

Management and Organizational Strategies of Utility Companies – Experiences and Lessons in Foreign Utility Companies –

Background

In Japan, all industrial and commercial customers became eligible for the choice of suppliers by April 2005, and investigation will start around 2007 whether direct access should be allowed also for household customers. Influenced by this trend of further development of competition, utility companies are now forced to reconstruct their management strategies. In Europe, where electric restructuring has been advancing, various strategies have been undertaken to cope with competition. Therefore, it will be useful for us to evaluate these precedents to consider future management strategies of Japanese electric utility companies.

Objectives

This paper investigates management and organizational strategies in response to electricity reforms mainly in Europe, and induces important lessons for Japanese electric utility companies.

Principal Results

1. From the viewpoint of business expansion, strategies to cope with competition can be identified as pursuing three dimensions, i.e., vertical integration, regional expansion and business diversification (Fig.1).
 - (1). Concerning vertical integration, it is emphasized that generation and retail sectors should be integrated into one company in order to hedge the risk of volatility in the wholesale prices.
 - (2) M&A are mainstream measures for regional expansion. Recently, the M&A objects have been carefully selected; especially energy related companies are intensively selected.
 - (3) Concerning business diversification, companies tend to concentrate on energy related businesses and dispose of non-energy related ones. It is recognized that synergy is realized between electricity and gas, and a stock market has also evaluated such diversification.
2. The representative organizations to perform the objective of utility companies are functional organizations, divisional organizations, company systems, and holding organizations (Fig.2). These organizations have both merits and demerits. Holding organizations, in which managerial decision is more decentralized and more independent from top management, induce more motivation for middle management, while the authority of top management is reduced. Furthermore, they increase transparency and expertise of organization, while they might disturb the flexible inter-divisional activities and their reorganizational cost is expensive.
3. In European countries and the United States, large companies that prefer M&A tend to employ holding company organizations, because they are large enough to be able to dilute the reorganizational costs. In addition, restructuring the whole companies is not required when they sell or acquire companies. On the other hand, smaller utility companies tend to employ profit center organizations.
4. Ultimately, success of a strategy depends on whether the company makes use of its core competence. Especially, the core competence of utility companies is energy related business, and they are highly evaluated by focusing on these core businesses.

Future Developments

We will investigate further the impacts of electricity liberalization on management strategies of utility companies in Europe and the US and induce implications for the strategies of Japanese utility companies.

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Reference

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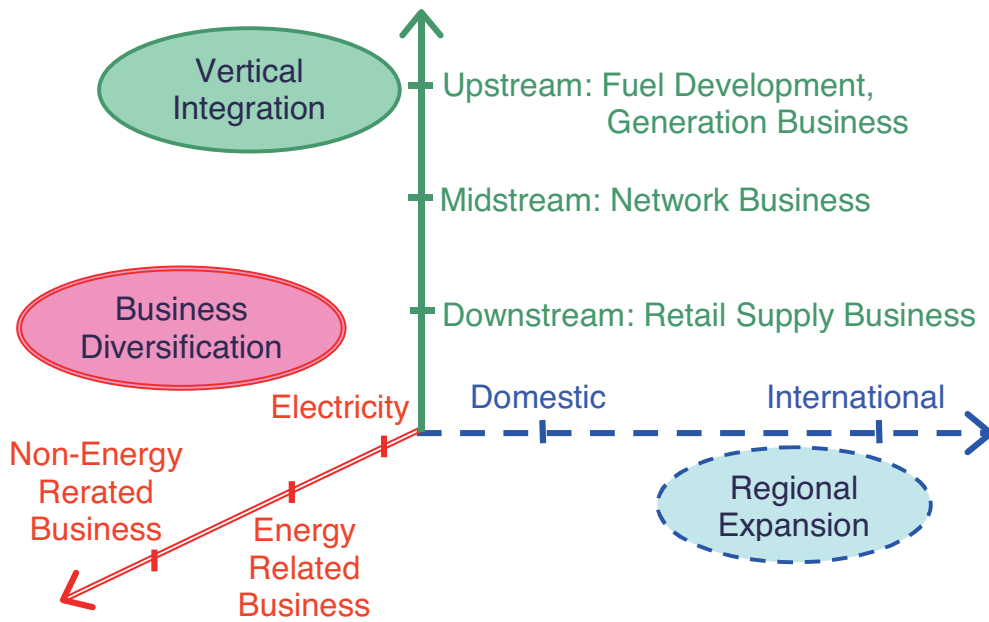


Fig.1 Three dimensions of Business Expansion

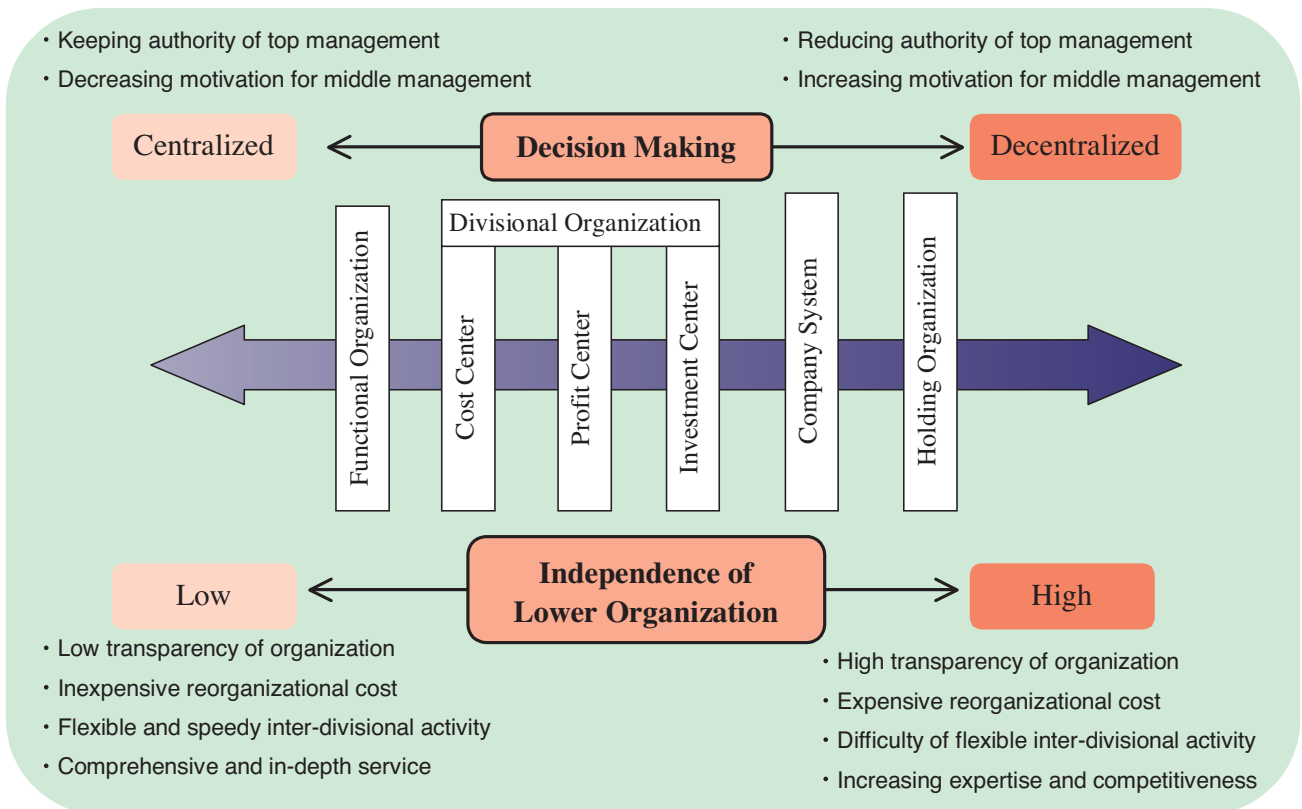


Fig.2 Organization Types by the Level of Decision Making and Independence