



*Academy for Educational Development*

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**ARMENIA ENERGY TRAINING PROGRAM**

**Contract No. LAG-I-00-98-00011-00, Task Order Two**

**Technical Report**

**Executive Training Course**

June 14, 1999

Submitted to U.S. Agency for International Development

Submitted by the Academy for Educational Development  
with Hagler Bailly Services

**ARMENIA ENERGY SECTOR TRAINING PROGRAM**  
**Technical Report**  
**Executive Training Seminar #1**

USAID Strategic Objective 1.5      A more economically sustainable and environmentally sound energy sector

Intermediate Result 2              Increased economic efficiency in the energy sector

Participant profile                      Armenia's energy companies, government ministries and regulatory entities with competence over the energy sector

**A. Course Purpose**

To develop necessary skills to plan, implement and manage an efficient privatization program in the energy sector in order to enhance the opportunity for attracting investment capital.

**B. Dates/Trainers/Attendees**

The course was conducted May 11-12, 1999. Steve Tashjian, Constance Irland, Masoud Keyan and Carol Mulholland taught sections of the seminar.

#	Name	Employer	May 11	May 12
1	Alik Abrahamyan	Ministry of Energy	✓	✓
2	Anahit Avetisyan	Energy Regulatory Commission	✓	✓
3	Hayk Ghosalmyan	Energy Regulatory Commission	✓	✓
4	Hakob Dingchyan	Vorotan Cascade	✓	✓
5	Karen Harutyunyan	Yerevan Distribution Company	✓	
6	Gagik Avetisyan	Northern Distribution Company	✓	✓
7	Edvard Movsisyan	Hrazdan Thermo-power plant	✓	✓
8	Anahit Sargsyan	Hrazdan Thermo-power plant	✓	✓
9	Armen Martirosyan	Ministry of Economy and Finance		✓
10	Miriam Tarakchyan	Sevan-Hrazdan Cascade		✓
		<b>TOTAL</b>	<b>8</b>	<b>9</b>

### **C. Material Covered**

The Executive Seminar was designed for fairly high-level participants. The purpose of the course was to introduce the management skills needed to run a commercially-viable utility. The topics addressed included: Effective Management and how it relates to the privatization process; Management Skills, including an introduction to Demming's Total Quality Management concepts; Strategic Planning, and Planning for the Future. The course included a number of targeted exercises designed both to challenge the attendees on an individual level, and to challenge them to work together in teams.

### **D. Participant Evaluations**

- The participants were extremely satisfied with the skills of the interpreter citing only occasional difficulties in translation.
- Most of the participants believe that the course will be very useful for them, and that it was conducted at their level of expertise. While slightly over 80% of those who participated considered the program to be directly relevant to their work, the remaining participants did not. Slightly more than one-fourth of the participants indicated that they do not anticipate that they'll be able to apply what they learned in their work. It should be noted that while all of the organizations contacted registered senior staff for the seminar, several sent middle-managers for whom the seminar, while interesting, would not have been as appropriate.
- Participants gave the instructors high marks for the course. Most participants indicated that they have made arrangements to maintain contact with the instructors and/or each other through e-mail, telephone, etc.
- At the end of the seminar Hakob Dingchyan, the General Director of the Vorotan Hydroelectric Power-stations Cascade expressed his deepest gratitude for this useful course, which suggested new ways of thinking for Armenian executives. In addition, he mentioned that for him the most expressive was the development of concept of paradigm. Also one of the participants Gagik Avetisyan, Chief Engineer of the Northern Distribution Company expressed his gratitude to the seminar organizers.

### **E. Anticipated Outcomes**

**Short Term:** Participants were introduced to the management concepts that have worked successfully for companies across all sectors in competitive environments. Several participants, as described above, indicated that they will try to apply these concepts within their organizations.

### **F. Conclusions and Recommended Follow-up**

The seminar participants were given an introduction to competitive management techniques. Over the course of the two-day seminar, participant attitudes shifted from skepticism about the benefits of the information being presented to interest in learning more. AED anticipates a strong turn-out for the second Executive Seminar.

As Armenia proceeds with privatization, power sector company management -- and the government entities that deal with the sector -- will need to better understand the basics of successful operation in a competitive environment. At this seminar's conclusion, several of the attendees requested additional training to help them apply the concepts introduced within their organizations.

As was true with the "Managing the Transition to a Privatized Utility" course, this seminar provided an even more general overview of each of the topics covered. The limited time, which was the most managers at this level were willing to commit at this time, meant that no single topic could be addressed in detail. AED recommends that USAID consider offering more detailed training in the future to several of the enterprises whose management have expressed interest in implementing the techniques presented. Throughout this training series, attendees have asked for more examples from within Armenia or the region. Helping one or two enterprises implement a new management paradigm would provide a compelling local example within Armenia. The training could include exercises that would lead to the development of a strategic plan or human resources management plan, for example, and could be conducted in stages over the course of several months.

APPENDIX A

Seminar Outline

Executive Seminar #1

**Outline**

Tuesday, May 11

9:30 AM	Opening Remarks Introductions Overview of Seminar	Masoud Keyan
10:00 AM	Effective Management	Masoud Keyan
10:15 AM	Privatization	Masoud Keyan
11:00 AM	Break	
11:15 AM	Selling Utility Assets	Constance Irland
1:00 PM	Lunch	
1:30 PM	Paradigm Video	Constance Irland
2:30 PM	Break	
2:45 PM	Management Skills	Carol Mulholland
3:30 PM	Lost at Sea Excercise	Constance Irland
4:30 PM	Adjourn	

Wednesday, May 12

9:30 AM	Strategic Planning - Part 1	Carol Mulholland
10:30 AM	Goals and Objectives Exercise	Carol Mulholland
11:00 AM	Break	
11:15 AM	Strategic Planning - Part II	Constance Irland
1:00 PM	Lunch	
1:30 PM	Organization	Steve Tashjian
2:45 PM	Break	
3:00 PM	Effective Management	Masoud Keyan
4:00 PM	Planning for the Future	Masoud Keyan
4:30 PM	Adjourn	

## APPENDIX B

### Seminar Materials

#### Executive Seminar #1

# What Does It Take To Be An Effective Manager

## Part 1

Step 1:

The attributes listed here are commonly observed in effective managers. Each of the attributes listed below may be more or less important for a manager. Rank order this list by assigning the number 1 to the five attributes that are the most important for a manager to have. Assign the number 2 to the five attributes you think are second most important; number 3 to the five attributes you think are third most important; and number 4 to the five attributes which you feel are least important. Before ranking the attributes, review the definition of each attribute provided on the next two pages.

### My Individual Rankings

- \_\_\_\_\_ Verbal and Written Communication Skills
- \_\_\_\_\_ Motivation
- \_\_\_\_\_ Develops and Builds Teamwork
- \_\_\_\_\_ Integrity
- \_\_\_\_\_ Leadership
- \_\_\_\_\_ Persuasiveness and Salesmanship
- \_\_\_\_\_ People Skills
- \_\_\_\_\_ Listening Skills
- \_\_\_\_\_ Flexibility
- \_\_\_\_\_ Technical Skills
- \_\_\_\_\_ Initiative
- \_\_\_\_\_ Independence
- \_\_\_\_\_ Planning, Organizing and Controlling
- \_\_\_\_\_ Credibility
- \_\_\_\_\_ Use of Delegation and Participation
- \_\_\_\_\_ Management of Time and Stress
- \_\_\_\_\_ Conceptual Skills
- \_\_\_\_\_ Enthusiasm
- \_\_\_\_\_ Presence
- \_\_\_\_\_ Energy and Health

## Definition of Attributes

### **Verbal and Written Communication Skills:**

Ability to express ideas clearly, both orally and in writing, in individual and group situations

### **Motivation:**

To be a self-starter and have the pride and desire to set an example for doing the best job possible, thereby establishing a standard of performance and motivating others to match or surpass that established standard of performance excellence

### **Develops and Build Teamwork:**

Helps develop morale and performance by sharing successes, fostering open dialogue, letting people be responsible for their work, thus creating a feeling of being part of a team

### **Integrity:**

The degree of personal and managerial honesty and ethics implemented and maintained by the manager

### **Leadership:**

Effectiveness in obtaining cooperation from a group in order to accomplish a task and in getting ideas accepted by the group by utilizing an appropriate leadership style and method

### **Persuasiveness and Salesmanship:**

Ability to organize and present ideas, solutions, and materials in a convincing manner in order to obtain agreement and acceptance from others

### **People Skills:**

The ability to work effectively on an interpersonal basis with various individuals and as a group member to build cooperative effort within the group

### **Listening Skills:**

Ability to pick out and interpret important information from written, oral and non-verbal communication

### **Flexibility:**

Ability to modify one's behavioral style and management approach to reach a goal and interact with various individuals such as employees supervisors, peers, and customers

### **Technical Skills:**

Having a specialized body of knowledge that allows for the performance of job tasks at a high level of efficiency

### **Initiative:**

Active efforts to influence events rather than passive acceptance of them. An originator of action that needs to be taken

### **Independence:**

Action and behavior based on one's own convictions rather than being influenced constantly by other's opinions

**Planning, Organizing and Controlling:**

Effectiveness in planning, organizing, and controlling one's own activities and those of a group in order to accomplish the assigned task, goal or objective

**Credibility:**

Giving and maintaining one's word and by doing so, developing "believability" and trust in one's self in the eyes of one's superiors, employees, peers, and customers

**Use of Delegation and Participation:**

Ability to effectively utilize subordinates by understanding where a decision can best be made and delegating authority and participation to the appropriate subordinates

**Management of Time and Stress:**

Being willing and able to respond quickly and effectively when requests for time are made by various sources, and by so doing, perform well under pressure and opposition

**Conceptual Skills:**

Effectiveness in seeking and obtaining pertinent data; determining the source of the problem; being able to properly evaluate and reach logical decisions based on the evidence at hand; and to take action based on those decisions

**Enthusiasm:**

To set an example by being positive in actions and words about the organization, its product and services, management and employees

**Presence:**

Ability to "make things happen" and, as a result, create a positive and confident impression of one's self

**Energy and Health:**

Ability to achieve and maintain a high activity and energy level at work by being physically fit and healthy



# What Does It Take To Be An Effective Manager

## Part 2

Honestly evaluate yourself on the attributes of an effective manager. Use the following point scale:

Poor	=	1 point
Below Average	=	2 points
Fair	=	3 points
Above Average	=	4 points
Excellent	=	5 points

<u>Score</u>	<u>Attribute</u>
_____	Verbal and Written Communication Skills
_____	Motivation
_____	Develops and Builds Teamwork
_____	Integrity
_____	Leadership
_____	Persuasiveness and Salesmanship
_____	People Skills
_____	Listening Skills
_____	Flexibility
_____	Technical Skills
_____	Initiative
_____	Independence
_____	Planning, Organizing and Controlling
_____	Credibility
_____	Use of Delegation and Participation
_____	Management of Time and Stress
_____	Conceptual Skills
_____	Enthusiasm
_____	Presence
_____	Energy and Health
_____	TOTAL

## **STRATEGIC PLANNING EXERCISE**

**Company or Department Mission:**

**Company or Department Vision:**

**Goal #1:**

**Objective #1-A:**

**Objective #1-B:**

**Goal # 2:**

**Objective #2-A:**

**Objective #2-B:**

# Lost at Sea



# Use of Consensus

The word “consensus” implies the voluntary giving of consent. Consensus requires all decision-makers to discuss the issue until everyone agrees on a solution. Agreement does not mean that everyone shares an equal degree of enthusiasm. It simply means that everyone is at least willing, in good conscience, to go along with the decision. Nobody has such serious reservations that he would stop the decision if he were able.

Consensus is a win/win method. Consensus guarantees that nobody will lose badly, because it requires that the decision not be made until everyone can live with that decision. It is an extremely useful technique for making sure that everyone is committed to the course of action which is finally taken. This is why it can be so valuable in organizations.

However, consensus can become time-consuming and frustrating before the decision is made. In principle, the decision may never be made because every person involved may not agree.

This is an exercise in group decision-making. Your team is to employ the method of Group Consensus in reaching its decision. This means that the prediction for each of the 15 survival items must be agreed upon by each group member before it becomes a part of the group decision. Consensus is difficult to reach. Therefore, not every ranking will meet with everyone’s complete approval. Try, as a group, to make each ranking one with which all group members can at least partially agree. Here are guidelines to use:

1. Avoid arguing for your own individual judgements. Approach the task on the basis of logic.
2. Avoid changing your mind only in order to reach agreement and avoid conflict. Support only solutions with which you are at least somewhat able to agree.
3. Avoid “conflict-reducing” techniques such as majority vote, averaging or trading in reaching decisions.
4. View differences of opinion as helpful rather than as a hindrance in decision-making.

## **PURPOSE**

- To explore the effectiveness of group decision-making versus individual decision making
- To practice reaching a consensus

## **AGENDA**

- Break into teams
- In your teams and follow the exercise instructions
- Instructors will share answers

## **LIMIT**

- Individual ranking: 15 minutes
- Team ranking: 30 minutes
- Answers: 15 minutes
- Total limit: 60 minutes

# Lost at Sea Exercise

You are adrift on a private yacht in the South Pacific. As a consequence of a fire of unknown origin, much of the yacht and its contents have been destroyed. The yacht is slowly sinking. Your location is unclear because of the destruction of critical navigational equipment and because you and the crew were distracted trying to bring the fire under control. Your best estimate is that you are approximately 1600 kilometers south-southwest of the nearest land.

On the next page is a list of fifteen items that are intact and undamaged after the fire. In addition to these articles, you have a serviceable rubber life raft with oars. The raft is large enough to carry yourself, the crew, and all the items listed on the following page. The total contents of all survivors' pockets are a package of cigarettes, several books of matches, and five one-dollar bills.

Your task is to rank the fifteen items below in terms of their importance to your survival. Place number 1 by the most important item, the number 2 by the second most important item, and so on through number 15, the least important. After all team members have completed their individual ranking, use the Group Consensus Method to find the team ranking. Indicate your team's ranking in column 2.

Item	Your Ranking	Team Ranking	Merchant Marine Ranking	Your Score	Team Score
Sextant					
Shaving Mirror					
Five liter can of water					
Mosquito Netting					
One case of Army Rations					
Maps of the Pacific Ocean					
Seat cushion (flotation device approved by the Coast Guard)					
Two liter can of oil-gas mixture					
Small transistor radio					
Shark repellent					
Three square meters of opaque plastic					
One liter of 160-proof rum					
3 meters of nylon rope					
Two boxes of chocolate bars					
Fishing kit					
<b>Total</b>					

## Lost at Sea Answer Sheet

Items	Merchant Marine's Reasoning	Merchant Marine's Rank
Sextant	Without tables and a chronometer, relatively useless	15
Shaving Mirror	Critical for signaling air-sea rescue	1
Five liter can of water	Necessary to replenish loss by perspiring, etc.	3
Mosquito Netting	There are no mosquitoes in the mid-Pacific	14
One case of Army Rations	Provides basic food intake	4
Maps of the Pacific Ocean	Worthless without additional navigational equipment. It does not really matter where you are but where the rescuers are.	13
Seat cushion (flotation device approved by the Coast Guard)	If someone fell overboard, it could function as a life preserver.	9
Two liter can of oil-gas mixture	Critical to signaling. The oil-gas mixture will float on the water and could be ignited with a dollar bill and a match (outside the raft).	2
Small transistor radio	Of little value since there is no transmitter (unfortunately you are out of range of your favorite radio station)	12
Shark repellent	Obvious	10
Three square meters of opaque plastic	Utilized to collect rain water and provide shelter from the elements.	5
One liter of 160-proof rum	Contains 80% alcohol, enough to use as a potential antiseptic for any injuries incurred; of little value otherwise; will cause dehydration if ingested.	11
3 meters of nylon rope	May be used to lash equipment together to prevent it from falling overboard	8
Two boxes of chocolate bars	Reserve food supply	6
Fishing kit	Ranked lower than the candy because "a bird in the hand is worth two in the bush" There is no assurance that you will catch any fish	7

The basic rationale for ranking signaling device above life-sustaining items (food and water) is that without signaling devices there is almost no chance of being spotted and rescued. Furthermore, most rescues occur during the first thirty-six hours, and one can survive without food and water during this period.

# Scoring

- To find your individual score, calculate the difference between your rankings (Column 1) and the Merchant Marine's rankings (Column 3) and indicate the difference in Column 4. Total Column 4, disregarding plus and minus signs. The result is your individual score.
- To find your group score, determine the difference between your group rankings (Column 2) and the Merchant Marine's (Column 3) and indicate in Column 5, then total Column 5, disregarding plus and minus signs.
- Note team scores on flipchart and then ask how many had an individual score that was LOWER than the team score, note numbers on a flipchart.



# Management Skills

# Deming: Theory for Management



1. Create constancy of purpose toward improvement of service, with the aim to become competitive, to stay in business and to provide jobs.
2. Adopt the new philosophy. We are in a new economic age. Management must awaken to the challenge, must learn their responsibilities and take on leadership for change.

# Deming: Theory for Management



3. Improve service constantly, to improve quality and productivity, and thus constantly decrease costs.
4. Institute training on the job.
5. Institute leadership. The aim of leadership should be to help people do a better job.
6. Drive out fear, so that everyone may work effectively for the company

# Deming: Theory for Management



7. Break down barriers between departments. People in the company must work as a team
8. Encourage employees to take pride in their workmanship. The responsibility of supervisors must be changed from sheer numbers to quality.

# Deming: Theory for Management



9. Institute a program of education and self-improvement.
10. Put everybody in the company to productive work to accomplish the transformation. The transformation is everybody's job.



# What does it take to be an effective manager?

# Winning Management Styles



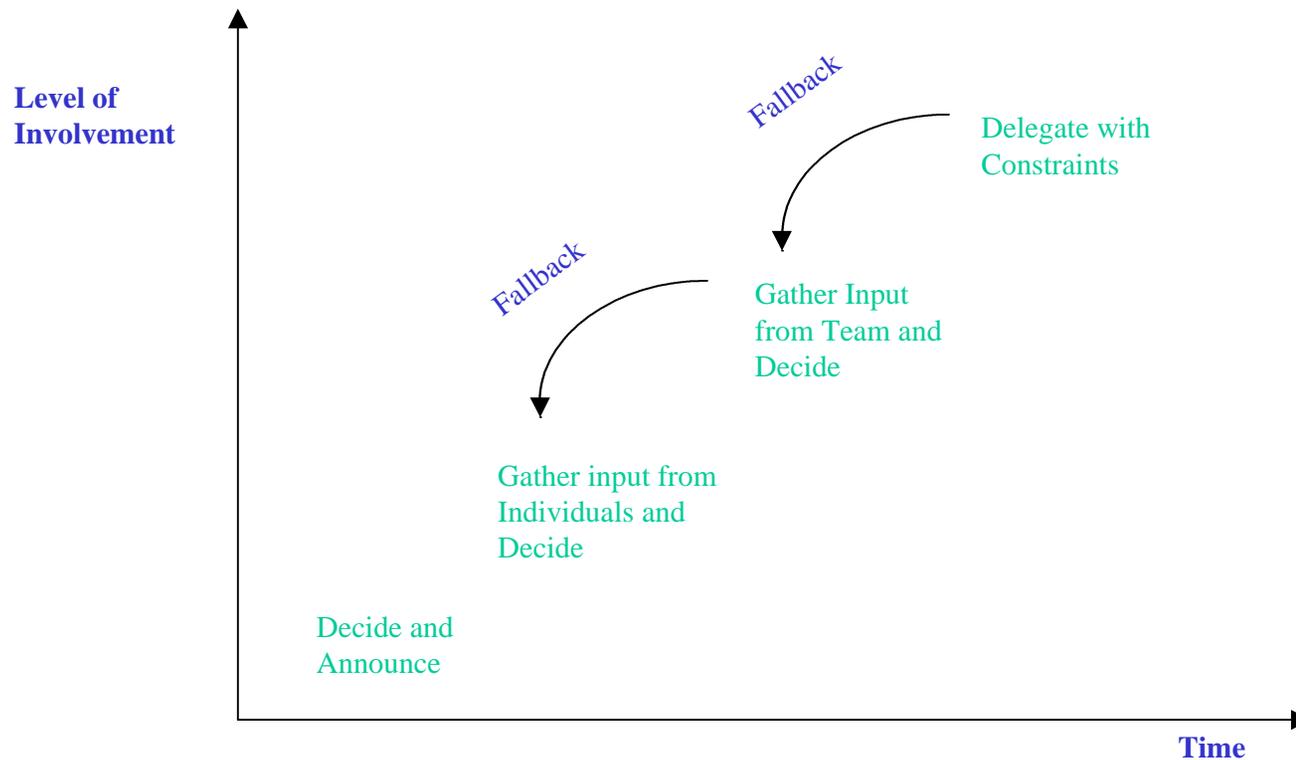
- ◆ Balances authoritative and participatory approaches
- ◆ Accepts responsibility
- ◆ Communicates well with all stakeholders
- ◆ Shares information
- ◆ Delegates appropriately
- ◆ Treats employees as valuable resources

# Winning Management Styles



- ◆ Praises publicly, criticizes privately
- ◆ Acts as a role model
- ◆ Coaches subordinates
- ◆ Asks for help
- ◆ Shares in success
- ◆ Admits failures

# Management Style



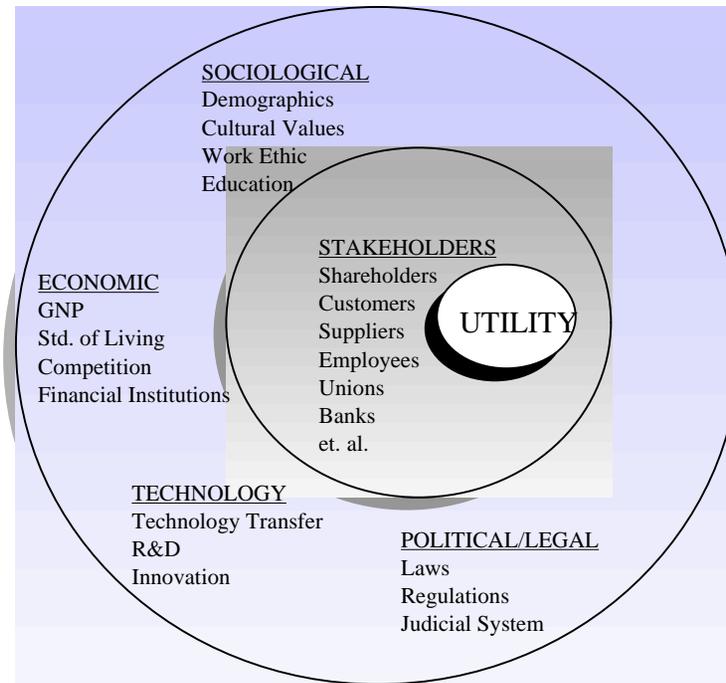
May 1999

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# Strategic Planning

# External influences on the utility





Manage the things under your control  
and plan for those things you can't  
manage

# Strategic Planning



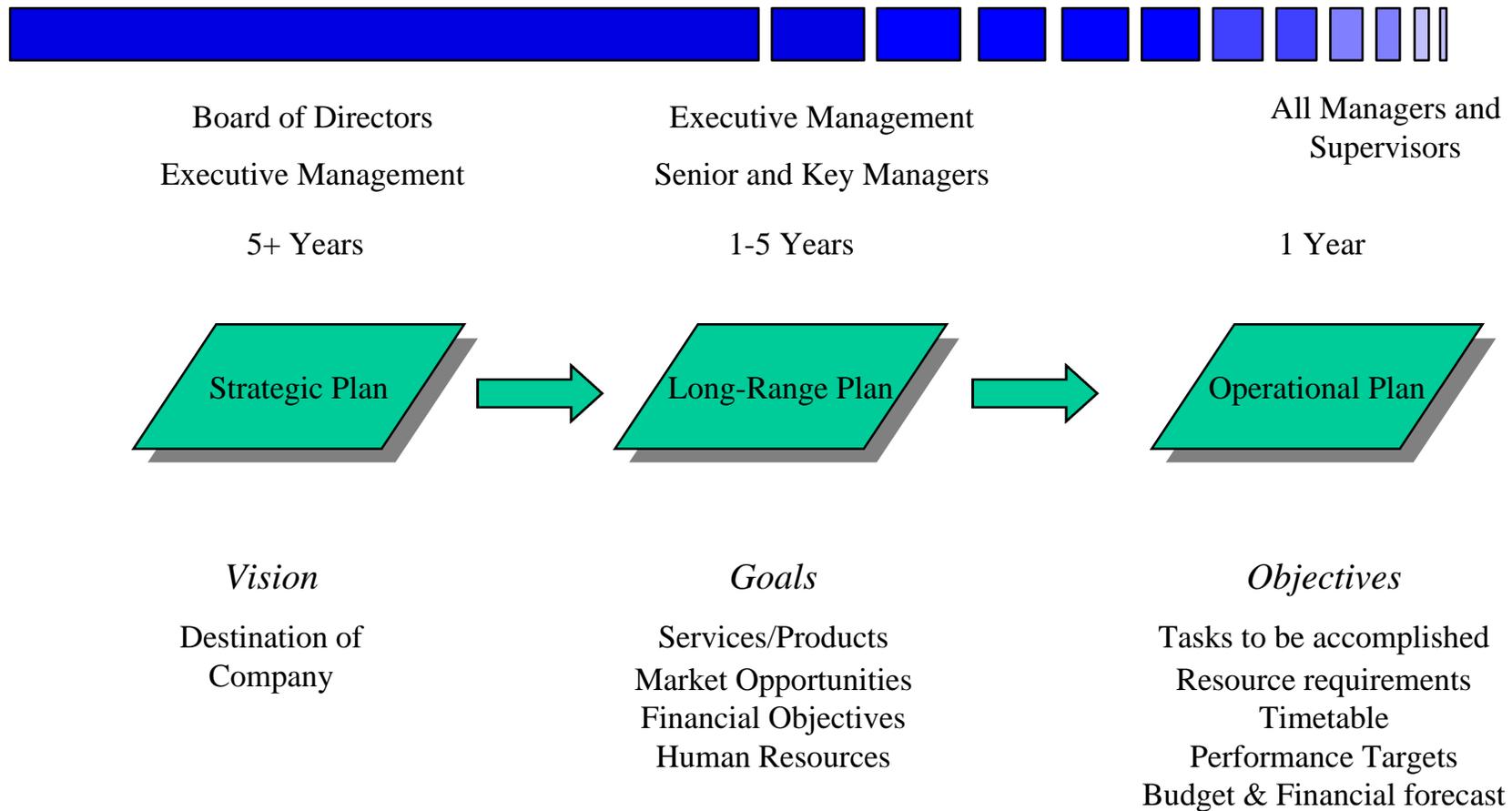
- ◆ Where is your company today?
- ◆ Where do you want it to be tomorrow?

# Overall Corporate Philosophy



- ◆ What are the guiding principles by which the company will operate?
- ◆ How does it document these principles and implement them?
  - Vision
  - Strategy
  - Goals
  - Objectives

# Strategic Planning Process



# Why is Strategic Planning Important?



- ◆ Need to take a comprehensive look at the company periodically
- ◆ If you don't know where you are going, any path will take you

# Strategic Planning Components



# Corporate Mission and Vision



## ◆ Corporate Mission

- What is the purpose of the company or organization?
- What business are you in?

## ◆ Corporate Vision

- What do you want your company to look like in the future?
- What particular characteristics will it be noted for?

# Corporate Vision Statement



- ◆ Be brief and clear
- ◆ Identify the type of business that your company plans to be in
- ◆ In general terms include all that company aspires to be and do
- ◆ Revise it periodically to recognize changes in company's situation

# Goals and Objectives



- ◆ “The glue that holds things together”
- ◆ Goals
  - What does the company want to accomplish over the long term
- ◆ Objectives
  - What actions need to be done to reach the goals

## Example of a Goal and Related Objectives



### ◆ Goal

- Improve financial health

### ◆ Objectives

- Increase collection of revenue from residential customers from 50% to 85%
- Implement a budgeting system by the third quarter

# Goals and Objectives Process



- ◆ Customer focus
- ◆ Review and refine each year
- ◆ All employees should be familiar with these (“top down, bottom up”)
- ◆ All supervisory employees should participate in development of current year objectives
- ◆ Company budget should include money to accomplish the objectives

# Writing Clear Objectives



- ◆ Achievable
- ◆ Understandable
- ◆ Measurable
- ◆ Believable

# Communicating the Vision, Goals and Objectives



- ◆ Putting these on paper is of no use by itself
- ◆ All employees should participate in the development process and be reminded regularly what the company's vision, goals and objectives are
- ◆ Each department of the company needs to have its own objectives which link directly to one of the overall corporate objectives. This assures that the *company's* objectives get accomplished.
- ◆ Communicate vision, goals, and objectives to regulators, customers and investors

# CMP 1999 Vision, Goals & Objectives



**Vision:** CMP's vision is to be the premier rural transmission and distribution utility. Our culture is driven by employees with a customer first attitude who work safely and think creatively.

**Strategy:** Our success depends on maximizing shareholder value by executing the following strategies:

- Expand and retain sales by providing reliable, efficient service
- Retain and invest in a highly skilled and motivated workforce
- Continuously improve the efficient delivery of T&D services

**1999 Goals:** CMP's goals support the vision and strategy of the business by focusing on *Customers, Finances, Employees, and Processes*.

**Customers:** Meet customers' needs

**Finances:** Earn competitive returns

**Employees:** Enhance the work culture

**Processes:** Continuously improve

# Developing Your Company's Vision, Goals and Objectives



- ◆ Prepare vision for your company or department
- ◆ Prepare two goals
- ◆ Prepare two related objectives for each goal

# Components of a Long-Range Plan



- ◆ Strategic Frame Work
- ◆ Company History
- ◆ Key Statistics and Information
- ◆ Focused Planning
- ◆ External Factors Influencing Operations
- ◆ Detailed Financial Forecasts

# Company History



- ◆ Brief summary on the formation of the company
- ◆ Document key dates and legal relationships

# Key Statistics and Information



- ◆ System map
- ◆ Company organization
- ◆ Customer demographics
- ◆ Description of facilities
- ◆ Current financial statements
- ◆ Customer Services
- ◆ Other

# Focused Planning



- ◆ Load forecast
- ◆ Operations Management
- ◆ Employee Management
- ◆ Technology Plan
- ◆ Environmental Compliance
- ◆ Capital Investment Plan
- ◆ Financial Plan

# External Factors Influencing Plans



- ◆ Inflation
- ◆ Economic growth
- ◆ Tariffs
- ◆ Government policies
- ◆ Interest rates
- ◆ Competition

# Load Forecasting



- ◆ Allows the utility to make informed decisions regarding the short, medium and long term operations of the company
  - Obligation to serve customers
  - Understand risks and opportunities
  - Better knowledge of customers' needs

# Capital Investment Planning



- ◆ Longer time frame (more than 5 years)
- ◆ Need for new facilities and equipment
- ◆ Energy needs from generators
- ◆ Analysis of long term investments
- ◆ Transmission and distribution improvements
- ◆ Metering upgrades

# Operational Plan



- ◆ Short term
- ◆ Task oriented
- ◆ Timetables
- ◆ Performance Targets
- ◆ Budget
- ◆ Financial Forecast



# Organizational Structure

# Corporate Charter



- ◆ Name and address of corporation
- ◆ Broad statement of purpose of corporation
- ◆ Classes and amount of authorized stock
- ◆ Names of initial Board of Directors
- ◆ Dates of Annual Meetings of shareholders

# Corporate By-Laws



- ◆ Rules and procedures adopted by shareholders for the governance of the corporation
  - shareholder meetings
  - Board of Directors meetings
  - Standing committees
  - Capital stock
  - Dividends
  - Expectation of Executive Management

# Characteristics of the Board of Directors



- ◆ Company charter establishes role of Board
- ◆ By-laws define Board's responsibility
- ◆ Directors are elected to serve and act as a proxy for shareholders
- ◆ Expertise should be from various fields
- ◆ Terms are for specified time frames
- ◆ Chairman and Vice-Chairman are elected by Board members
- ◆ Meet regularly, 6-10 times per year

# Responsibilities of the Board of Directors



- ◆ Elect, evaluate and, when appropriate, dismiss Executive Management
- ◆ Ensure compliance with laws and regulations
- ◆ Approve major corporate policies, plans and actions
- ◆ Establish compensation for executives
- ◆ Appoint and oversee committees
- ◆ Recommend changes to charter or by-laws for approval by shareholders

# Responsibilities of Board of Directors



- ◆ Authorize issuance of additional stock
- ◆ Approve terms of borrowed money
- ◆ Approve material lease agreements
- ◆ Present assessment of financial situation and current state of affairs to shareholders
- ◆ Declare dividends

# Role of Management



- ◆ Balance needs of all entities:
  - Shareholders
  - Customers
  - Regulators
  - Employees
- ◆ Develop and implement corporate plans
- ◆ Measure and evaluate performance

# Role of Management



- ◆ Prepare budgets and oversee financial success
- ◆ Raise capital
- ◆ Lead, train and motivate employees
- ◆ Operate efficiently
- ◆ Report results

# Functions of Management



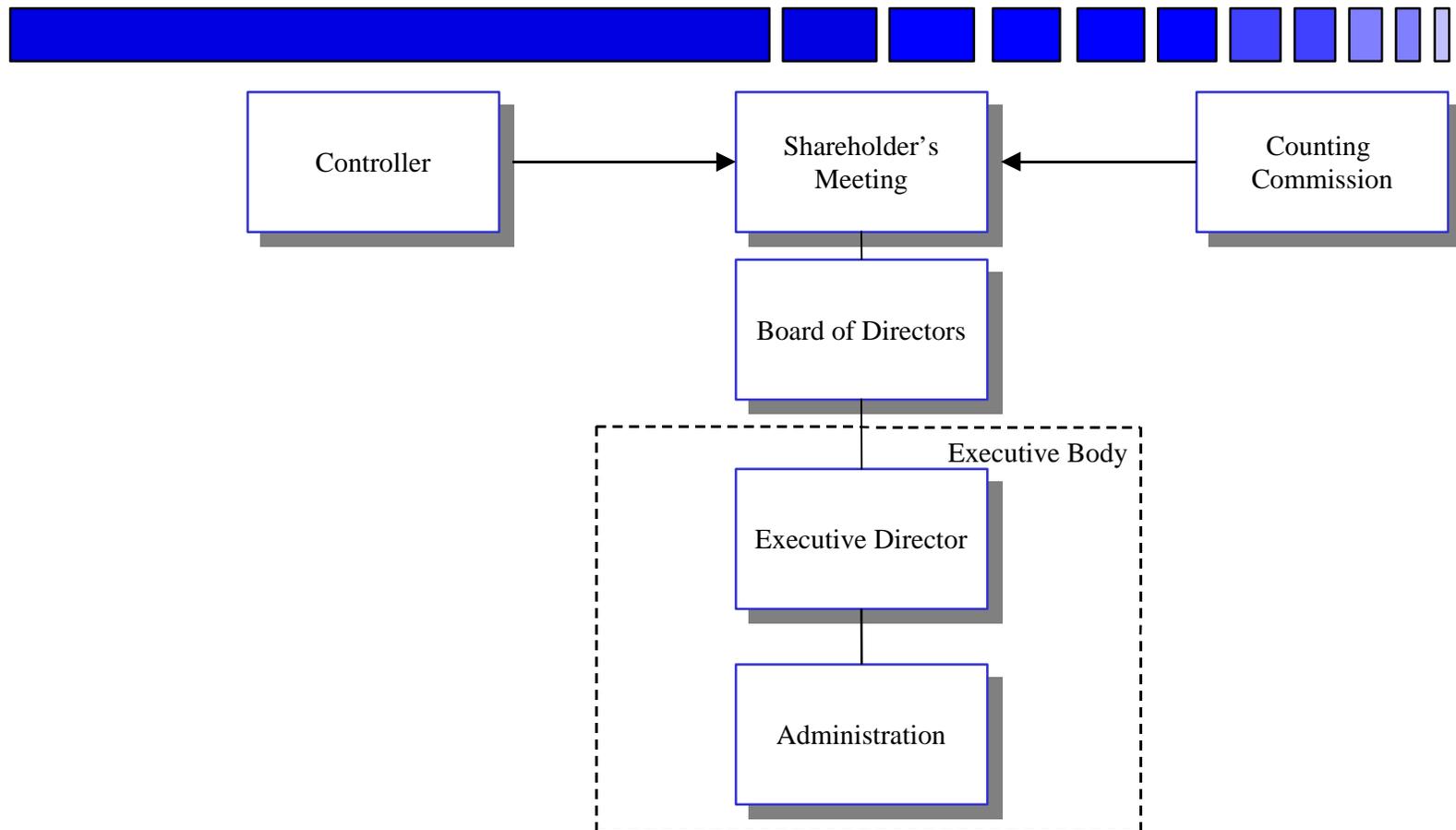
- ◆ Planning
- ◆ Organizing
- ◆ Directing
- ◆ Coordinating
- ◆ Controlling

# Adopting a new organizational structure

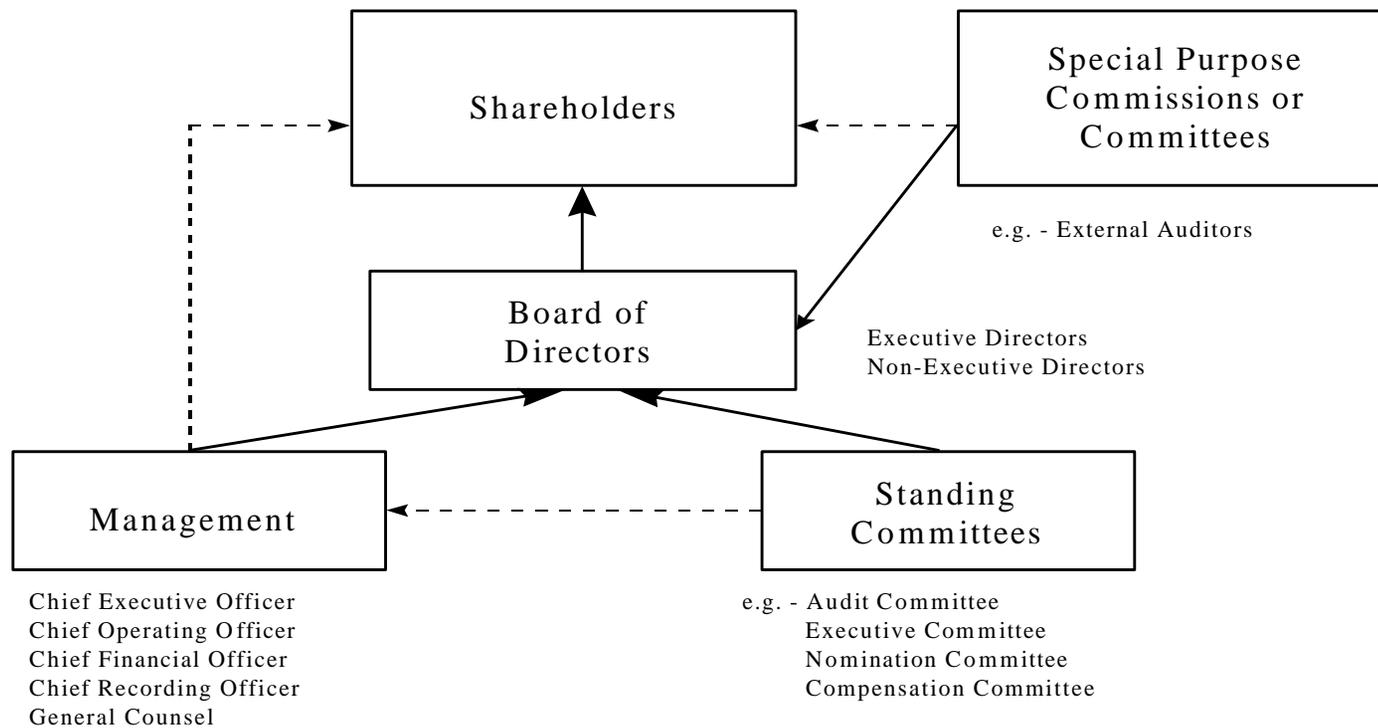


- ◆ Basic elements of the structure are outlined in the Armenian Civil Code
- ◆ Other elements of the structure will need to be determined by management

# Basic Armenian Organizational Structure



# Basic US Organizational Structure



# Corporate Culture



- The sum of values, customs, traditions, and practices which make up an organization
- acceptable professional and personal behavior
  - ethical standards
  - commitment to competence
  - compliance to legal and regulatory requirements

# Management Philosophy dictates Organizational Structure



- ◆ Control Management is more autocratic and punitive
- ◆ Participative Management is more democratic and rewarding

# What should you consider when determining organizational structure ?



- ◆ Corporate culture
- ◆ Strategic Plan
- ◆ Customer Service
- ◆ Accountability
- ◆ Control
- ◆ Capabilities of key personnel
- ◆ Efficiency
- ◆ Willingness to delegate
- ◆ Effect on employees

# Principles guiding reorganization



- ◆ Managers should manage
- ◆ Management layers should be minimal and span of control should be broad
- ◆ Work should be concentrated on key activities
- ◆ Tasks that are dependent on each other should be grouped together

## Anticipating problems related to organizational changes



- ◆ Some employees fare better than others
- ◆ Treat everyone fairly
- ◆ Be sensitive to employee reactions
- ◆ Monitor the effect on customers
- ◆ Train employees to do different things and assume more responsibility

# Communications



## ◆ Internal communications with

- Employees to eliminate fear and surprises
- Shareholders to maintain good relations for future investing

## ◆ External communications with

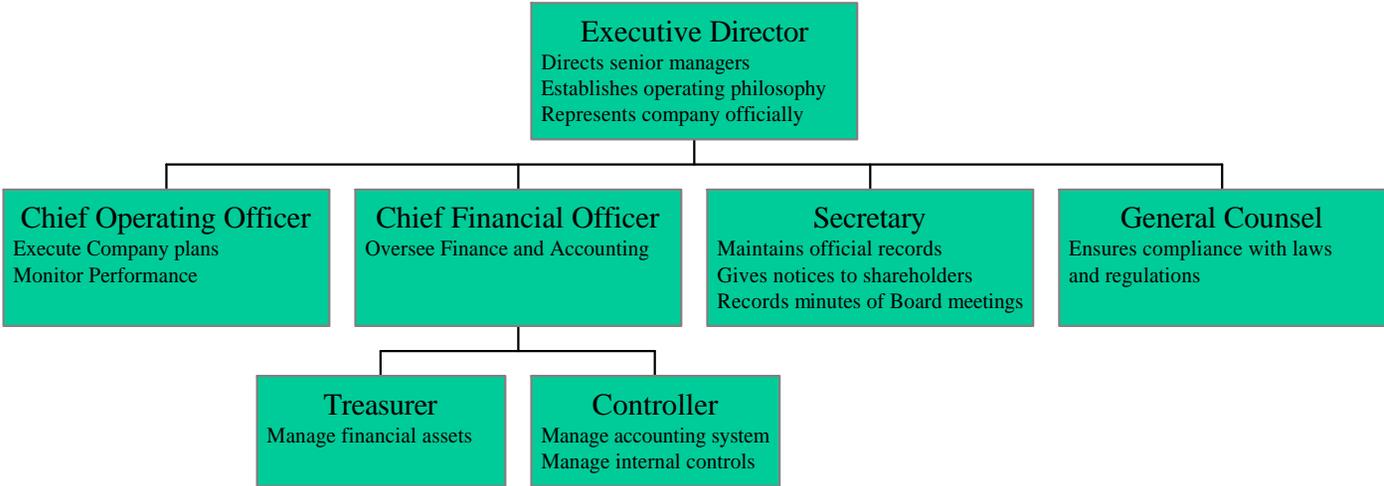
- Governmental agencies to foster trusting relations
- Customers to assure quality service and satisfaction

# Resolving Problems



- ◆ Good communication
- ◆ Recognition
- ◆ Incentives
- ◆ Comprehensive training
- ◆ Involve employees in change process

# Typical Structure of Executive Management



# Typical Functional Areas



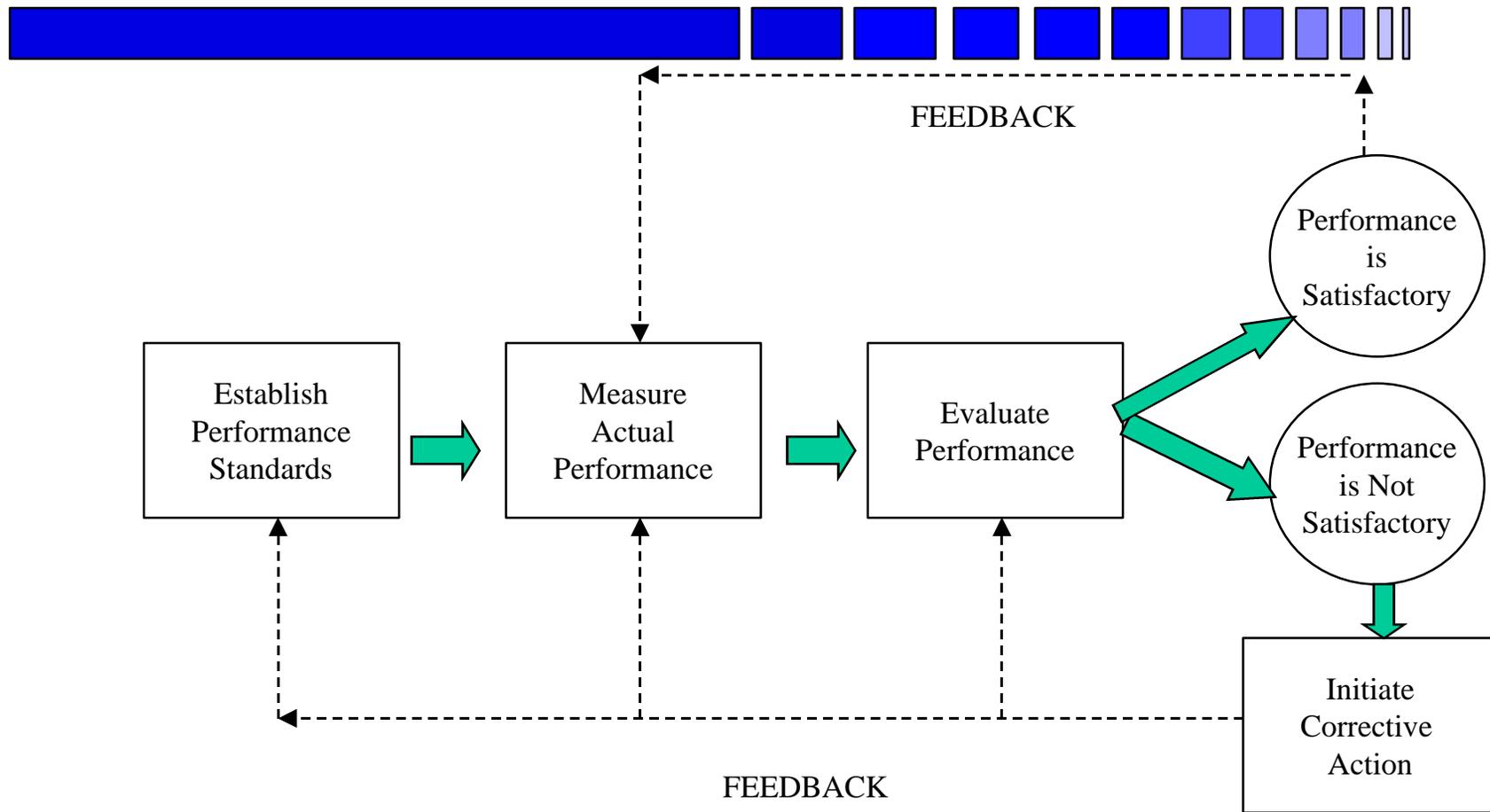
- ◆ Finance and administration
- ◆ Customer service
- ◆ Power supply contracts
- ◆ Sales and marketing
- ◆ Technical
- ◆ Law

# Roles and Responsibilities

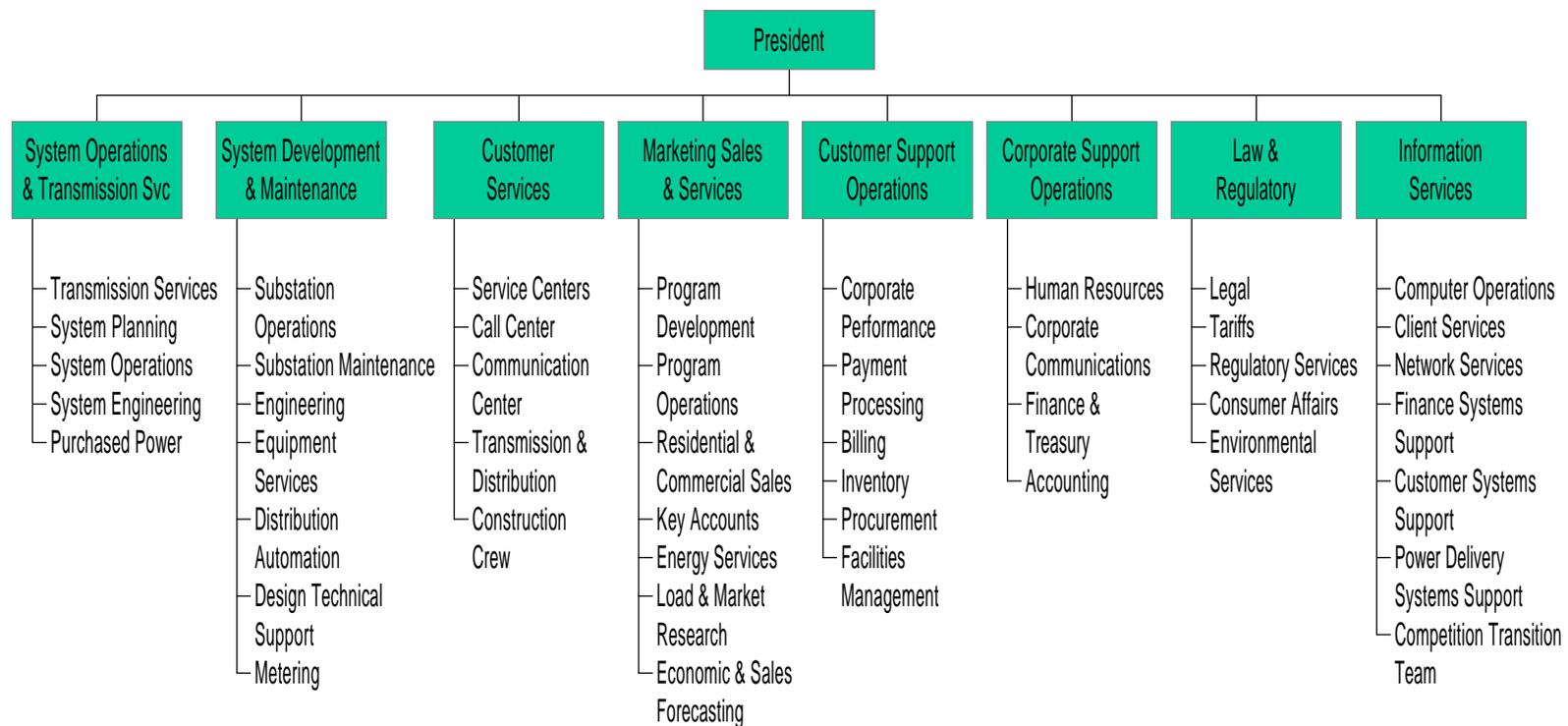


- ◆ Jurisdictional statement for each department
- ◆ Defined responsibilities for each department
- ◆ Defined responsibilities for department heads
- ◆ Performance measurement objectives for key management individuals

# Management's role in the control process



# Central Maine Power Company Organization Chart



# Corporate Financing



- ◆ Good planning and efficient implementation is key for future planning
- ◆ Sources of new capital
  - Traditional approach - Issuing stocks, bank loans
  - Non-traditional approach - Bartering services, equity placement



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**Hagler Bailly**

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# Privatization



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## **Presentation Overview**

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- ◆ Privatization Basics
- ◆ Methods
- ◆ Investors Perspectives
- ◆ International Experience
- ◆ Recommendations for Armenia



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## What is Privatization?

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- ◆ Privatization is the transfer of the ownership or responsibility for specific enterprise functions from the public to the private sector



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## **Why Privatize the Energy Sector?**

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- ◆ Reduce state investment requirements
- ◆ Reduce subsidies, public sector payroll
- ◆ Improve sector efficiency and performance
- ◆ Promote economic growth
- ◆ Raise cash for government
- ◆ Attract private investment in sector
- ◆ Expand citizen involvement in the economy



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## **Privatization Prerequisites**

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- ◆ Definition of privatization objectives
- ◆ Legal and regulatory framework
- ◆ Electricity tariff reform or clear commitment to such reform
- ◆ Commercialization
- ◆ Sufficient Restructuring
- ◆ Reliable Information on the enterprise



## Privatization Decision-Making

Country Conditions	Enterprise conditions	
	Competitive	Noncompetitive
Strong regulation; market-free	<i>Decision:</i> Sell	<i>Decision:</i> Ensure or install appropriate regulatory environment, Then consider sale
Weak regulation; market-not free	<i>Decision:</i> Sell, with attention to competitive conditions	<i>Decision:</i> Consider privatization of management, Install market-friendly policy framework, Install appropriate regulatory environment, Then consider sale

Source: World Bank



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## Obstacles to Privatization

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- ◆ Economic nationalism, desire for government to control the electric power sector
- ◆ Subsidization
- ◆ Opposition from the state-owned utility and labor unions
- ◆ Lack of an adequate legal and regulatory framework



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## Obstacles to Privatization

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- ◆ Inadequate/insufficient restructuring
- ◆ Lack of adequate, understandable, and comparable information about the enterprises and assets to be privatized
- ◆ Pre-existing obligations (e.g., debt, environmental obligations)



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## **Strategic Considerations**

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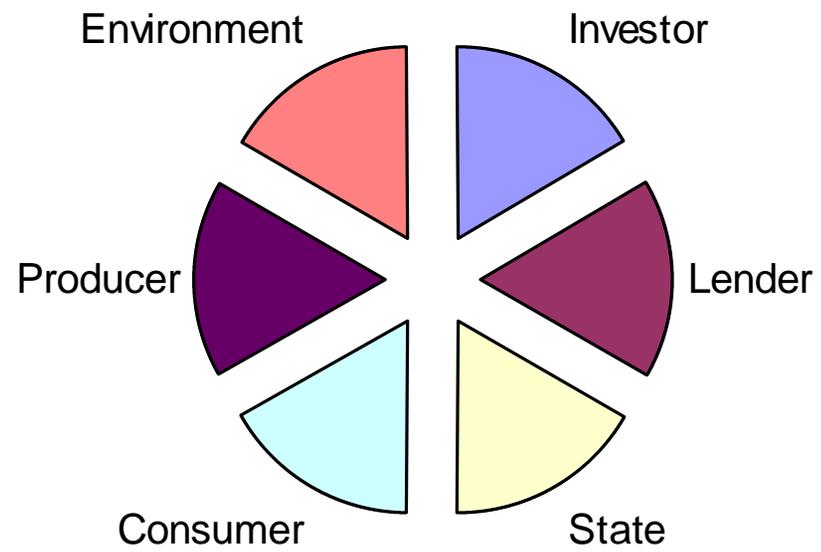
- ◆ Foreign or domestic ownership
- ◆ Level of government ownership and oversight
- ◆ Monopoly industries and competition



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# The Privatization Pie

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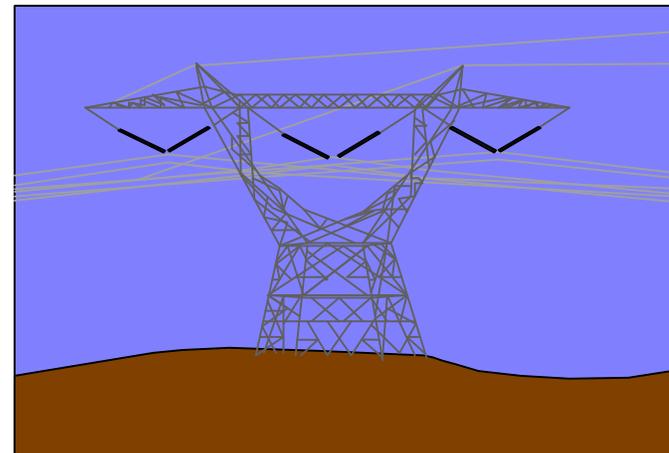
## **Privatization Methods**

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- ◆ Initial Public Offering
- ◆ Strategic Investors
- ◆ Vouchers
- ◆ Employee Ownership
- ◆ Management Buyout
- ◆ Management and Service Contracts
- ◆ Loans for Shares



# Selling Utility Generation Assets



# Components of an Asset Sale



- Defining the Asset
- Compilation of Historical Information on the Asset
- Marketing Efforts
- Sales Contract Structure
- Auction Process
- Closing Process

# Defining the Asset



- Generation - Transmission - Distribution
- Physical boundaries of equipment
  - identifies equipment to be retained and/or sold to another buyer
- Real estate boundaries
- Metering

# Asset Information



- Financial
- Technical
- Legal
- Environmental
- Real Estate

# Asset Information - Financial



- Due Diligence Financial Information
  - At least 5 years of Operation & Maintenance cost data
  - At least 5 years of Capital cost data
- Provides bidders with historical profile of costs
- Allows bidders to estimate future “going forward” costs

# Asset Information - Technical



- Provides engineering, operations, maintenance, technical and performance information about asset
- Looks at equipment, modes and efficiency of operation, historical maintenance work and practices

# Asset Information - Technical



- A technical review typically contains:
  - Executive Summary
  - Site description and characteristics
  - Process and equipment descriptions
  - Performance data
  - Operational characteristics and maintenance practices
  - Decommissioning studies (if any)
  - Appendices with references, staffing, outage plans, etc.

# Asset Information - Legal



## ■ Due Diligence Legal Information

- Guaranties
- Liabilities
- Government consents
- Compliance with laws
- Litigation (outstanding claims)
- Contracts (transferability and consent
- Software
- Patents
- Licenses

# Asset Information -Environmental



- Bidders want to know about the historical environmental conditions at the site
- Environmental Assessments
  - usually conducted by an independent contractor

# Asset Information - Real Estate



- Surveys
- Land Title
- Limitations on use
- Grant limitations
- Water Rights
- Ongoing liabilities

# Marketing



- Investment banker
- Brochure
- Symposium
- Advertising

# Investment Banker



- Experienced in the market of electric asset sales
- Resource for contacting possible interested parties
- Screens for serious players
- Knows the type of information serious players are interested in
- Adds legitimacy to an auction process

# Brochure



- Development of a Sales Brochure
- Should include:
  - Introduction of the process
  - Overview of the Markets
  - The Auction Process and schedule
  - Description of the Assets for sale
  - Summaries of the Transaction Agreements
  - Requests for Additional Information

# Symposiums



- Series of meetings describing the transactions, process and assets to be sold to all interested parties
- Can be done in country, regionally or internationally
- Sales Brochures are typically distributed

# Advertising



- International Business publications
- Symposiums
- Contacts through government and private individuals
- Contacts through investment community

# Auction Process



- Overview
- Distribution of due diligence materials
- Site visits
- Q&A process
- Contracts signed
- Closing

# Overview



- The Auction process must be perceived as fair and impartial
- Every interested party must receive the same information regarding the assets up for auction
- Confidentiality of the process by both buyer and seller important

# Auction Protocols



- Establishes the rules for conducting an auction
- Timeline and requirements of Bidders
- Confidentiality of information provided to bidders
- Short list vs. all interested parties

# Overview



## ■ Steps:

- Sales Brochure and Advertising
- Offering Memorandum
- Initial non-binding indications of interest
- Short list due diligence
- Final Bids
- Award and signing of documents
- Closing

# Distribution of Due Diligence Materials



- Offering Memorandum
- Regulatory Filings
- Technical Review
- Asset Sales and Related Agreements

# Offering memorandum



## ■ Executive Summary

- Overview
- Plant Auction Process
- Transaction Agreements
- Auction Timetable and Protocols
- Bidding Restrictions and Common Assumptions
- Regulatory Approval Process

# Offering memorandum



## ■ Investment Considerations

- Competitive Market
- Strategic Location
- Re-powering Opportunities
- Maintenance and Condition of the Assets
- Fuel Supplies
- Environmental Risks
- Regulatory Approvals

# Offering memorandum



## ■ Markets and Restructuring

-Market Structure

-Electric Rates

-Electric System Reliability

# Offering memorandum



## ■ Asset Sale Overview

- Assets being sold and retained

### -Facility Description

- type of units, dependable loads, operating dates
- major components
- fuel supplies
- facilities
- historical operating data
- historical financial data
- historical performance data

# Offering memorandum



## ■ Environmental Considerations

- Air Quality and Emissions limits
- Waste Water Considerations
- Hazardous Materials and Hazardous Wastes
- Permits

# Regulatory Filings



- Filings seeking permission to sell utility property
- Filings seeking permission to turn over operational responsibility to Independent System Operator
- Filings of Environmental Impacts

# Technical Review



- Provided to short list of bidders

- provides the major portion of technical data about the assets for use by the bidders in determining the asset statistics and condition

# Asset Sales and Related Agreements



- Provided to short listed bidders

-establishes terms and conditions of the asset sale including obligations of both buyer and seller

# Site visits



- Opening presentation which provides:
  - Recent operating data
  - Recent maintenance activity
  - Major overhaul history
  - Personnel
- Guided tour of the facility

# Question & Answer Process



- Many questions will be asked during the auction process (legal, regulatory, technical)
- All questions should be recorded or submitted in writing
- All answers should be given to all bidders
- Q&A sessions should be scheduled separately from tours

# Sales Contract Components



- Basic Transactions
- Representations and Warranties
- Covenants of each Party
- Conditions to Closing
- Closing
- Termination
- Indemnification
- General Provisions

# Contracts Signed



- Final bids are submitted by interested short listed bidders
  - many come with conditions which require negotiation
  - provides and opportunity to evaluate the various bids for alignment with objectives
  - asset sale and related agreements are signed

# Closing



- Necessary permits and authorizations must be transferred to allow buyer to operate upon closing of sale
- Arrangements for transfer of purchase price
- Finalize any negotiations that occurred during bidding
- Final signing of documents

# Putting together the Team



- Project Management
- Knowledge of the assets (technical)
- Legal (contracts) knowledge
- Regulatory
- Marketing

# Putting together the Team



- Project Management

- one person should be appointed as project manager for overall preparation, and auction of the assets

- a key ingredient to success is giving a high level of support to project manager

# Putting together the Team



- Knowledge of the assets (technical)
  - team should consist of individuals knowledgeable of the assets (operations, maintenance & engineering backgrounds)
  - a site person should be selected as a point of contact and coordinator of efforts required of site personnel

# Putting together the Team



- Legal (contracts) knowledge
  - knowledge and experience in the development of sales contracts is an important part in the process
  - an outside law firm knowledgeable in asset transactions may be hired to assist

# Putting together the Team



- Regulatory

- experts in regulatory requirements and environmental law are important to the effort
- both internal and external legal counsel can be utilized

# Putting together the Team



- Marketing
- An Investment Banking Firm may be hired to:
  - market the assets
  - assist in the development of materials for sales brochures and the Offering Memorandum
  - help coordinate the site tours
  - assist in the Q&A process

# Project Timeline



- Due Diligence Information: 4-5 months
- Real Estate Issues: 5-6 months
- Preparation of Asset Sales Agreement: 2 months
- Preparation of Auction Materials: 2 months
- Conducting the Auction: 3-4 months
- Closing: 1-3 months



# Central Maine Power Company

## Asset Divestiture Case Study



# Statutory Framework



- State legislation enacted fall 1997
- Divestiture by March, 2000
- Independent power contracts included
- Nuclear plants excluded
- Employee protection provisions
- Shareholder premium allowed

# The Package



Hydro 373MW

Fossil 781

Biomass 31

Nuclear 48

Independent Power Contracts 574

**TOTAL 1807MW**

# Auction Schedule



- Announced intent to sell generation-April '97
- Information memorandum-June
- Document center, tours-June-September
- Phase I proposals-September
- Short list-September
- Phase II proposals-December
- Select winner-December
- Agreements-January '98
- Closing-December

# Auction Procedures



- Premium on information availability
- Assets packaged by fuel type
- Bids allowed for some or all assets
- Bidders encouraged to negotiate among themselves
- Bids with/without buybacks
- Strict confidentiality provisions
- Standard contract terms preferred but negotiable

# Results



- Aggressive competition
- \$846 million for hydro, fossil, biomass
- Requirements buy-back until March, 2000
- Nuclear and independent power contracts not sold
- Employees available to FPL

# Lessons



- Information management reduces buyer uncertainty
- Plan for the unexpected
- Invest in communications
- Anticipate need for post divestiture vision