

## EVENT BASED CHANGE MANAGEMENT

### **-A new perspective on the transition from being a monopoly to becoming a competitive market driven utility company**

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*By telling the story of a Strategic Business Development project in the Danish Utility Company NESAs this article emphasises: 1. That shifting from a public service organization based on experience, depth of knowledge and loyalty to one that is result oriented, based on managerial skills, values and performance agreements is a shift in management model and employee way of thinking which require instant planning. 2. To succeed in organizational change, a balanced organizational involvement and two-way communication is essential and 3. That our deterministic assumptions of functionalism and system thinking regarding organizational change projects might need to be modified.*

### **INTRODUCTION**

This article takes our understanding of change up to a renewed discussion. It involves a description of an analysing process using Business Process Reengineering, the strategic work with creating new business units, and some early indications of where this work is going. This lead to a more general part where experiences from NESAs will be reflected upon, ending with a discussion of the understanding of change and the idea of viewing change from an event point of view. The purpose is to give a different and more comprehensive view on how utility companies can change from being monopolies, driven by rules, regulations and a strong historical hierarchy and culture, to becoming dynamic organizations driven by values and a guiding personnel policy. Focus is on how change effects employees, and slightly on the structural change, even though the two are difficult to separate. The objectives of the article are hereby to disseminate the experience and knowledge gained from such a change process and to provide inspiration for the reader's understanding of change.

The author is carrying out a research project with the purpose of studying this process and its consequences for the employees. It is from the interviews and participant observations made during this research, that the empirical data for this article are taken.

### **A POLITICAL INITIATED CHANGE**

As in any other monopoly the initiative to the change project did not come from the management inside of the company only, but was influenced by the outside political scene. As such the organizational change project that begin in NESAs in late 1996 is a consequence of the Danish Electricity Supply Act (L 486) which come into

force the first of January 1998. The Act is actually from the 12th of June 1996, but the 19-months between the adoption and the effective date getting into force are due to the European Commission suspecting the Act of illegal state aid [1]. The new Danish Electricity Supply Act describes three functions of the electricity supply industry: Production, system operator/transmission and distribution. It gives power stations, distribution undertakings and industrial customers (with the use of over 100 GWh pr. year) the right to freely enter into agreements on purchase and sale of electricity in Denmark and abroad. From a governmental side the Act is meant to be a "transition act", which outlines a future electricity market, where some kind of open competition and market drive, exists. The transition Act is made to prepare the Danish electricity industry for the European Commission's electricity market directive, which at the time of writing, must be implemented in all Member States by February 1999. Even though the transition Act and the European Commission's electricity market directive are movements from non-questionable monopolies towards competition with a market driven purchase and sale of electricity, it seems like this "free" market is still under a great deal of public regulation. Therefore it seems more appropriate to talk of a re-regulated electricity market, than a deregulated one.

### **A more efficient electricity supply industry**

The Act and the negotiations to fulfil the European Commission's electricity market directive are at one side very concerned with a lot of technical issues, of for instance ownership of the electricity industry, security of supply, social obligations and environmental requirements. Does one look at the other side of these negotiations, it is fundamentally about how to get the industry working more efficiently. Here previous investigations and reports from the Danish Ministry of Finance and the Ministry of Industry made by the British Consultants from Rothschild show that the industry can save billions by operating more efficiently; especially what the distribution companies are concerned. The companies are based on a "break-even" principle, which means that no profit or loss is allowed. All "necessary costs" can be covered through the electricity prices. But there is a huge difference between what is meant by necessary costs in the different distribution companies and there are no strict rules about how to interpret what constitutes necessary costs. The break-even principle has according to Rothschild therefore lead to an overload of employees and thereby to higher electricity prices for the consumers. In this non-rewarding

economic system with no profit or loss there is no reason for trying to improve economically. The consequences seem to be companies with an overload of internal work procedures, too many people handling these procedures and lack of preparation and ability for the operation on an open and competitive market.

### **A forefront development in the countries outside Denmark**

Therefore, from 1996 on, everyone in the electricity supply industry in Denmark, including NESAs, know that the act someday will have influence on their work functions. As a consequence, an organizational change project in the company is initiated. A decision made to be at the forefront of the long-term development of which the Act is part, and in preparation of the day that the European Commission's electricity market directive sets the overall working condition for the European electricity industry. A process which at the same time has the purpose of achieving the same level and understanding of a liberalised electricity market, which already exists in the Nordic countries and in the UK, and which is swiftly being established in Germany. In these countries electricity is a product for export, as for example furniture or bacon. It has taken years to establish this understanding, as the liberalisation in the UK for instance began as early as 1990. The United Kingdom was the first country in Europe to liberalise the electricity sector and it is now clear that the restructuring of the UK electricity supply industry has fundamentally changed the character of the industry. Previously, engineers dominated the management of the industries, and the trade unions had considerable influence. The industry regarded electricity as a public service, which should be universally available, and the monopoly structure enabled full pass-through of costs. Now, electricity in the UK is regarded as being no different from other products, and the emphasis is firmly on commercial objectives [2]. With a forefront development in the surrounding countries, it seems only logical that NESAs in 1996 make the strategic decision to prepare the organization to competition.

### **STRATEGIC BUSINESS DEVELOPMENT**

In the future electricity industry it is crucial that a company's culture is business oriented with a focus on customers, instead of consumers, on income instead of costs and on profitability instead of break-even. To have economic goals and be efficiently running is the number one rule for survival in an industry where electricity will change from being a universal service to becoming a product regarded as no different than bacon, as the restructuring in the UK shows. But for all this to happen, the most important change has to be among the employees. Because formal elements such as organizational structure, job description, rewards, and authority structure are generally subject to manipulation by top leadership; whereas informal elements, such as culture, are usually

considered to require collaboration between different organizational levels [3].

In NESAs the organizational change process is built up around a project named; strategic business development. It is divided into two phases; an analytical phase and an implementation phase. Before these two phases begin the project is presented for the managers and employees in December 1996 and so are six new strategic goals for the company, in February 1997. The question of organizational involvement and collaboration will be looked at later.

### **The analytical phase; the use of Business Process Reengineering (BPR)**

In NESAs the analytical phase begins in April 1997 and ends in August 1998, with the start of the implementation phase. Twelve different teams are in this in-between period, working with a specific work process, divided into supply processes, business development and supporting processes. These work processes are each analysed by approximately seventy employees, managers and leaders working as team members in the different teams. The teams cover specific issues like Establishing Plants, Trading of Electricity and Human Resource Processes. The teams in the analytical phase have two goals: to look at business development and growth potential for NESAs and to look at method change and process simplification in the work procedures of the company. The BPR method is used for this work. The twelve different teams use BPR to find internal work processes, that do not give the customers added value, and develop additional output and services on the basis of the customers' needs. BPR is understood as a goal-directed, intensive method for gaining substantial improvements of the result. By working with ambitious goals, which make the teams think in new ways and analysing data of the ongoing business process, improvement is gained through knowledge of the business processes and a radical renewal of these.

To do the analytical work colleagues are interviewed, and work diagrams made of how they explained the work is done. For comparing economically and gain experience from other companies benchmarking is also done. In September 1997 the first seven teams present their results to the top managers of NESAs and the project management. The other teams follow and in March 1998 the management is able to present a new business model for the future running of the company. The model is a formal structure where the company is divided into nine business units and three central management and service units. Subsequent to this, a new organizational structure is presented in May 1998. The various units are in the structure placed in three branches: Network (transmission and distribution of electricity), Markets and Economy. Each branch headed by a branch director. By June 1998 managers for each business unit is pointed out. These are also made responsible for the implementation phase of each business unit. This phase begins in September 1998.

But simultaneously with the beginning of the implementation a dramatic and for NESAs unprecedented thing is also initiated; the laying off of ninety-nine employees out of NESAs staff of approximately thousand.

### **Yes, this can cost jobs!**

The original point of departure for the strategic business development in NESAs never stated that there could be layoffs, but stressed that there would be a highly demand for education and development among the employees. There are however uncertainties about this from the beginning. Rumours and fears about how "improvement" and "renewal" in the BPR should be understood is given voice in the corridors from the moment the teams begin their work. The diagrams of the workflow presented to the top management in September 1997 show that there are a lot of internal work processes which are not needed. When asked the question; "can this cost jobs?", on an information meeting for the entire company in April 1998, the managing director can only say; "yes, this can cost jobs!" At the time it is not clear how many jobs might be lost and it is still the intention to stick to the project plan. This mean a continuation of the process with the implementation phase in which the different proposals made with the help of BPR in the analysing phase shall be considered after which the most suitable proposals are to be implemented. But from April 1998 over the summer and especially in August and September 1998 the number of employees resigning and leaving the company escalates above the average. In the resigning interviews, normally held, the main reason is said to be the insecurity of not knowing if you have your job or not, and the long time period without knowing it. A tendency is that the ones that are foreseen to play an important role in the future are the ones who are leaving. It is employees with a high market value and who can relatively easy get other jobs. Therefore in the afternoon of the same day on which a new information meeting for the entire company about the coming business units is to be held, all employees are informed that ninety-nine employees will be laid off. Larger scale layoffs have only once during the almost hundred years the company has existed taken place. During the oil crisis in 1973 around thirty employees were fired, but due to a softening of the oil crisis many of these were relatively quickly re-employed by the company.

Fourteen days after the announcement of the impending firings the ninety-nine affected are informed and an internal secretariat of advice is established to help with the formal as the informal consequences and reactions from the involved. These fourteen days are probably the longest ever in the company. Everyone fell that his or her job might no longer be regarded as of any importance for the company. The reactions differed from employee to employee. Many have in their working life only worked for NESAs, and thought that they never should or could work in any other company. In order to choose who to fire, the level of competence is used as measure. Along the work

diagrams, the analytical phase shows that the competence needed for the future simply does not exist in the company. Alongside firing employees, it will be necessary to hire new ones. The internal secretariat of advice is doing whatever possible to help the fired employees improve their chances of finding a new job and getting on with their working life. Beside this, all fired employees are given a six-month notice, meaning until the first of April 1999 and a severance pay. The size of the severance pay depends on the seniority of the individual employee. At the same time the work with the strategic business development and the work on how to operate and function in the different business units begins. The employees who will participate in the new implementation teams are announced on the same information meeting as the firings are announced. Each team shall write a business case, containing the overall description of the business unit.

### **The implementation phase; the creation of business units**

In September 1998 the implementation teams start up. Their work schedule is very tight. They have about a month to make an overall business case for their business units. The background for the establishment of the business cases is reports made from the BPR in the analytical phase. With these reports as inspiration, each implementation team has to develop its business unit; meaning putting the analytical reports into action by the use of a business case. Each business case is a description of the business unit's objective, strategy, market, customers, products, organization, competence, economic perspectives as well as of the vulnerability of the unit; all in a relevant time horizon. The case has to be supported with a sufficient number of details to make it possible to assess the realisation of the business idea and the economic scenario. The purpose is to describe the business unit objective in a way that will make NESAs and its employees believe in it with an economic and personal commitment, as well as trying to support and practise a business way of thinking. As such the business case concept is a way to create and maintain focus in the business units, so they are prepared to the coming competitive situation. The top management and the project group for the strategic business development are again the ones to whom the business cases shall be presented. It is they who have decided to give the implementation teams the short amount of time in which to make the business cases. It is a decision with two sides. The short deadline should make the teams think more strategically and not dwell on the details of every single matter, which is characteristic for the old monopoly working habit, and secondly to speed up the project. The project has been running for almost two years and there is a tendency towards impatience in the organization. The daily work is being done but no new initiatives are taken and decisions are postponed. It is as if the firings have created a general insecurity, which have spread with the implementation team beginning their work. The atmosphere is like in a

vacuum. Not knowing where you going work physically, who your leader will be and what will happen to your own work function apparently have an influence on the job. It seems like the employees beliefs about their own working conditions are of psychological significance to them and that there is a relationship between beliefs and job behaviour. The vacuum and the lack of decision-making are the "layoff survivors" expressions of job insecurity in their work effort, meaning that their jobs are important and meaningful to them and that they actually care about what is going to happen with them [4]. The decision taken to deal with this problem is as mentioned to speed up the project and more concretely that every single employee shall know his or her place in the organization before Christmas 1998, and have the possibility of objecting until mid January 1999. For some of the large business units this decision makes things even more compressed, since this information to the employees must be given four months before the business units are meant to begin operating. The only employees appointed at this stage are the managers of each business unit.

Before offering people specific jobs, the business units have to figure out how they will organise and build up their workflow. Questions were: What should be kept from the old organisation, where could a work process be left out, is there a new and more effective way of doing things and in which of the geographical locations would the unit be placed best. In addition to this fundamental thinking, descriptions of each job function shall be made after which the search for employees to fill these functions can begin. The first positions filled are the positions that included managerial responsibility. For most teams these positions are filled by the employees already participating in the implementation team, with an additional number of employees from outside the team, depending on the size of the business unit. This leader selection process has as a consequence that employees with managerial responsibility in the old organization, not necessarily will have this responsibility in the new organization. As another consequence former employees now become leaders and thereby take a career step upwards. For employees the consequences are almost the same. It is not certain that they will have the old job in the new organization, but this also open up for the possibility of trying something new. For the majority of leaders and employees, work processes are the 'only' thing changing. Still employees and leaders are to be offered their future job in a conversation face to face with the manager of the business unit. It is psychologically demanding for both parts. The waiting for a call to meet a manager, or a manager making decisions that will not only influence the working life of employees but often their personal life as well. The time schedule for doing these things are very tight. In the beginning of December 1998 the new organization including all managers and leaders are announced for all employees. These managers and leaders then have fourteen days to offer their employees' future

positions. But in the same company newsletter which announced the new organization, a new personnel policy for NESAs is presented as well as a notice about a change in the general terms of employment.

### **A new personnel policy and changed general terms of employment**

On the same day in December 1998 as the new personnel policy is announced, every employee receives a letter which notifies the employee of the changes in the general terms of employment as of the end of June 1999, and of a resignation of all guarding agreements, which are up for renegotiations. This affects all white collar employees, that is seven hundred out of the approximately one-thousand employees. The terms for blue collared employees will be negotiated later. The overall agenda behind these changes are to decentralise by transferring as many decisions as possible to the business units, but at the same time keeping the company together as one. This is done by establishing company goals and values, but no company rules. Instead of rules as the only way to do things in NESAs, the new personnel policy and general terms of employment shall create a setting in which each business unit can decide what values it wants to promote. In this way the market and the competitive situation of each unit can determine the working time, the competence needed and the working salary paid in the specific work situation. Hereby every business unit is forced to do its own thinking and to formulate specific goals and standards for success for the unit, as well as for every single employee in the unit. The purpose is to create a flexibility in NESAs, in which every unit can work. These changes are very much changes in the way of thinking business. The more visual and immediate changes are that employees have to pay their own lunch time, the flexitime is made more simple, and not by the minute, a policy for senior employees, a regulation of salaries once a year or by changing job or the terms of the job and a written explanation if there is no annual salary regulation. Further more the salary stays the same but the compulsory pension part of it falls from fifteen percent to ten. As a compensation for the changes in the terms of employment, an extra monthly salary is paid in July 1999. These changes are all done to support the possibility of a more flexible arrangement of working time, a higher degree of disposal over own salary and fewer rules, but explicit goals and values. Gone are the rules which everybody have to stick to; the individual is in the focus.

It is the more visual changes that get the intention from the employees. It is not a shock, as rumours before hand have given the broad picture of how the change will influence the working conditions. But keeping all these information together and trying to understand what they mean for the individual, and at the same time thinking of the specific work situation and what offers to expect or to try to create for one selves, makes it all quite complex and difficult to create an overview of. The reactions are

therefore outspoken. Paying own lunch gives a two and a half hour longer working week. The simplification of the flexitime is difficult to see through, as the employees instead of regulation by the minute are given five vacation days with pay. The employees can themselves decide when to make use of these vacation days and this in combination with the extra month of salary in 1998 create some confusion. As everyone begins to understand the purpose and effect of the change, possibilities are seen as well. For instance it is now for the first time in the history of NESA possible to give bonus to teams, as well as to individuals.

### **EXPERIENCES TO GAIN AND TRAPS TO AVOID; UNDERSTANDING CHANGE**

At the time of writing NESA is in the middle of these changes. For the strategic business development project, year 1999 will be a busy one as well and the project will continue to develop. The business units are during the spring going to begin operating and the three units for the overall company (information, human resources and economy) are going to make their business cases. In addition to this NESA is going to work with performance management, a management philosophy which creates value for NESA and links the company's strategic goals with the goals of each individual employee. The work with a corporate identity will also begin so will the conducting of managing courses for the leaders in each business unit. Least, but maybe most important shall the personnel policy with a new value-based understanding also become a part of the daily way of working.

Looking back there is a number of experiences to gain and traps to avoid, not just in this specific change process from being a monopoly to becoming a market driven electricity company, but for any change. It is difficult to talk of results concerning human beings, but some concrete examples and experiences from NESA will now be reflected upon, ending with a short general discussion of the change understanding.

#### **Change requires instant planning**

The change project in NESA signifies a purpose of change in culture from one of routine bureaucratic response to public demands to that of an enterprise culture based on incentives and performance orientation. It is a shift from public service based on experience, depth of knowledge, and loyalty to one that is result-oriented and based on managerial skills, company plans in terms of goals and values, and performance agreements. However this political pressure to change from a bureaucracy to a competitive utility company culture is more than just an exercise in reorganisation or a simple adoption of the model from the private sector. It is a shift in the fundamental basis of NESA's functioning. Research from the UK, Australia and New Zealand shows that moving from a public sector, which NESA's culture can be characterised as, to an enterprise culture, with an adoption of the private sector model is problematic and not always

directly advisable. There is simply a different comprehension of business in the two sectors. Anyhow there have in these countries been an almost superimposition of a culture of managing for results onto the existing system of public management, in what is called a concern for the public interest. Here there has been a problem in adopting the private sector management form, because the public sector is known historically to enjoy power without responsibility or accountability, where managers in the private sector are given greater authority and responsibility and are for sure held accountable for results [5]. Essentially it marks a radical shift from a public service management whose purpose is to promote public welfare to an enterprise management culture based on efficiency and economy. The shift does not come over night, as the management types have a different purpose and need different skills. The change will also have huge influence on the employee role and involvement in the working process. As employee in a value based company one has to make up one's mind about the values and make a contribution to them. Values which all the time have to be put into action in shape of an enlarged influence and responsibility. The employee cannot, as in the old consciousness of wage earner, just put the blame on the leader or manager. In a dialogue with these the employee has a share in the responsibility. As a consequence, an initiated process of change requires instant planning, not only as a project or structural change, but in a realistic investigation and judgement of the employees' and managers' capability of fulfilling the new working conditions they are given. It is very important all the way through the process to remember that it is not only a structural change, but also a change in values. And a dramatic change like the one in NESA therefore simply takes time, and when first initiated never reaches a final end, as the rapid changes of values in society in general, will require new changes in the company. The change can never be just a project, with an ending time.

#### **Gardening for change**

A way to balance the transition from monopoly to competitive market driven organization, so that employees can develop alongside this transition, is to involve employees as much as possible and make it a open process. This is often done by distinguishing according to whether the strategies for organizational change are "top-down" or "bottom up", based on the extent to which the changes are either imposed from top of the organization or made subject to discussion and approval by employees at lower levels. Evidence has presented that exclusively top-down strategies simply do not work [3]. Where the exact balance between the two should be, seems of no interest, but a predominance of one of the two should be avoided, because a collaborative approach is more likely to be successful. Still the question remains how to involve and what involvement means? Guiding keywords are: delegation of decision-making authority in general, one or two-way communication, level of participation in the

organization and which phases in the change different levels are involved in. In NESAs every level of the organization is attempted to be involved. However there is an overweight of leaders and managers in the teams, whereas the employees are only represented by their personnel organizations and unions. One can always question the level of the in depth involvement. But collaboration between different organizational levels has for instance also to do with giving feedback to the colleagues who have been interviewed for the purpose of making work diagrams, and trying to give as much information as possible to the ones not in a team. A lesson to pass on in this regard; if you want an open process, begin by discussing what an open process means. Otherwise some will know a lot more than others will. Even though the BPR gurus tend to treat organizations in a fashion analogue to a machine, where parts of an organization are assumed to respond mechanically and without question to any command [6] it is for top and lower level management in real life important to create an environment in which the change is perceived desirable through dissemination of information. The managers are the gardeners who must plant the seeds and create an environment favourable for the growing of the seeds. The initiative for change must also be felt locally in the organization.

### **Change in a world becoming; Event based change management**

Between the lines in this article it has been said that without employee commitment to change, you cannot talk of change, because changes will not happen. Such resistance to a change project will have great impact on the capability for change in the organization and as a result often also financial consequences for a company. Because in a world changing as rapidly as ever, to be able to change a way of thinking and working is becoming the number one competence for organizations in general. Therefore it is a must to have dynamic employees, who are capable of changing their way of working when needed. This could for instance be in a changing competitive situation. By contrast the assumptions of functionalism and system thinking seem still to pervade many change projects and the management and organizational theory on which they are built. There seems to be an assumption that organizational problems are technical rather than social, and therefore the focus is on structure instead of on humans. Most employees are though undeserving of this kind of credit. They have to be seen as individuals, for which there are no smooth technical solutions, and as living in a world where they make new solutions every day.

The basic assumption underlying the concept of Event based change management is taken from this world. Here nothing is ever seen as static, but rather as ever changing in different rhythms. It is a world of becoming. From this perspective change should never be turned into a project with a final date, but should be seen as an ever-lasting

series of events. Initiating a change means initiating an endless number of changes, so to speak. A perspective, which has a big influence on how to perceive a change process of an organization. Where change usually is seen as a critical intervention from the management of the company, it is by this underlying assumption seen as a series of events, that are different from the daily, routine happening in the organization. Empirically, as the so far story of NESAs shows, it seems a more comprehensive understanding of what is happening in organizations, compared to the normal management language of change, where talk in dualism seems to be the normal, and change operating with a definitive end. Of well-known examples can be mentioned the changing from the old to the new, the better to the worse, from hierarchy to decentralised management, from organizing in functions to organizing in lines and of course from monopoly to competitive market. But when can one say what it is. This idea that if it's not the one, then it is the other might create more confusion than comprehension of change. At first sight dualism may not seem problematic. But in practice dualism has a tendency to focus more on the consequences and the past, than the possibilities and the future, and hereby giving change a negative perspective. In the event based way of thinking change would instead be seen as an unfolding.

The distinguishing feature of the concept of event based change management as it has been described here in short, is that it acknowledges an endless time and becoming in contrast to the more deterministic assumptions of functionalism and system thinking. Hopefully it has enlarged more than confused.

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