

Leadership and Vision at EXELON

BUILDING A FORWARD-LOOKING AND STRATEGIC FINANCE ORGANIZATION

By Mark L. Frigo, CMA, CPA; Matthew Hilzinger, CPA; and James Welch

How can CFOs build a world-class organization as a competitive advantage? This was the question electric and gas utility Exelon Corporation faced in summer 2009. It was a challenging period for the company: The recession was in full swing, which meant lower power prices, and, after Exelon failed in its hostile takeover attempt of a competitor, a reorganization of the finance department resulted in a substantial headcount reduction. Despite this difficult situation, Exelon Senior Vice President and CFO Matthew F. Hilzinger and his executive team determined it was an optimal time to embark on an ambitious effort to remake the finance organization and take its performance and leadership to best-in-class levels. “As a company, we faced tough economic times with limited near-term growth prospects,” Hilzinger said. “It was important that the finance organization step up to help the business and to partner with the operations.”

In the preceding years, Exelon's finance group was like many others. Its key focus and objectives were the basics: close the books, manage liquidity, and forecast the financials. It had executed these effectively and, with added efficiencies from extensive investment in its systems, had become one of the first in the industry to report earnings each quarter. Yet discussions within the company confirmed that though the finance organization was good at getting the job done, it was lacking in providing consistent, forward-looking insight and serving as a strategic business partner. "Finance was broken when it came to relations with our internal clients and relations with each other," Hilzinger admitted. "We needed to dramatically overhaul and improve what we delivered to the business."

How could they take an organization to the next level in the midst of such a difficult environment? "I was confident that our finance workforce was filled with high-caliber people," Hilzinger added, "and they deserved to be treated well and given the opportunities to continue their development."

With the support of William A. Von Hoene, Jr., Exelon's executive vice president, Finance and Legal, Hilzinger and his leadership team spent the next two years and tremendous energy implementing a variety of initiatives that eventually exceeded their goals. As they embarked on their ambitious journey, Hilzinger noted that momentum was a key factor to enlisting more finance employees to the efforts. "People saw the changes we were making and wanted to be a part of it."

The Starting Point

Exelon was formed in 2000 through the merger of Chicago-based Unicom and Philadelphia-based PECO. The new company owned the local power utilities for the Chicago and Philadelphia areas and the largest nuclear generation fleet in the United States, all located in competitive power markets. With the majority of revenues now derived from these markets rather than the relative safety of the regulated construct, Exelon was required to find ways to strengthen its operations and capabilities. A key initial step was improving a nuclear fleet that was operating at about 50% capacity. Under the regulated model, plant owners are made whole by ratepayers, gener-

ally regardless of performance. But in the competitive model, plants need to be economic based on performance. Exelon took several years to turn around the nuclear plants but soon had boosted their performance level to a fleet-wide capacity of more than 93%—and its plants have operated in line with the best in the world since.

In 2008, Hilzinger was promoted from vice president and corporate controller to CFO. He helped lead the efforts to make significant improvements to finance's systems, a key first step toward driving efficiencies. As finance reorganized in 2009, he and his executive team knew what they wanted to do (move the organization toward best-in-class), but it wasn't immediately clear how they would get there. A phrase appeared repeatedly in documents and presentations during the initial stages that demonstrated the team's lofty mission: "We have an immediate opportunity to take charge of our own destiny, address these issues, and be accountable for achieving success."

Vision and Objectives

Hilzinger and his executive team believed the finance organization was ready to move forward, but they had to approach the reorganization carefully to ensure success. "We were strong at operational excellence, getting things done," Hilzinger said. "But overall the finance organization was screaming for leadership." He knew they had to provide the leadership necessary to succeed in moving the group toward best-in-class. It started with the consensus of the finance executive team that they would expend the time, effort, and leadership required over the coming months and years. They also had to set a clear direction (see Figure 1). Early on, the executive team established key guiding principles that anchored their efforts and to which they would continually refer:

Commitment—We will do what it takes to achieve our goals.

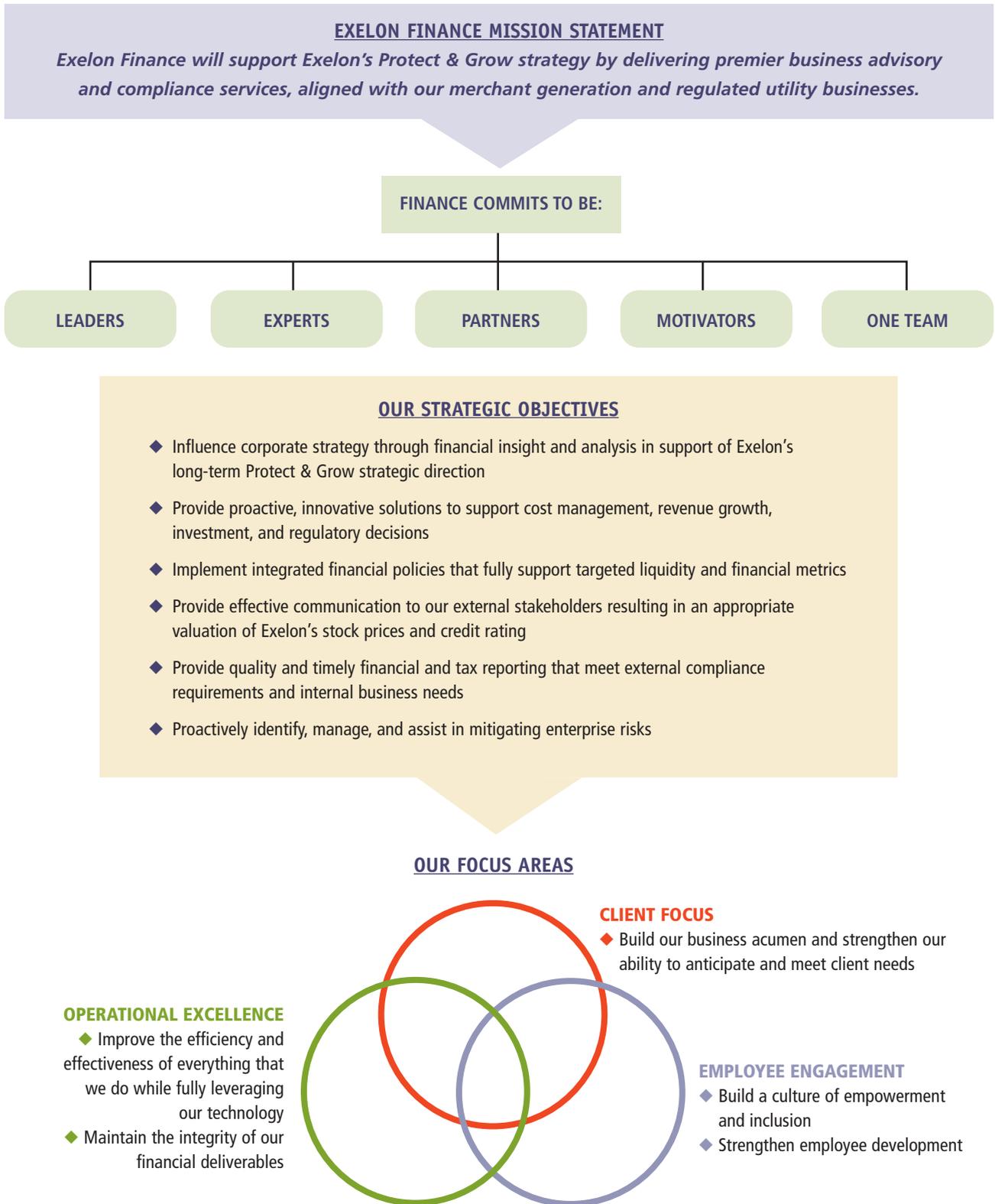
Sustainability—We need to create sustainable change.

Inclusive—Be inclusive in gathering input and involving employees.

Convert—Our problems must be turned into opportunities.

Unified—We must debate but present one voice to the organization.

Figure 1: Finance Mission, Strategic Objectives, and Focus Areas



Balance—We must balance our fiduciary responsibility with the needs of employees, internal clients, and the company.

Trust—It is essential that we trust one another and our employees through the process.

The Approach and Process

Exelon created an aggressive plan in a short time—during the last several months of 2009—before officially launching the initiatives in 2010. Without an orderly and clear path to success, the company wouldn't have achieved its goals. Manager of Treasury Operations Jeanne Jones, who at the time served as executive assistant to Hilzinger, took a significant lead role in the process.

“We knew we needed to create a sense of urgency, but we also needed to balance that with the need for a thoughtful approach to executing change,” she explained. “We wanted to show the finance organization that change was beginning with how we developed the plan itself.” Jones and a subset of the executives served as the core team leading the initiative. They quickly outlined the seven steps required to achieve their goals:

Step 1: Develop Finance Mission, Fundamentals, and Strategic Objectives. Agree on future state, including elements of the strategic plan and strategic direction.

Step 2: Define Success. Gather and agree on practices and measures of success informed by executive/client input and benchmarking of identified best-in-class organizations.

Step 3: Perform Strategic Assessment. Reconcile and refine the strategic objectives and performance metrics with information gathered in Step 2.

Step 4: Perform Gap Analysis of the Strategic Objectives. Assess current performance against the strategic objectives and performance metrics. Identify specific gaps that must be addressed and set targets.

Step 5: Develop Strategic Initiatives. Identify and commit to specific initiatives to close gaps.

Step 6: Document Finance Strategic Plan. Document and publish the results of the project in the strategic plan.

Step 7: Plan and Implement Strategic Initiatives. Implement and execute the strategic initiatives.

Strategic Initiatives

By December 2009, just a few months after starting the process, Exelon had identified 21 strategic initiatives to implement (see Figure 2). The team established a phased

approach for implementing the strategic initiatives that would take more than two years given the vast amount of effort and change involved. The finance organization was seeking to remake everything from how it allocated capital to how it assessed and evaluated the leadership capabilities of its people. “The breadth and depth of what we were trying to accomplish was certainly ambitious,” Duane DesParte, vice president and corporate controller, noted. “But to truly transform the culture and significantly improve how finance adds value to the business over a short time frame, we had to be bold.”

Figure 2: Exelon Finance Strategic Initiatives



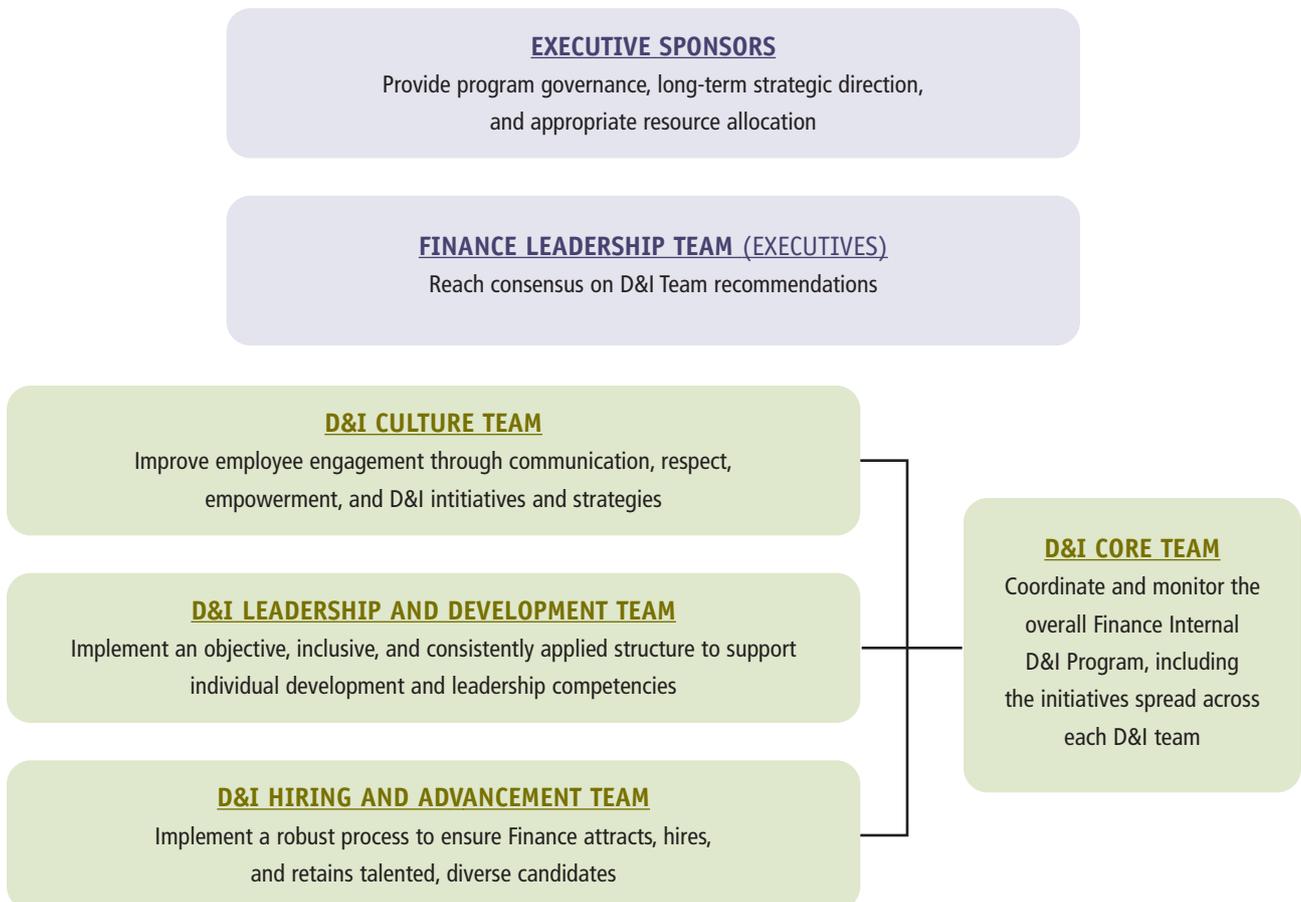
The strategic initiatives fall into three categories: (1) improvement and reevaluation of existing processes, such as integrated scenario planning and optimizing utilization of journal entries; (2) opportunities to strategically rethink existing approaches, such as the bank relationship strategy and opportunities leveraging technology; and (3) employees and culture, such as the competency model and upward feedback.

Finance’s approach to the strategic initiatives focused on involving employees throughout the process. The leadership team called on employees at all levels to participate on strategic initiative teams, to provide insight and perspective to the teams, and to play a significant role in external benchmarking. This included teams that did research and benchmarked traditional *Fortune* 500 companies, other

utilities, professional services firms, and even the U.S. Army. Involving employees was clear acknowledgement from Hilzinger and his executive team that while they needed to provide the vision and leadership, significant change would come from a bottom-up approach.

In early 2010, Exelon formally launched the strategic initiatives. Each one was assigned a finance executive owner who reached across the finance organization and pulled together cross-functional teams to drive the initiative. Though the executive owners and their teams were given autonomy to implement the initiatives, there was a clear structure in place that established accountability for delivering results. For example, Hilzinger and his executive team made a discussion of the state of the strategic initiatives the focus of one of their two monthly meetings.

Figure 3: Finance Diversity & Inclusion Oversight



The teams completed nine of the strategic initiatives in 2010 and the remaining 12 in 2011. But describing any one strategic initiative as “completed” may be misleading. Many continue today in the new ways that the finance organization approaches its work or conducts processes.

For example, the Portfolio Capital Allocation Process was “completed” in 2010, yet it is now ingrained in Exelon’s planning process. This strategic initiative focused on centralizing growth investment opportunities for the entire company. They are now evaluated and assessed against one another and ultimately prioritized based on both financial returns and strategic fit. This process is initiated early in long-range planning so Exelon can adequately plan for its liquidity needs to fund the growth projects. To the extent debt capacity is limited in funding the growth opportunities, projects are prioritized to determine which ones will be pursued as part of the long-range plan.

“It’s extremely useful to be able to compare the various growth investments of the company, whether they’re nuclear or wind or solar,” James Welch, executive assistant to Hilzinger, who worked on the strategic initiative, said. “For finance employees, it’s a proud example of how we can provide value and strategic thought to executives.”

The Diversity and Inclusion initiative is far-reaching. Because of its deep cultural impact, all finance executives were involved, and they were split up to sponsor one of the three D&I teams: Leadership and Development, Hiring and Advancement, and Culture (see Figure 3). For Exelon, the approach wasn’t to just stop at diversity in the traditional sense of minority and female representation. It emphasized inclusion just as much, focusing on the overall trust and respect of every employee. The executive sponsors asked finance’s 450 employees to join one of the D&I teams. Remarkably, nearly 25% of the organization stepped forward to be part of the teams and to play a role in advancing the culture of finance. The executives empowered employees at all levels to lead the teams and bring ideas forward. “Before long, many of the team meetings weren’t being run by vice presidents or directors,” Welch said. “Analysts and relatively junior folks stepped forward as leaders. It was an incredible thing to see happen.”

The teams immediately generated ideas to implement, many of which were low-cost, quick wins. One of the first ideas put into action was the Culture team’s monthly “Dialogues” sessions where employees of all levels discuss different topics in an open forum. The payback includes a greater sense of community and employees feeling that

they have a voice to express their views.

The Hiring and Advancement team brought forward an idea on how to improve the job interview process. The team recommended that all hiring managers go through interview certification training to ensure that the interview process is consistent across the organization. Training covers the types of questions that are effective in gathering sufficient detail, how to document the results of an interview, and how to provide feedback to candidates. “It means a lot to employees that the interview process be fair and transparent,” Stacie Frank, vice president of investor relations and executive sponsor, explained. “We recognized the obligation we had to provide them this assurance.”

The Leadership and Development team focused on training as they launched Finance University, an initiative intended to provide a wide variety of resources to employees. Welch, who is co-leading it, notes that if employees want to improve or work on a particular skill, Finance University will be able to help them. “We want to make the resources available for employees to self-direct their chosen path,” he said. “We recognize not all employees have the same development needs or even career ambitions.”

Keys to Success

Why was Exelon successful? Here’s a summary of its keys to success:

1. Communication

Because of the level of change involved, it was crucial to have a solid communication plan that would manage expectations of the process and changes. The plan included addressing all stakeholders involved in the process and anticipating each of their needs. A strong communication plan also assisted in building grassroots support, not just with finance employees but also with their internal clients and Exelon executives.

2. Engaged Employees

There was a focus from the start to gain employees’ widespread support and sense of ownership in the results. The majority of the finance group was involved in the process at some point. JaCee Burnes, vice president of treasury operations and assistant treasurer, recalls the importance of engaging employees: “We really trusted and empowered our people to implement change. Without their involvement, passion, and leadership, we wouldn’t have achieved as much.”

3. Change in Mind-set

Finance workers generally tend to focus on processes and getting tasks done. For Exelon to be successful, this mind-set had to be broken. Finance executives continually challenged employees to rethink everything about the organization—each process that’s done, each report that’s generated—and to work smarter, not harder. In addition, finance’s internal clients and operating companies had diverse needs and demands, so, with few one-size-fits-all solutions, employees had to work to be creative and determine the best solutions.

4. Vision

Success was founded on a strong vision being presented to all the stakeholders. A key initial step was releasing the finance mission, fundamentals, and strategic objectives early in the process. For Hilzinger and his executives, the guiding principles provided the vision they needed as leaders of the change.

5. Clear Leadership Commitment

Given the amount of change, Hilzinger and his team had to clearly demonstrate their support for and commitment to the initiatives. For example, they constantly discussed, reported on, and drove the strategic initiatives to completion. “From Day 1 it was clear that Bill Von Hoene, Matt, and the team were committed to the strategic initiatives,” Welch said. “It resonated through the organization and really drove employees to buy into the effort.”

6. Leadership Capability

The underlying success for the entire endeavor was the confidence in the organization to execute and achieve its ambitious goals. Hilzinger believed strongly in his people. “The organization is filled with exceptional performers and leaders at all levels,” he explained. “I knew I could count on those individuals to inspire the rest of the organization.”

The Results

As finance workers, they had a natural desire to measure and see real-time numbers and results of the progress. But changing the culture of an organization takes time, and it can be hard to see incremental gain. Vice President

and Assistant Corporate Controller Matt Galvanoni, who has been with Exelon for a decade, has seen how much finance has improved. “I think back to 2002 or even 2009 and truly appreciate just how far we have come,” he said. “We have really made significant strides toward being best-in-class.”

How does Exelon measure the impact of all this? Finance has conducted its annual employee engagement survey for nearly a decade, and it’s a good reference point to see the progress question by question. The finance organization also realized it was vital to solicit feedback from internal clients. Beginning in 2010, it started conducting two annual internal client satisfaction surveys across Exelon—one with the executives and one with key managers.

Hilzinger and his executive team scrutinize the results from these surveys and take particular pride in the improvement they’ve seen in the past few years. Employee engagement continues to rise across the board, from development opportunities and the workplace being challenging and rewarding to the confidence in finance leadership. “The employee survey is confirmation of what you see day to day,” Galvanoni explained. “We clearly have employees more engaged and committed, and they take real pride in delivering top results.” For example, survey scores significantly increased in employees understanding how they can make an impact on the organization and their ability to be challenged and develop.

The internal client satisfaction surveys showed marked improvement from 2010 to 2011. The companywide executive client survey showed much higher satisfaction scores for finance as responsive, proactively engaged, being a strategic partner, and providing proactive, innovative solutions. Executives cited the budgeting process as improved in its insight and overall efficiency, and the controller’s group and investor relations received high marks in the handling of the quarterly earnings process. Tom Terry, vice president and general tax officer, was pleased to see the progress made by the organization and his own tax team. “All of us were diligent in looking for ways we could improve,” he said. “It is a tremendous achievement to deliver for the company and demonstrate what we are really capable of.”

Finance’s internal clients, including Sue Wallace, vice

president and chief of staff to the CEO, have noted the improvement in performance. “Finance’s work product and counsel is notably stronger,” she added. “As a result, you see finance bringing solutions and new ways of thinking.”

The results of external benchmarking—conducted extensively in late 2009 and updated regularly—also provide Exelon perspective on where it stands in the industry and with other top finance organizations. “We could acknowledge before that we weren’t near best-in-class in certain critical areas,” Welch noted. “Now we can credibly argue for being best-in-class with a lot of what we do. We are proud of the efficiency of our processes and how we leverage technology, as well as the culture we’ve created that is performance driven but also focused on providing development opportunities for our people.”

Even within Exelon, the finance group’s efforts have been benchmarked and have inspired change. Finance’s Competency Model (see Figure 4), launched in 2010, has been incorporated into the Exelon Leadership Model, which has been rolled out to nearly all 19,000 employees. Finance also has led several external D&I efforts, even sending a veteran employee to serve as director of Exelon’s newly formed Office of Diversity & Inclusion. The treasury group has an industry-leading community and minority banking program focusing on banks in the Chicago and Philadelphia areas. It recently announced that 30 community and minority banks have signed up for more than \$110 million of credit agreements for the coming year, an increase of 25% over the prior year. Finance’s “Partnership Program,” now in its second year, rates and promotes the diversity of banks and professional service firms that serve the finance organization.

Finance has seen a significant shift in the leadership culture. Hilzinger and his executive team have become more effective leaders in such a way that has encouraged leadership across the finance organization.

Figure 4: Exelon Leadership Model Competencies Overview

Live the Values

Deliberately live the values of safety, integrity, diversity, respect, accountability, and continuous improvement. Clearly communicate beliefs or information with words and actions that are easily understood. Act in the best interests of the organization.

Deliver Sustainable Results

Engage in open-minded thinking about future-state opportunities, problems, and obstacles. Contribute to strategies that not only are achievable but also deliver results that the business can maintain over time.

Foster Innovation

Contribute creative ideas that move the company forward in light of changing business conditions. Turn challenges into opportunities. Implement new solutions to business problems.

Encourage Productive Debate

Create an environment that encourages people to raise issues and offer solutions; reward and value constructive pushback. Promote honest and candid debate in order to resolve issues and problems in a timely manner.

Lead through Uncertainty

Maintain focus in the face of change or uncertainty. Make sound decisions, even when confronted with incomplete or conflicting information. Understand and acknowledge others’ concerns, and manage through this in a way that moves the business forward.

Develop People

Invest time and resources in coaching and development. Create a world-class learning environment. Develop critical technical, functional, and leadership skills for the organization. Ensure that the right talent is in place to meet current and future business needs.

Engage Others

Create an environment where people are comfortable exchanging information. Build trust so that their opinions are heard and considered.

Understand the Big Picture

Learn all you can about the business. Understand the interdependencies between your group, other groups, and the broader business. Develop action plans that incorporate and account for impacts on other people and departments to achieve better outcomes.

Finance employees have more confidence and presence on project teams, and they've seen the positive feedback loop of a culture that promotes generating new and better ways of doing things. As a result of the culture shift, many initiatives are now led by employees rather than from the top down. "We have employees who have taken the lead in initiatives such as reevaluating how we recruit and onboard new hires and how we train and develop our people," Welch explained. "It's incredible what has occurred as a result of the executive team creating the right culture for employees to drive significant, positive change."

Finance can also see progress in the business planning process, specifically in goal setting. For 2012, Hilzinger didn't dictate specific projects in order to give the vice presidents autonomy to manage their teams. The organization now looks to the Office of the CFO for strategic direction using several clear goals:

1. Employee Engagement: Bridge the gap between leaders and employees, and grow long-term value by focusing on employee engagement.

2. Client Focused: Continually seek ways to improve client satisfaction with the services finance provides and its role as a strategic partner.

3. Operational Excellence: Create culture and focus on delivering the highest level of results in all that finance does, and provide tools and the environment for employees to improve themselves and processes.

4. Diversity and Inclusion: Lead improvement of culture by providing strategic direction of D&I efforts.

5. Talent Management: Drive a culture committed to creating and sustaining high performance.

6. Building Strategic Value: Serve as a partner and subject matter expert to Exelon in support of strengthening Exelon's strategy.

An Optimistic Future

In 2009, did Exelon's finance group understand the implications of what it was setting out to do? In two short years, it dramatically improved its culture and performance. It outperformed even its stretch goals—and in the face of a department restructuring and an environment that demanded it partner with operations. The outcome shouldn't be surprising. "I know how talented the finance

team is," Hilzinger said. "They just needed to be empowered to show that."

In April 2011 Exelon announced it was merging with Constellation Energy, and the merger was completed March 12, 2012. The merger brings together Exelon (\$28 billion market cap, 19,000 employees) and Constellation (\$8 billion market cap, 10,000 employees) to form the number-one competitive energy provider in the U.S. For the newly merged company, the finance group will need to be able to continue to deliver financial results in a timely and accurate manner and provide management with strategic thought on liquidity and financial planning as well as capital allocation. Finance has taken the lead role in tracking, monitoring, analyzing, and supporting the achievement of companywide synergies, which is one source of value from the merger. Integrating two large and complex organizations is no simple task, but Exelon's finance group wouldn't have it any other way. "The experience of the past few years was powerful," Welch said. "It has increased the confidence, ability, and desire we all have to push through any challenges."

Hilzinger agrees and is optimistic looking forward: "You can't help but be confident that finance, and Exelon as a result, will emerge even stronger." **SF**

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