

# Managing Third-order Change: The Case of the Public Power Corporation in Greece

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To understand the management of strategic change, organizations must be situated in their broader institutional contexts. This article focuses on ‘state-political firms’, companies owned or heavily influenced by the state and operating in state-dominated business systems, and explores the management of third-order change in the Greek state-owned electricity utility, the Public Power Corporation (PPC). Managing change in such firms is highly recursive, in that organizational change involves simultaneous change to the broader institutional environment, and the firm becomes both the focus of change and a medium for broader cultural change.

The article argues that a successful change process must first disrupt the self-referentiality typical of state-political firms, and that such disruption happens mainly through externally-generated behaviour-shaping information. In the case of PPC, market liberalization (externally mandated by the EU) prompted a stock market floatation to seek fresh capital. Properly handled, such external and apparently technical mechanisms can have considerable discursive potential, helping to create momentum for change and to extend it throughout the organization. Insights from the effective management of strategic change in PPC are of relevance to other state-political firms worldwide.

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## Introduction

Strategic organizational change is a much researched topic. There is an abundance of case studies, surveys and even simulations investigating aspects of the complex process of corporate transformation.<sup>1</sup> However, something is missing. Most of the research reported is concerned with transforming companies that may have stagnated or lost direction in, or simply have not kept up with, a changing environment, but are otherwise conventional firms. Change aims at ‘revitalizing’, or ‘renewing’, such companies.<sup>2</sup>

By 'conventional firms' we mean firms that are relatively autonomous units of economic decision making and control; are more or less Weberian bureaucracies; are normally susceptible to the rigors of the market and/or the scrutiny of independent authorities; pursue an essentially business mission in a pluralistic socio-political environment; and with a managerial hierarchy that makes all crucial product, pricing, and investment decisions, is responsible for the organization of the production process, and formally accountable for the results it delivers.

In other words, most research on the management of strategic change has concentrated on a single type of economic actor - the conventional firm - so well described in Chandler's seminal work.<sup>3</sup> However, such research has paid scant attention to the *institutional* constitution of economic actors, and rarely taken into account that 'units of economic decision making and control vary considerably in their constitution and organization across capitalist economies and so their distinctive characteristics need to be explored rather than assumed to be identical'.<sup>4</sup>

As several organizational researchers have argued, distinct types of business systems constitute different contexts of economic action and encompass different types of economic actors<sup>5</sup>. Thus, in state-driven capitalism the state has considerable influence over most aspects of economic organization, although it is not necessarily engaged in the direct control of non-state firms. In a state-dominated business system managing strategic change would be reasonably expected to be different from managing change in a business system that is closer to an Anglo-Saxon market economy. In the latter case, the management of change is predominantly an internal organizational issue, largely justified in terms of a dominant managerial-cum-economic discourse, while in the former, the management of change is crucially dependent on the support of key outside stakeholders, most important of which is the government, and the managerial-cum-economic discourse is not well established or easily accepted.

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What has been under-explored in the relevant research is the management of organizational change in the context of business systems different from the Anglo-Saxon model. Of course certain topics (such as privatisation or the introduction of reforms in the public sector) have been extensively studied, at least in North America and North Europe.<sup>6</sup> What has been missing, however, is attention to the *institutional* context:<sup>7</sup> privatising a company has been typically seen as the switching on of previously inactive market forces impacting on corporate behaviour. This approach tends not to study the actual constitution of the organization undergoing change, which entails looking at broader institutional issues: authority relationships, forms of employee participation in decision making, employer-employee interdependence, locus of important business decisions, and the role of government. For research on the management of strategic change to be illuminating, the organization under study needs to be seen within its broader institutional context, and not narrowly as a self-contained economic entity.

### **Managing change in state-dominated business systems: third-order change**

In state-dominated capitalism several business organizations (most conspicuously utilities) are directly owned by the state; they are (or, until very recently, were) monopolies in their markets; they perform broader 'social functions' (as opposed to following a narrowly business-driven mission); they are only superficially Weberian bureaucracies: their management is closer to administration than to what most of us understand today as 'professional management'; and they have historically been parts of a state-dominated (as opposed to a liberal) political system, affording politicians the power of systematic patronage and direct meddling into company affairs. We call such business organizations 'state-political firms'.

State-political firms are companies in the legal sense of the term, but they would hardly qualify to be relatively autonomous units of economic decision-making and control as conventional firms are

defined to be. What is most distinctly missing in such firms is a sense of ‘managerial authority’ – an independent, unitary chain of command, through which management makes crucial decisions, enforces accountability, and accomplishes particular business objectives in a more or less systematic fashion. From a management-of-change point of view, the separate legal identity of such firms is not what is theoretically or practically significant. What is important is the web of relationships between state-political firms and the broader political system, as well as the broader institutional-cultural template within which such firms have historically been embedded. Strategic change in state-political firms is even more fundamental than ‘paradigmatic’ change – it is constitutive, or third-order, change.<sup>8</sup>

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*Strategic change in state-political firms is more than ‘paradigmatic’ – it is constitutive, third-order, change*

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Third-order change involves the transformation of the very identity of the organization - the form of ownership and the constitutive rules that have historically defined it as an organization. It differs from paradigmatic (or second-order) change in that, while the latter alters fundamental organizational governing values,<sup>9</sup> third-order change challenges the broader institutional-cultural template at the same time (see Figure 1). Third-order change not only involves the transformation of the organization in focus but, through it, impacts on the broader institutional environment of which the organization is a member: the organization changes its institutional environment as it changes itself. Typically, third-order change is part of a broader political project to modernize a country’s institutions: it is the medium as well as the outcome of such a project. The main challenge in a third-order change process is, typically, to turn the state-political firm into a conventional firm that learns to compete in the market place; is subject to independent scrutiny from the outside (by markets, regulatory authorities and/or civil society associations); and is organised and managed to achieve particular results, which serve as the yardstick for judging the effectiveness of the organization and its management. Clearly, this kind of change is not narrowly organizational, but involves important shifts in the structure of the broader institutional context.

There are several examples of organizations undergoing third-order change, typically in emerging and state-dominated economies pursuing the path of economic (and often political) liberalization. In Turkey, the February 2001 devaluation of the lira and the IMF-backed economic rescue programme, has entailed both fiscal and structural reforms to put public finances on a sound long-term footing. Structural reforms have included the privatisation of utilities, energy liberalization and banking sector restructuring.<sup>10</sup> Similar structural economic reforms have been undertaken in countries as different as Croatia, Hungary, Portugal, Brazil and Argentina, while the new Congress-led Singh government has recently announced a program of liberal economic reforms in India.<sup>11</sup> All these reform programs include opening up markets, part or whole privatisation of state-owned monopolies and drastic restructuring of public sector organizations.

In all these countries, economic reforms have been put at the top of the political agenda as a result of externally-imposed pressures, such as the strategic goal of obtaining EU membership or adhering to EU-mandated directives and policies, or the granting of loans from international institutions (such as the IMF or the World Bank) and the economic reforms such institutions prescribe. Skidelsky notes that economic liberalization, typically (though not necessarily) proceeding in tandem with political liberalization, requires important economic and institutional reforms through change of ownership and the restructuring of state-owned companies.

These reforms are quite often part of a broader, fundamental process of social change – a massive institutional reorganization of economic life. As Elster et al aptly observe with reference to former communist countries, ‘virtually everything must go and be replaced by something new’.<sup>12</sup> The breadth and depth of such political and economic change means that few institutional elements of the old order can be relied upon. But the old order still exercises its grip on frames of mind and

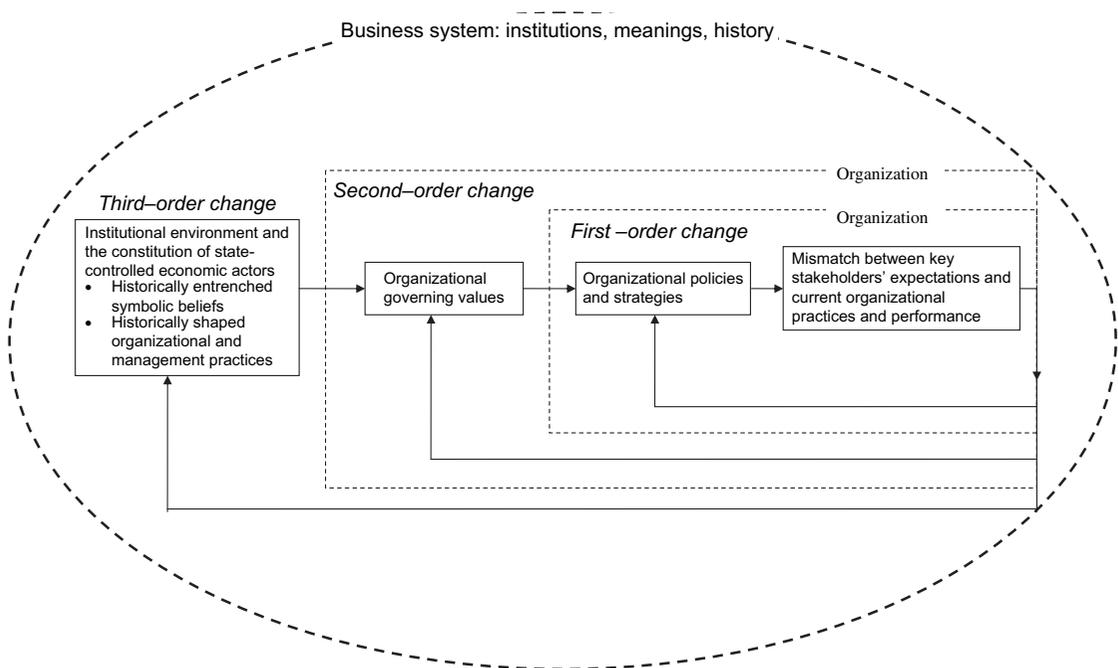


Figure 1. Third-order change

social habits, which deliberate short-term action cannot easily alter. Change agents cannot usually draw on a liberal modernist discourse to carry out their reforms, since such discourse has historically been under-developed. To change Turkish Telecom, for example, meant that the patronage that politicians have exercised over it would need to change as well – to change the company, one would need to make changes in the entire political system of the country! This high degree of *recursivity* makes organizational change in certain business systems very difficult.

Transforming state-political economic actors is a highly political-cum-symbolic process, more so than in managing change in conventional firms, and we need first to grasp the difference between ‘technical’ and ‘institutional’ environments. Such distinction has analytical value: while in real life all environments comprise both elements, some types of organizations are more subject to one than the other type of environment.<sup>13</sup> ‘Technical environments’ are those in which products or services are exchanged in a market which allows organizations to be rewarded for efficient and effective organization of the work process. ‘Institutional environments’ are those in which organizations are primarily rewarded for espousing the right beliefs, establishing correct structures and following the appropriate processes.<sup>14</sup> What is ‘right’, ‘correct’, or ‘appropriate’ depends on the broader institutional-cultural context and often takes the form of legislation or a voluntary code. Technical environments primarily exercise output control over organizations (are you *producing* the right things?), while institutional environments primarily exercise procedural control over organizations (are you *doing* the right things?).

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In conventional firms, external events that serve as triggers for ‘unfreezing’ the organization (e.g. threat of a takeover, drop in profitability, strong competition, etc) originate primarily in the

technical environment and possess an objectivity — they are ‘brute facts’<sup>15</sup> - that is, hard to convincingly deny. The market sends the organization certain signals - consistently dropping market share or profitability, as was the case of Marks & Spencer in the late 1990s,<sup>16</sup> is there for all to see. Interpretation of *why* profitability is falling may differ, but no one can deny the fact that it is taking place and that the organization ought to respond, i.e. to change.

In the case of state-political firms triggers for change tend to come from the institutional environment and, as such, they lack such objectivity — they are ‘institutional facts’. A government, for example, may decide on an Initial Public Offering for a state monopoly, or that restructuring is needed, or to give licenses to competitors, but it is the government which decides to do these things and, as such, they may be *undone*. Institutional facts are more susceptible to challenge than brutal facts. Consequently, ‘unfreezing’ state-political firms is a politicised process that needs careful management, and thus the role of external agencies in mandating change is crucial: by being external to the organization, and removed from national political processes, they have higher plausibility to mandate change.

All change processes have symbolic dimensions,<sup>17</sup> but these are even more salient in changing state-political firms operating in institutional environments. In technical environments the values of ‘efficiency’, ‘effectiveness’, and ‘rational organization’, form the underlying value system and the accompanying discourse that guides the direction of organizational change, on top of which more contingent, organization-specific values, are added. But in institutional environments, this very set of values and discourse needs to change as well as specific organizational practices, and this calls for highly symbolic management.

One of the problems in privatising hitherto state-owned companies in former communist countries has been the need for such companies to shed their ‘social’ functions and adopt a much more business-oriented mission. Values and institutionalised beliefs such as ‘a job is a job for life’, ‘promotion will be based on seniority and party political affiliations’, and ‘the trade union is one of the sources of authority in the company’, need to change, as well as specific organizational practices.<sup>18</sup> Again, changing a company entails changing, to some extent, the country. The recursivity of the process of changing state-political firms requires change managers to have a strong sensitivity to historically entrenched value compounds, which must also be changed.

To sum up, to improve our understanding of the management of strategic change we need to situate organizations in their broader institutional contexts. For the purpose of the present argument, we have distinguished between conventional firms, typically operating in the liberal business systems, and state-political firms operating in state-dominated business systems. As the latter move towards the former model, state-political firms need to undergo an important transformation, which we call third-order change. Such change is marked by high recursivity — the organization changes its institutional environment as well as changing itself — and consequently third-order change is a highly political-cum-symbolic process.

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What are the challenges in effecting third-order change? What are the conditions for such change to be effectively managed? In the next section we attempt to address these questions by focusing on the Public Power Corporation (PPC), the hitherto state-owned energy monopoly in Greece. We examine more closely what is involved in managing third-order change and what lessons can be derived for change agents. As the second author was full time Chairman of the PPC Board of Directors from June 2000 until April 2004, and thus instrumental in initiating and overseeing the process of change, we have had first-hand access to the thinking behind the changes and the policies pursued. A management academic at the University of Athens, he was appointed by the then Socialist government of Costas Simitis to turn PPC into a company attractive to prospective investors and fit to survive in an increasingly liberalized energy market. He had previous experience of PPC while being responsible for overseeing state-owned firms in his previous job (as Secretary

General for Public Enterprises at the Ministry of Economy) working for Simitis when he was Minister of the Economy. After his appointment to PPC, the Chairman regularly kept a diary of his initiatives and the responses they attracted, and this article, draws on his diary and personal experience.

## Making elephants dance: managing change at the PPC

### Background

The history of PPC is interwoven with that of post-war Greece (see Table 1). The company was founded by the government in 1950 to take charge of the country's electrification programme in expectation of a tenfold increase of electricity generation over the following five years. Prior to that, electricity was produced by some 400 small municipal and private companies, although much of the countryside was not supplied, power cuts were frequent, and the cost of power generated in this way was three to five times more expensive than in the rest of Europe. In creating the PPC the state wanted to create a national grid and build the necessary infrastructure to help industrialize the country. The company was given the monopoly over the production and distribution of electricity, and, although existing local providers were allowed to operate until the end of their license, most of them were gradually bought out by PPC.

While PPC was meant to be organizationally and managerially independent, the government appointed the members of its Board<sup>19</sup>. The government formally reserved the right to intervene, in theory only in cases of major importance (such as significant investments and undertaking loans): but in practice, alas, PPC functioned as an extension of the government and, indeed Tsotsoros reports that successive governments packed the company with scores of supporters.

PPC was founded in the last year of what had been a turbulent decade for Greece. Following a four-year war against the Nazis the country had been plunged into a bloody four-year civil war between Left and Right: the combined effect was to leave the country in ruins, bitterly divided and

Table 1. A brief history of PPC

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1950-1967

- PPC's creation was instrumental in establishing a national grid and advancing industrialization and economic development, following a decade of wars.
- PPC functioned as an extension of the government. Political patronage over key areas, including personnel policies and investments.
- Large investments and preparation for use of domestic energy sources (lignite, hydroelectric dams).

1967-1974

- Military regime disrupts progress. Politically motivated personnel changes.
- Turn to imported oil for energy generation.
- International oil crisis and high inflation increase PPC costs significantly.

1974-1981

- Conservative government. Political patronage continues. Efforts for cost cutting.

1981-1987

- Socialist government. "Socialization Act". Employee participation schemes. Significant trade union influence in running the company. PPC becomes a state-political firm.

1988-1990

- Political instability, changes of government, and corruption trials. Indecision and stagnation in PPC.

1990-2000

- Conservative and socialist governments. PPC stagnates — "wait and see" policy.

2001-2004

- Process of transformational change begun aiming to turn PPC into a "conventional" (rather than state-political) firm. Energy market liberalization following EU directive. PPC floating to the stock market.
  - Competition yet to come.
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with its infrastructure destroyed. At the time Greece was the recipient of significant American aid, part of the Marshall plan for the reconstruction of Europe<sup>20</sup>, and American experts were involved in several areas of social and economic life, including the energy sector. Tsotsoros notes that, in its first five years of PPC's operation, the American company EBASCO was responsible for the corporation's organization and management, exerting strong influence on energy policies and investment plans and bequeathing modern management practices and organizational policies. In the 1960s PPC's modernizing spirit was reflected in the emphasis it placed on establishing training colleges for its technical staff, the creation of an Operational Research team (one of the first in the country) and the introduction of computers.

Like the rest of the country, during the military dictatorship (1967-1974) PPC went through a period of turmoil. The previous energy plan (which had provided for the increasing use of domestic resources, mainly coal), was overthrown in favour of imported oil, and politically motivated personnel changes saw the military regime dismiss 5% of employees from all organizational levels (mostly left-leaning people suspected of being hostile to the regime) and recruiting three times as many, mostly regime sympathisers.

After democracy was restored in 1974 onwards, and especially after Socialist Party (PASOK) came to power in 1981, PPC's trade unions became increasingly militant and influential. The spirit of the times favoured state interventionism, begun by the conservative New Democracy government (1974–1981) who nationalized Olympic Airways, the Commercial bank of Greece and other companies. In 1983 the so-called 'Socialization Act' radically changed the governance structures of PPC and other utilities, establishing the right of representatives of government, employees, local-authority organizations and several social groups to participate in the management, planning, and supervision of state-owned companies with the goal of serving 'the national interest and the social whole'.<sup>21</sup> While such participation quickly degenerated — of 165 planned sessions of the Representative Assembly for Social Control, only half actually took place — it did give PPC trade unions a powerful influence in the company's decisions from investment plans to promotions and recruitment.

Throughout post-War Greece, public enterprises had been subjected to clientelistic practices, whereby people of a certain political persuasion would be preferentially recruited and promoted. Tending to benefit right-wing supporters in the aftermath of the Civil War, this politicisation was reversed after 1981 and then intensified through the Socialization Act. PPC became polycentric: its trade unions (membership included 99% of the workforce by 2000), for decades docile to management, became an alternative centre of power, gaining influence over the traditionally managerial domains of personnel policies, investments, and procurement. Thus as PPC carried on the tradition of being the focus of political patronage,<sup>22</sup> trade unions became, for the first time, so influential and powerful as to aspire to co-manage key aspects of the company.<sup>23</sup> The strengthening of political interference in PPC, and the increasing importance of party political affiliations for moving up the organizational ladder, resulted in the weakening of managerial authority, which, in turn, invited further political interference.

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### Changing PPC

Having been protected from both competition and economic discipline, and having been, in effect, the 'long arm of government' in the energy sector, by 2000 the Public Power Corporation had become increasingly introvert, lacking in transparency, accountability, meritocracy, and business orientation. While still a power producer and transmitter, and certainly a public entity, the term 'corporation' was more a euphemism than a reality. That was illustrated by requirements to comply

with public service obligations without receiving commensurate compensation (for example, Mylonas and Joumard report that prices were kept uniform despite substantial geographical cost differentiation and hydro-electric plants were operated inefficiently in order to meet irrigation needs) and also by its peculiar accounting and operational management practices.

There were no separate accounts for distinct operational components (making it impossible to allocate costs rationally); its financial statements were not prepared according to conventional Greek and international accounting practices and were not externally audited (as required by Greek law for all *société anonymes*); there was neither a business plan nor a fully updated record of its fixed assets; and warehouse inventories were not fully recorded and updated.

Such was PPC's introversion that, by 2000, it had become literally a closed system. There was no renewal of its management with people from outside PPC, as, by law, all appointments were internal promotions, save the CEO and the Chairman of the Board, who were political appointees. What was conspicuously missing was a sense of economic discipline, whereby efficiency and effectiveness would be guiding principles of corporate actions; and of an outward orientation towards customers, investors, and the labour market. To bring both economic discipline and outward orientation to bear would require a clear strategy.

The explicit purpose of change since 2000 has been to transform PPC into a 'conventional firm'. Such a change was part of a broader political agenda of the modernizing Simitis government, aiming to address the chronic problems of the Greek economy - notably the high levels of inflation, budget deficit and public debt - in line with the Maastricht Treaty criteria, the fulfilment of which was a prerequisite for the country's entry into the EMU and the subsequent adoption of the Euro. The EU requirements included structural economic reforms to reduce state intervention and liberalize key sectors of the economy, including energy. Obtaining membership of EMU had become a strategic goal for the country throughout the 1990s, enjoying bipartisan support, and acquired increasing impetus under Simitis' modernizing premiership after 1996. An austerity programme to restrain expenditure and increase revenue adopted, including part or whole privatisation of several state-owned companies, half of which Close reports to have been running at a loss and between them amassing debts to the tune of 2% of GNP by 1997. Simitis' government, with 'modernization' its chief political mantra, was determined to rationalize the public sector and quickly passed legislation enabling state-owned companies to recruit executives from the private sector (see Table 2).

Thus in June 2000, for the first time in its history, PPC, appointed a new CEO who was *not* a political appointee, but competitively selected on the basis of his background of twenty years of experience in restructuring manufacturing companies in the private sector. At the same time, the government appointed the second author as the new Chairman of the Board. His successful track record in modernizing and part-privatising public enterprises (including the Hellenic Investment Bank (ETBA) and the Hellenic Telecommunications (OTE) whose IPO he had overseen in 1996), and the fact that he was a political ally of the Prime Minister gave him considerable political influence against factions of PASOK which had hoped to maintain the old-style interventionist politics and patronage opportunities. Such political capital turned out to be valuable, especially if one compares the experiences at PPC with change attempts at other public monopolies, which where were less successful, arguably because top appointments lacked similar political strength.

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### *the political capital [of the new Chairman] turned out to be valuable*

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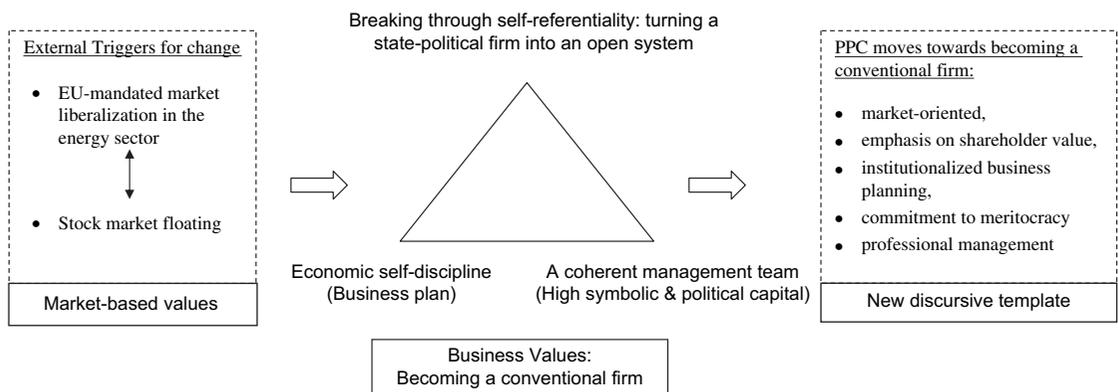
The new top management team quickly realized that for real change to begin, four elements needed to be in place simultaneously:

- (1) an external trigger for change;
- (2) a way to turn the company into an open system;
- (3) a mechanism to impose economic discipline; and

**Table 2. Introducing change: Government policies and PPC actions**

Government policies		PPC actions	
Fulfillment of the Maastricht criteria by the Greek economy for entry into EMU becomes the most important strategic directive for the country	1990–2000	Inertia. Maintenance of the status quo	until 1999
Rationalization of public finance and public sector organizations	1996–2000	Appointment of a new Board and a new top management team with a successful track record. CEO competitively chosen	2000
Employee pension fund was created	1999		
Legislation for liberalizing the Greek electricity market, following EU directive	1999	Restructuring plan	2000
Creation of the new Regulation Authority for Energy (RAE).	1999	PPC becomes <i>Société Anonyme</i>	2000
Adaptation of the Greek law for electricity contracts to European law	2000	Organization splits into 4 business units (mining, production, transmission, distribution) and 2 staff units (economic and human resources)	2001
Guidelines of the Greek Capital Market Commission for new entrants in the Athens stock exchange	2000	2 new members on the Board representing shareholders	
Creation of the Hellenic Transmission System Operator	2000	Business Plan	2001–2005
Government decides to float PPC to the stock market	2001		
		IPOs: 15.3% → 2001 13.2% → 2002 15.7% → 2003	
Corporate governance law into effect	2002		

(4) a coherent management team to tackle both the technical complexities of the change process and the political problems created when a state-political company as big as - and with as many stakeholders as - PPC undergoes transformational change (see Figure 2).



**Figure 2. The mechanisms of change at PPC**

A comprehensive restructuring plan, aiming mainly at rationalizing capital expenditure and improving efficiency, was developed in November 2000 with the help of McKinsey & Co. The

restructuring plan took as its benchmark similar companies in Italy, Portugal and Spain, especially regarding their recent cost structures. The two triggers for change were three-phase IPO on the Athens and London Stock Exchanges (November 2001, November 2002, and October 2003), in which 48.5% of the company was floated, and the liberalization of the energy market in February 2001, as mandated by the EU directive 96/92.

The company's stock market floatation was very successful, despite the antipathy of the trade unions, whose reaction was reflected in polemic press releases and some sporadic strikes, before becoming more flexible and negotiating their acquiescence when faced with the determination of both the government and PPC's top management. The liberalization of the energy market included both gradually expanding choice for customers (giving initially high and medium voltage customers the right to choose their energy provider, with domestic customers to follow in 2007), and the unbundling of PPC's accounting systems. Now the activities of mining, production, transmission, and distribution would be required to prepare separate accounts, giving management and outside parties a much clearer picture of the company, as well as preventing PPC from cross-subsidizing its businesses.

These triggers had significant effect: for the first time PPC found itself under the microscope of stock analysts and auditors, and its strategic decisions publicly scrutinised. The company's inner workings are, for the first time, subjected to outside controls, including the supervision of competition across the whole Greek energy market by the new Regulatory Authority for Energy (RAE), set up in 1999. Energy generation is now open to competition, and it is predicted that when independent producers appear, they will capture 10% of the market.

The twin triggers of stock market floating and market liberalization have gradually helped create a new discourse in the company. Whereas before, past company practice and government policies were the most important points of reference, PPC's decisions are now taken with an eye to the stock market and, increasingly, the customer. PPC has been forced to open up and engage with the outside world of competitors, investors and customers. This increasingly outward orientation has led to the company recruiting senior managers from outside rather than promoting exclusively from within. Before 2000 such a possibility was unthinkable - now it is seen as perfectly sensible that an outward-looking company, whose performance has a strong impact on its share price, needs to strengthen its managerial pool from wherever it can. At the very minimum, such a move could no longer be plausibly resisted: indeed, this has become one of the most important levers for amplifying the change begun with the IPOs.

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A new organizational structure was introduced and a selection procedure for executives was soon established. PPC was divided in four business units – General Directorates for Mining, Production, Transmission and Distribution, serviced by two more for Financial Services and Human Resources - with separate accountability and performance targets. The selection procedure for the six General Director positions was supervised by an independent consulting firm (KPMG), and candidates came both from within the company and from the private sector. The transparent recruiting process ended with four of the six new General Directors being existing PPC executives, while two were well-established executives from the private sector.

Further down the new structure, the selection of Division Heads, Assistant Division Heads, Section Managers, and Assistant Section Managers followed from internal candidates only, and some 5,000 managers at all ranks took part in the selection procedure competing for 1,500 positions. Each organizational level was actively engaged in the selection procedure for the level below it, and the whole process, which lasted for about a year and a half, was under the close supervision of the CEO. Thus all PPC executives and managers went through a transparent

selection procedure, which significantly legitimated their authority and conveyed the meritocratic, professional and outward-looking spirit of the new PPC. For the first time managers were promoted on merit alone, with no account taken of any non-business criteria, such as party political affiliations or trade union recommendations.

One of the first moves of the new Executive Committee – the senior management team, comprising the CEO and the six newly selected General Directors - was to set about making a proper business plan for 2001-2005, a plan which turned out to be an important mechanism for planning, instituting accountability and, ultimately, self-discipline. In the past, PPC's management used simple management control instruments, such as the annual budget and the five-year investment plan, which were both subject to revision to take account of political needs and government considerations. Now, the comprehensive business plan had teeth, as there were consequences attached to its implementation, and by the end of 2003 results - revenues, EBITDA, net income, cash flows, total debt, production targets, etc - exceeded business plan targets (see Table 3). Results were followed up every month and made public every three months. While the plan mattered, the values underlying it were even more important, as the plan had an important symbolic dimension. Now managers had a point of reference to which they had contributed, and the business plan itself underlined the importance of values such as planning, efficiency, and effectiveness.

## Discussion

Although the project to change PPC is clearly context-specific - how could a change management project be otherwise? - it does have wider significance, insofar as it invites researchers and practitioners alike to reflect on how and why transformations of state-political firms succeed or fail. This section analyses the conceptual significance of these changes.

Table 3 shows that the results of the change begun in 2000 have already been impressive. The previous section noted the four key interlocking elements of the change programme that had enabled PPC's top management team to move ahead successfully (see Figure 2): the external triggers (IPOs and market liberalization); the partial opening up of the company to the executive labour market and the strictly meritocratic evaluation and selection of managers at all ranks; the 5-year business plan as a mechanism to impose economic discipline; and a coherent top management team (CEO and Chairman) who could tackle both the technical and political complexities of the change programme. Having briefly described the mechanisms of change and how they worked, it is important to explain *why* they worked. What can managers of state-political firms learn from the change process at PPC?

Closed systems such as the PPC are more than just closed: they are *self-referential*. The main feature of self-referential systems is that, lacking direct contact with the outside world, their own

**Table 3. Change at PPC: Results (2001-2003) (€ in millions)**

	2000	2001	2002	2003
Revenues	2868	3091	3421	3897
EBITDA	693	869	1028	1138
Profit before taxes and depreciation	66	399	593	720
Cash flow (after capital expenditure)	(119)	368	863	786
Debt	5125	4840	4231	3940

- Operating cost reduction (2001–2003): 19%
- Procurement cost reduction (2001–2003): 13%
- Investments (2001-2003): € 2713m
- PPC share price increase (February 2002 – April 2004): 61.8% (compared with an 34.9% increase in the Athens Stock Exchange General Index, and 21.2 % in the D J Euro Stock Utility Index).

historically constituted identity dominates how they interpret and act on their environments. Although for writers on such matters all social systems tend to be self-referential,<sup>24</sup> it is important to realise that some systems are systematically more so than others.

In environments which are primarily technical, firms need to compete for customers and resources, and this inevitably makes them (at least to some extent) market-oriented. The identity of the organization, although important in many respects - since it is through the interpretive filters of that identity that the organization makes sense of its environment - is inevitably shaped by the competitive environment the firm takes part in. Markets are information generating and disseminating institutions<sup>25</sup> - it is hard to operate in a market without information about its players' performance being generated and taken into account.

By contrast, in environments which are primarily institutional, where conformity to dominant institutionalised beliefs ensures organizational legitimacy and survival, the identity of the organization is shaped less by outside economic forces than by its own historically acquired momentum. Key interpretations are likely to reflect the organization's own definitions (which, in turn, reflect the institutional environment's symbolic beliefs) than to have been influenced by interactions with the outside business world.<sup>26</sup> Institutional environments such as Greece, where the state has had a leading role in economic development and nation-building, highlight the 'social', rather than the narrowly 'business', role of state-political firms, forming an integral part of a paternalistic discourse of 'national interest', with virtually no reference to 'competition', 'markets', and 'competitive advantage'<sup>27</sup>. State-political firms, operating in primarily institutional environments, are more likely than conventional firms to become self-referential systems.

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*State-political firms operating in primarily institutional environments... become self-referential systems.*

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The main task of a change agent seeking to initiate change in a self-referential system is to open it up and make it possible for the system to receive behaviour-shaping information from its environment. The status quo needs to be de-stabilised, or the system cannot be forced out of its equilibrium.<sup>28</sup> Such opening up can take place in the following three ways:

- (a) through generating behaviour-shaping information *externally*, such as
  - (i) through floating a company in the stock market;
  - (ii) through changing the regulatory framework to enable competition; and
  - (iii) via customer feedback;
- (b) through generating behaviour-shaping information *internally*, with auditing, benchmarking or internal surveys; and
- (c) through replacing key individuals in the organisation with others from outside.

In the case of PPC all three mechanisms were simultaneously used, although (a) turned out to be more important and enabled (b) and (c) to be used subsequently. The reason is that a mechanism for opening up a closed system will be more likely to be effective the more it is seen to be impersonal - that its use is mandated by the environment, rather than opted for by the change agent. Just like resistance is unlikely to be credible if mobilised against the 'brutal facts' of the market (to operate in a market one has no option but to accept the signals it sends out), so externally mandated change (such as the deregulation required by the EU) acquires a quasi-natural and 'inevitable' character that few will be able to plausibly resist. PPC has had no option but to accept the liberalization of the energy market mandated by EU: since the trigger of change was far removed from both national politics and from the change agent's intentions, it was seen as an

undeniable quasi-‘brutal fact’. For PPC (and other Greek utilities), EU membership acted as a catalyst of change, authorizing and legitimising changes that would have encountered fierce resistance had they originated at home.

Opening up a chronically self-referential system has important *discursive* implications for a social system.<sup>29</sup> Although the mechanisms for opening it up may appear to be technical, they nonetheless have an important *discursive potential* – their underlying values create a symbolic space that can lead to further changes. For example, drawing on Barrett et al,<sup>30</sup> Tsoukas and Chia have noted that the introduction of a TQM system in a section of the American Navy constituted not only a set of technical changes but, more crucially, a new discursive template – a set of new interpretive codes that enabled a new way of talking and acting. Through upholding the values of ‘empowerment’, ‘participation’, and ‘continuous improvement’, the new discursive TQM template enabled certain junior officers to reinterpret their experiences and legitimate their practices. Previously unsolicited suggestions had tended to be viewed as nuisance, whereas now they gained legitimacy. And perhaps the most crucial consequence, the introduction of TQM enabled junior officers to reflexively *extend* the application of ‘continuous improvement’, to include not just suggestions for improving processes, but senior management’s attitude to suggestions from below. The discursive potential of the TQM change project meant that what started as a process of ordinary organizational improvement was extended to hitherto unthought-of areas of organizational life, such as the role of management.<sup>31</sup>

The key word here is ‘extend’. When a change process starts unfolding, its potential may extend to other issues beyond those the change agents had originally intended or pursued. A change program has two dimensions: a *technical* one and a *discursive* one. The technical dimension is about systems and procedures that allow the organization to remove weaknesses, solve problems and manage itself more effectively – the problem-solving aspect of a change programme. A change programme, however, is never merely technical: whatever it specifically tries to do, it aims to change aspects of human behaviour which are built on certain values. Indeed, as Goodman and Dean remark, it is when such values have become generally accepted that a change programme can be said to have become fully ‘institutionalised’.<sup>32</sup> The discursive dimension concerns the values that a change programme brings to focus and makes part of the organizational discourse. The discursive potential of a change programme is what gives it momentum, and enables change agents to make novel associations and extend change to other directions.

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### *accepting the technical notions of the IPOs and market liberalization legitimated business values and disrupted self-referentiality*

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The EU-mandated energy market liberalization and the floating of PPC in the stock market may have appeared at first as ‘technical’ solutions to the problems of making energy generation more efficient and allowing PPC to raise capital for future investments, but they were endowed with a huge discursive potential. The IPOs and market liberalization were part of a new discourse – defined by Johnson et al as a new ‘institutional template’ – centred on ‘markets’, ‘efficiency’, ‘competitive advantage’, ‘transparency’, and ‘accountability’. Having initially to accept the notions of ‘stock market’ and ‘market liberalization’ meant that, sooner or later, the company had also to accept these notions’ underlying business values – it legitimated these business values within the company *and* disrupted its self-referentiality, making PPC look to the outside business world (i.e. stock markets and competitors). Once those business values became legitimated in a company that, historically, has had little understanding or appreciation for them, it was a matter of time and intelligent management before the same values could be *extended* to other parts of organizational life, such as the creation of a proper business plan and the adoption of professional HR practices (e.g. the renewal of executive talent by outside recruiting and merit-alone evaluation of managers at all ranks).

The making and implementation of the business plan has turned out to be important for the self-discipline it has entailed. For the first time, PPC had to have *business* targets (as opposed to merely operational ones), make projections of business results, and take the consequences of its actions seriously into account. The business plan was important in strengthening management control over organizational operations,<sup>33</sup> but it also symbolically reinforced the feeling that PPC was in the process of becoming a ‘conventional firm’, thus further reinforcing the business values underlying the change programme. Recruiting from outside had similar effects: recruiting its CEO and two of its General Directors from the executive labour market helped the company gain a business profile and, at the same time, reinforced the value that promotion would henceforth be earned rather than given through seniority or party-political or trade-union connections. The extensive assessment of managers at lower levels further reinforced this process.

None of the above would have succeeded had the company not had a coherent top management team endowed with high political capital. The CEO was a capable man with considerable industrial experience and his selection following a competitive process gave him high ‘symbolic capital’. The Chairman of the Board had had a long experience in public sector reform and was politically well connected with the government – thus his own symbolic and political capitals were high, allowing him to resist the usual pressures for the exercise of patronage by politicians, and handled the PASOK-controlled trade unions effectively.<sup>34</sup>

Their skills were complementary: the CEO’s industrial background enabled him to get on top of the technical complexities of an organization as complex as PPC, while the Chairman’s reputation, as an effective reformer of public sector organizations and a committed modernizer supported by the Prime Minister, earned him the respect of the trade unions and the media. Their ability to get on well with each other, and their joint belief in the need for the PPC to change, made them a very effective top management team.

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*This recursivity [means] the organization is both the focus of change and a medium for effecting broader institutional and cultural change*

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## Conclusions

We have argued here that for the management of change to be effective, it needs to be highly sensitive to context. This means that in certain institutional contexts (or business systems), organizational change should not be seen as the unleashing of previously inactive market forces upon organizations that are allegedly identical to one another, but as the unfolding of situated processes within organizations which are constituted by the wider institutional context within which they historically operate. In historically state-dominated business systems, state-political firms such as PPC require third-order change, since what needs to change is not just the governing values of the organization, but the broader institutional environment and its associated values. This recursivity – the organization is both the focus of change *and* a medium for effecting broader institutional and cultural change - is what makes change in state-political firms so difficult to manage.

Focusing on PPC, the Greek state-owned electricity utility, we have argued here that successful change must overcome the self-referentiality that is typical of state-political firms. This can be achieved if top management can mobilise the following mechanisms: an external trigger for change, finding ways to turn the organization into an open system, a mechanism to impose economic discipline and a coherent management team with complementary skills to handle the technical, political, and symbolic complexities of the change process. If these mechanisms are aligned and used consistently, they will help generate a new discursive template, which will give further momentum to the change process.

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*If change mechanisms are aligned and used consistently, the new discursive template will give further momentum to the change process.*

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