changes have been taking place in the structure of ESI worldwide. Several countries took initiatives to reform and restructure their electricity sectors. The reform and restructuring in the ESI broadly involved the process of vertical separation of generation, transmission and distribution functions into separate entities, opening of the transmission grid to independent generators, corporatisation of the newly created entities, and their eventual privatisation. Research on restructuring in the ESI has focused primarily on the consequences of reform and restructuring. It does not adequately focus on the process of restructuring including the actual implementation and the associated organisational changes. This study addresses that gap.

#### **Research Objective**

The objective of this research is to map the process and develop a general framework for initiation and implementation of restructuring in a state owned vertically integrated electric utility. Specifically this study addresses the following: What are the conditions that lead to restructuring in the ESI? How do the sequence of events occur in the process of restructuring in an electric utility? Who are the principal players involved in implementation? How does their role change over time during the transition period? On the basis of an understanding of these issues, a process framework for restructuring in the ESI has been developed.

#### **Methodology and Research Site**

Given the lack of adequate process research in this area, and to obtain a holistic explanation of the process of reform and restructuring through rich description and detail, and to understand the dynamics that are present in such settings, the case study method was used in this study. The research design adopted for this study is the single case holistic design. The case chosen for the present study is the restructuring of Orissa State Electricity Board (OSEB). This case was chosen because Orissa was the first State to restructure its SEB and there was good accessibility to data. Both real time and retrospective data was collected pertaining to the period 1990 - 1998. The sources of data for the study were organisational files and documents, personal observations during field visits, and in depth interviews. The main form of data collection was through in depth interviews. For this study 38 interviews

were conducted of people at various levels in the organisation. In all these interviews yielded about 300 pages of type written material, which was used for analysis.

### **Data Analysis and Synthesis of the findings**

The process of restructuring is found to comprise of three major phases. They are: (i) impetus phase; (ii) reorganisation phase; and (iii) consolidation phase. Impetus phase is defined as that phase during which the momentum for change originates and strengthens, thereby providing a definite thrust for restructuring. It is characterised by a concentration of various factors that provides a definite thrust for reform. These factors can be classified into:

- (a) Contextual factors: They are the primary drivers for initiating reform. The performance of the utility and the conditionalities of the lending agencies are contextual factors.
- (b) Trigger factor: It is the determining factor that creates a compelling necessity to undergo restructuring. The inability of the government to continue to support the utility acts as the trigger event.
- (c) Facilitating factors: They act as facilitators for initiating reform. Support of the government, absence of a powerful lobby, and the support of the top management are facilitating factors.

The reorganisation phase is defined as that phase, which is characterised by changes in the existing industry structure, resulting in the creation of new entities. Consolidation phase is defined as that phase, which is characterised by the strengthening of the new organisations that were created during restructuring to make them financially and commercially viable companies. The strengthening broadly focuses on: Organisation structure and processes, Management information systems, Financial management and planning, and Personnel management and staff development.

The framework of restructuring is developed by combining the three phases of change along with the constituents of change, namely, content, context, and politics. The key actors who are responsible for implementing the reform program are the Government, top management, lending agencies, and the consultants. As the restructuring process moves from one phase to other, the role of these actors also change. The role of government in the three phases, respectively, has been need recognition; constituting and authorising; and sector non-interference. The role of lending agencies has been negotiating change; commitment seeking; and success ensuring. The role of top management has been idea building; integrating and support generating; and catalysing, operationalising and monitoring change. The consultants are involved only from the reorganisation phase. They are involved in strategic planning; technology transfer and capacity building respectively in the latter two phases.

### **Implications**

The process framework developed provides a mapping of the constituents of change across different phases in the restructuring process. This framework provides a direction to managers and policy makers for effective implementation of restructuring in the ESI's. The study also has indicated the role of key actors in different phases. This can be used as a template for guiding and examining the role of key actors in executing and implementing such projects.