Mini Case Study E.ON

SASKIA GARBE
University of Amsterdam (Student ID: 10865365)

Abstract. The present case study examines the impact of the German Energy Transition on the energy company E.ON focusing on the question in which way this organization can be used as an example to explain and illustrate the phases of the model of the adaptive cycle. In order to answer this question, background information about the organization, the energy transition and the theory of the adaptive cycle is provided before the model is related to the concrete case. According to the analysis, the corporate development of the organization at that time has characteristics specific to the adaptive cycle.

Keywords. Adaptive cycle, adaptive cycle of resilience, E.ON, German Energy Transition

Introduction

The company E.ON based in Düsseldorf, Germany, is considered a large investor-owned electric utility service provider with facilities across Europe, Russia as well as North America [1]. Moreover, it is involved in businesses with Brazil and Turkey [1]. As Germany’s largest energy provider, E.ON plays an important role on the German electricity market [8].

In the following paper, a major change in the history of the company, the German Energy Transition, is determined focusing on the applicability of the concept of the adaptive cycle in this case.

1. German Energy Transition

In the aftermath of the nuclear accidents of Fukushima, the risks of atomic energy and the climate change were given increased priority by wide parts of Germany’s society and politics [2]. As a result, the nuclear phase-out and the switch to renewable energy, namely power generation from hydro, wind, solar, and other renewable sources, were decided [3].

In order to foster the energy transition, two instruments are used, explicitly the Renewable Energy Sources Act and EU Emissions Trading Scheme which imply regulations to promote renewable energies [4]. However, the German Energy Transition is criticized for some reasons. So, issues with energy production, energy provision, energy needs, and storage technologies come up [2]. In addition, the transition causes economic problems, e.g. increase of consumer price for electricity [3][4].
2. Adaptive cycle

The adaptive cycle model, as seen in Figure 1, describes the movement of an organization through four phases: exploitation (growth/ exploitation), conservation (conservation), release, and reorganization (renewal).

![Figure 1](image1.png)

Figure 1 [5]. Adaptive cycle.

The adaptive cycle of resilience, as seen in Figure 2, consists of four quadrants, that is to say Equilibrium, Crisis, New Combinations, and Entrepreneurship. In the first phase, Equilibrium, the situation is in balance, so that there is no need to act. This balanced situation is disturbed in the second phase by a crisis, which cannot be handled with actions available in the existing system. This unexpectedly occurring crisis has a significant impact on the organization causing changes. Then, in the third phase, New Combinations, new possible options are identified in order to solve the crisis. Eventually, in the fourth phase, Entrepreneurship, the organization strives to reach new improvements and developments.

![Figure 2](image2.png)

Figure 2. Adaptive cycle of resilience (source: college slides of T. Abcouwer, Virtual Organizations in a dynamic context, 2014)
3. Adaptive cycle and E.ON

The company analyzed in this paper passes through the phases of the adaptive cycle model as described in the following.

3.1. Equilibrium

In the first phase of the cycle, E.ON’s situation was in balance meaning that the organization owing nuclear and coal-fired power plants recorded economical success and growth [6]. E.ON was embedded in a framework whose structure was politically supported and promoted. Because of an existing oligopoly of only few market players the electricity market was divided up between few energy providers inter alia E.ON [6]. Its product creation process was comparable with the other market participants causing a similar cost structure and offering prices [6]. Furthermore, the company benefited from long-term customer contracts with a result of long-term cash inflow as well [6].

3.2. Crisis

The balanced situation was disturbed by a crisis, namely the nuclear accidents of Fukushima and the resulting German Energy Transition. In the course of this transition, both the Renewable Energy Sources Act and EU Emissions Trading Scheme worked in favor of renewable energy sources in order to replace energy produced by nuclear power.

Although E.ON has already invested in the improvement of renewable energy sources at that time, the corporate economical success was based mainly on energy production with coal-fired and nuclear power plants [6]. Consequently, the organization suffered significantly from the energy transition. So, the organization was endangered by a drastic profit collapse including a remarkable decrease of net income and dividend [7]. In 2013, chairman and CEO Teyssen announced a profit collapse of more than 50 percent [8].

3.3. New combinations

As a result of this crisis, a renewal of the system was necessary. The organization decided to restructure in several regards. So, it agreed on the closure of multiple unprofitable gas-fired power plants across Europe [3]. Also, internal savings as well as the reduction of investments were announced [7]. Moreover, the number of employees was significantly reduced [7]. Furthermore, the organization planned to invest more in decentralized and renewable forms of energy, e.g. decrease of the number of decentralized plants like block heat plants for apartment houses and business establishment [7][8]. In addition, as an internationally established enterprise, E.ON changed its focus giving higher priority to international business, especially to Brasilia, Turkey, and Russia [7][8].

3.4. Entrepreneurship

Currently, the organization is in the entrepreneurship phase. So, the realization of the measures decided in the new combinations phase is still in progress. The organization
strives to recover from the crisis by revising its focus. However, it remains to be seen whether the organizational renewal is useful to achieve the desired objective.

Nevertheless, certain tendencies can be noticed. So, still the finances do record hardly a surplus despite the focus on the international business [9]. In contrast, besides the energy transition, the investments outside of Germany are considered as a major reason for the falling income [9]. On the other hand side, the organization records progress with regard to the development of alternative energy sources and debt reduction [9].

4. Conclusion

According to the analysis conducted in this paper, the organization E.ON can be defined as an example to illustrate the change process of the Adaptive cycle model.

In accordance with the model, the organization passed through the four phases starting with being well balanced in the equilibrium phase. The corporate organizational structure enabled a profitable position on the German electricity market. The crisis in the form of the Energy Transition arose unexpectedly and created a drastic damage on the organization.

E.ON strived to react with a renewal of its corporate structure to overcome the crisis. So, the cooperation with new electricity suppliers and a renewal of the cost structure can be regarded as measures to recover from the crisis. The success of these measures and the return to an equilibrium phase dependent thereon remains to be seen.

References