SUMMARY

Fundamental changes in the electricity industry are led by a global trend. Electricity industry deregulation or liberalization is taking place throughout the world, where typically public monopolistic ownership is being replaced by some kind of privatized system in which previously vertically integrated functions have been disaggregated and competition introduced. These monopolies have a tradition for being mainly focused on development of network, maintenance of network and security of supply, and often take place in an engineering culture. Their solution to face competition has been to apply private-sector style management practice, which changes the strategic focus from engineering to sales and marketing. New management systems, reorganization and adopting new work methods has to a great extent let to a turbulent work environment. To introduce the language of consumerism, the contract culture and performance management form has led to an electricity industry that for some time has been characterized by significant and constant change.

By applying and working with private-sector style management practices, the main focus has been on cost trying to make electricity undertaking an efficient and profitable businesses which is the core of the political intentions. This has led to an increased interest for outsourcing in electricity utilities. Outsourcing is the topic of this paper.

Five messages. Based on the case of a Qualified Development project in the Danish utility company NESA, and research conducted in a utility in New Zealand, this paper emphasizes:

1. That liberalization of the electricity industry will initiate an outsourcing process in electricity utilities, of which the extent may increase with the number of years that utilities have to face competition;
2. That outsourcing begins with business operations, which are not seen as core business in electricity utilities (gardening of substations, garage operations, staff restaurant etc.), and move towards what used to be seen as core business (construction and development of network, maintenance of network). With electricity liberalization, an increased use of outsourcing will change the corporate identity, assignments and competencies of electricity utilities;
3. That the underlying HRM rationale for outsourcing is Resource Management (RM). The primary reason for outsourcing is to reduce and control operating cost, which is a first target in a regulatory environment. The secondary reason for outsourcing, is that outsourcing of work allows extended resources to be focused on strengthening core capabilities. As customers have a free choice of electricity supplier, efforts in sales and marketing are needed;
4. That the HRM benefit of outsourcing in an electricity utility is flexibility. It improves company focus, and the company competencies that are needed for fulfilling strategic objectives. In this way outsourcing of work enables synergy between individual development, job development and organizational development in what is to be core business;
5. However, the human impacts and sacrifices of outsourcing in an electricity utility, are tremendous. Unfortunately, outsourcing indicates a HRM perspective in which employees just are seen as human resources and not resourceful humans. The employee competencies to perform the outsourced work of an electricity utility can be bought on the market as any other resource. In such a perspective is it just a question when core business becomes enough of a cost, in order to be outsourced?

A continuation from CIRED '99. This paper’s case of a Qualified Development project in the Danish utility company NESA, is a continuation of the author’s paper, Event Based Change Management, for CIRED '99 in Nice. It took the understanding of change up to a renewed discussion. It emphasized that the deterministic assumptions of functionalism and system thinking in regard to organizational change projects in electricity utilities might needed to be modified. To shift from a traditional public service organization to an organization which is result oriented and based on values and performance agreements is a shift in management model and employee way of thinking. To succeed in this transition a balanced organizational involvement was seen as important, and employee commitment as essential.

The author is carrying out a research project with the purpose of studying how liberalization of the electricity industry in Denmark influences electricity utilities (NESA). As a part of the project, research has been conducted in a New Zealand electricity utility. It is from the interviews and participant observation made during this research project, that the empirical data for this paper are taken.
A ‘HANDS-ON’ OR ‘HANDS-OFF’ APPROACH IN ELECTRICITY DISTRIBUTION; OUTSOURCING OF BUSINESS PROCESSES IN A HRM PERSPECTIVE

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INTRODUCTION

Outsourcing is fundamentally an answer to the question ‘Do it ourselves or buy it in?’ for electricity utilities. It can be defined as employing an outside agency, company or contractor to manage a function formerly carried on inside an electricity utility, Rothery and Robertson (1). Handling over the planning, management and operation to the outside third part depends on the type of outsourcing, Gay and Essinger (2). The relationship is normally regulated by a contract, with an agreement that specifies the performance acquired and the related economic circumstances. The rationale for outsourcing is that no company can be effective in solving all tasks. Outsourcing enables the companies to increase efficiency, reduce costs and focus on core business. The global market for outsourced services is expected to be $200 billion in 2000, Greer et al (3). As preparation for a competition led by industry liberalization, outsourcing becomes a topic for electricity utilities. The question of ‘Do it ourselves or buy it in?’, and also what should be outsourced, is a difficult question to answer. However, the fact of having provided transmission and distribution construction and maintenance for 100 years, does not by itself implicitly mean that this entire function is core business, and cannot be outsourced.

OUTSOURCING PROCESS AT NESAM

The liberalization of Danish utilities

In order to fulfil the European Commission’s electricity market directive, new electricity legislation introduces fundamental changes for the entire Danish electricity industry. In January 1998, the Danish Electricity Supply Act (L 486) - a transition act - gave 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. In 1999, a new Electricity Act further has been adopted by the Danish Parliament. A phased liberalization of the electricity market, in which the customer has free choice of supplier, on April 1, 2000, gave customers with annual consumption of at least 10 GWh pr. year the right to exploit liberalization of the market. On January 1, 2001 the limit will be reduced to 1 GWh pr. year and by January 1, 2003 at the latest, all Danish business enterprises and households can choose freely among different suppliers.

This part of the phased liberalization is directed at the competitive part of electricity undertaking, at giving customers the possibility to buy electricity at a market price. In order to fulfil the objective of the Electricity Act a regulator controls the remaining monopoly part using benchmarking to set the price for operation and maintenance of the grid. The standard benchmark price will be reduced with a percentage each year for all commissioned utilities, a further individual reduction can be set for each individual utility, Hoffmann and Frimodt (4). For a company trading electricity in the liberalized market a regulatory license is not required (4). In order to avoid cross-subsidization between the competitive parts of a utility (Production and Sales) and the monopoly activities (Distribution and Transmission) electricity utilities are legally required to be split into separate companies, and to become subject to normal Danish business legislation. However, criteria for consumer representation are ensured a decisive influence.

At the time of writing (December, 2000) uncertainty regarding conditions, parameters and subsequent legislation, is still being discussed in order to achieve a final implementation of the Electricity Act that gives all players impartial conditions. It is a highly complex discussion.

All together the Electricity Act represents new challenges for both customers and suppliers. For customers the question is still whether electricity liberalization will lead to lower electricity prices. This is the objective for politicians (4), but out of the scope of this paper. However, it is clear that change of a monopoly market towards competition presents new demands and requires new competencies for electricity utilities.

NESAM’s change process to fulfil legislation

December 1996 - July 1999. This process began in December 1996 at NESAM when a Strategic Business Development project was presented for all staff. A new business model, based on Business Process Reengineering was presented in May 1998. The business units were divided in three divisions: Network, Markets and Economy. As part of the implementation of the business model, ninety-nine members of NESAM’s staff of approximately thousand employees were laid off, effective from April 1, 1999. During the next months, the business model was launched. On July 1, 1999 a new personnel policy and changed general terms of employment was actualized. Five values (Dignity, Quality, Responsibility, Trust and Commitment) were the focus. The employees paid attention to the visual
and immediate changes implied by changed general terms of employment. Employees used to be paid for their lunch break. Paying own lunch gave two and half hours longer working week. Simplification of flexitime was difficult to see through, and staff feared that, effectively, it would give longer working hours. The salary generally stayed the same but the compulsory retirement component was reduced from fifteen percent to ten percent. An extra month’s salary was given in July, 1999, as a compensation for the changes in terms of employment, making some employees wonder about management's sincerity. Why is compensation needed, if the changes are needed?

The launch of the business model finalized the Strategic Business Development project. The different business units were implementing individual expansive strategies in order to fulfil their determined goals. For expanded details of the change process in this period see Lohmann (5), from which this paper is a continuation.

"NESA is still too expensive". The new business model, the new personnel policy and changed general terms of employment were significant changes that were to lead NESA into a competitive future. However, as the regulatory demands were specified by government during the summer and autumn of 1999 (the Electricity Act), NESA initiated a project called Qualified Development on 14th of October, 1999 in order to reduce costs. The standard price for transmitting and distributing electricity to end consumers set by the regulator was not enough to cover NESA’s cost of performing this operation. The first of these benchmarks cost-wise had an index greater than 100, whereas NESA only can charge their customers a cost of index 100. The price that NESA can charge consumers for their electricity operation, would not be enough to cover the current cost of the operation. The potential cost reduction that the Electricity Act gave the regulator was immediately effected to reduce the long-term consequences.

A market-based organization emerges. The level of cost is central for initiation of the Qualified Development project, however a focused product-market strategy was applied at the same time. New future goals focused the organization on core business. In the business model, based on the Strategic Business Development project, a considerable effort was used on internal pricing and accounting, which meant that the organization had become too internally focused. The economic internal processes were not 100% in place by the launch of the new business model. Some business units were controlled by the regulator, and therefore knew their commission and, naturally, they wanted the work others should accomplish performed at the lowest possible price. But the internal strategy to use NESA business units for doing NESA work, gave restricted competition and made competitive pricing impossible. A considerable amount of time was used in internal negotiations to set the appropriate internal price between business units, and also to implement administrative systems that could handle it. Meanwhile the expansive strategies for every individual unit had caused confusion, to a certain degree suboptimization and certainly not a clear focus about what were NESA’s main goals. In order to achieve a clear focus, eleven business units with different goals and objectives, were too many. NESA had to focus on core business and dismantling of units, which meant that further laying off employees was necessary. Each business operation had to support the new strategy, which led to the emergence of a market-based organization from the Qualified Development project. On an internal information meeting the managing director presents the situation the following way (6):

"NESA’s strategic direction is decided, core business is determined in a product market strategy and everyone knows the goals. Our company today has 525 thousand customers. Most of these buy access to the lines as well as the energy delivery. The goal is to have one million line customers in 2004. By this we can generate a considerable increase in profit from sale of access capacity to customers and competitors. The goal, also, is to have 950 thousand electricity customers in 2006. We know that it is necessary to focus our strength and competencies. Among other things, it is required to reduce the number of addresses that NESA operates. Further insourcing and outsourcing of assignments which do not support our strategic decision, and phasing out, reducing and changing activities are essential to gain a better total use of resources. This means that all units and functions have devised employee plans in order to create an overall picture for NESA. All of this has been up for discussion in the board and debate in the main workers committee. I can inform you that change in assignments and our way of organizing means that we have to reduce our staff by 155 persons. Fifty-four of these will relate to assignments that we will outsource. It is my wish that we manage this difficult situation in as decent and speedy way as possible. We will be able to inform the employees we have to lay off no later than on Wednesday, a fortnight from now".

Efforts in Sales and Marketing needed. In this, the second round of lay offs, which was executed within two years of the first round, the total number of employees that NESA has to lay off end by being hundred and twenty-seven. Forty-four of these were related to outsourcing. As mentioned by the director; in order to face the new challenges that are set by the phased liberalization of the electricity market, NESA has chosen an expansive strategy. What NESA will do is concentrated on three areas: 1. Optimize the present situation and be best at offering present customers good service at competitive prices. 2. Via greater focus on Sales and Marketing, increase the number of electricity customer's significantly (950.000) and 3. Considerably increase the number of grid access customers (one million) via a welcoming approach with offers to other
utilities of collaboration, acquisitions or mergers. Item number three will lead indirectly to number two. However, continuous efforts in Sales and Marketing are needed to make those customers continue to choose NESA as their energy supplier. The objective of the expansion is to ensure that NESA has at its disposal the best tools available in order to serve all customers efficiently. The objective is to have a volume, which is large enough to be able to finance serious and ambitious development within customer systems and customers service, and offer competitive products. The following functions have been gathered in a newly established Sales and Marketing division: Customer Processes, Electricity Sales and Marketing, Electricity Trading, Energy Efficiency Consulting and sales of other products. Following the phased liberalization, key account functions for the different segments are also established.

"Grid" is the production unit. In order to achieve expansion, all NESA activities must support the three strategic focus areas and these areas must be supported by the same organization, NESA. This will allow the exploitation of synergies, while activities, which do not support the focus areas, are discontinued. The Network division of NESA will no longer be regarded as a business unit, but as a production unit that operates on the lowest possible cost, as the regulator determines the price of this units operation. The difference between the cost of operating the Grid and the regulators benchmarked price for performing this job, is profit.

Network constructions not core business. A large business unit in this branch called Entreprise, which with its 380 employees played a central role in the business model, was significantly reorganized. Maintenance, construction and research of grid had been a central business driver for Enterprises’s expansive goals in offering their service to the Danish electricity industry. It was redefined by the fact that construction, as a firm of contractors, was not regarded as core business in NESA. In accordance with phased liberalization, the new product market strategy adjusts the organization, subsequently Sales and Marketing, and the newly established business functions, gained greater overall focus.

Outsourcing reduces fixed cost. To focus on core business, outsourcing was introduced as a way of discontinuing assignments and services that did not support NESA’s strategy. Outsourcing was also used to gain certainty of fixed cost.

Assignments that NESA choose to discontinue are the business units; Technical Support, Research, Overseas Assignments, IT-function for Power Generation, and the Printing Office. Specific areas that are directly outsourced on contracts are: Staff restaurant, installation and maintenance of PC and IT systems, Gardening, Tool Garage, Internal Transport and Fleet of Vehicles. It is decided to initiate activities that can lead to an increased efficiency in the Central Administrative functions, Purchasing Materials and External Services. The number of yearly trainees and the use of substitutes were reduced. An important initiative was also the reduction of addresses that NESA operates from. Nesa’s headquarter were sold and local district offices were closed down. In year 2002 a new headquarter will be built in a suburb, north of Copenhagen from where NESA already operates.

For a Grid operation that is paid commission by a regulator it is critical to know the fixed cost. Due to weather, the workload for a Grid operator fluctuates over a year, and hereby also the cost (wavy line in Figure 1). The custom in NESA has been to estimate and plan work in order to make it evenly dispersed over the year (black line), and have the organization built up to handle as much of the fluctuation in work as possible. At the end of each year, this equation was made up. A surplus meant that customers had a decrease in the electricity bill next year, a deficit an increase. However, this imprecise work method is exactly what the Electricity Act wants to dismantle. A deficit will no longer be transferred to electricity customers, but carried by the electricity utility itself.

In order to have accurate fixed cost the Grid organization is set up to always have a surplus of work (dotted line), which is outsourced to external contractors on short-term contacts. What the Grid organization gain is certainty of fixed cost and flexibility.

Figure 1. Fluctuation of work

The flexibility rationale for always having a surplus of work, is that in periods with a deficit of work an excessive amount of cost is borne by the organization. In-house field workers are an expensive competency to have if they are not used properly. As a consequence of the monopoly regime, they are hired in on white-collar worker conditions, with a severance pay depending on their seniority. The Grid operator can not hire them, in the same way as contractors, which is why the Grid organization in NESA is inflexible. It is not geared to dynamic work circumstances, with work fluctuating over the year. It is not geared to the strict focus on cost that the Electricity Act introduces. As a consequence a large proportion of the 127 employees that are laid off were from Entreprise, and many of them were in-house field workers. A number of the laid off staff immediately began working for the contractors that NESA use to gain flexibility. Some of those are doing the same job they were hired by NESA to perform, doing the surplus of work that NESA has decided to use.
contractors for. But an important fact is, of course, that NESA no longer has the obligation and work responsibility for them. They are no longer on the payroll and the required flexibility has been achieved. Some employees in NESA do not understand the rationale behind this.

A Grid operation focused on customers. As the Grid operation is reorganized, new units emerge at the same time, and work tasks formerly carried out by local electrician companies were outsourced in NESA. The customer focus is central in the product market strategy and the issue is to be in close and lasting contact with the customer. This is a contrast to the former internal-focused-organization in the business model. Especially in Entreprise, the idea was to use synergies between operating and maintaining the grid, and construction and development of grid; synergies between transmission and distribution. In the time given since the launch of Entreprise, in April 1999, it did not function properly. As a consequence of the closer customer focus, Entreprise was reorganized with the establishment of El (Electric) Service for residential customers in spring 2000, El Grid in June 2000, and development of El Service for commercial and industrial customers. In this consumerism philosophy, it is clear that a contractor is chosen to perform construction assignments. This kind of work is not as visible for the customers as the daily service assignment linked to operating and maintaining the distribution grid close to the customer.

Figure 2. Grid operation in NESA

<table>
<thead>
<tr>
<th>Operate &amp; Maintain</th>
<th>Construction &amp; Development</th>
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<tbody>
<tr>
<td>Dist.</td>
<td></td>
</tr>
<tr>
<td>El Service Residential</td>
<td>El Grid</td>
</tr>
<tr>
<td>Trans.</td>
<td></td>
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<tr>
<td>El Service Commercial &amp; Industrial</td>
<td>Entreprise</td>
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The two El Service units become the place where day-to-day customer service and problems are solved. El Grid and Entreprise’s core assignment is accomplishment of projects. As several of the workers have been transferred to El Service, significant amounts of construction work have been outsourced.

Compared to the work that used to be accomplished, there are significant changes for everybody. The most significant for the white-collar workers is new business processes, supported by the IT system, SAP. Everybody will have intensive training in understanding the system and the new work processes. For blue-collar workers, who have been used to working in pairs, the objectives of the new El Service unit imply that they work individually and not are a part of the community they knew before. They only enter the ‘satellite’ office in which they belong, if they need supplies of material. Otherwise, their workday begins and ends at the work site. An MDSI system to be installed in all cars by January 2001, will transfer customer information directly from the customer call-center to the car nearest to the customer. Most employees can see the rationality in working alone, but some also question how they are going to share their knowledge. If they had problems they used to share experiences each morning and afternoon. This way of gathering knowledge disappears in the dispersed El Service. The question is how much extra time this may imply?

How employees experience the changes. Even though NESA has been in a change process since 1996, the board decided to make a survey of the climate in the organization in October 2000. Together with surveys of customer relations and shareholder relations, this climate survey will be a recurrent yearly tool to get a measure of the organizations, strengths, opportunities, weaknesses and threats; a picture of what to work with in order to support the achievement of NESA’s expansive goals. It is obvious that the changes during the last five years and the two rounds laying off employees are reflected in the current climate. The daily work, co-operation and the relation to supervisors are areas in which NESA has a high score. Image, superior management and attitude and achievement of the personnel policy’s working values (Dignity, Quality, Responsibility, Trust and Commitment) has a low score. There is low confidence in the top management group and the board of directors lacks visibility. There is not an effective dialogue, why the understanding for the combination between the daily work and superior management decisions is absent. That employees do not understand why NESA outsource is one example. A considerable number of employees are apparently continuously looking for another job. They are not satisfied with the culture of the organization, do not have a clear picture of the organization, which they experience as having long decision-making processes. NESA is not generally seen as being successful. In Entreprise, which may already have undergone the most severe changes: 7% of employees say that they to a great extent, are psychologically affected by their work; 26% say that they to some extent, are psychologically affected by their work. When asked what they experience as being NESA’s focus areas, 82% say profit, 67% customers, 14% technique and 14% employees. Not surprisingly, Entreprises first future effort is to try to sustain employees. In Sales and Marketing, the five years of change has also had an impact, but by being the focus area in the company it is not as clearly evident.

The organization climate survey gives a picture of what needs to be worked on in order to achieve the expansive goals. A consequence of the legislation’s intense focus on market forces has been the introduction of private-sector management style in NESA. The focus on customers is a contrast to the organization’s historical
focus on technical aspects and supply, and having every competency in-house to perform related work. That the changes are thought of and communicated in the language of consumerism is different from what especially the technical side of the organization has been accustomed to. The message from the top management that the technical competencies and performance of an electricity utility is what they believe NESA is good at, has not been said loud enough. That Sales and Marketing is what the organization needs to develop its competencies at is rather seen as taking over the organization. As a consequence of the survey, a culture program will be initiated. The goal is to gather together the organization, and to become a homogenous NESA.

**A WORLD DEVELOPMENT**

**A stepwise process**

By applying and working with private-sector style management practices, the main purpose in NESA has been a focus on cost and customers, trying to make the electricity undertaking an efficient and profitable business. This is, indeed, a result of legislation passed to force this to occur, insofar as the legislation is based on the ideology that competition will bring an efficient electricity industry. This type of company behaviour can, therefore, be seen as required by legislation. Research conducted in a electricity utility in New Zealand, highlights that this may only be the first step in the outsourcing process, Lohmann (7). The next move may be to turn the outsourcing focus to maintenance of the grid, construction and development of grid, and taking care of the daily faults to secure supply - what traditionally has been the core of a electricity utility.

This can be characterized as going from an ‘hands-on’ approach to a ‘hands-off’ approach where contractors and subcontractors have all the control and responsibility of the daily operation of the grid. The philosophy is that the electricity utility owns the asset, but as a company does not want to manage it on a day to day basis, not only in regard to the Grid operation, but also Sales and Marketing. All the ‘normal’ business operation of an electricity utility is outsourced and controlled by contracts. In its extreme case it leads to electricity utilities functioning as an asset manager, whereas contractors and their subcontractors will carry out much of the hands-on work that electricity utilities have a tradition for keeping in-house, Lohmann (7). A recent survey highlights that there is an interest for electricity utilities. More than one-third of the telecommunications companies in both Europe and the United States say that they will be a part of strategic alliances, in particular with energy and water utilities, during the next five years, Domagalski (8). Regarding the New Zealand case of becoming an asset manager, Silverstein (9) observes the same tendency in the United States. He believes, once utilities finish analyzing their needs and gain more experience operating in an unfettered market, the trend will accelerate, even to the point where some co-operative utilities may rely entirely on contracting.

**CONCLUSION**

**HRM rationales for outsourcing**

In NESA (and New Zealand) the underlying Human Resource Management (HRM) rationale for outsourcing is Resource Management (RM). The primary reason for outsourcing is to reduce and control operating cost. This is essential in a regulatory environment. What an electricity utility gain by outsourcing is numerical flexibility, in which they can hire/fire depending on the fluctuation of work. Generally speaking, should times get tough, contractors can be laid off more easily than permanent in-house employees. Severance, pension, holiday, sickness, education and all personnel administrative assignments are taken care off by the third party. Enabling such an outsourcing approach is a HRM rationale in which employee competencies to perform the outsourced work of an electricity utility can be bought on the market as any other resource. Unfortunately, this kind of outsourcing indicates a HRM perspective in which employees are seen as human resources rather than resourceful humans.

The secondary reason for outsourcing, is that outsourcing of work allows more resources to be focused on strengthening core capabilities. A HRM rationale for outsourcing is that it improves company focus, and the company competencies that are needed for fulfilling strategic objectives. In this way outsourcing of work enables synergy between individual development, job development and organizational development in what is to be core business.

However, that the HRM rationale of outsourcing is greater flexibility and focus is because it improves RM, and thereby cost. This paper has indicated that the content of outsourcing increases with the number of years that a electricity utility has had to face the challenge of competition. It begins with business operations, which are not seen as core business, and moves towards what used to be seen as core business. This is, of course, due to a shift in strategy. In New Zealand, it was a shift to become an asset manager. However, the increasing use of outsourcing also seemed to direct this strategic decision. The question is: When does core business become enough of a cost to be outsourced?

**HRM related controversies in regard to outsourcing**

Based on the empirical studies that this paper has presented, several HRM related controversies to the contracting philosophy can be raised. One of these controversies relates to whether one believes in contracts as a way of operating an electricity utility. It is OK to tell a contractor what the outcome of his work
should be, and then send the contractor away on a three-year contract to achieve it. But the electricity utility is in fact the one who suffers if the contractor does not complete the work in the prescribed way. The controversy has to do with the kind of trust that can be build into a contract. Can working values, ethical assumptions and standards be transferred in this way? Another controversy is how, and on what basis, the regulator is going to control third parties performing important electricity functions on a contract basis. A third controversy is that outsourcing needs fixed work circumstances that can be formulated in contracts, why work that is not prescribed in the contract not is performed. The question is: Who feels obliged to a utility they work as contractor for? A fourth controversy is that while electricity utilities may believe that there is a market for the business operation that they want to outsource, this is not always the case. If the competencies needed to have the work carried out properly are not in place at the contractors, it can become a difficult and costly transition period. A fifth controversy is the impact of outsourcing on staff. Because outsourcing is a consequence of a focus on cost and flexibility, for many it means a reduction in staff. In NESA staff reductions been made twice in two years. The survey of the organization climate indicates the significant impact on staff. In New Zealand, the transformation to an asset manager has meant a reduction in staff from approximately 2300 in the late eighties, to 180 in the late nineties. Employees say that the work environment has been awful, especially at the contractors’ where large numbers of staff have transferred. But according to a former in-house worker, a contractor was a good way of dropping tendering rates. One of the reasons they could drop their rates was that their safety went out the door and unfortunately guys got hurt - badly.

What this paper can conclude is, that with electricity liberalization and the increasing use of outsourcing the core identity, assignments and competencies of an electricity utility will change significantly. In these days, a hands-on approach in electricity distribution declines in favour of a hands-off approach, and the number of employees working in-house in electricity utilities is reduced considerably. In the last eight years there has been a 40% drop in employment levels in utilities (9). The 'do it ourselves or buy it in' question for electricity utilities seems to a certain degree to have become a question of buying only.

**HRM questions to consider when outsourcing**

Based on this paper there are important questions to consider, when a electricity utility think about outsourcing of business processes in a HRM perspective. HRM is management strategy that focuses on the individual as a resource, where the employee is an asset that needs to be developed, and not is seen primary as a cost, Storey (10). It is a strategy that considers employees as having determined influence on company success why the following related issues and questions would be relevant to consider when an electricity company faces the possibilities of outsourcing:

1. When outsourcing, what thoughts goes into personnel policy, development of competencies and employee loyalty, and how can it be made sure that the contractor live up to the same standards as the company? 2. What effect does outsourcing have on the work environment in an electricity undertaking, and does it effect the operation of the business? 3. And finally, what effect does outsourcing have on work quality and safety?

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**References:**