

case one

Hallington Utilities Services

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Marion Forbes, the recently appointed senior human resources manager at Hallington Utilities Services (HUS), sat back at his desk and contemplated his newest and greatest challenge to date. In front of him lay a memo from John Swatridge, CEO of HUS, welcoming him to the organization but outlining his concern that the current department of human resources at HUS was not ready for the challenges that lay ahead.

ORGANIZATION BACKGROUND

Hallington Utilities Services is the utility that distributes electrical power to customers in the municipality of Hallington, a medium-sized city in Ontario. HUS was created on January 1, 1979, amalgamating five municipal utilities. As well as serving Hallington, HUS services the surrounding rural areas and has a service territory of approximately 545 sq km. Its peak electrical load was 205.5 MW in July 1999.

Low-cost power available to all across Ontario was the dream of Sir Adam Beck, a businessman and mayor of London, Ontario, in 1903. Three years later, he became the first chairman of the Hydro-Electric Power Commission of Ontario, a precursor of the new Ontario Hydro Services Company.

In the mid-1990s, the Ontario government decided it should move to deregulate the electrical power market because residents and businesses in Ontario were paying

the third-highest electricity generation rates in Canada, with no choice of suppliers. Energy costs were an integral part of many businesses and could, in certain instances, account for 5 percent of total spending—an important competitive business issue. The government believed that energy generation technology had evolved to the point where this essential customer service would be better provided through multiple suppliers. An entrepreneurial structure would allow utilities to operate on a more commercial footing. In addition, deregulation and privatization would spur investment, open American markets to Ontario-based power suppliers, and reduce the level of electricity-related debt on the provincial ledgers.

As a precursor to deregulation, HUS was reorganized. It now responded to a Board of Directors, which, in turn, was responsible to its shareholders (HUS was still owned by the area municipalities) and the customers. The Board adopted the vision:

Excellence in customer service with competitive electricity rates and a knowledge of power that is first class.

COMPETITIVE CHANGES

Under the new *Energy Competition Act*, the Ontario Energy Board (OEB) would oversee the new competitive market, with a mandate to provide customer protection, ensure codes of conduct, and grant licences for generation, transmission, distribution, wholesale marketing, and retailing. The Act carried over existing provisions for reliability and safety from the current system and provided additional safeguards for the new marketplace. Electric utilities in Ontario, including Hallington, would no longer have Ontario Hydro as the sole supplier of electricity. These utilities would be able to procure power from various sources on the open market at prices that would benefit Ontario customers.

Under the new legislation, HUS had to separate its “wires business” from the energy retailing business. The legislation ensured a level playing field for competition while making sure that monopoly activities were not used to subsidize other parts of the business. HUS continued to be responsible for maintaining a reliable distribution network. HUS had a continuing “obligation to connect” customers to its distribution wires. HUS also looked after hydro reliability and public safety through inspecting, repairing, and maintaining the distribution lines.

Ontario Hydro had been the main supplier of electricity in Ontario and currently controlled 85 percent of the province’s generation capacity. With the restructuring of the electricity industry, Ontario Power Generation Inc. was formed from the power generation components of Ontario Hydro and was required to decontrol some of the generation it owned. These measures were intended to create a competitive wholesale electricity market by having a number of different generating companies selling into the Ontario market.

In addition, imports from other provinces and American states could supply 20 percent of peak demand requirements, or approximately 4000 MW. Plans were underway to increase this capability by 2000 MW within three years.

In a significant change of business, Hallington had begun offering retail products to the public as well as delivering regular hydro services. It was now supplying electrically powered items, such as electric water heaters and fireplaces, and cordless garden tools, such as hedge clippers and lawn mowers.

CURRENT ISSUES

With the recent move to a more competitive environment, there was concern that HUS would face major restructuring and reorientation challenges. Pressures to reduce costs, increase the level of outsourcing, identify key competitive advantages, and begin privatizing the organization were all issues that Hallington Utilities could no longer afford to ignore. In fact, these issues were so controversial that many Hallington employees were beginning to be concerned about their future within the organization. This concern could have a serious effect on morale.

Presently, HUS was organized into four departments: electrical acquisitions, distribution, retail operations, and administrative services. Human resource management was part of the administrative services department, which also included the areas of information systems, and finance (see Exhibit 1.1). Most of its 275 employees were located in either the distribution or the clerical function. Of the 275 employees, about 160 would be classified as "outside workers," and the other 115 would be clerical, professional, and managerial.

MARION FORBES

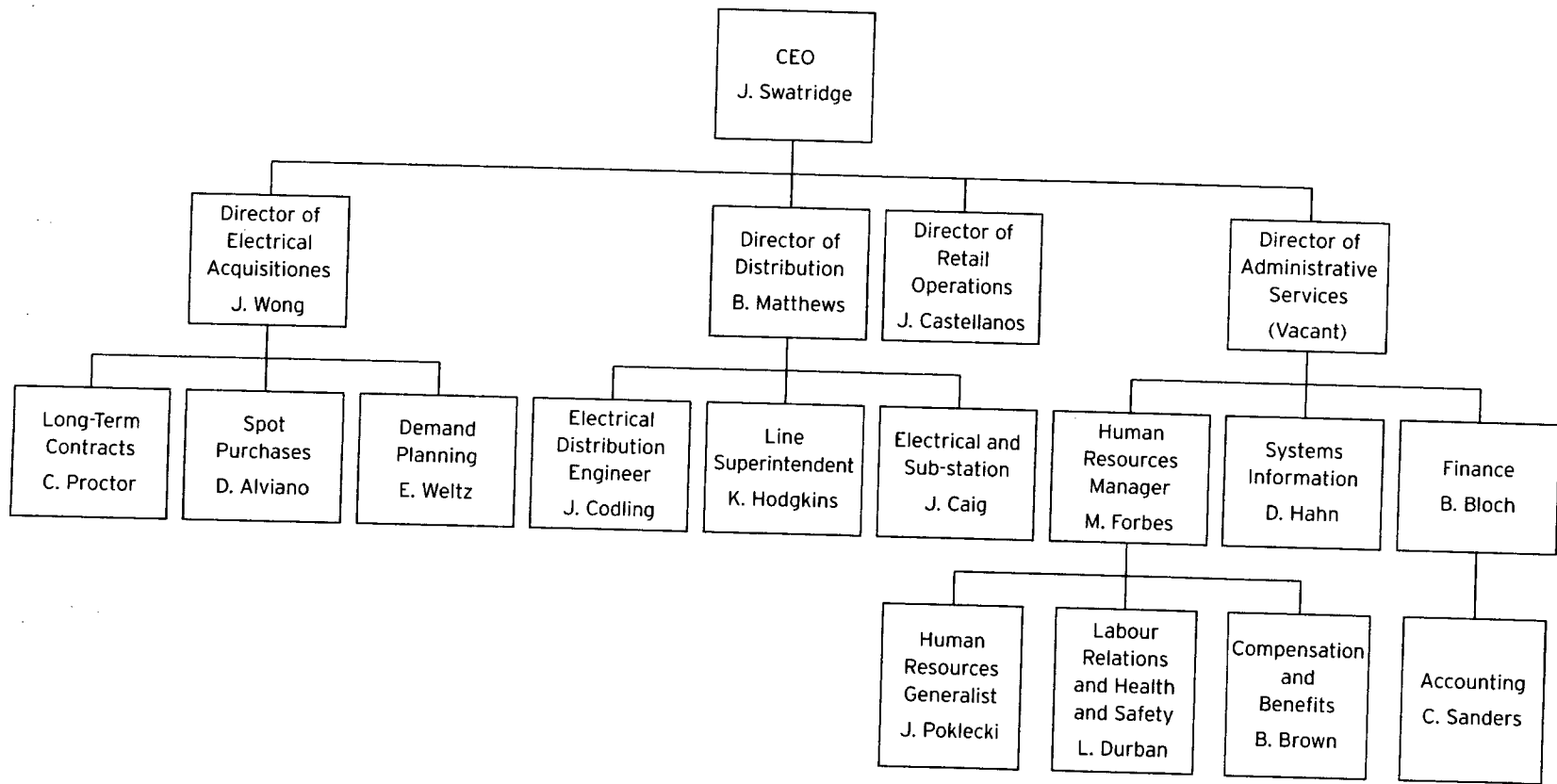
Marion Forbes, the recently appointed senior human resource manager at Hallington Utilities Services (HUS) sat back in her desk and contemplated her newest and greatest challenge to date. Marion recalled the discussion with John Swatridge, CEO of HUS, welcoming her to the organization but outlining his concern that the current Department of Human Resources at HUS was not ready for the challenges that lay ahead.

Upon graduation, she took a job as a human resource specialist with a major public utility. After several promotions, she applied for the position of director of administrative services with HUS. She did not get this job but was offered the position of senior HR manager instead. Senior management at HUS decided, for the moment, to neither fill the director of administrative services position nor give Marion the title of director of human resources. They promised, however, that she would be considered for the position of director of administrative services at some point down the road. The promise of eventual appointment into the director position persuaded Marion to join HUS. She was highly motivated to prove herself in HR, since winning the director position would give her considerable status and the responsibility for a variety of areas, including HR. In this position, Marion knew she would learn a great deal and face significant challenges.

The previous head of human resources, Fred Watkins—whose title had been "personnel director"—had been with the utility since its formation. Prior to its incorporation, he had worked as a technician and lead hand for one of the predecessor municipal utilities for 14 years. Fred was ambitious and hard-working and had managed to complete an undergraduate business degree by attending evening courses over a seven-year period. He joined HUS as a supervisor but moved to human resources as the manager of industrial relations following the certification of the outside workers in 1983. He became the director of personnel in 1985. The "personnel department," as it was called under Fred's direction, was quite traditional in its orientation and approach, with Fred maintaining an active role in labour relations. During the 1990s Fred became increasingly nervous about the potential changes at HUS. Following "discussions" with Swatridge in 1999, he decided to take early retirement.

Exhibit 1.1

Organization Chart: HUS



THE MEETING WITH JOHN SWATRIDGE

Marion's most immediate concern in her new position was to carry out an organizational assessment at Hallington, with the purpose of determining what needed to be done in human resources. What should be the HR strategy at HUS? In other words, what human resource processes, procedures, and systems needed to be halted, updated, or created in order to assist HUS to successfully adapt to its new environment? She decided that her obvious first step should be to meet with John Swatridge, the CEO at HUS.

Marion had had numerous conversations with Swatridge on the phone but not much one-on-one contact since her job interview and welcome to the organization. From their conversations, Marion had gained the impression that Swatridge was a no-nonsense, by-the-book type of executive. Little seemed to amuse him, and his only focus in their conversations had been to find solutions to the problems they had been experiencing within the organization.

As the secretary escorted Marion into Swatridge's office and before Marion could consider what to say, a voice rang out, "Welcome Marion, what can I do for you?"

After some initial pleasantries, the conversation quickly turned to the current status of the organization. "I read your memo, John," Marion stated, "and I realize that if I am to do anything in my new position, I need to know how human resources management can help the organization achieve its long-term goals. Now, to do that, the best place to start is probably for me to get a better understanding of what your present concerns are with the organization."

"Not a problem," Swatridge replied, "I've thought about it and, right now, there are three major issues that worry me. The first is the issue of privatization, the second is the possibility of downsizing, and the third is the talk about a unionization drive of the clerical staff."

"Can you talk a bit more about these issues?" Marion asked.

"Certainly," John replied.

Privatization

"While the managers may be worrying most about downsizing and the union drive, I think these are really small potatoes in comparison with the major impact of globalization and privatization," Swatridge began. "As I've become more aware of how the global economy is affecting our business, privatization seems to be growing more and more likely. As the market becomes more competitive, we as a utility organization need to explore every option available to remain competitive. Does that mean privatizing? Maybe, maybe not. At this point, though, if privatizing can lead to increased revenue for the organization and a way to cut costs, then that's most likely what will happen. Certainly, the government has a philosophy that moves us in this direction."

"I would certainly have agreed with you before the *E. coli* outbreak in Walkerton," Marion interjected, "but after that disaster, I'm not so sure. The government seemed well on its way to privatizing water utilities, but now it seems uncertain. How has this affected public perception?"

"Ever since the Walkerton disaster and the subsequent enquiry, residents everywhere, especially in Hallington, have become very concerned about the quality of all utility services that are provided to them," Swatridge continued. "And then, the California debacle has not helped. That publicity has added to the uncertainty. The fact that it wasn't a true

privatization doesn't seem to come through—privatization just seems to have come to be associated with power shortages and potential price increases rather than reductions!¹

“One thing that has happened since the Walkerton incident is that the government's quality control measures for all municipalities and utilities have become stricter. Higher and tougher standards are being enforced to ensure that something like that never happens again. Thankfully, we have plenty of systems and procedures in place to ensure that an incident like that will never take place in Hallington. However, these events have certainly clouded the waters. Privatizing utilities will be much more difficult, in my opinion, as a result of public concern about quality control. At the same time, we will face a much more open competitive marketplace with our suppliers!”

Downsizing

Barely pausing, Swatridge went on to discuss the next major issue. “For a year or so, the Board at Hallington Utilities has been considering some possible downsizing within the organization. We clearly aren't being as efficient as we could be, which means changes will eventually have to be made. We have benchmarked our staff to a power-generated ratio, and we are above average. Of course, this is a difficult measure to use because of the area that we service. Bigger utilities are much more concentrated. But our added cost per megawatt of energy seems out of line.

“Obviously, nothing's been decided, but there does seem to be a need to at least reduce our staff somewhat in order to get our costs down. One thing I will say is that I am concerned with how the employees are handling this issue.

“About a month ago, we conducted some focus groups regarding employees' general feelings about the organization. While I was not surprised to find a concern about job security, I was taken aback by the number of employees who expressed concern over the lack of planning for the future in HUS. For the most part, the results were quite consistent, though there were differences because of the varying positions and the years of service of respondents. Younger workers were much more worried about their security than were older workers, who mentioned, as an option, taking an early retirement package if it's offered.

“I found it particularly surprising that professional and skilled employees admitted to thinking about switching jobs. They said they needed to take responsibility for their own careers in the absence of a clear future at HUS.”

Unionization

Swatridge cleared his throat before continuing. “Lately, there have been some rumblings about a possible union drive. Now, one of the things I am most proud of is the fact that the clerical and professional employees at Hallington have never wanted or needed a union. Like most utilities, we have unionized outside workers, but we have not had an inside union. The fact that we are not unionized is unusual for an organization of our size and in our industry. I am sure this is partly the result of the strong independent spirit of the folks

¹ Walkerton: Refers to an outbreak of *E. coli* bacteria in the small town of Walkerton, Ontario, in 2000 and the inability of the town's water supply control procedures to predict or contain it.

California: Refers to the power brownouts that occurred in California as the result of inadequate funding and pricing problems that some analysts had linked to deregulation.

who originally settled in the Hallington area and partly that our employees get competitive wages and benefits, good vacation and holiday time, and work in an environment that is positive and enjoyable. However, with the concern over privatization and employees' worries about downsizing and job stability, I guess the unionization issue was bound to arise. For the most part, I wouldn't buy into that too much, as I think we can cope better than most. Sure we have problems, but what organization doesn't, right?"

Before Marion could decide whether or not she agreed with her boss's sentiments, Swatridge's secretary interrupted, and it was clear that Marion's time was just about up.

"Is there anything else you think I need to know?" Marion asked.

"There is one thing. About a week ago, I received a memo from the head of the electrical acquisitions department, Jim Wong. He informed me about a department-heads' meeting that had taken place recently. Apparently, the reason for the meeting was concern over the electrical futures purchasing responsibilities that the administrative staff within his department were now required to perform. In the past, all of this commodity buying was performed through Ontario Hydro, but with approaching privatization, this responsibility had fallen upon the electrical purchasing staff. The purchasing staff were used to traditional product purchasing activities and were not trained to handle the trading of electrical power units. A completely new mindset and dramatically different competencies were required.

"Apparently, other department heads also had the sense that similar changes would be required of staff across HUS. HR's response seems to be that all our training budget is committed now, and the department isn't ready to 'just throw together a few new training programs.' Jim's memo made it clear that the department heads were very concerned about their employees' preparation for the changes coming to the utility.

"This is definitely an issue I need to look into," Swatridge concluded. "Unfortunately, I am a little busy right now, and it has been pushed back. Maybe you could investigate this issue for me?"

THE PLANT TOUR

With that, Marion was off on a self-guided tour of the facility. She wanted to obtain the employee perspective. The following is a summary of some of her discussions.

Steve Knott: The Issue of Downsizing

The first employee that Marion ran into was Steve Knott, a 49-year-old father of three and a general labourer with Hallington Utilities. Knott had been with the organization for over 26 years and was considered by many to be a hard-nosed but hard-working employee.

Throughout their discussion, the same issues kept coming up: "If this fricking organization lays me off, you might as well throw me off a bridge," Knott quipped. "I've been here over 25 years, and you think my job is safe—not likely. They'll protect all those young kids who think they know it all and leave us old folk out to dry! All I've been hearing for the past six months is the organization might be downsizing and then they might not be downsizing. For heaven's sake—make up your minds! And I'll tell you this, if they lay me off, I've got no chance. I have no skills, no experience outside of this organization, and no updated education. You think I'll be able to find another job? Forget about it! You might as well sign me up for welfare and throw me in a nursing home, 'cause my life is over!"

Though the drama built up by Knott's speech was a little much, Marion believed that Knott was serious about the issue and wasn't putting on an act. Was Hallington Utilities handling the issue of downsizing properly? What was the company telling its employees, and how was the communication process being handled inside the organization? Clearly, the issue was of great concern to the employees and was most likely affecting morale. Marion noted the issue and moved on.

Colin Moore: The Issue of Motivation

The mailroom seemed like an odd place to visit, but Marion decided that the more diverse the group of employees she interviewed, the better the feel for the organizations she would have. Colin Moore had been employed as a mail sorter with Hallington Utilities for over eight years and, for the most part, was quite positive about his experience. However, there was one issue he was concerned about: "I love it here, but we've got compensation problems," Moore said. "Our system is outdated, it's barbaric, and it does nothing to reward solid performance. Why would I work hard to differentiate myself from the others when there's no opportunity to be compensated for it? I may only be a mail sorter, but I'm no dummy; I've enrolled in a technical supervision program at the local college. As soon as something comes up outside—I'm gone. All those outside guys get big bucks compared with me, and I work hard at what I do. Just because they have a union, they end up with more money!"

"How can you argue with that?" Marion wondered. Marion knew that HUS relied on a Hay system of compensation. She had heard that many of the job descriptions were out of date and that few employees understood the basics of how their pay ranges were set and the factors that went into setting those ranges. Of course, the union scales were another issue!

Norm Zenglein: The Issues of Recruitment and Training

If there was a more enthusiastic and energetic person than Norm Zenglein in the world, Marion had never met him. Norm was a 27-year-old section head within Hallington Utilities and was regarded as an up-and-comer. Though he had only been with the organization for two years, he was already one of its most productive and efficient supervisors. Unlike Steve Knott, in Marion's first conversation, Norm's concerns were with recruitment and training.

"Hey, if you want to be the best, you need the best people working for you," Norm explained. "My dad taught me that. Good man, my father. Anyways, if you want the truth, here it is: Hallington Utilities is one of the worst recruiters and trainers of any organization I have ever worked for. The needs of the organization rarely coincide with the people they are recruiting, and when we do get quality people, we can't train them well enough to do the job. Clearly, whatever system they are using for recruitment and training is out of date. Now, don't get me wrong, I like working here. But if they want to be successful in the future, they are going to have to do a better job of recruiting and training their new employees. Last year, we hired a bright graduate from a community college. We made all sorts of promises about the future and then had her do clerical work for six months. No wonder she left. And then there was George. How did he get hired? We couldn't have done reference checks on him, or we would have discovered his drinking problem!"

Marion was concerned about the "gossip quality" of some of this information and wondered how valid it was. "Nevertheless, another employee, another separate and distinct

problem," she thought. From her conversation with Norm, Marion realized that one of the things Hallington Utilities really required was an update—or perhaps even major overhauling—of most of its current HR systems. It was not surprising that this was mentioned by the focus groups that Swatridge talked about.

Lance Durban: Issues of Contract Administration and Labour Relations

Lance Durban had been the manager in charge of labour relations and health and safety for seven years. Lance told Marion that prior to the departure of the director of personnel, he had spent most of his time dealing with health and safety matters and having Fred second-guess him on labour relations matters. As a result, he had learned to defer any significant decisions or roles to Fred and had acted primarily in a research and support function. Now that Fred had left, Lance was keen to get on with the job. "Fred did a great job keeping the peace, but I continue to be amazed at all of the unwritten arrangements and side deals that Fred made. This informality may have been useful in smoothing things over and keeping the union leadership and certain individuals happy, but it also created perceptions of favouritism and inconsistency. I'm trying to clarify and codify practices as I come across these deals so that the arrangements don't haunt us further. It is not easy, though, because you have to stumble on the arrangements before you even know they are there. People aren't very forthcoming when it comes to letting you know about the sweetheart deals."

Lance also mentioned the challenges related to health and safety. Until last year, HUS had a pretty solid record in this area. But since then, there had been a 14 percent rise in lost time accidents and a 17 percent increase in the number of health and safety related incidents. Lance was unsure what was causing this, and he believed it was an area that needed close scrutiny. "I don't know if it is declining morale, deficient training, health and safety committee problems, or supervisory inattention. Whatever it is, we need to sort it out soon. I keep asking those involved, but all I'm getting is finger-pointing thus far."

Janet Poklecki: Communication and Training Issues

Next, Marion sought out another direct report from Janet Poklecki, a human resource generalist at HUS. Janet had been with Hallington Utilities since 1985, and Marion had heard rumours that Janet wanted Marion's job. After all, she had the seniority at HUS and had done a good job. She was proud of her work as well as the department's. Marion would need to spend considerable time with her to make certain she was OK reporting to her. But for the moment, Marion wanted to continue her initial tour and assessment of HUS.

Marion found Janet with her desk piled high with recruitment folders and time-management training brochures. Marion was surprised that the time Janet spent talking to her would have to be accounted for in detail in Janet's time-management reporting schedules. Despite this hassle, Janet was willing to talk to Marion and quickly made clear that her concerns lay mostly in the area of communication.

"We just don't communicate well with each other," Janet complained. "And by 'we,' I mean management and the employees. Whether it's the issue of downsizing or privatization, nobody seems to know what's happening. Sure there are newsletters and memos sent by management, but they never really tell us what's going on. It's frustrating, and most of all, it hurts morale. I find it particularly tough that I am so busy with our recruit-

ment and training activities that I just don't have time to help employees plan ahead. The one time I do hear from employees is during our lunch breaks, and I can see how this poor communication affects morale and, more importantly, productivity. Something has to change, or else.

"I think our new training program will make a huge difference to the organization. It is so exciting, and I am certain that John is going to be thrilled with the results. I plan on meeting with him next week to update him on how it is going. The program will help employees deal better with time management. I have been designing the program for almost a year now, and it has really taken a lot of my effort to develop. The program consists of three different seminars that the employees have the option of taking, as well as a follow-up program to assess its effectiveness. I think it is something that could benefit all of our employees at Hallington, even management. I want to persuade John to authorize management attending. Also, I am just getting started on one of my new initiatives, which is to design another training and development program for the organization relating to teamwork. I think it is an important part of business today and could be a useful program at Hallington. As you can probably tell, there are a lot of good things going on with HR right now!"

"That's great," Marion thought. "At least I know what HR staff have been spending their time on, and I am impressed at the carefully crafted training programs they have developed. But how do these activities help HUS deal with the issues worrying the CEO and department heads, and in addition, how do I explain all this to Janet?"

Bob Brown: Compensation Issues

As a final stop, Marion looked into Bob's office. Bob was a long-service HUS employee who had been transferred into human resources seven years ago to look after compensation and benefits issues. As Marion entered, Bob quickly switched programs on his computer, and Marion wondered what Bob was working on.

"What's up in compensation today?" asked Marion.

"Oh, it is always the usual stuff," replied Bob. "People always complain about what they earn. Just the other day, I had a manager trying to get around the system because she said we were going to lose a good employee. We can't just regrade jobs or give pay raises because someone gets an offer from somewhere else. It's not my job to find money for these people; I am busy enough as it is, making certain that payroll is up to date. When people join on, they never seem to fill out the forms right, and I keep finding errors. People also make lots of errors on forms related to the benefits programs. I end up spending my time on the administration of these programs. I just send the forms back until the information is correct. Frankly, I just can't keep up and have asked for part-time assistance. Can you help me with this? You should be able to pull some strings there, can't you?"

Marion wondered about this request. Just where did that fall into his new role?

Heinrich Voelker: Union Concerns

As Marion headed back to her office, she ran into one of the union vice-presidents, Heinrich Voelker. He challenged Marion to improve things at HUS. "You guys sit up in your offices and pretend you know what is happening. You have no idea what is really happening out there

with my guys. This winter has been freezing, and six people have been off with frostbite. No wonder lost time accidents are up. You can't have that and expect people to be committed. We try to make suggestions and are ignored—all you are concerned about is your fancy offices and special parking spots—you just have no idea about the real problems of getting electricity to people! And Swatridge! He is just paranoid about this new Board structure! If he got out into the field more, he wouldn't have to worry so much about the Board. When people phone in because their power is out, you can't be worrying about budgets and efficiencies. You have to get the power back on, and this new overtime policy is crazy. It's your rules not ours, but to think you can restrict overtime is nuts—especially this winter. And the focus is nuts. Last week, one of my guys brought back a truck at 11:30 and his supervisor was all over him. The job was done, and he needed to wash up before lunch. What was he supposed to do—hang around until 12:00 and then come back? It's just an example of how rules oriented our supervisors are. Worried about the minutes and not the job that is done!"

Marion listened to this diatribe for a while and wondered how much was real and how much was positioning. It was clear that some of the status differences grated—too much emphasis on the privileges of management and on the clerical employees and not enough focus on service quality, it seemed.

THE DILEMMA

As she walked back to her office, Marion thought about what she had learned so far. She had heard some very different perspectives from various employees and some major issues raised by the CEO, all, in their own way, trying to cope with the inevitable changes facing HUS. She wasn't at all sure that she was ready to answer the question of how prepared the HR function was to address these issues. On her journey, Marion had found a human resource department that was busy doing all kinds of different things. What exactly should her role be? What should be the role of her department? How could she make a real impact on the organization?

If defining these problems was difficult enough, finding solutions was going to be another story. "The issue I need to focus on," Marion thought, "is whether HUS wants a good HR department, or whether it wants an HR department that helps the organization achieve excellence." Whatever the answer, Marion knew that as the new kid on the block, she would have to tread carefully. As she thought of all that she had seen, she reflected on what she had recently read in an HR book referring to the necessary "discipline of abandonment"—that organizations have to learn the discipline of discarding certain responsibilities so that they can take on new and more strategic ones.²

Upon her return to her office, Marion sat down and pulled out a pad of paper from her desk and proceeded to scribble the words: "New HR Visions and Plans for HUS."

Ironically, the only other thing that ended up on that pad of paper on that first day was a big question mark.

² Weiss, David. *High-Impact HR: Transforming Human Resources for Competitive Advantage*. (Toronto: Wiley, 1999), p. 38.