

Chapter 2

American Electric Power: Stakeholder Engagement and Company Culture

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Abstract American Electric Power (AEP) is one of the largest utilities in the country with over 18,000 employees. Over the last several years, AEP has been strengthening its corporate culture by applying its approach for stakeholder engagement inward. After an employee culture survey revealed that employees felt disconnected from management decisions and direction, the company's sustainability team collaborated with human resources, business unit leaders, and corporate communications to organize 90 meetings involving more than 1,000 employees to understand why and to explain how the principles of sustainable growth were key to improving AEP's organizational health. These events were a major milestone in AEP's sustainability and culture journeys and marked the intersection of corporate sustainability and employee culture. Sustainability professionals are key to breaking down internal silos and increasing awareness of business strategy and emerging issues or trends for employees and have become the nexus between corporate culture and sustainability.

2.1 Introduction

A corporate culture committed to its stakeholders and to sustainable business practices is necessarily based on engagement, transparency, and accessibility. Together these strategies allow companies to better manage risk, build trust, play a role in developing and supporting strong communities, and safeguard the company's

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financial health. While many companies most often focus this effort on external stakeholders, they overlook the benefits of turning the engagement lens inward. American Electric Power (AEP) has had a formal stakeholder engagement process in place for more than eight years, and its focus was primarily external—until recently.

Stakeholders expect AEP to be transparent, open, and candid. The success of this process became a model for internal engagement when the company sought to improve its internal organizational health. In 2012, AEP applied its approach for stakeholder engagement inward. An employee culture survey was conducted to understand how employees relate to the organization they work for and illuminate the day-to-day culture of AEP. This inward focus signaled to investors and other external stakeholders that AEP's commitment to its own internal culture is equally important as its outside stakeholder meetings, and would be a positive influence on management's performance and the company's strategic direction.

However, as AEP executives reviewed the results of the employee culture survey, they became concerned. While the survey identified strong cultural pillars of safety, commitment to customers, and a solid desire to contribute to AEP's success, an apparent lack of knowledge or understanding of changing business dynamics left employees feeling disconnected. CEO Nick Akins said the survey seemed to indicate that "Management works for one company and employees work for another."¹ The culture of the senior management team was not shared by the 18,500 AEP employees. Akins and other senior leaders understood this gap meant risk and inefficiencies—issues contrary to a sustainable organization. By turning the company's established external stakeholder process inward, executives began to close the gap.

AEP realized its success was tied to understanding the dynamics of employee culture, a tough lesson for companies to embrace; and at the outset, AEP was no different than most. It was very clear to leadership that it needed different inputs to inform decision making, internally and externally. Otherwise, they risked growing resource inefficiency, missing new business opportunities or risks, employee retention and attraction issues, or failing to identify emerging trends. Owing to its positive experience with external stakeholder engagement, the sustainability team that led external stakeholder engagement was now tasked with conducting employee focus groups. The team, working collaboratively with human resources, business unit leaders, and corporate communications, organized 90 meetings involving more than 1,000 employees and gathered a wealth of information and ideas. Before "captive" audiences, the company framed the principles of sustainable growth as necessary to improve AEP's organizational health. This event was a major milestone in AEP's sustainability and culture journeys and marked the intersection of corporate sustainability and employee culture.

¹Personal communication, AEP employee Webcast, August 27, 2012.

This approach appeared to be validated by an investor during an external stakeholder meeting in late 2013 that included environmental groups and investors. Akins mentioned AEP's focus on employee culture and why it was important to him and to AEP's business success. A few stakeholders nodded their heads, while others looked puzzled. One AEP investor said, "A company focused on its culture is a company whose employees understand both the challenges and opportunities, are engaged in moving the company forward and is the hallmark of a company that is well-managed."²

Sustainability professionals must work collaboratively across an organization to effectively address stakeholder concerns. They do this by breaking down silos and increasing awareness of business strategy and emerging issues or trends. As a result, management begins to understand the outside world's many different perceptions of AEP and why transparency and engagement are business imperatives. For example, water resource management is an increasingly significant sustainability issue for the electric power sector. Reflecting that issue's importance, AEP reports extensively each year on water withdrawal, consumption, quality, and availability in its Global Reporting Initiative (GRI) report and the Carbon Disclosure Project (CDP) Water Survey.

During preparations for the 2014 Corporate Accountability Report, a power plant engineer asked why the water data were being requested. To his way of thinking, it was not "inside the bounds of doing things legally, ethically, and morally."³ He said safety, environmental protection, ethics and compliance, and serving customer needs were his primary responsibilities. How did the request for water data fit within those objectives? After learning that the data are used by environmental stakeholders, investors, and others, he was satisfied. "I am a third generation AEP stockholder ... as a stockholder, I have been concerned with duplication of effort within the company and the actual necessity of various bits of information going to some of the places it does."⁴ With that, he categorized the request under power production (serving customers), thereby matching one of his priorities.

Had that exchange not occurred, the plant engineer would still have provided the data but without understanding its importance or how it was being used. Absent the strategic alignment between the data request and stakeholder questions about how the company manages its water resources, he simply considered it another meaningless, burdensome request.

The ability to connect the dots is one reason why the sustainability professional has become the nexus between culture and sustainability. For as much as external stakeholders want to know why companies do the things they do, employees are equally hungry for that information.

²Personal communication, AEP stakeholder meeting, November 13, 2013.

³Personal communication with AEP employee, March 2014.

⁴Personal communication with AEP employee, March 2014.

2.2 How Stakeholder Engagement Began

The path to a formal stakeholder engagement process began in 2004 with a shareholder resolution seeking greater transparency of AEP's air emissions risks. In response, a subcommittee of independent directors of AEP's Board of Directors formed what was essentially a stakeholder group to address the issue. They sought input from the shareholder resolution author and environmental groups, as well as from the internal company experts. When the report was issued later that year—"An Assessment of AEP's Actions to Mitigate the Economic Impacts of Emissions Policies"—it was described by some stakeholders as a groundbreaking example of effective corporate governance and stakeholder engagement. Among the commitments in the report was a pledge to be open to partnerships, in technology and policy, and for continued transparency of actions (Fig. 2.1).

In 2006, AEP chose to move from a biannual report of environmental performance to a broader sustainability report that included its position and approach to climate change, performance of the electric system, and social issues such as the aging work force, worker health and safety, and stakeholder engagement. It would also serve as the vehicle to keep the company's promise of transparency to stakeholders from the 2004 Board report.

One of the first steps was to learn more about the issues important to AEP's stakeholders. Since AEP had not organized a formal meeting with external stakeholders before, it turned to Ceres, a national coalition of investors, companies, and



Fig. 2.1 The 2004 Board Report on Emissions Risk served as the catalyst for greater transparency at AEP

public interest groups that advocates for sustainable business practices, to help convene the first meeting. AEP's then CEO Mike Morris asked his senior team to participate and signaled that stakeholder engagement would become part of how AEP would conduct business going forward.

Ceres worked with AEP to identify the right external stakeholders, the issues to be discussed and the meeting format. Ceres served as facilitator; they had a degree of credibility and trust with the stakeholders that AEP did not yet enjoy. It was a new type of relationship for the stakeholders and for AEP. That first meeting included non-government organizations (NGOs), such as the Natural Resources Defense Council, the Clean Air Task Force, and Environmental Defense Fund. Other participants included labor representatives, investors, and other socially minded groups, such as the Presbyterian Church. The top issues were climate change, environmental performance, future of coal, energy efficiency, and utility business model.

This new experience was initially uncomfortable for many in the room, including stakeholders who did not know what to expect. The dialogue was always respectful and polite, but as each challenged or defended positions, it began to resemble a boxing match. The stakeholders would challenge the company on an issue or question why it held a certain position. AEP would respond, sometimes defensively. Back and forth it went. It was an inevitable outcome since neither side had ever sat face-to-face in such a forum.

AEP and Ceres agreed to call a time out to remind each other of the purpose of the meeting and asking participants to actively listen to each other. That gentle reminder was a turning point. As the conversation picked up again, both groups realized that it was an important first step toward building lasting relationships.

A few days later, the AEP team reassembled to discuss what they heard during that meeting and what actions they would take, if any. Initially, there was frustration that the stakeholders did not know more about or understand AEP's business. It was argued that the stakeholders were asking for things that were already being done (such as investments to improve power plant efficiency).

Almost immediately, one executive stopped the discussion and said that the reason the stakeholders did not know was because AEP had not done a good enough job communicating with them. The group agreed that this was an important opportunity for engaging stakeholders and to tell the AEP story. That was the turning point for stakeholder engagement at AEP; senior executives have been fully committed and have participated in nearly every stakeholder meeting since that first "match."

This demonstrates the degree of value in stakeholder engagement. AEP took it one step further and began convening meetings with NGOs that included customers and regulators. AEP quickly learned that there is no better way to communicate the difficulties of navigating competing interests than by bringing those different viewpoints together. Customers heard NGOs pushing for something, regulators could hear what customers were being asked to pay for, and NGOs heard customers say why they could not afford it and did not want to pay for it.

The multi-stakeholder approach allowed all stakeholders to see the competing demands that AEP balanced and for AEP to learn from many different positions at once. In many cases, these exchanges informed business strategy and led to the creation of new sustainability commitments. For example, during ongoing discussions about advancing energy efficiency with customers, AEP realized it needed to examine its own energy use and set internal energy reduction goals. The company collected a year of data and set goals to reduce consumption. By the end of 2013, AEP had reduced its kilowatt-hour (kWh) usage by 25 % compared to the 2007 baseline. The equivalent accumulated savings from reduced energy consumption at more than 300 facilities exceeded \$17 million. The company achieved these results through a combination of capital investments in more energy efficient equipment and an employee education campaign. By reducing usage, the company could sell the unused energy in the wholesale power market, or not produce it at all, while reducing impacts to the environment. One investor who participated in AEP's stakeholder process said it sent a positive signal that "companies do care about their stakeholders and those who impact the long-term value of the company."⁵

Today, AEP's framework for engagement has evolved from large meetings with a broad focus to more targeted, smaller group meetings. Senior executives still participate, including the CEO. The vehicles for engagement have evolved as well. Nothing is more effective and meaningful than face-to-face meetings but that is not always an option. AEP has employed the use of conference calls, e-mail, and social media to stay connected with its stakeholders.

2.3 Process and Strategy

Effective, productive stakeholder engagement requires an understanding of who your stakeholders are, why they are important, and what issues are important to you both. When developing its external engagement process, AEP identified its stakeholders with help from Ceres and others. In some cases, the company used survey tools to identify concerns that would later inform content of stakeholder meetings. In others, the dialogue was a natural extension of ongoing discussions.

As relationships and trust grew stronger, it was not uncommon for an NGO to directly call the CEO or another senior executive to talk about an issue. AEP would also reach out to stakeholders to provide a "heads up" on an announcement or action the company was taking that would be of interest to certain groups. For example, when AEP announced plans to build new ultra-supercritical coal-fueled power plants, the company arranged a conference call with a small group of NGOs to share the announcement in advance. In another case, the discussion about climate change led to an invitation for NGOs to visit AEP's Mountaineer Plant in West Virginia to see the world's first validation project of carbon capture and storage on an existing coal plant.

⁵Personal communication, AEP stakeholder meeting, November 13, 2013.

Stakeholders can influence public policy and regulatory outcomes that directly affect the company. This happens at the national level and in local jurisdictions where NGOs have increasing influence and financial backing to support their causes.

AEP's philosophy has always been to work with its stakeholders in good faith to try to find common ground. The company believes that being honest and candid about the decisions it makes and the reasons for them is a prerequisite for successful engagement. AEP's experience shows that stakeholders will respond in kind—even when views differ sharply.

In 2006, energy efficiency programs were in place in two AEP jurisdictions—Texas and Kentucky—where they were mandated. Environmental groups pushed AEP to expand those programs to other states. They believed that energy efficiency was important to helping address climate change, a significant sustainability issue for AEP. At the time, coal-fueled electricity was relatively inexpensive and few thought there would be regulatory support for new programs that would raise customer rates. At the same time, the cost of new environmental controls on coal plants was beginning to hit customer bills. There was little support for adding to that burden.

Following more than a year of dialogue with stakeholders, then CEO Mike Morris set a goal to reduce electricity demand by 1,000 megawatts (MW) by the end of 2012. A year later, he added a goal to reduce energy consumption by 2,500,000 megawatt-hours (MWh) during the same time frame. Energy efficiency was the pathway to achieve those goals. AEP's strategy was to work closely with coalitions of stakeholders who were, in many cases, interveners in state-level regulatory cases. This collaboration was particularly important as states began establishing energy efficiency and renewable energy mandates. Working together ensured a good outcome for AEP and its stakeholders and opened the door to a new business opportunity for the company. AEP exceeded both the energy efficiency and energy demand goals.

Having a clear understanding of the issues that are most important to AEP and its stakeholders is essential to building credible, trusting relationships. Since 2007, AEP has reached out to stakeholders each year to ensure their priorities have not changed and to learn if something new has emerged. The company uses survey tools, conference calls, and other means to do this.

At AEP, the top issues to stakeholders have consistently been coal, energy efficiency, utility business model, and climate policy. More recently, water risks, political and lobbying activities, and new technologies (i.e., distributed generation and micro-grids) have infiltrated the discussions. Often, issues the company is questioned about are triggered by recent events. For example, following the 2010 *Citizens United* Supreme Court decision allowing companies to make political contributions to candidates, advocates began asking for greater disclosure on that issue. In response, AEP began to publicly disclose its political contributions and lobbying expenses, as well as the portion of trade group dues that were used for lobbying activities.

In 2012, AEP conducted its first formal materiality assessment to understand the sustainability issues most critical to the company and its stakeholders.

Materiality is most commonly associated with financial reporting. It is an accounting standard that provides a threshold for disclosure in financial reports. Knowing what issues are most important to the company and its stakeholders is also a key factor when disclosing sustainability performance. AEP considers material issues to be those that have affected or that are reasonably likely to affect the company's reputation, liquidity, capital resources, or results of operations. Material issues can also include those that stakeholders consider important to their interests and to AEP's sustainability. Conducting a materiality assessment allowed for consideration of what was important from the perspective of both the stakeholder and the company, creating opportunities for external and internal engagement.

The company used a consultant to help guide the process and develop a survey instrument that would identify the top 15 material issues. At the time, an analysis of AEP's sustainability Web site (www.AEPsustainability.com) revealed that the company was reporting on more than 80 issues or aspects of issues. Internal resources could not sustain that level of reporting nor was it necessary. The company used the GRI, International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB) definitions of materiality to guide the assessment. SASB and IIRC were still in the drafting phases but were far enough along to understand their unique perspectives. Considering all three gave AEP a broader view of what external stakeholders might be seeking in public disclosure. In the end, AEP defined materiality as a combination of financial and sustainability thresholds rather than choosing one over another.

Gaining a better understanding of what was relevant to investors was an important objective of the project. To that end, AEP engaged an independent sustainability investment analytics firm. AEP has produced an integrated report of financial and non-financial performance since 2010, making this perspective invaluable to the report process and focus.

Through a series of internal workshops with subject matter experts, the company narrowed the list from 80 to 36 issues or aspects of issues and developed a survey tool. Throughout the process, the team tested issues and their definitions with internal experts and with the financial analyst, and there were sometimes disagreement on an issue's importance. While not necessarily eliminating the issue, it prompted the team to rethink why it was important and to whom.

The team developed a targeted list of internal and external stakeholders that included AEP board members, management, subject matter experts, NGOs, suppliers, customers, regulators, investors, trade organizations, and labor. The survey was sent to 250 stakeholders with a two-week response deadline. AEP received a 54 % response rate.

The analysis provided clarity around the key material issues but missed the mark on some. In developing a materiality assessment, companies should exercise judgment when deciding what makes the list and what does not. For example, the survey indicated that political contributions and lobbying activity was a low priority issue for most stakeholders. However, AEP received shareholder requests

regarding this issue several times. In this case, it was a material issue for the company which warranted continued reporting in the annual Corporate Accountability Report.

To validate the results of the assessment, the team reviewed the list of issues to determine if they aligned with the company’s risks, as managed by the Enterprise Risk Management group. This provided assurance that the results were accurate and aligned. The final list of material issues was 17—a much more manageable and relevant level of disclosure (Figs. 2.2 and 2.3).

The materiality assessment took six months to complete. It is not necessary to do this every year, but AEP seeks to test the relevance of the issues and identify any new issues that might emerge annually. In late 2013, AEP assembled subject matter experts for a half-day workshop for a review. Interestingly, three issues not previously ranked as priority (but were in the original survey) rose to the top. These were customer relationships/satisfaction, engaging employees and market competitiveness. These priority issues reflected the strategies put in place in 2013 to support AEP’s strategy for growth. After external stakeholders validated the

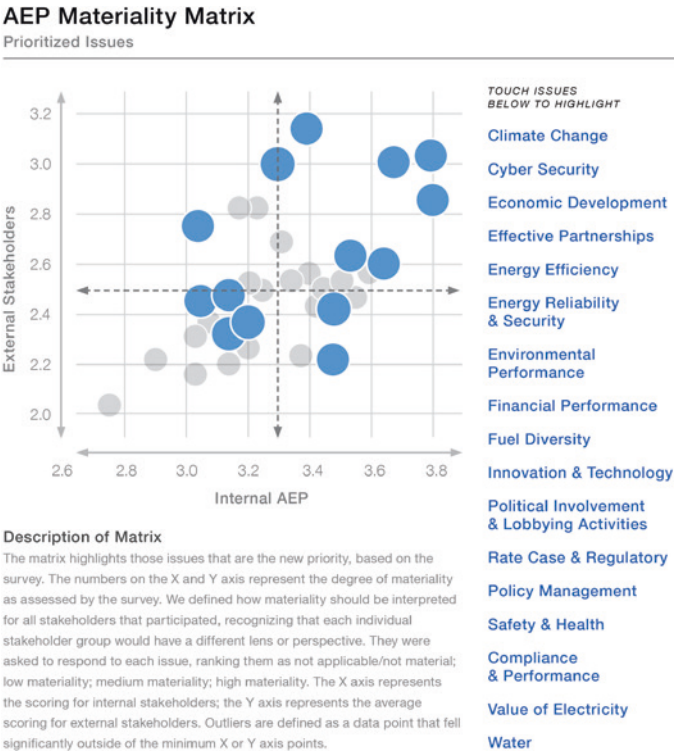


Fig. 2.2 AEP’s 2013 materiality matrix of material issues

The survey found that AEP has a strong culture of safety and compliance with rules and standards and a solid basis of committed and experienced employees who care about the company and customers. The survey also identified several disconnects:

- Employees did not broadly understand the direction and strategy of the company, missing opportunities to effectively turn that into specific goals and targets.
- Employees did not feel sufficiently involved and empowered to take on tough challenges.
- There was room to improve how the company “keeps score” and provides recognition and rewards for top performers and holds weak performers accountable.
- Employees wanted more bottom-up innovation and more knowledge-sharing and cross-functional collaboration.

Management acted quickly. From the survey results, AEP identified four areas of focus to improve the health of the company’s culture:

- Strategic alignment,
- Leadership development,
- Performance recognition and accountability, and
- Employee engagement.

Senior executives sought to conduct employee focus groups to learn more and gather ideas for improvement. The sustainability team was asked to apply the stakeholder engagement model internally. At the same time, a core culture team was formed (that included sustainability) to begin developing a culture road map. A full-time position was created to steward the initiatives and ensure ongoing progress, reflecting the importance of employee culture to AEP.

In 2013, 90 employee focus group meetings were held. Participants represented every level (except executive management), job type, demographic make-up, and cultural diversity. Employees were given an opportunity to volunteer to participate and regional human resources managers and business unit leaders reviewed the teams to ensure balance and diversity. Throughout the course of the year, more than 1,000 employees took part in online or in-person focus groups, nearly 6 % of AEP’s full-time employee population.

Additional employees were trained as facilitators and given a guide for the two-hour meetings. Having employees lead these sessions created new openings for leaders to provide a development opportunity for some of their top performers. The discussions concentrated on the four focus areas of AEP’s culture initiative. The facilitators worked in pairs and were assigned outside of their normal work area, adding a level of anonymity intended to foster an environment of safety and openness. Stakeholder meetings do not necessarily end with participants working together on projects every day. Stakeholders also are not concerned about the potential for manager retaliation or job security. While many of the external engagement principles applied directly to the employee focus group process, certain additional considerations were needed. Given that employees would continue to have to work together, and may be concerned about the response to their comments in the focus groups, AEP implemented a few modifications.

Participants were only asked to share their first names and years of service to protect their anonymity. Not even the facilitators were told who would be in their sessions. The comments were captured by one of the facilitators, and the result was a treasure trove of rich data that helped AEP prioritize initiatives and inform the employees' role in the company's business strategy. One of the reasons for providing a "safe" environment for candor about AEP's culture was that the company wanted honest feedback (Fig. 2.4).

When the meetings were complete, the team compiled the information gathered and used it to develop a culture road map, including a culture goal tied to incentive compensation. In addition to concerns and complaints, employees shared hundreds of ideas for improvement. For example, a majority of employees said that a simple "thank you" from their supervisor for a job well done was more meaningful and motivating than a gift card. That was in contrast to an employee who received little recognition for his 35-year service anniversary other than a certificate of appreciation from the CEO; his immediate supervisor did not take the time to say thank you for all those years of service. These starkly contrasting examples of what worked well and what the company knew it had to change provided insight that continues to guide AEP's culture journey.

Using the stakeholder engagement model to engage employees gave AEP the framework it needed to launch focus groups more easily and swiftly. It sent a

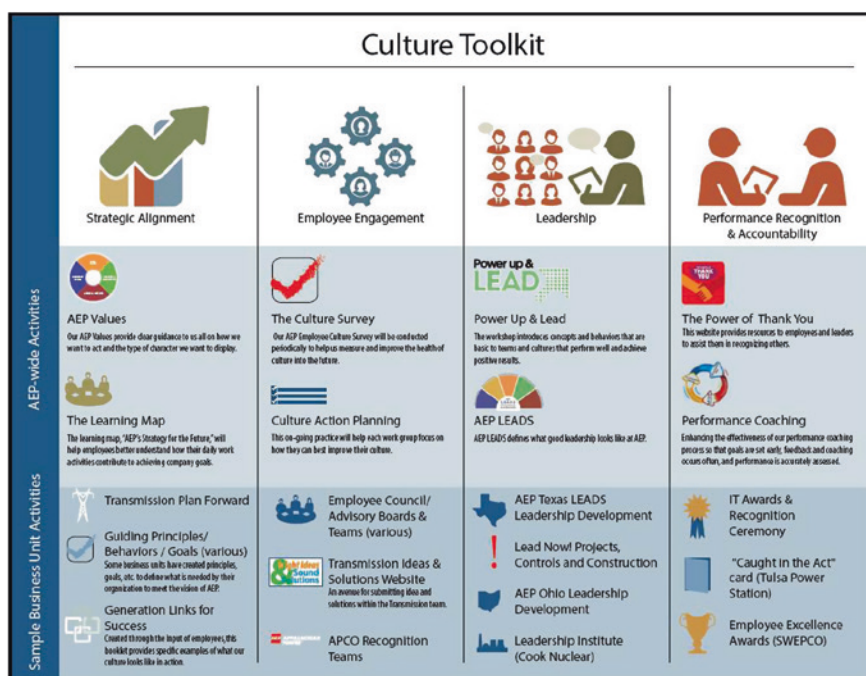


Fig. 2.4 AEP's culture toolkit gives leaders and employees tools to support the company's four focus areas—strategic alignment, employee engagement, leadership, and performance recognition and appreciation



Fig. 2.5 AEP’s Engage to Gain program encouraged employee engagement to identify cost savings and process improvements. It included a potential financial reward for all employees

signal to employees that management was listening and wanted their ideas. This was particularly vital to a continuous improvement initiative also under way. Employee teams were formed to identify cost reduction opportunities as well as process and efficiency improvements. The “lean” process places a high emphasis on engagement and culture which complemented AEP’s broader culture initiatives. The employee-led continuous improvement efforts further underscored the company’s commitment to internal engagement.

In 2013, AEP established a gain-sharing program called Engage to Gain. Facing some significant business challenges, the company needed an engaged work force to ensure long-term financial and operational success, obviously critical aspects of being sustainable. AEP committed to employees that savings accrued beyond \$200 million that year would be split 50-50 with employees (excluding senior management). Employees had to make the business case for the cuts, cost reductions, or process improvements and show that they could be sustained. At the end of 2013, employees identified more than \$200 million and, as a result, every employee received a check for the maximum payout of \$1000 (Fig. 2.5).

The strategy to involve employees was enhanced by the stakeholder engagement process that was already in place. With few modifications, the company directly engaged more than 1000 employees through focus groups and many more through the Engage to Gain program.

2.5 Tips for Successful Engagement

2.5.1 External Engagement

Successful stakeholder engagement requires a strategy and a plan. Once AEP decided that stakeholder engagement would be integral to its performance reporting and provide an avenue for more open dialogue, the company began to map

its stakeholders and issues. It also requires collaboration across the organization for both internal and external engagement. This helps break down silos, creates greater understanding of business issues and opportunities, and fosters an environment of collaboration.

The first step is to identify the most important issues to the company and its stakeholders. It is also important to determine how the engagement process can have the greatest impact on business strategies and operations. Through internal discussions and working with Ceres, AEP identified the issues that would launch the first stakeholder meeting. Later, new issues would lead to follow-up engagement. With a robust process in place, the issues became readily apparent and began to build upon one another.

Next, it is important to know which stakeholders can have the most impact on your company's operations. For example, does the stakeholder have influence that can affect a regulatory proceeding or public policy outcome? If so, that is someone you would want at the table. Once that is complete, you can map your stakeholders to the issues.

AEP nearly always contracted with a third-party facilitator for its stakeholder meetings. Having a neutral, third party who understands your business as well as the principles of sustainability allows for more candid and constructive dialogue. It is important for the facilitator to get to know the company's senior team, understand the issues, and know who the stakeholders are. This creates trust and a comfort level that fosters an environment that allows for candid discussion. The facilitator ensures the conversation stays on track and that everyone is heard.

The reason a third-party facilitator is beneficial is that it allows AEP to be part of the discussion rather than leading the conversation. It leads to more meaningful dialogue and eliminates the awkwardness of cutting a conversation short or having to cut off a key stakeholder to stay on track. It helps to preserve the relationship AEP has with its stakeholders. Only occasionally would the sustainability team facilitate a meeting. These instances usually involved a conference call that required immediate response or discussion of an important issue or the facilitation of small group meetings on specific localized issues with subject matter experts. This approach worked smoothly for those circumstances.

Following every stakeholder meeting, it is important to follow-up with your stakeholders. They want to know what actions the company is taking or will consider taking. AEP and Ceres (and later SustainAbility, another consultant, which served as a facilitator for many years) took meeting notes that were combined and shared with the stakeholder team. The notes did not identify who said what, only who was at the table and the issues that were discussed.

In addition to sharing meeting notes, AEP would inform the stakeholders if the meeting led to a new goal or sustainability commitment. The company kept track of every request stakeholders made and the disposition of those requests. AEP communicated those results to the stakeholders, including which requests would or would not be acted upon and why. It was a transparent exchange that helped to build credibility and trust.

In 2010, AEP convened a meeting with its coal suppliers and the environmental community. Following a survey of the suppliers' environmental, safety, and health performance, AEP shared the results with both groups. It was also the first known survey of the coal industry with this focus. And, it helped AEP identify the percentage of coal in its supply chain that came from mountaintop removal mining practices—an issue of much stakeholder discussion. The survey was an important tool for AEP to understand the environmental and social performance of its coal suppliers, since the company was one of the largest consumers of coal. For the suppliers, it validated their performance claims, while it gave NGOs new insight into the industry's practices.

AEP understood that bringing NGOs together with coal suppliers would not be easy, but the company was in a unique position to convene such a meeting. AEP had proven its commitment to engagement and transparency and had developed good relationships with many of its stakeholders. It was the first time the two

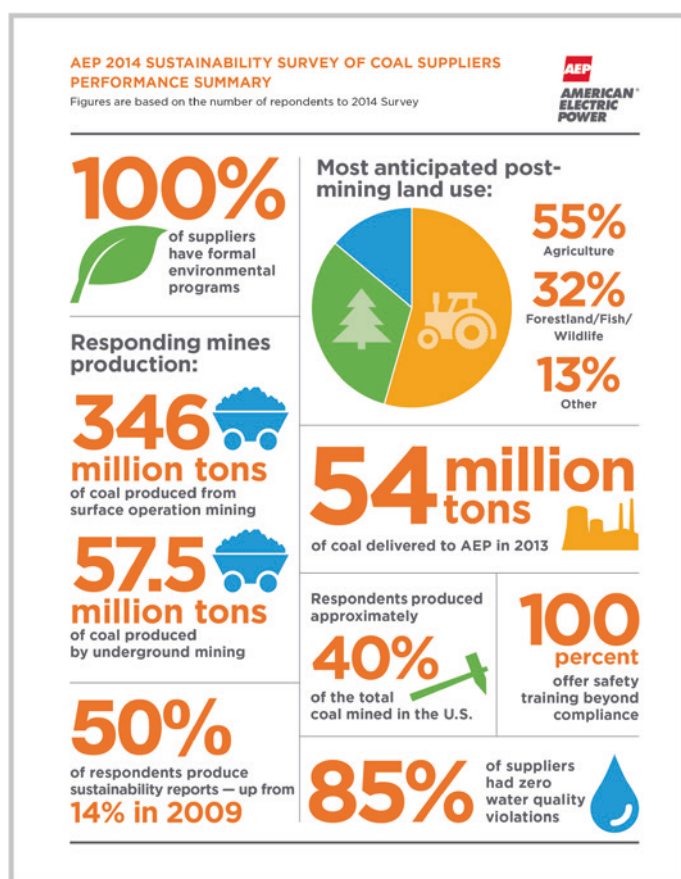


Fig. 2.6 AEP's coal supplier survey summary infographic

groups came face-to-face for a dialogue on issues that, heretofore, they had only responded to in the media or through legal proceedings.

It was a rocky start. When the stakeholders first arrived for a welcome dinner at AEP, there was little to no mingling among them. The next morning they came into the meeting together, laughing and talking to each other. When asked what changed, they said they spent time at the hotel bar the previous evening talking to each other. Although those relationships remain contentious, there emerged a new dimension to them that never would have otherwise occurred (Fig. 2.6).

Failure to engage can potentially damage a company's reputation, create financial risk, threaten public trust, and put a company's license to operate at risk. Today, shareholders are not only taking their concerns or demands to the company, but also to other influential shareholders to increase pressure for change. The sphere of influence that NGOs have today is broader, and their financial backing is stronger. Companies have more to lose than ever if they fail or refuse to engage.

Tips for Successful External Engagement

- Have an icebreaker that allows people to get to know each other.
- Use a third-party facilitator.
- Arrange seating so that stakeholders and company representatives are interspersed, avoiding an "us versus them" standoff around the table.
- Ensure everyone is heard; rely on the facilitator to draw everyone into the conversation.
- Provide access to the CEO for a one-hour open Q&A. Stakeholders covet access to senior management; providing it helps to build respect, trust, and credibility.
- Follow up to stay connected.

2.5.2 Internal Engagement

Collaboration and management commitment are critical elements of successful employee engagement. Where employees are empowered to offer ideas, lead teams, and find solutions, the outcome is invariably a win-win for the organization. This approach can also inspire innovation, break down silos, and lead to new business efficiencies, process improvements, waste reduction, cost savings, and higher employee morale.

The key to doing it right is to collaborate with those who are inside business units, who have their finger on the pulse of different parts of the company—the company's social influencers who are not always managers but know what is going on. For example, when starting the process to organize employee focus groups, a partnership between AEP's sustainability team and human resources (HR) was fundamental to ensuring a positive outcome. The HR team was better positioned to help identify employees who would be active and constructive contributors, however vocal they might be. They could also screen for performance

issues that might preclude someone from participating. The sustainability team was critical for applying the methods from the external engagement process.

Corporate communications was another important partner as they were instrumental in developing and disseminating communications to support recruitment and reporting results. In most cases, AEP held “open enrollment” to allow all employees an opportunity to volunteer for the focus groups. Providing a degree of anonymity was important to foster an environment of candor during the meetings. By limiting access to the master list of participants, the employees could be confident that their comments would not be reported back to their supervisor. This was vital since the idea was to solicit honest, candid feedback about moving AEP’s culture forward. A special e-mailbox was created to collect nominations to which only the sustainability team had access.

Getting the right mix of employees—diversity, types of jobs, levels in the organization, represented, exempt, etc.—is critical to be credible. For example, if the focus groups consisted of only managers and supervisors, it would have been a lopsided conversation with only one point of view. Here is where the partnership with the human resources and the business unit leaders was critical. They were able to help narrow the lists to workable numbers for each group. In the end, each group comprised a maximum of 15 employees and two trained employee facilitators.

In addition to the smaller groups, AEP formed a couple of “mega focus groups.” The company brought together about 100 employees at once and split them into ten groups of ten. This was done twice—once during the initial round of meetings in early 2013 and again in the fall to focus on updating the company’s values and purpose statement. AEP used this approach as a way to concentrate a larger number of meetings in a shorter period of time and to eliminate the need for more meetings.

During the mega focus group on values and purpose, the employees were told that senior executives would visit during the afternoon session, when the teams did their report outs on their group work. In this case, executives had started the work on the values and purpose statement but wanted to get input from employees.

Nearly the entire senior team—including the CEO—attended, sat with employees around the room, and later stayed to mingle and talk one-on-one with the employees. In follow-up communications with the employee team, many expressed appreciation for that opportunity.

The data collected from employees during the meetings were categorized by focus area (strategic alignment, employee engagement, leadership, and performance recognition and accountability). Reports for each focus area were compiled and shared with senior management. These reports informed development of the next year’s culture road map, led to employee-led teams focused on engagement and employee recognition, helped to spawn the creation of culture committees across AEP, and prompted an overhaul of the performance and compensation management systems. Regular communications keep employees informed of the company’s progress on all fronts.

Stakeholder engagement, like employee engagement, is a continuous process. Companies that veer off course from this commitment risk losing the trust, the credibility, and the “bank of good will” that engagement builds.

Tips for Successful Internal Engagement

- Use the external engagement model as the basis for engaging employees.
- Form partnerships with business unit leaders and the HR and corporate communications teams—they are valuable allies and advocates.
- Be clear about the desired outcomes. Create a facilitator’s guide that drives the conversation in that direction and keeps it focused.
- Capture comments and ideas (anonymously). Gather the positive as well as the negative. This will be useful information to inform follow-up actions.
- Do not allow supervisors and their direct reports to be in the same session or candor will be inhibited.
- As eager as senior executives are to participate, do not let them. Employees will not be honest or forthcoming about their concerns with an executive present. If there is an occasion to bring in executives that is appropriate, warn employees ahead of time.
- Solicit participants from all levels of the organization, diversity of job types, and cultural diversity.
- Follow up. Employees want to know what will happen with the data collected from the focus groups. Communicate intended actions. When something occurs that was a result of employee input, recognize it. If you don’t, employees will disengage.

2.6 How Sustainability and Culture Are Transforming AEP

The process and principles for conducting stakeholder meetings are equally effective in organizing employee focus groups. By talking with and listening to external stakeholders, AEP is able to consider different inputs to the decision-making process. Whether it comes from a customer, an employee, or an environmental group, companies need information to execute their business strategy effectively. Engaging employees is equally as valuable and often leads to new ideas, business opportunities, innovation, process improvements, or cost reductions that otherwise might not be known.

Following a roundtable with executives and thought leaders from other industries, AEP CEO Nick Akins said he enjoys such exchanges because they helped him to learn about what others are thinking and to hear new ideas. He added that by broadening his scope of engagement, he increases the chances of learning something new that might benefit AEP. The same is true when working with employees.

During the course of conducting 90 employee focus group meetings in 2013, AEP gathered substantial information and dozens of ideas that have since sparked a series of initiatives to strengthen the culture. Some of the actions have included:

- Creation of a corporate Culture Advisory Board to provide bottom-up feedback to management on a range of issues and to help shepherd culture initiatives across the company. Many business units have formed local culture groups, too. The board organized a “Culture Stand Up” in 2014 to unveil an updated set of company values and a new purpose statement. Often, companies will hold a stand-down when a serious event has occurred to refocus and prevent a recurrence. In this case, AEP’s employees “stood up” for AEP’s values (Figs. 2.7 and 2.8).



Fig. 2.7 AEP held a “Culture Stand Up” in 2014 to encourage engagement around revised values and a new purpose statement



Fig. 2.8 AEP’s revised values and new purpose statement were developed with employees’ input

- Employees developed an engagement framework to help leaders, and employees have more meaningful interactions. The framework was developed by an 18-member employee-led team and provides common sense tips for improved interactions at all levels. It is not prescriptive and ready for immediate use. During focus groups, employees said they wished their leaders better understood the impact their decisions had in the field. They challenged leaders to “walk a mile” in their shoes. Employees wanted to understand why certain decisions were made and that management understood the operational implications. In response, the framework was created to improve communications and interactions. The team further raised the bar by setting forth the expectation that employees will take an active role in engaging with each other, recognizing they have an equal responsibility for positive, effective engagement.
- Creation of a new leadership framework, called AEP LEADS, was designed to clearly define what makes a great leader at AEP. The engagement framework is one of the tools that support this effort (Figs. 2.9 and 2.10).

How does this tie to AEP’s sustainability? During a meeting with external stakeholders in late 2013, AEP’s CEO and other executives talked about the company’s



Fig. 2.9 An employee-led team developed a framework for engagement targeted at all levels of the organization



Fig. 2.10 AEP’s new leadership framework aligns with the company’s values and supports its culture journey

focus on culture to address the many different challenges it is facing. Nick Akins talked about his own personal commitment to develop a work force that is more collaborative, engaged, and entrepreneurial. He spoke about it in the context of the significant transformation AEP, and the electric utility industry is undergoing. “AEP cannot achieve its goal to be a sustainable company without its employees. Just as our stakeholder engagement is critical, a healthy internal culture is a business imperative,” he said.

It was an investor who immediately understood the connection. He described the focus on culture as a measure of how well a company is managed. He added that the “tone at the top” is vital to this. It was the first time AEP and its stakeholders heard the connection between internal culture and corporate sustainability verbalized.

AEP frequently shares this account with employees to help them understand why culture is not solely an internal journey. It helps employees understand that external stakeholders, communities, and ecosystems have a vested interest in it as well.

2.7 Future Trends

According to a 2014 Aon Hewitt research report on global employee engagement, companies who engage their employees during challenging times “are more likely to emerge successful when the crisis is over. ... These factors include focusing on long-term strategies, demanding measurable action, involving all stakeholders,

understanding key employee segments, and broadening the range of assessment tools and analytics.⁶ AEP's four focus areas on its culture road map align with these factors.

Employee engagement can have a direct impact on financial performance. A company that considers employees to be critical partners for future success recognizes the power of an engaged work force. Employees who are engaged can counteract threats to the company's brand, reputation, and image, for example. Conversely, when employees are not engaged they can damage reputation and profitability through passive sabotage. A healthy culture and an engaged work force are critical to AEP's future. Consider the success of AEP's 2013 gain-sharing program as an example of the power of engaged employees.

Many employees are also shareholders of the company and have a vested interest in AEP's success. It is one reason they are encouraged to be active contributors. In response, employees are innovating, streamlining work processes, eliminating waste, and working collaboratively. For example, as the Economic and Business Development team sought to leverage opportunities from shale gas growth in AEP's service territory, the company had to find new ways to expedite large-scale electric service to remote locations.

The challenge was whether AEP could deliver enough electricity to power the construction and startup of an expansive (and expensive) industrial plant that was going to process natural gas that drillers were capturing from the Utica Shale formation a mile beneath the surface in rural eastern Ohio. A lot was at stake: The facility represented increased sales for AEP, hundreds of jobs for local residents, and new tax revenues for schools and local governments.

Without a solution from AEP, the company would have been forced to use noisy and noxious diesel-powered generators requiring environmental permits, on-site fuel tanks, 24/7 operators, and tanker trucks, adding to local traffic congestion. Transmission engineers had been working on developing a new mobile skid-mounted substation for fast delivery, but it was still untested. With agreement from the customer to test it at the site, the mobile substation proved to be the solution the customer needed. In addition, it aligned with AEP's business objectives to provide speedy customer service and to embrace a business culture transformed for success in a competitive world.

2.7.1 What the Future Holds

- Ultra-transparency will give companies a competitive advantage.⁷ Transparency is a basic expectation, and basic is no longer good enough.
- Proactive, real-time engagement with stakeholders will be critical to leverage opportunities and mitigate risks. Companies that do not engage will face

⁶Hewitt [1].

⁷May 2014 presentation to NAEM by Michael Muyot, President, CRD Analytics.

increased shareholder and consumer activism and poor employee morale. Stakeholders want to understand what companies are doing, as they do it, not after the fact. Employees want the same information.

- Intrapreneurs—those who think and act like owners of the company—will underpin a company’s health. Turning entrepreneurship loose inside a company will help build buy-in and ownership.
- Being engaged means staying engaged. Internal and external stakeholders want an ongoing connection, not one-time outreach.
- Every interaction creates a new dimension to relationships. When people come together, their perceptions change and they often have a deeper understanding of each other’s perspective. Internally or externally, they better understand the what, why, and how of business decisions and actions. Agree or disagree, the relationship is different and stronger.

There is no silver bullet when it comes to internal or external engagement. Companies may shy away from engaging externally for reasons that include unwanted public scrutiny, unpredictable outcomes, and fear of reprisal. However, a well-managed process for engagement can reduce these risks while unlocking the potential for greater collaboration, sharing of ideas and innovation. It can also help to improve a company’s “social capital” by demonstrating a good-faith effort to build trusting, credible relationships. These attributes of stakeholder engagement, while hard to quantify, can be as valuable to a company as quarterly profits.

Internally, engaged employees may be hard to find, but it is a quest for discovery that no company can afford to ignore. During a time of major transformation within the electric utility industry, an engaged work force is vital to sustainable, profitable business. It is well-known that engaged employees will go the extra mile, are passionate about their work, are committed to serving customers, and are the ones who feel connected to the company. Culture change takes time, commitment, and deliberate action. But the return on investment is limitless when employees are empowered to contribute in meaningful ways, and leads to a more sustainable organization.

For AEP, internal and external engagement has become a natural course of how the company conducts its business.

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<http://www.springer.com/978-3-319-28951-9>

Sustainable Electricity
Case Studies from Electric Power Companies in North
America

Fox, J. (Ed.)

2016, XXXII, 264 p. 117 illus., 116 illus. in color.,

Hardcover

ISBN: 978-3-319-28951-9