

EMPLOYEE RESILIENCE IN TIMES OF CHANGE: PARTICIPATION AND WELL-BEING DURING MERGERS AND RESTRUCTURING

CASE STUDY E.ON UK

Visited 10-11 September 2008

E.ON UK is one of the UK's leading integrated power and gas companies, generating and distributing electricity, and retailing power and gas. It is part of the E.ON Group, the world's largest investor-owned power and gas company with sales of €69bn and approximately 88,000 employees worldwide. E.ON UK has undergone constant change since the company evolved from the privatisation of the electricity and gas industries in the UK in the 1990s. Unlike the rest of Europe, the UK utilities were opened up to foreign ownership and Powergen was bought by the German utility company E.ON.

Competition in the electricity and gas markets was phased in over an eight year period, from 1990 due to the sheer size of the task in terms of the number of customers and the technical complexities involved. Since May 1999 all customers, regardless whether they are domestic, commercial, or industrial have been able to change their gas or electricity supplier. As a result of competition average UK energy prices have fallen by 13 per cent in real terms since 1999.

The industry is regulated in the UK by Ofgem who promote competition and enforce compliance with European and UK consumer protection law, covering in particular Misleading Advertisements, Cancellation of Contracts, Unfair Terms in Consumer Contracts and Distance Selling. They also place price constraints on the industry.

The industrial relations heritage of the energy sector is important as some staff will have retained the employment rights and terms and conditions of the previous nationalised industry where they started in employment. This cohort will be getting smaller and less influential in negotiating the maintenance of those rights as their numbers become diluted with employees with different terms and conditions and expectations. The flexibility in the UK industrial relations, consultation, participation and negotiating arrangements provides the company with opportunities to tailor solutions to the different circumstances surrounding change, but it does lack a consistent and formal employer-employee channel of communication that can provide early warning of challenges to be faced.

The vision of E.ON UK is to be the recognised leader in UK power and gas. It is structured into the following business units:

- *Central Networks*: provides power to 4.9 million customers across central England through 133,000km of underground and overhead cables and via almost 97,000 substations¹.

¹ It has a virtual monopoly on connection and distribution of electricity in the region it operates. Consequently to enable effective competition, Central Networks has to ensure it and the agents it employs (including Energy Services) operate in a way that does not restrict, prevent or distort competition in the supply and generation of electricity in its region. Companies breaking the rule face penalties of up to 10% of their annual turnover.

- *Generation*: producing electricity from power stations and researching new technologies to meet the customer needs.
- *E.ON IS UK*: part of the E.ON IS Group which provides IT Services to the whole of E.ON within Europe.
- *Business Services and UK Centre*: provides key support services for the whole of E.ON UK.
- *Retail*: a leading energy supplier in the UK, supplying electricity, gas and Home Energy Services to around 8 million electricity and gas customer accounts, covering domestic, SME and industrial. Retail is also
 - responsible for billing and the selling of other energy related products
 - helping customers improve energy efficiency in their homes and reduce their carbon dioxide emissions
 - providing financial support for products and Invest in new technologies

Drivers for Change

Change has been driven by the globalisation of energy markets, the world's growing demand for energy and the effects of these on climate, energy prices and supply. Society and customers are being sensitised to the impacts of climate change, the rising price of energy and the need for energy efficiency and there are growing expectations for the energy industry to provide convincing answers. The company is therefore seeking to use new technology to provide information and products and to provide integrated services for energy supply and its efficient use.

This has led to considerable business acquisition and divestment programmes occurring simultaneously. The skills differences are such that it is not always possible to retrain staff in a downsizing business to fill the gaps elsewhere in the expanding businesses. Business acquisitions are also defined at an early stage by confidentiality requirements and negotiated contracts, often for wholesale employment of the acquired business staff.

Home Energy Services are a series of products offered by the retail business to domestic customers. These products are a crucial tool to E.ON as an Energy Provider as they assist in increasing customer retention and brand loyalty. They offer boiler installation, maintenance and repair, insurance and advice about energy efficiency measures. This area is currently expanding and will cover 80 – 90% of the UK by the end of 2009 which means that Home Installations is one of the most rapidly growing business areas within E.ON UK.

Energy efficiency products such as cavity wall and loft insulation are also becoming more important for E.ON to achieve its Carbon Emissions Reduction Target (CERT) - which came into effect on 1 April 2008 and will run until 2011. It is an obligation on energy suppliers to achieve targets for promoting reductions in carbon emissions in the household sector. It is the principal driver of energy efficiency improvements in existing homes in Great Britain. It marks a significant strengthening of government efforts to reduce household carbon emissions – with a doubling of the level of activity of its predecessor Energy Efficiency Commitment (EEC).

The changing energy market and the influence of the policies and measures to tackle climate change have also pushed energy efficiency higher up the agenda for both

suppliers and consumers and E.ON has recognised the benefit of integrating the provision of energy efficiency measures with energy supply to their customers.

The company has a significant expansion investment program of EUR60 billion for 2007-2010. Most will be organic growth, but there is an acquisition programme in Europe and adjacent regions to:

- achieve organic growth in our generation portfolio by building technologically advanced, climate-friendly generating units in Europe, Russia, and North America
- establish a generation position in Spain, Italy, and France by acquiring Viesgo and certain Endesa assets and strengthen these positions going forward
- expand the renewables business worldwide, particularly in wind power
- enlarge our gas production portfolio and our strategic gas infrastructure (gas transport pipelines, LNG terminals, gas storage reservoirs)
- enter adjacent markets (Russia, Turkey, Southeastern Europe).

The Characteristics and Process of Change

Downsizing third party meter reading

One of the company's functions is the maintenance and reading of Electricity and Gas meters for domestic and commercial properties. The company reads meters for other energy suppliers, with their engineers unable use to the E.ON logo. The plan is to refocus this activity to support purely E.ON's own retail business and not undertake any work for third party suppliers. Consequently metering teams who were employed on third party contracts were told in 2007 that E.ON would be exiting these contracts once they came to an end, if not before. The actions taken to mitigate the impact on employees were:

- TUPE - employment rights on the transfer of an undertaking transfer of staff to new suppliers where possible
- Backfilling of any leavers with temporary employees
- Identifying redeployment opportunities where possible
- Ensuring that priority is given to affected employees in all recruitment activities
- Freeze on external recruitment
- Outplacement support provided to all
- Retraining opportunities identified
- Provision of pro-active Occupational Health support via an eportal - Occupational Health Toolkit
- Provision of Outsourced Absence Management Service – AHP

Because of the sensitivity of the issue it was not possible during the visit to meet staff affected.

Integrating and acquired business

In order to support the integration of acquired businesses, a formal project team was set up with links into all company functions so that all parts of the company that would be affected by the acquisition would be kept informed of developments. They would then be able to feed back to the project team the likely issues that could then be factored in to influence the acquisition strategy.

Many of the boundaries and potential challenges are already embedded in the project at the time of the opening of negotiations between E.ON and the company to be acquired as they become part of the terms and conditions of the contract. In this particular case there was a requirement for confidentiality of the acquisition from the company's existing customers. This provided a limiting effect on the extent of openness that would be available within E.ON. However, once the acquisition was completed, as all business functions had been involved, it was easy to provide the new employees with advice, information and offerings of E.ON terms and conditions. This enabled a smooth and swift transition for integration of the employees into the E.ON culture and systems, particularly those relating to health and safety

Health and Wellbeing

The Occupational Health and Safety department is integrated with the Corporate Responsibility (CR) division. The group wide health and safety strategy integrates occupational safety into all processes and activities and they support the fitness and well-being of employees through various measures promoting health to ensure the long-term employability, particularly to keep older employees at work longer and to continue making use of their knowledge. In the future, E.ON intends to make the safety culture established within the group mandatory for its suppliers and contractual partners.

E.ON has established "employability" and "demographics / HR planning" as two strategic fields of action in the group wide people strategy "OneHR" to deal with demographic changes and the ageing workforce.

Absence Management

One of the key issues to be addressed during the change process at E.ON has been controlling absence levels. The HR department had done a study of absence management and found that there was a significant correlation between high levels of absence and those departments undergoing change. After investigation and consultation with the workforce they introduced 2 complementary initiatives that have proved to be cost effective in the pilot studies that they examined.

The *Absence Management from 'Day 1' 24 / 7 / 365* scheme requires that the employee contacts the E.ON Nursing Team to report any absence on the first day of the absence. The call is via a 0800 or 0845 number which means no or low cost to the employee. The service is available at all hours and all calls are digitally recorded

The Nurse gives immediate medical advice and agrees a follow-up call with the employee (typically 3 days later). It is then possible to refer to specific medical expertise or nursing specialists. All medical staff are bound by the relevant code of ethics and act in the interests of the patient/employee. At the same time the Manager(s) / relevant contacts are notified by text/email or even pager about the absence.

Reports are accessible by managers and HR online with a user name and password to protect confidentiality. The employees have considered the benefits are

- that the healthcare advice speeds recovery and provides support during sickness absence.
- there is an effective intermediary between employee and employer e.g. in cases of stress-related absence or bullying.
- there can be a robust resolution of any issue when they arise.

Active Health Partners (AHP) has pioneered nurse-led absence management in the UK for many companies and is currently dealing with over 1 million employees. They handle in excess of 10,000 calls per week and have over 600,000 management reports. They have been able to reduce absence by up to 30% within 3 months of implementation. The service can be accessed by all employees whether or not they have sickness absence but generally it is triggered by a sickness absence episode. AHP

- provides professional medical support to improve employees well-being during sickness absence
- enhances a return to health whilst respecting each employee as an individual
- supports a safer working environment for all employees

The benefits of the AHP service for managers are that it can

- Standardise reporting across locations
- Improve management compliance
- Impact absence levels using a partnership approach, offering medical advice and recommendations and providing state-of-art online technology.

There has already been a successful pilot on-going in Retail (Dearne Valley) and the findings are that

- Medical advice speeds recovery of employees
- Medically driven absence reporting changes behaviour
- There is timely referral to Occupational Health
- There is the potential to trial “fast track physio”
- There are consistent processes in all departments/locations
- Data handled with medical integrity

The benefits to the organisation have been

- Improved Management Information
- Accuracy of data as it's been input by health professionals
- Real time reports available – current absence, triggers etc
- Ability to benchmark accurately between departments
- Trigger reports can link into attendance monitoring/LTS procedure
- AHP will link in with PPP for cases of stress etc
- Options to use OH case management service, pre-employment screening
- Potential for AHP to directly input all of attendance information in the second phase, removing this responsibility from the line manager

There are challenges presented for the project

- There may be a spike in absence – may highlight mis-reporting
- Line managers will still need to process absence through current E.ON systems
- Need to ensure that line manager still takes responsibility for managing attendance
- Need to provide AHP with real time updates of starters/leavers/movers – business will need to provide key individuals to support
- Need to ensure clarity around accident reporting process/absence following this

There are Critical Success Factors for the project which requires

- Top management sponsorship and monitoring to avoid it being seen as *just another initiative*'
- Strong project management
- Clear strategy for data exchange
- Line manager buy-in and training
- Clear communication to employees
- Willingness to enforce policy

The company are to begin a control study of the effectiveness of the work of Active Health Partners (AHP) in an Energy Services Absence Management Pilot involving several departments.

Key Lessons

The project partners analysed the findings of the E.ON UK visit and considered that because the company was challenged by sustained change, good practice in one area should be rolled out across the UK operations to build on the support provided by a consistent approach.

However it is clear that since the visit, the global economic situation and UK energy efficiency incentives package of the last quarter of 2008 will accelerate the rate of change and may challenge the systems, proper implementation and evaluation that the company has in place.

For the successful implementation of merger and divestment policies it is essential that they have commitment from company leaders and the reasons for change are explained to the workforce by them. This will enhance ownership of the changes across the workforce and provide support to both leavers and stayers.

Future Developments

More change is anticipated in the area of meter reading. The introduction of smart metering will bring many more changes in the future to even the remaining staff and the company is planning for the likely impact of the fall in demand for meter readers whilst there will be an increased demand for technical IT specialists.

Smart meters provide two-way communication system that display accurate real-time information on energy use in the home to the consumer and back to the energy supplier. This is done using a SIM card installed within the meter. It will enable

- Capability for selling energy back to the supplier which will facilitate microgeneration technology
- Use of the same meter unit for electricity for all customers, whether they are pre-payment or credit.
- Differentiated tariffs and services through offering alternative means of displaying energy consumption – i.e. through mobiles, the internet or via digital TV
- Improved accuracy of forecasting energy demand at different times of the day.