



EMCC case studies

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Introduction

Iberdrola S.A. is a Spanish-based company with headquarters in Bilbao. It is one of the world's leading private energy utilities and its core business is related to the generation, transmission, distribution and sales of electricity. The company's home markets are naturally situated in Spain, where it is the second largest supplier, and in Scotland, where it has recently acquired Scottish Power.

Contrary to most other European energy giants, the company has had great success with expanding its business outside Europe. Today, Iberdrola has extensive activities in Latin America, where it has an installed capacity of 4,500 MW and supplies around eight million customers with electricity. Further, Iberdrola has moved into North America, which the company considers a highly strategic market due to its growth potential and tax system favouring renewable energy. Currently, the company has a project portfolio of almost 5,000 MW in the US and it is in the process of acquiring the New York-based company Energy East, a takeover expected to be finally realised by mid-2008.

In total, Iberdrola has an installed capacity of 30,384 MW and a client base amounting to 18.5 million customers concentrated mainly in Spain, Latin America and Scotland. The Iberdrola Group also markets other services, such as the distribution of natural gas and water, engineering and consultation in the field of energy and real estate. The group is present in four continents and currently operates in 40 countries.

From 2001 to 2006, Iberdrola fulfilled its strategy and doubled in size while simultaneously raising the bottom line by 95%. In 2006, net profits increased by 20.1%, and its performance won much recognition worldwide. Chairman Ignacio Galán has been selected the best CEO in the European utilities industry for the last three years by *Institutional Investor magazine* (Iberdrola, 2006; Newenergy.info, 2007; InternationalReports.net: Spain, 2007).

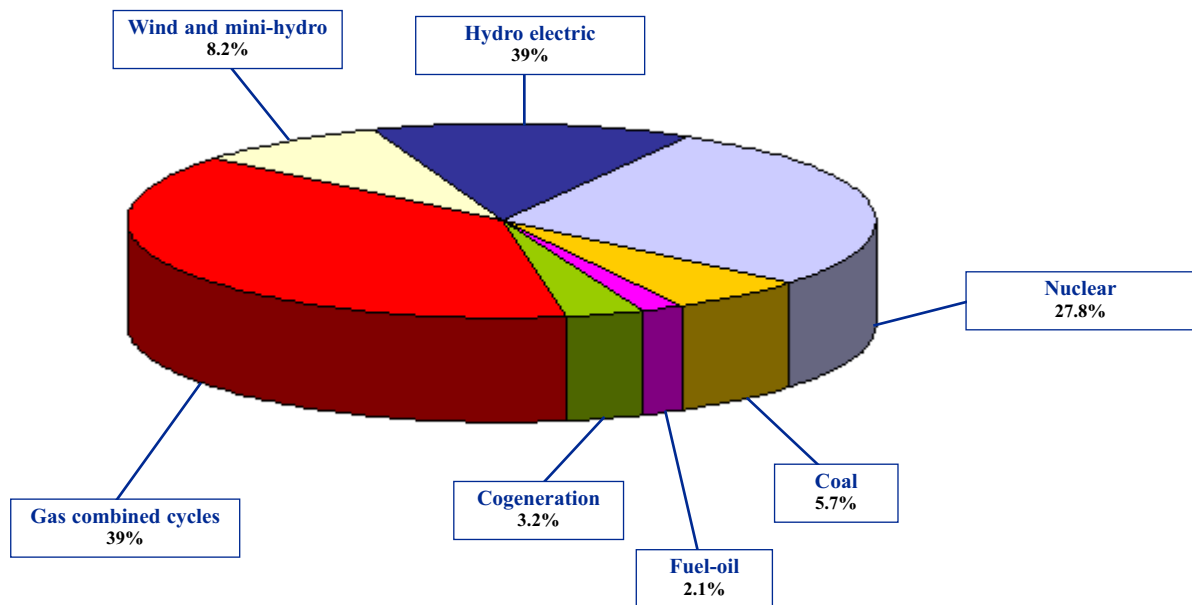
A world leader in renewables and sustainable development

Even though Iberdrola is one of the most efficient energy companies in Europe, the company has also been recognised as a long-term profitable company with a high degree of involvement within the community where it operates. Iberdrola's historical, social and economic policies have favoured the adoption of sustainable development as a core company value.

Iberdrola was the first Spanish electricity company to make renewable energy a strategic priority, and today, it is the largest renewable energy operator in the world with an installed capacity from renewables reaching 3,914 MW, of which 3,598 MW alone come from wind power. Iberdrola has recently announced plans to construct over 10,000 MW of renewable energy worldwide by the end of 2011.

Figure 1 shows the share of the different energy sources in Iberdrola's total electricity production.

Figure 1:



The company is in many ways focused on contributing environmentally, economically and socially to the surrounding community; hence it has been highly engaged in the positive and impressive economic and cultural development of Bilbao and the Basque Country, the home region of the company. Among others, Iberdrola has supported the building and management of the world famous Guggenheim Museum in Bilbao and was one of the founding members of a successful and innovative Basque cluster initiative within the energy sector.

The combination of high economic performance and a focus on sustainable development has made Iberdrola an attractive company for both employees and investors. For the second time in a row, the company has been selected as one of the world's 100 Most Sustainable Corporations in the 'Global100'; moreover, it is the first Spanish electricity company included in the Dow Jones sustainability index (Iberdrola, 2006; altenergyinvestor.advfn.com, 2007; Global100.org, 2007; UK.finance.yahoo.com, 2007; Sovereign-publications.com, 2007).

Methodology

This company case study on Iberdrola is based on information from the company and miscellaneous news and business services. The company itself has contributed to the case study by letting two employees participate in two interviews. These interviews were mainly focused on:

- strategy, location decisions and Iberdrola's participation in the Basque Cluster Initiative;
- working conditions and HR initiatives.

The first set of subjects was discussed with Javier Allende, assistant director of Negocio Commercial, while working conditions and HR were the focus at the interview with Maria Sol Busto Garcia, who is in charge of education and training programmes.

Iberdrola's homepage, <http://www.iberdrola.es>, contains a vast amount of information on the company's strategies, background, values and initiatives and is another major source of information.

History

The origin of Iberdrola is linked with the first hydroelectric power projects in the Iberian Peninsula. The company was founded in 1901 under the name Hidroeléctrica Iberica, which obtained the licence to exploit the rivers of the main Spanish industrial areas, which at that time were located in the northern regions of the country. This laid the groundwork for Iberdrola's current clean and flexible mix of electricity generation, 72% of which is greenhouse-gas free.

However, until recently, Iberdrola's CO₂-neutral energy sources mainly consisted of nuclear power and hydroelectric dams. Iberdrola's hydroelectric power production quickly developed during the first half of the 20th century when processes of industrialisation and urbanisation rapidly increased the demand for electricity.

Due to the steady increase in demand and the threat of the oil crisis, nuclear power developed as one of the main electricity sources in Spain during the 1970s and 1980s. Also, Iberdrola became a major operator of nuclear utilities.

The 1990s marked a decisive period in the company's history. In 1991, the integration of Hidroeléctrica Española and Iberduero, another Spanish electricity company based in the northern regions, was agreed and on 1 November 1992, Iberdrola was set up on the basis of the merger. The decade was also the beginning of the liberalisation of the energy markets in Europe and in many other countries worldwide. Iberdrola exploited these possibilities to prepare for more competition within its own home market and entered new markets in Latin America and the US (Iberdrola.es, 2007; Newenergy.info, 2007; InternationalReports.net: Spain, 2007).

Turning green

At the beginning of the new millennium, Iberdrola's power output was still mainly produced by six nuclear power plants, seven coal- and oil-burning stations, 10 gas-powered plants and 22 hydroelectric dams.

The move towards renewables took a big leap when Iberdrola decided to part with its partner, EHN, a renewable energy company also based in the north of Spain. Iberdrola obtained the sole responsibility for all of EHN's wind farms, a total of 1,173 MW. At the same time, Iberdrola became a shareholder of the Spanish wind system manufacturer, Gamesa.

In the following years, Iberdrola quickly became a world leader in renewable energy due to its rapid expansion within the wind energy sector. In 2005, Iberdrola acquired 49.9% of the Rokas Group, the largest wind energy producer in Greece, and signed a five-year cooperation agreement with the Moroccan government for the development of wind farms. Moreover, several wind farms in Spain, Portugal and Italy were acquired and developed. In 2006, Iberdrola and Gamesa closed the biggest deal ever in the history of the wind power sector, worth over €2,300 million.

Focusing on wind power was not purely the result of environmental concerns. The continuing drought in the Iberian Peninsula and the shutdown of six nuclear reactors for technical reasons dramatically decreased Iberdrola's power output from nuclear and hydroelectric sources. Also, the high prices of fossil fuels affected the balance sheets of Iberdrola and northern Spain; hence, economic incentives were also at stake when Iberdrola decided to go for renewables.

Today, renewables are one of main growth drivers of the company and the profit from renewables alone grew by an impressive 60% in 2005, reaching €279 million.

Iberdrola has brought knowledge and experiences from its nuclear power production into the management of its wind farms, especially in the area of centralised electronic monitoring. In Toledo, which is south of Spain's capital, Madrid, Iberdrola constructed one of the world's biggest and most modern control centres, consolidating nearly one million items of data from its 4,000 wind turbines all over Spain. The centre monitors the temperature of the gear oil and the nacelle

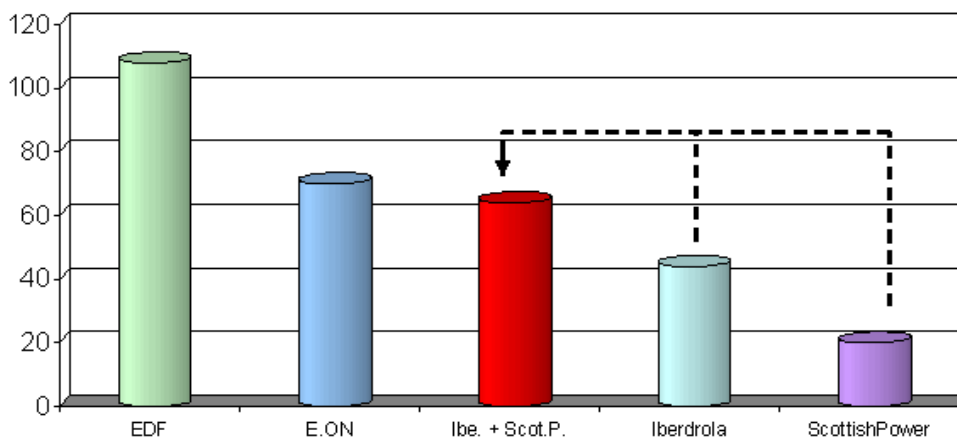
vibration in each turbine and ensures savings of field personnel while optimising forecasts for deliverable wind-generated power (Iberdrola.es, 2007; Newenergy.info, 2007).

Birth of a new European energy giant

In five years, Iberdrola had doubled its market value and reached €24 billion in 2006. However, that was not the end of its revenues, since more was in store for the company. On 27 November 2006, Iberdrola reached a merger agreement with the Scottish-based energy company ScottishPower for €17.2 billion. With the acquisition of ScottishPower, the joint companies became the third largest energy group in Europe based on company value.

Figure 2 compares the value of Iberdrola and ScottishPower with Europe's two biggest utilities, EDF and E.ON.

Figure 2: *Iberdrola and ScottishPower enterprise value (in billion euros)*



Source: *Iberdrola, 2006*

In 2006, Iberdrola also entered the US wind energy market with the acquisition of Community Energy, Inc., thereby consolidating its position as the world's leading wind power operator, reaching 4,000 MW from renewable energy.

Iberdrola is now in the process of taking over the New York-based energy company Energy East. In November 2007, 93% of Energy East's shareholders voted in favour of Iberdrola's takeover bid. Energy East supplies electricity to some 1,825,000 customers and has a generation capacity of 555 MW. It also distributes gas to almost one million customers. The acquisition will cost Iberdrola a total of €3.4 billion and is expected to be concluded by mid-2008.

Company values and strategy

Iberdrola's overall vision is 'to be the consumer's company of choice, as a product of our commitment to create value, improve people's quality of life, and safeguard the environment' (Iberdrola.es 2007).

The vision is founded on five values that clearly reflect Iberdrola's wish to be engaged in the community and in sustainable development, while at same time communicating that economic results are the bottom line.

- **Ethics and corporate responsibility:** Iberdrola is committed to the best practices in corporate governance, business ethics and transparency in all its activities.
- **Financial results:** Iberdrola's commitment to meeting profit and growth objectives established in its strategic plans is a pillar of its business model.

- **Respect for the environment:** Iberdrola's commitment to clean energy is one of the mainstays of its model for the 21st century.
- **Confidence:** Iberdrola's goal is to generate a climate of confidence around all its activities through permanent dialogue.
- **Sense of belonging:** At Iberdrola, no effort is spared to create strong and permanent ties with its interest groups, forging a sense of ties with an outstanding company to the extent that they identify with its goals (Iberdrola.es, 2007).

Corporate responsibilities

To achieve the objectives of meeting shareholders' demands for economic performance and of committing to the sustainable development of both the environment and society, Iberdrola has adopted corporate ethics based on the following 10 principles.

1. Comply with the law.
2. Adopt advanced corporate governance practices.
3. Respect all human rights.
4. Develop a favorable framework of labour relations.
5. Develop responsible practices in the value chain.
6. Strengthen a culture of respect for the natural environment.
7. Favour transparency and free market regulations.
8. Promote socially responsible actions.
9. Drive the means of communication and dialogue.
10. Provide relevant and accurate information about our activities (Iberdrola.es, 2007).

Strategy

The overall strategy of Iberdrola focuses on increasing its size and economic growth while at the same time improving efficiency by focusing on the core business of producing and delivering energy. Consolidating and integrating the huge acquisitions of ScottishPower and Energy East is also among the strategic priorities for the coming years.

The new strategy for 2007 to 2009 contains a strong focus on sustainable development and renewable energy. The company plans to invest US\$4.2 billion over the next three years in renewable energy and foresees that renewables will be the company's principal driver of growth under the 2007–2009 Strategic Plan. To ensure its leading position, a brand new R&D centre for renewables is in the planning stage. The aim will be to attract leading scientists and engineers within the worldwide sector of renewables.

The aim of the strategy is to achieve more than 7,000 MW in renewable energy-generating capacity in 2009 – an increase of 84% from the amount in 2005. Among all renewables, 1,450 MW will be located outside Spain, i.e. 21% of the total (Iberdrola, 2006b).

In September 2007, Iberdrola was singled out by the Carbon Disclosure Project (CDP) as the world's utility with the best strategy for combating climate change. Iberdrola won the prize for its commitment to sustainable development and environmentalism, for its assessments of risks and opportunities presented by climate change and for the quality of its measures to curb greenhouse gas emissions (Iberdrola, 2007).

A close connection: Iberdrola and the Basque Country

In spite of the considerable growth and internationalisation Iberdrola has experienced during the last decade, it has maintained its close connection to its community of origin – the Basque Country.

Iberdrola traditionally has had good relations with the Basque government and has been highly committed in contributing to the economic and social development of the region. Even though it would have been a natural step to move its headquarters to Madrid as the company grew to be a national and international supplier, Iberdrola has chosen to keep the group's corporate headquarters in Bilbao, the biggest city in the Basque Country.

In 2007, Iberdrola began the construction of its new headquarters in central Bilbao, the 165-metre high-rise Iberdrola Tower, which solidifies Iberdrola's status as one of the most important flagship companies of the Basque industry and proves its wish to remain in the Basque Country.

Iberdrola also supported the construction of the famous Guggenheim Museum Bilbao and continues to be one of the museum's main sponsors. The museum has played an important role in renewing the image of the formerly rundown industrial city of Bilbao, thereby attracting tourists, international companies and investors. Acquiring the economically distressed Basque wind turbine manufacturer, Gamesa, further consolidated the company's connection with the Basque Country; in fact, this move was positively received by many Basques.

Formation of Cluster de Energia – the Basque energy cluster

In the 1990, the Basque Country was struck by a deep economic crisis when globalisation made the traditionally heavy Basque industry uncompetitive. As a reaction to this, the Basque government launched a series of ambitious industrial policies and initiatives to revitalise Basque industry. One of the initiatives was the formation of an energy cluster aimed at improving the cooperation, innovation and competitiveness of the all-important Basque energy sector.

Iberdrola was one of the founding members of the cluster organisation and continues to be one of the leading driving forces in the development of the cluster. A representative from Iberdrola expresses that the motivation of Iberdrola for joining the cluster project was based on its wish to contribute to the development of the Basque economy, something from which it would also benefit:

'We saw a clear regional development potential in the cluster initiative, which could promote the economic growth and jobs so urgently needed in the 1990s. Regional growth would also positively influence our net sales. Our philosophy was, if our suppliers and customers are well off, there is a good chance that we would be well off, too. The cluster could also strengthen our cooperation with our suppliers and customers, the majority of which are in Bilbao'.

The cluster's ambition is to make the Basque Country a world-leading centre of excellence in the energy sector, in particular within the area of renewable energy and related technologies. Today, the cluster consists of around 80 members, and there seems to be wide agreement that the cluster has contributed considerably in making the Basque energy industry much more cooperative, innovative and competitive (European Foundation, 2007).

Figure 3 gives an overview of the importance and size of the Basque energy cluster in relation to the Basque economy.

Figure 3: *Basque energy cluster/Cluster de Energia*



Source: *Cluster de Energia, 2007*

Employment and working conditions

The Iberdrola Group employs around 16,000 people worldwide. It enjoys great popularity as a workplace, especially in Bilbao, where Iberdrola is seen as one of the leading companies of the Basque industry and is known for its engagement in local development. Iberdrola has a comprehensive programme for introducing and training new employees, since there are good career possibilities locally and internationally; moreover, in Iberdrola Spain, the mobility of employees is only around 1% a year. At a time of high economic growth and many job possibilities, this points towards employees being relatively satisfied with Iberdrola's working conditions.

However, like most other companies in the energy sector, Iberdrola also faces some serious challenges in obtaining skilled young workers. Actually, Iberdrola has no problems attracting the candidates completing technical education courses; in Bilbao, most of the relevant candidates end up working for Iberdrola. The main problem is that too few young people choose to enroll in technical education courses in the first place; thus, in cooperation with the University of Bilbao, Iberdrola has created a new course, Master in Energy Engineering, but very few students have registered so far.

Gender and equality issues: A family-friendly employer

In order to get sufficiently skilled workers, especially younger ones, Iberdrola has developed a series of policies and ambitious initiatives. One of the focus areas of Iberdrola's employment policies is to attract more women. Female workers today account for 14% of Iberdrola's total workforce and the number is increasing by around 40% each year. In 2006, almost 50% of the degree-holding managers and employees who joined the company were women; in fact, women now represent 23% of the company's executives.

It can, however, be difficult to attract young women, especially in Spain, where there are few childcare possibilities. In order to make it possible for women (and men) to combine family and work, Iberdrola has launched a scheme consisting of the following possibilities:

- Paid maternity leave 15 days prior to the planned due date. This has been taken by 66 women since 2003.
- Maternity leave after giving birth as stated by law, but with full salary. This is taken by most women.
- Flexible and voluntary reduction of the working day down to five hours per day until the child is one year old, without any reduction to the fixed salary. This has been taken by 117 women and five men.
- Voluntary reduction of working hours for Iberdrola employees with any child under the age of 10 (instead of the age of six, as stated by law) or any child with a physical, mental or sensory handicap, with a proportional decrease in pay which shall in no case exceed half the salary. To date, 64 women and one man have benefited from this possibility.
- Expansion of the job position reservation for extended maternity leave from one to three years.

Although it is still mostly women who choose to take advantage of the scheme, most of the possibilities within in it are also targeted towards men. Iberdrola emphasises gender equality; moreover, in order to ensure that its contribution to society is sustainable over time, the company is aware of the importance of facilitating balance between work and family life by implementing policies of flexibility, assistance and various support measures for maternity for both men and women.

In May 2006, Iberdrola received the 'Family Responsible Employer Certificate' awarded by Fundación + Familia and supported by the Spanish Ministry of Labour and Social Affairs. The certificate acknowledged Iberdrola's support for gender equality and their progressive incorporation of women in positions of responsibility.

This new management standard for companies and public administrations was developed by the Spanish family-oriented foundation Fundación + Familia in 2005. Iberdrola was the first electricity company to obtain the certificate. Certification is based on an external audit that analyses the processes and results of the family-responsible policies and measures developed at the company. In particular, Iberdrola obtained an excellent assessment in its support policies for maternity, reconciling the maternity process and childcare with developing a successful professional career (Iberdrola, 2006c).

Meeting the challenge of increasing skills needs: The Iberdrola Campus

Another part of Iberdrola's activities in the field of securing sufficient employees with the right skills is education and training. The company encourages employees to enrol in upgrading and training courses and in 2006, 84% of the company's employees attended some kind of training or educational activity.

One of Iberdrola's strategic goals is to increase the average hours of educational attention that employees receive each year by 30%. To fulfil this goal, Iberdrola has decided to invest €50 million in the construction of an educational and recreational campus just outside Madrid. The design of the Iberdrola Campus and its activities is assessed by a committee of professors and leading scientific experts from universities throughout Spain. The campus will have a total extension of 150,000 m², of which 32,000 m² will be indoor facilities consisting of lecture rooms, a technical workshop room and other related training and professional development facilities. It is meant to serve Iberdrola's employees from all over the world, and special attention will be put into language teaching, which has its own department (Madridiario.es, 2007).

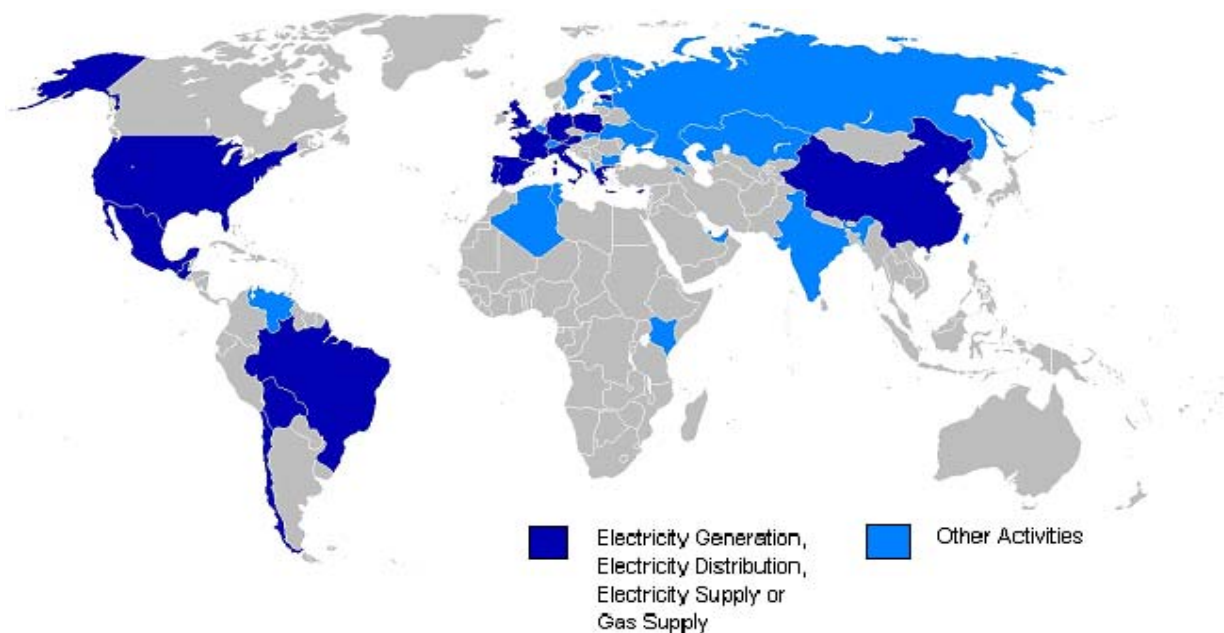
The aim of the campus project is to extend and improve the strategic and technical training of employees as well as to enhance their general knowledge of the company, all with the goal of making them more productive and satisfied. The activities and educational programmes contained in the campus will be within the following themes.

- **Corporate and strategic training** linking all employees closer to Iberdrola's strategy and values.
- **Executive training:** Training of Iberdrola's executives by external experts within strategic areas.
- **Pre-executive training:** Training of employees identified as being potential executives.
- **General technical training.**
- **Specialised technical training** especially dedicated to training needs within R&D projects.
- **Selection and training of newly graduated candidates**, introducing them to the culture, methodologies and working procedures in Iberdrola.
- **Juridical, financial and administrative training** for managers and administrative personnel.
- **Training in safety and prevention of occupational accidents.**
- **Language training.**
- **Programmes in connection with displacement of employees.**

Location decisions

The Iberdrola Group is engaged in activities in more than 40 countries worldwide, but core activities of producing and distributing electricity and gas are limited to 15 countries. Core markets containing the majority of Iberdrola's customers, production capacity, turnover and employees are Spain, the UK, the US, Mexico and Brazil. The map in Figure 4 shows in which countries Iberdrola currently operates.

Figure 4: *Iberdrola activities worldwide*



Source: *Iberdrola, 2006*

When looking for new expansion possibilities within the core business of producing and delivering energy, Iberdrola goes for liberalised markets or markets with strong tendencies towards liberalisation. Further, the countries have to be politically stable so that the regulatory regime concerning energy does not change dramatically.

Core markets as well as strategic markets for expansion consist of the EU, Latin America and the US. Within the EU, the UK market is particularly attractive to Iberdrola, since it is the most liberalised, has a clear regulatory regime and has few entry barriers for foreign energy companies. This is also why they chose to buy ScottishPower. According to Iberdrola, the German, French and Italian energy markets are closed and seem hostile to allowing the entry of foreign utilities. They currently have some activities in these countries, but only to a limited extent. The US market is attractive since it is relatively liberalised and has a taxation system favouring renewable energy sources. Further, it is a big and expanding market.

Outsourcing

Contrary to most other European energy companies, Iberdrola has been outsourcing many of its activities. It is a clear strategy of Iberdrola to outsource administrative functions as much as possible. As an example, all customer services have been outsourced. This is done in order to focus on the core business of producing and distributing energy. When outsourcing, the vast majority of contracts go to local companies or companies present in the locality.

In this way, management in Iberdrola has gone from being merely a question of managing resources to managing contracts. Due to the change in management and in the basic functions of the company as well as general rationalisations in connection with the liberalisation process, Iberdrola has also had to gradually change the profile of employees. Some have been changed with upgrading and training and some by an advantageous retirement scheme, which gives employees the possibility of retiring at 58 years of age while keeping their full pension, and also by securing decent conditions for senior employees who are not capable or interested in working for Iberdrola under the changed circumstances.

Summary

Iberdrola has successfully made the move from being a traditional nuclear-based local power supplier to a modern international company exploiting the new possibilities of liberalised markets and increased environmental concerns. The company has proven that commitment to sustainable development, both environmental and social, and continued engagement in local community can be combined with good economic results and international expansion. Their local commitment, reflected in the retention of their headquarters in the Basque Country and participation in a local cluster initiative, has contributed significantly to the positive economic and cultural development of the northern Spanish region.

The company is aware of the great challenge of getting the right employees with the right skills, which increasingly affects the European energy sector. The company has put serious efforts into meeting this challenge by a strong focus on gender equality, thereby attracting more women, and by huge investments in a new educational and recreational campus aimed at upgrading and training employees, as well as other initiatives.

Still, Iberdrola will have to focus even harder on attracting more young employees and more students to technical education courses, for example, by improving the image of the energy sector. A focus area not yet addressed by Iberdrola could be attracting and integrating more employees with immigrant backgrounds as well as skilled foreign workers. They have now started discussing the image problem within the forum of the Basque energy cluster, but action is needed very soon.

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