



EMCC case studies

Managing the impact of market liberalisation and foreign take-over: E.ON Sverige

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Introduction

Until the early 1990s, the Swedish energy sector was a stable industry where redundancies were practically an unknown phenomenon. The situation changed in 1996 when the electricity market was liberalised. Since then, companies in the sector have seen a decade of restructuring that has stemmed from mergers, take-overs, diversification and internationalisation of the industry. Liberalisation has been a key driver for change, although other factors, such as technological development and the opportunities for outsourcing, have also influenced employment in the sector.

E.ON Sverige AB is the second largest energy producer in Sweden and, with about 6,000 employees, is also one of the largest employers in the country. (E.ON Sverige AB was known as Sydkraft AB until 2005; however, the company will be referred to as E.ON Sverige throughout this study in order to avoid confusion.) The structure and occupational profile of E.ON Sverige has seen marked changes over the past decade. After a string of mergers and acquisitions, de-layering and restructuring has taken place to cut costs and increase responsiveness in the drive towards a more customer-focused business.

Although the majority of job cuts have been effected through early retirement, the company had to resort to some redundancies. It was, however, committed to making a significant investment in order to minimise the socio-economic effects on employees who lost their jobs. Those affected by redundancies received individualised support from a re-employment centre, which was established by the company to provide job orientation and re-training. The centre succeeded in finding a permanent solution for over two-thirds of all redundant workers, the majority of whom found new, permanent employment within the first 12 months of redundancy.

During the most intensive period of restructuring, outsourcing became one of the most important business strategies to reduce overheads and create greater flexibility. Trade unions raised their concerns over implications for service quality, pay and training, but outsourcing remained a key management philosophy — that is until recent years when the trend has moved back towards insourcing as a result of some negative experiences, particularly relating to the outsourcing of payroll and central business service functions, and the partial outsourcing of customer service functions.

Today, the company is faced with a whole new set of challenges and opportunities, which are paving the way for a new period of re-organisation. The global E.ON Group became a majority shareholder in 2001. This turned the Swedish company from an important player in the Nordic arena to a company which, as an arm of a global energy giant, now operates in a trans-European marketplace. The shift in the scale of operations and the new management model introduced by the holding company E.ON AG earlier in 2007 are now starting to re-shape the structure of the workforce at E.ON Sverige.

The quantitative and qualitative impact of these three factors — liberalisation, trend of outsourcing/insourcing, and the take-over of E.ON — on the workforce is described in more detail below, as well as the main success factors and lessons learnt.

Company profile

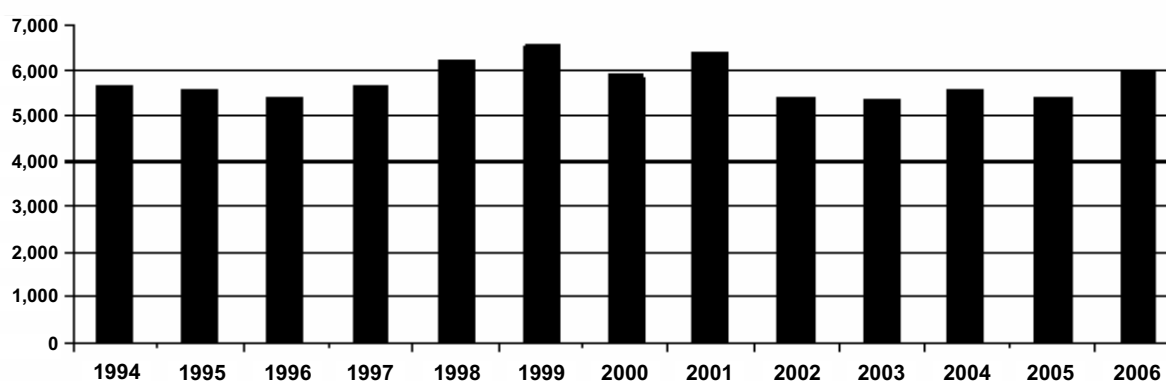
Prior to September 2005, E.ON Sverige had traded as Sydkraft AB for nearly 100 years. Sydkraft AB was established in 1906 by five municipalities in the south of Sweden. In 1990, the company was essentially engaged in the generation, distribution, transmission and supply of electricity and gas, as well as a range of other services. Today, the company sells electricity, natural gas, liquefied petroleum gas, cooling, water and sewage systems, recycled energy and broadband communication services.

The company has been a subsidiary of the German-based E.ON Group since 2001, when E.ON Nordic became the majority shareholder. The principal owners today are E.ON (with over 55% of shareholding) and Statkraft (44%), which is the largest electricity producer in Norway. The global E.ON Group is one of the largest businesses in Europe, employing over 80,000 workers around the world, mainly in Europe. Sydkraft changed its name to E.ON Sverige in September 2005.

E.ON Sverige employs just under 6,000 workers and is one of the largest employers in the country. From a geographical perspective, the company is a particularly important business in the south-west of Sweden, the Malmö region, where its head office is located. The company has had a good reputation in the region, as an employer that looks after the welfare of its employees.

The average number of employees has fluctuated over the past ten years — from 5,400 to nearly 6,600 employees — with some evident changes from year to year (see Figure 1). Rather than directly mirroring recruitment activities and redundancies, these changes reflect extensive acquisition and outsourcing activity.

Figure 1: *Number of employees at Sydkraft/E.ON*



Policy and legal context

In order to understand the restructuring processes at E.ON Sverige, it is essential to establish the policy and legislative context in which the company operates. This relates in particular to developments in EU energy policy and the legislative framework for restructuring and employment protection in Sweden.

The opening up of EU energy markets has been phased in since the mid-1990s on the basis of the provisions of EC Directives 96/92/EC (for electricity) and 98/30/EC (for gas), with the explicit aim of benefiting customers through lower prices generated by greater competition. The Directives came into force in February 1999 for electricity and in August 2000 for gas. As early as March 2000, the European Council in Lisbon called for the process of liberalisation to be accelerated. In 2003, two Directives were adopted setting deadlines for the full opening of the EU energy market: 1 July 2004 for business customers and 1 July 2007 for households.

Sweden was one of the first countries in the EU to liberalise its energy market, with the electricity market already opened to competition in 1996. According to the Swedish Government, the main reason for early market opening was the expectation that liberalisation would result in price reductions, thus benefiting businesses and private customers. Employers in the energy sector, however, generally feel that the main reason that the Government took the deregulation

process forward at an early stage was to guarantee a place at the forefront of European developments in this field, since the passage of European legislation requiring liberalisation was seen to be only a matter of time.

This case study shows how market opening has affected E.ON Sverige and led to restructuring in its business. This has taken place in the context of Swedish legislation on the handling of redundancies and employee information and consultation, as established in the **Employment Protection Act** (*Lagen om anställningsskydd, LAS*). This Act came into force in 1974 and marked a turning point in the evolution of Swedish labour law. It introduced fundamental restrictions on employers' freedom to lay off workers. Employers must show valid economic reasons for carrying out redundancies and are obliged to try and prevent such redundancies from occurring in the first instance.

Another significant legislative change took place just two years later, in 1976. The **Co-determination Act** (*Medbestämmandelagen, MBL*) established the framework for dialogue between companies and trade unions when restructuring takes place. This Act provides trade unions with a tool to influence the way in which restructuring is carried out. For example, negotiations between employer(s) and trade unions can lead to a derogation from existing legislation, for example, on the 'last in, first out' principle. The law also provided the legal basis for the creation of funds financed by employers to help redundant workers to find new employment.

Managing the effects of restructuring

Until the early 1990s, the Swedish electricity industry was one of the most stable sectors in the country. This also applied to E.ON Sverige, where redundancies were virtually unknown and employees enjoyed secure and relatively generous working conditions. Then the industry started to enter more turbulent times. All the main power grids were completed in Sweden during 1992-94, which resulted in a small number of redundancies among construction workers and electricians in most major energy companies in the country, including E.ON.

At the same time, all the main utilities started a process of restructuring in order to prepare for upcoming market liberalisation. Prior to liberalisation, company structures were based on a system of integrated services for the generation, distribution and supply of electricity and gas, and the provision of consultancy services. In order to adapt to the regulatory requirements, restructuring at E.ON divided the business into separate units dealing with production, distribution, marketing and sales, and consultancy.

One of the immediate effects of restructuring was a need for staff reductions in certain business areas and changes in the occupational and skills profile of the workforce in others. Although the principle of the company had been to avoid redundancies (particularly involuntary ones) at all costs, job reductions were soon felt to be inevitable in certain business areas. Jobs were primarily lost in administration and among trained electricians working in network maintenance. The company sought to avoid lay-offs by using early retirement schemes and providing re-training. The vast majority of job reductions were carried out through early retirement, made available from the age of 58, with staff receiving 75% of their full salary until they reached the statutory retirement age.

Later, it became evident that as a result of mergers and the joining of marketing functions for electricity and gas supply, staff in marketing and sales would also be particularly affected by restructuring. At the same time, new skills were required to provide enhanced customer services and within new and emerging areas such as consulting and energy trading, which were experiencing skill shortages.

‘We are moving away from being merely a supplier of energy, to becoming a service company which focuses on the market and on customers’ needs. We are concentrating our marketing and sales resources in a single business sector, with the expertise required and concepts that cover the entire energy field. This results in more efficient sales operations and reduced costs for IT and administrative systems.’

from Sydkraft’s PR material

Minimising job losses

Before announcing the extent of job losses in marketing and sales, the company encouraged workers from the department to find new employment in other parts of the company. In July 1999, the company advertised a total of 236 positions, which were initially open only to in-house staff. This round of advertisements resulted in 850 applications from a total of 450 employees, as workers applied for more than one job.

As a result of this application round, some workers from the marketing and sales team found new employment within the company. Some 40 workers left the company to retire or found a new job outside the company. As further job reductions were still considered to be necessary, the company subsequently started negotiations with the unions.

In accordance with the Co-determination Act of 1976, the management of the company provided the trade unions with information on:

- the reason for the proposed dismissals;
- the number of employees who would be affected and their occupational category;
- the planned duration of the dismissal process;
- the planned compensation.

The negotiations resulted in an agreement that deviated from the general labour law. Instead of simply laying-off individuals on a ‘last in, first out’ basis, the selection was based on an identification of specific positions and skill profiles that were no longer required in the company. The unions agreed to this arrangement on the basis of the company’s commitment to look after the social and economic welfare of employees affected by the redundancies.

Supporting those affected by redundancy

At the instigation of the trade unions and through agreement with management, E.ON Sverige established a new company, Sydkraft Kraftcentrum AB, on 1 May 1999. The main aim of Kraftcentrum was to provide job orientation and re-training to individuals affected by redundancy.

Some 60 workers from the marketing and sales department were moved to Kraftcentrum. A further 75 workers from different departments (mainly from the division focused on grid maintenance and construction) joined them subsequently.

Affected workers were removed from their normal business unit and placed in Kraftcentrum immediately after redundancies were announced. The company recognised that redundancy is one of the most traumatic events an employee may experience and also that announcing redundancies can have an adverse impact on morale, motivation and productivity of other staff.

Thus, an individual affected by redundancy was separated from their previous workplace in order to enable them to focus on the process of finding a new job and also to separate them from colleagues who would remain in their jobs. The

separation was not only expected to help those who lost their job; it was also considered to benefit those who had retained their position to allow them to focus on the future.

Upon joining Kraftcentrum, individuals were offered an orientation interview with a skilled career advisor. During this session, the individual's own aspirations for the future were discussed and it was established whether these matched with any of the new career opportunities within the company or whether they could only be realised outside the company. If an individual's aspirations were seen to match future career opportunities within the company, appropriate training was offered to meet the requirements of that position. This often only required an updating of skills, rather than full re-training. If an individual was more keen to pursue a new career in an unrelated field outside the company, the company could offer to pay for re-training for a period of up to two years.

Looking after the social and mental welfare of individuals was considered to be equally important. Kraftcentrum took into consideration that workers can be badly affected by redundancy and may need support to accept this reality. Many had been with the company all their working lives and at first did not want to consider employment elsewhere. Indeed, in many cases, counselling and help in handling health problems were necessary before workers could start searching for other jobs effectively.

To facilitate transfer to employment outside the company, activities in Kraftcentrum were geared towards tasks that allowed individuals to refresh their interview skills, redraft CVs and reply effectively to job advertisements. They also received financial support to attend interviews outside their home city.

During the establishment of Kraftcentrum, the company did not specify the kind of support redundant workers would get — the core idea was that the centre would do everything possible to help individuals with their own challenges (*see Table 1*). Thus, every worker in Kraftcentrum received an individual plan of action, put together by themselves with support from career advisors, experts and support personnel at the centre. Each individual was given up to two years at Kraftcentrum. If they were still unemployed after that time, they received redundancy pay, which for most workers amounted to one year on full pay due to their long service with the company.

Table 1: *Kraftcentrum's approach to assist redundant workers*

Aim	Tools
Social/personal rehabilitation	<ul style="list-style-type: none"> ■ Mentoring ■ Counselling from qualified psychologists ■ Help in handling health concerns ■ Help in handling personal problems
Activation	<ul style="list-style-type: none"> ■ Personal guidance and support in job search techniques ■ Help in writing CV ■ Relocation support ■ Financial support to travel to job interviews outside their home city
Improving employability	<ul style="list-style-type: none"> ■ Training ■ Re-training (refresher courses) ■ Upskilling ■ Education
Other support	<ul style="list-style-type: none"> ■ Financial support and expert advice to help set up their own businesses

Source: *GHK Consulting (2007) on the basis of interviews with representatives of E.ON Sverige*

Kraftcentrum assisted a total of 135 individuals between 1999 and 2002. Many of these individuals had low levels of education and nearly one sixth suffered from some physical limitation. For a significant majority, E.ON had been their only employer: 50% had been employed by the company for more than 15 years. Only 11% had been working in the company for less than five years. Over 65% of participants were 50 years or older.

Despite the challenges posed by such a workers' profile, the results show that Kraftcentrum managed to find a solution for over two-thirds (73%) of those individuals who were made redundant — 33% found permanent or temporary employment, 23% retired, 10% went into long-term education and 7% set up their own businesses. Some 27% (39 individuals) were unemployed at the end of the programme.

Of those who found employment, some 29% found new permanent jobs, most of them (80%) within the first 12 months of being made redundant. Over half of the new positions were within the company and the rest outside the company. Most people found similar jobs to what they had been doing at E.ON, although usually outside the energy sector. In general terms, those who held transferable skills (such as administration) tended to find work in other sectors, while those who held more technical skills (such as electricians) continued working in the same sector.

Some individuals took the opportunity of transforming their careers during their time at Kraftcentrum. One individual, for example, used the time to become a mortgage broker and another trained as a nurse. Trade union representatives highlighted that the share of people who found new employment was high considering that many people had worked all their lives at E.ON and had found it difficult to imagine working anywhere else.

Nearly one-quarter of participants retired during their time at Kraftcentrum: 15% accepted early retirement, 4% retired early because of ill health and another 4% reached the statutory pension age during their time at the centre.

About 7% of participants at Kraftcentrum (9 individuals) set up their own businesses with support from the company. These enterprises included bed & breakfast, wine importing, a flower shop, an art business and a taxi company. The support required by each person to set up their own business was analysed on an individual basis. All were advised and trained by an experienced, external business advisor. Before the company agreed to support the establishment of a business, individuals had to undertake a feasibility study, involving the creation of a business plan, researching the market and conducting a SWOT (strengths, weaknesses, opportunities and threats) analysis in order to establish whether the business they had in mind was practical, workable and achievable.

'The business advisor was really strict and individuals had to make him believe that their business could survive ... by providing this expert advice at an early stage we hoped to stop some people from failing ... business plans had to be realistic and professional.'

Former head of Kraftcentrum, E.ON Sverige

Those who passed this initial stage went on to establish their own businesses with support from Kraftcentrum. Each business received a different type of support. For example, finding storage space was vital to the successful start-up of the wine importing business; thus E.ON Sverige helped by providing storage space free of charge to this individual. The person who wanted to set up his own taxi company received a loan from E.ON to buy his own car.

Nearly all participants received some form of re-training at Kraftcentrum. In most cases, this simply meant updating skills, for example, through refresher courses. Many undertook computing courses and a few individuals even started university studies.

Some 27% (39 individuals) were unemployed at the end of the Kraftcentrum programme. According to the former head of the centre, one of the reasons was that ‘some were not well enough to continue working in the open labour market ... due to physical or mental concerns’. Furthermore, there were some complications related to the geographical location of some participants: while most were based in Malmö, there were others participating in activities of Kraftcentrum all around Sweden. For these individuals, a mentoring scheme was set up through which they were able to meet their mentor once a week. Some, however, struggled to keep their motivation up when they were based at home.

An external evaluation of the work at Kraftcentrum, carried out by the University of Stockholm (Hansson, 2002), found that the activities undertaken by the centre had the effect of significantly reducing unemployment among workers affected by redundancy. The study concluded that the share of unemployed individuals would have been higher without the efforts of Kraftcentrum. The evaluation also found that approximately 80% of individuals at Kraftcentrum were ‘positive’ or ‘very positive’ about the centre and how it had handled their situation.

While Kraftcentrum had to deal with some disappointed and even angry people, a handful of individuals welcomed the opportunity to change their career direction. The former head of the centre stated that ‘*some saw the redundancy as an opportunity to fulfil a lifelong dream, for example, by setting up their own business*’.

Trade unions were happy with the work that Kraftcentrum did for the workers affected by restructuring:

‘People at Kraftcentrum did the best they could, but the work was challenged by the fact that many were only interested in finding new employment within the company ... This made work for those at Kraftcentrum more difficult ... On the other hand, some were very happy because they could now do what they had wanted all their life ... It could be concluded that one-third of individuals at Kraftcentrum were helped a lot, another third could have been able to help themselves and one-third were not satisfied for different reasons.’

Trade union representative, E.ON Sverige

The cost of this measure was fully carried by E.ON Sverige. No external funding was sought because the company felt it was its responsibility to ensure that the employees affected by redundancy were treated fairly and were given support in finding new employment. This was common practice among other large Swedish companies at the time. Any other practice would have attracted bad publicity in the Swedish press.

Experiences of outsourcing

Staff retrenchment in E.ON Sverige was partly accompanied by the outsourcing of various business activities. Indeed, outsourcing became one of the central business philosophies of the company after liberalisation. The following business units were outsourced between 1996 and 2003: facility management (mailing, restaurants, reception); facility maintenance (painting, decorating, maintenance); grid maintenance; central business services (billing, invoicing and payroll); conference and training centres; graphic design; healthcare; and infrastructural aspects of IT.

No exact information is available on the number of workers who were affected by outsourcing in the past decade, but estimates suggest that just over 100 white-collar workers lost their jobs at E.ON Sverige as a result of outsourcing (they were subsequently employed by external service providers or had to find jobs elsewhere). In substantive terms, blue-collar workers were affected more significantly by outsourcing than white-collar workers: estimates range from over 100 jobs lost to 200-300 jobs.

Although no studies have been carried out by the company or the trade union on the implications of outsourcing on workers’ terms and conditions, anecdotal evidence from E.ON company representatives suggests that a marked pay gap

exists between workers at E.ON Sverige working under the framework agreement for the energy sector and those working for external service providers covered by other sectoral collective agreements. Contractors have to maintain the terms and conditions of employees who are transferred from E.ON for a minimum of 12 months (under the implementation of EU regulations on transfers of undertakings), but employees often lose out on some company benefits, such as free healthcare and activity vouchers (the latter providing each employee at E.ON with money to use for fitness activities or other hobbies).

In the last three years, the company has undertaken work to assess quality and effectiveness of their outsourcing strategies. This has led to contracts with many external service providers being cancelled and some services being brought back in-house (insourcing). In the payroll department particularly, due to the high costs and large number of complaints from staff about poor service and mistakes, the company decided to bring this central business service back in-house. Similar experiences can also be found in other business areas, such as customer services and other aspects of business services (e.g. invoicing and billing).

'The strategic thinking on outsourcing as a business management model has evolved towards more and more insourcing ... before everything else was outsourced apart from the core business ... Managers today are much more keen to insource than the managers were in the '90s.'

The company, however, would not be the company that it is today had it not followed those strategies that it did in the '90s. Lessons have been learnt of business areas and functions that are most suitable for outsourcing.'

Head of Human Resources, E.ON Sverige

Today, the company's philosophy supports the insourcing of functions that can be regarded as part of the organisation's core business. The new Head of Human Resources, appointed in early 2005, soon expressed an interest in re-integrating the payroll department with the main HR department of the company:

'What is core business to a company like E.ON? Some may argue that payroll is not core business for a company like E.ON, but if the HR department, whose responsibility it is to pay workers with an appropriate wage each month, do not manage to pay the right wages, the staff will get annoyed and think that the HR department is incompetent.'

Head of Human Resources, E.ON Sverige

Prior to outsourcing, each business unit at E.ON Sverige had their own contact person in the payroll department who was totally familiar with that unit's affairs. When the company's payroll activities were outsourced, the service provider that took over operated a 'helpdesk', staffed by a rotation of workers who responded to queries from all business units within E.ON. Thus, the previous expertise on the specifics of different business units was lost and the lack of division of individual responsibilities did not cultivate a sense of ownership and engagement. Mistakes became increasingly common and dissatisfaction with the service provided by the contractor grew.

It is now believed that the company achieves a 20%-30% cost-saving with the operation of the in-house payroll department compared to the outsourced arrangement. Due to the intense competition to win the original contract, service providers often offered lower prices for the first few years. While this brought cost-savings in the short term, over the longer term, the relationship often becomes a battle between the provider seeking to maximise profit and the client pushing for better value for money.

Today, the in-house payroll department employs 19 individuals, 5 of whom used to work for the company before the department was outsourced. Open recruitment was held for the positions in the in-house payroll department. Previous employment at E.ON Sverige was seen as an advantage, but not a pre-condition.

Another area currently being affected by insourcing involves such business services as invoicing and billing. Development of a new, centralised in-house business service centre is well underway at E.ON. Some 120 employees are being recruited to work in the centre, one-third of whom are staff from former sub-contractors.

Some company representatives believe that the creation of an integrated business service centre provides an opportunity for the company to facilitate operational excellence in all of its transactions and drive towards greater cost-efficiency. When fully established, a cost-saving of 20% is expected from this new operational model (as opposed to outsourcing).

Another example of a former outsourced service that has moved back in-house is customer services. The customer service department has grown from about 250 employees prior to liberalisation to a division of 750 workers. As a way of saving costs, the company initially piloted the more extensive use of its 'overflow partner', who was an external service provider that answered customer queries during the busiest times. However, difficulties in handling customer queries led to a realisation that customer service is a more complex task than previously envisaged and thus this service, too, has been insourced again within E.ON.

Managing the effects of foreign take-over

The past 15 years have been challenging for E.ON Sverige. It has had to facilitate a change in the company culture, not only towards greater competitiveness and customer orientation, but also for its staff towards an environment of greater adaptability and employability based on the understanding that the company may no longer be able to offer a 'job for life'. The context in which the company operates today is also very different to the one in which it faced the process of liberalisation 10-15 years ago. The company is now part of the global energy giant E.ON Group and, instead of having an immediate need to reduce workers in certain business areas, it is now facing skill shortages and recruitment challenges in some of its core activities.

During the time of the take-over, businesses within the E.ON Group operated with very little direction from the holding company in Düsseldorf. Each geographical business unit operated under its own management and for this reason the take-over had no immediate effect on the company's operations in Sweden. In fact, E.ON Sverige operated for a number of years without any significant changes. The only immediate visible changes were changes to the recruitment policy for top executives (the executive committee of the holding company, E.ON AG, shortlists 2-3 candidates for the job) and an increase in the employment of economists and accountants (to meet the growing need of reporting to the holding company).

In 2005, the company changed its name from Sydkraft AB to E.ON Sverige. Due to resistance from its second main shareholder, Statkraft, the company did not change its name immediately after it was taken over.

The year 2007 brought more fundamental changes and the potential for future restructuring. Earlier in the year, the holding company announced a shift in management philosophy and the whole E.ON Group started a process of re-organisation. After a decade of acquisitions and expansion, the Group now aims to restructure its operations in order to achieve greater efficiency. The goals are:

- integration of the acquired businesses as a priority;
- continued drive for better performance across all markets;
- standardised processes across businesses, maximising efficiency.

Representative company views in E.ON Sverige are:

‘The change derives from a change process in the external environment ... Today the EU’s political agenda is clear [liberalisation and creation of one energy market], so we have to change our business model ... Before, each geographical market unit [within the E.ON Group] had its own responsibility. Now, as we want to stay ahead of our competitors, the Group announced in its recent communication that there needs to be a change in the business model ... The purpose is to align processes, build knowledge management systems, capitalise better on expert knowledge and gather and spread know-how within the Group.’

Head of Human Resources, E.ON Sverige

‘Increasing competition is forcing the Group to look more carefully at what we can do profitably and what we can’t... we have to find more efficient ways of working as a Group.’

Trade union representative, E.ON Sverige

In practical terms, the change in business philosophy means the creation of integrated, centralised functions that will serve the whole Group through competence centres and centralised functions that will be managed and owned by the holding company. Competence centres can be described as centres of excellence, which hold the highest level of expertise within the Group in chosen fields. Centralised functions can mean physical relocation of personnel from daughter companies to the holding company/head office in Germany or just a change in ownership. The first announcements in relation to centralisation were made early in 2007 and the locations were announced in August that year. In the first instance, this re-organisation is going to affect workers in IT, trading and renewables throughout the Group.

Both of the above mentioned changes are having a far-reaching impact on employment at E.ON Sverige (although at the moment it is difficult to speculate on longer term effects). The IT department of E.ON Sverige is now owned by the holding company in Germany. In practice, this means that those working in IT in Sweden are now employed by the holding company E.ON AG. This has affected 25 workers. There have been no redundancies or changes in terms and conditions. The system for bargaining is, however, going to change since the trade union representatives of E.ON Sverige will no longer be in a position to negotiate on behalf of the workers in this department. However, company representatives have asserted that the terms and conditions of staff affected will in future continue to be negotiated under the framework agreement for the energy sector.

Another group of employees affected by the re-organisation are traders. From 1 January 2008, all the trading departments from daughter companies around Europe will move to Düsseldorf in Germany. The transfer will affect a total of 100 workers at E.ON Sverige. At the moment, it is expected that about 80%-90% of affected employees will need to relocate to Germany (10 to 15 workers will be able to continue working in Sweden). A small overall reduction in the number of workers is expected, though yet to be confirmed.

All workers have been offered the option to relocate to Düsseldorf. It is estimated that about 20%-25% of them will take up the offer. Detailed information on the relocation package is not yet available, but the offer is seen by many to be ‘very generous’, both by Swedish and international standards. Workers will be able to choose between holding a local employment contract, an ex-pat employment contract (which gives them the opportunity of retaining their Swedish terms and conditions) or they can choose to commute from Sweden to work in Düsseldorf during the week. The option of being able to retain Swedish terms and conditions and the ability to continue contributing to the Swedish social system through the ex-pat contract is seen as very unusual and indeed very encouraging for some. In addition to standard support measures (such as help in finding housing and schools for children), the company also offers practical support in finding local clubs (sports and hobbies), language courses and other social activities. It is not yet clear what will happen to those who choose not to take up the offer.

Details about the relocation are yet to be clarified since the company needs permission from its minority shareholder, Statkraft, on all changes (Swedish legislation obliges companies to display equal loyalty to minority and majority owners). As the interest of Statkraft lies solely in Swedish operations, it is not supporting some of the most fundamental changes, like the relocation of the trading team. Thus, the holding company E.ON AG and Statkraft are currently in discussions on the ownership structure of E.ON Sverige.

Announcements were made in September 2007 about the locations of the first competence centres for the Group. A centre for nuclear power will be opened at Hannover in Germany and one for hydro power at Malmö in Sweden. It is too early to speculate on the number of individuals who will be affected by these changes, but current plans indicate that the competence centre for hydro power will bring 5-7 experts from around Europe to Malmö. At least two of these will be former employees of E.ON Sverige. They will work as consultants in different hydro power projects around Europe.

The company representatives announced that they welcome these changes and are pleased with the clear and informative style that the holding company has adopted. The Head of Human Resources at E.ON Sverige stated: *‘We are very positive about the process, and the plans are as clear as they can be.’*

Trade union representatives highlighted that further restructuring is likely and that these changes can only be seen as the beginning of a series of actions to re-organise the whole E.ON Group. They have raised concerns over the potential unification of working conditions within the Group. While the process of centralisation is considered likely — in the medium or long term — to lead to improvements in terms and conditions for workers in Eastern European countries, it is feared that this re-organisation may have unfavourable implications for workers in countries like Sweden where the labour market has been designed to place emphasis on work–life balance and to accommodate the particular needs of working parents. Trade unions are also calling for better induction processes for foreign workers who come from other parts of the Group to work in Sweden (particularly those taking up management and executive positions within the company). It is argued that they need better information about the Swedish system of industrial relations, which is based on on-going consultations with trade unions:

‘They [workers from other countries] don’t necessarily know how to work with trade unions and they don’t know that they have to negotiate with unions before they can implement big changes ... They may not even know that they are obliged to give information to unions about the hours individuals have worked ...’

Trade union representative, E.ON Sverige

To minimise any negative consequences of these ongoing changes, E.ON Sverige has been required to improve its strategies for internal staff training and its incentive structures in order to retain skilled staff. For example, since English has become the main working language in the last 2.5 years, there has been an increasing demand for language training. The training policy of the company allows all employees who need to use English in their job to access such training. After a discussion with their line manager, the most appropriate form of training is identified. The options vary from classroom-based language courses during working hours (external or in-house) to one-to-one tutoring, intensive courses abroad or secondments in other countries.

There has also been a need to create better conditions for staff mobility both within Sweden and within the E.ON Group. The Head of Human Resources at E.ON Sverige stated: *‘The single best way of training people in the new global structure and approach is to rotate them in different companies across Europe.’* A greater willingness and preparedness for internal as well as external mobility is becoming increasingly important for career advancement.

A further initiative to emphasise the greater customer-centred approach of the company has been to provide almost all employees with a 1.5-day course on customer relations during 2007.

Continuous personal career development, access to competent managers and skills rotation among employees are seen as key factors in achieving a competitive position. Given the average employee age of 43, it is also important to ensure that skills are transferred when employees retire. It is estimated that 976 employees (nearly every sixth employee) will retire during the 2006-13 period. Most of them work as operating and network engineers, fitters and project technicians. Recruitment to replace staff in these areas is planned, but increased mobility within the organisation is also an important factor to ensure that skills are transferred in a timely manner.

In order to tackle a chronic shortage of electricians, the company is currently implementing a project that aims to identify individuals who started training in this area but later dropped out. These individuals are initially examined to assess the level of training they reached during their previous studies and are then allowed, if they wish, to continue their studies from that point. This method was found to be a much quicker and cost-efficient way of overcoming labour shortages. To date, 30 people have started this programme and 10 have completed it.

Success factors

Despite the significant challenges facing the company over the last decade, E.ON Sverige maintains a reputation as a 'good employer'. Although it has had to carry out some redundancies, the overall number has been low and the emphasis has been on re-deployment and re-training to allow staff to retain employment inside the company or to find work outside it.

Three main factors have contributed to the success of restructuring at E.ON Sverige:

- the implementation of a highly individualised approach to assisting employees affected by restructuring and a commitment to corporate social responsibility;
- the ongoing review of measures implemented to assist in the restructuring process;
- close collaboration with trade unions to find commonly agreed solutions.

1. Individualised assistance for those affected by restructuring and a commitment to corporate social responsibility

The approach adopted by E.ON Sverige to assist individuals affected by restructuring can best be described as 'truly individual'. When management agreed to set up Kraftcentrum at the instigation of the trade unions, only one guideline was given — the centre should do everything possible to help people to find new employment. No rules or restrictions were drafted on the type of support available. The situation of every employee was assessed individually and a tailored plan was developed to meet their specific requirements to find employment, either inside or outside the company.

Instead of setting rules and financial limitations, the company only established core values for the centre. The centre was willing to provide anything from financial and psychological support to training and advice, but also recognised that successful reorientation required initiative and commitment from each employee to work towards their own goals. Immense commitment from the staff of Kraftcentrum to help individuals affected by redundancy was mentioned as another key factor behind the success of this measure.

Kraftcentrum required a significant financial investment from the company. No external funding was sought because it was seen as the social responsibility of the company to assist employees affected by restructuring. It has been estimated that, on average, each individual at Kraftcentrum received support worth nearly one million SEK (€108,000). This commitment to minimise the social or economic effects of change on workers mirrors the company's drive to pursue an 'employer of choice' approach in all of its HR policies.

It should be noted that the concept of ‘social responsibility’ in the context of re-employment units (like Kraftcentrum) is to a certain degree dismissed by some critics. Academics and some employee representatives stress that companies establish such units only in exchange for the possibility to use other selection criteria for dismissals than those required by the Employment Protection Act (Lagen om anställningsskydd, LAS). Whatever the reason, it is clear that it was a set of different factors that convinced E.ON Sverige to set up Kraftcentrum, including the reputation and size of the company, the influence of the media, national traditions, trade union influence and the good financial performance of the company.

‘Sweden is a small country, everyone knows the big companies. From a business ethics perspective, it is good to follow highly ethical standards. Secondly, if we treat someone badly during redundancy, it will quickly become very public.’

Head of Human Resources, E.ON Sverige

2. Ongoing review of approaches to restructuring

This case study has looked at the external and internal factors that have affected E.ON Sverige over the past decade and it has revealed a variety of drivers that have fuelled restructuring. It has been of particular interest to note the evolving nature of responses to these drivers and the company’s willingness to evaluate and adapt any strategies not considered to have been successful.

For example, lessons learnt from the emphasis placed on outsourcing in the 1990s have led to changes in the company’s approach to the provision of certain ‘core activities’. Negative experiences with the use of external providers for functions such as payroll, central and customer services have led the company to insource these functions to satisfy the requirements of the business, its staff and customers more effectively.

Similarly, the initial emphasis on early retirement measures is being re-evaluated as essential knowledge is being lost and staff shortages are emerging.

The company has also reviewed the lessons learnt from the operation of Kraftcentrum. Managers, who have had to manage complex restructuring processes since, have received training in how re-organisation can affect employees and how to minimise its negative impact. In addition, the company is in the process of designing on-line tools for managers that will include models and advice on how to manage restructuring. Change management and management of redundancies will also be an element of a new training package to be delivered to all managers in the company.

Innovative approaches are currently being developed to the challenges of the E.ON Group’s new strategy emphasising the development of global competence centres. It remains to be seen to what extent this strategy will ultimately impact on the company’s ability to provide more tailored local solutions.

3. Collaboration with trade unions

Restructuring has been carried out peacefully, partly as a result of a continuous and strong collaboration with the trade unions involved. The company has several trade union representatives, some of whom work on a full-time basis on trade union and employment relations matters. Workers are also represented on the Board of Directors, hence their views are also heard at executive committee level. The unions have been involved in negotiations on restructuring, the set-up of Kraftcentrum, the development of training opportunities and many other aspects of restructuring. The HR department of the company is in the process of drafting an overarching restructuring policy in consultation with the trade unions, which will subsequently be introduced as a Group-wide restructuring policy.

Trade unions continue to play a strong role in E.ON Sverige, although concerns exist over a potential erosion of their influence in the longer term with the development of a more centralised management model for the E.ON Group. The trade unions have long called for a more rigorous assessment of outsourcing plans and argue that some costly mistakes could have potentially been avoided if feasibility studies and/or evaluations had been carried out at an earlier stage.

Lessons learnt

Two key lessons can be drawn from the activities of the company over the past decade. The first concerns the perceived need for more stringent time restrictions for support activities and the second, the management of sub-contractors in the context of outsourcing.

1. Setting tighter deadlines for support activities

As the company was not used to laying people off, the redundancies in the marketing and sales department of E.ON Sverige in 1999 came as a shock to everyone. The management had little experience of dealing with redundancy and was keen to handle the situation as peacefully and responsibly as possible.

As a result, the company agreed a very generous arrangement for redundant workers: each individual was given up to two years at Kraftcentrum, during which time they could work towards finding new employment inside or outside the company. Even if they were unable to do so after two years, they remained entitled to a relatively generous redundancy settlement. With hindsight, the managers of Kraftcentrum feel that the package was too generous — not in terms of the wide variety of support offered, but rather too liberal with regard to the time available to find alternative employment. Instead, they feel that one year at Kraftcentrum would have been more suitable for many individuals because some were not motivated to look for a new job in the beginning. It is argued that some workers saw the two-year programme as an opportunity to ‘take it easy’ at first and only made more active efforts on re-training and job searching after the first year. On the other hand, the situation was complicated by the mixture of feelings some individuals felt when they lost their job; many needed to go through the denial, anger and frustration stages of the ‘bereavement’ cycle before they were able to reach the acceptance and proactive stages.

2. Importance of active sub-contractor management

The case study has described some of the company’s negative experiences of outsourcing. (There were, of course, also some positive experiences in areas which today remain outsourced.) Following from this, managers have been able to establish those functions that are more suitable for outsourcing and those that are too risky and/or expensive to be carried out by external contractors.

Another lesson learnt from the experience of outsourcing is the importance of the careful and constant management of sub-contractors — an aspect often overlooked by companies. The representatives of E.ON Sverige stress that outsourcing can be a successful business model only when the tasks and duties of outsourced functions are defined carefully by the people who have been carrying out the duties in question on a day-to-day basis. However, contracts are usually concluded by different people than those who actually do the work.

‘Usually workers do whatever is needed, but when activities are outsourced, the service providers only do what has been agreed on — they may not be available to help or be willing to adapt their working practices to meet the needs of the company ... often the management comes to realise that their staff used to do a lot more than what was written in the agreement.’

Trade union representative, E.ON Sverige

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Annex

Individuals consulted

Name	Organisation	Position
Krister Jönsson	E.ON Sverige	Senior Vice President/Director of Human Resources
Inga-Lill Johnsson	SIF and E.ON Sverige	Full-time Trade Union representative (SIF)/member of Board of Directors
Inger Norrby	E.ON Sverige	Senior Manager in Human Resources department (former head of Kraftcentrum)
Anneli Drené	E.ON Sverige	HR Project Manager
Johan Aspegren	E.ON Sverige	Press Officer
Katarina Sigeus-Ek	E.ON Sverige	HR Project Manager
Mats Alexander	Trygghetsrådet TRR	Advisor