



## SALZBURG, AUSTRIA

# Restructuring and transformation at Salzburg AG

### Background/context

Salzburger Lokalbahn (SLB), the public transport entity of Salzburg AG has approximately 600 employees and a yearly revenue of €45 million. It provides public transport services in Salzburg with a metro line, trolleybuses, a funicular and a lift on the Mönchsberg. Moreover, SLB won a tender for train services in Germany and bought (with Wolfgangseeschiffahrt and Schafbergbahn) from Austrian Federal Railways two more touristic-oriented transport entities in 2006. It sold its diesel bus activities three years ago for a 49 percent share in the new diesel bus company.

SLB's rolling stock consists of 18 trains, 81 trolleybuses, several cargo and steam locomotives and two funicular cabin drivers.

From 2001 to 2007, SLB went through a successful restructuring process involving its institutional, financial and organisational structures. Staff was reduced, there were improvements to customer service and quality management and new transport services were acquired. The main reasons for this transformation were budgetary constraints on the part of the municipality, an organisational structure that was inadequate for impending competition and a lack of flexibility and productivity among the staff.

### Case description

The main objectives of the restructuring and transformation process were:

- to increase the quality level of service;
- to be more competitive in the free public transport market of the European Union;
- to cover more costs with revenues;
- to better utilise company resources; and
- to increase the overall efficiency of the company.

#### FIRST PHASE (2001-2004)

The main approach in the first phase was restructuring for the sake of improving organisational efficiency.

A new internal structure was established. Trolleybuses and the Mönchsberaufzug were transferred from the bus division to the railway division, while the diesel buses remained in the bus division. The main reason for this was that the trolleybus is covered by the railway law in Austria and needed to be separated from diesel bus activities, which are under more competitive pressure.

All processes were re-engineered and cost-saving opportunities were identified. A strategy was elaborated and a new cost-accounting structure was adopted.

#### SECOND PHASE (2005)

The main tasks of the second phase were the privatisation of the diesel bus activities and taking a 49 percent share in a newly formed diesel bus company (the first time in Austria), refocusing on trolleybus services (because diesel bus services must be paid for externally) and introducing a new labour agreement for drivers with a lower starting income and smaller increasing steps as well as a higher productivity framework.

#### THIRD PHASE (2006 TO PRESENT)

The third phase has involved five main activities:

- acquisition of new companies and services in public transport in order to improve the economic situation;
- coordination of costs, revenues and quality management;
- introduction of performance indicators for management;
- certification on quality and safety for railway transport; and
- development of marketing activities.

The initiative for this long-lasting transformation was taken by top management and the supervisory board. The main internal partners, including middle management, employees and the union, and were involved at an early stage.

#### Legislation and policy issues

The subsidy policy of the municipality has not been changed. The company's supervisory board, along with the municipality and county representatives, supports the process.

#### Cost and financing

Major investments were made in a new organisational structure, process redesign, a system of performance indicators and a new quality and safety management system, which includes external consultancy.

Besides this investment into new companies and activities, funds were spent on new rolling stock, dynamic customer information systems and separate lanes in order to improve quality of service. For expanding the railway cargo business a new locomotive will be purchased soon.

#### Results

Efficiency has been increased and operating costs were lowered. Revenues were increased from the market and hence a better cost-covering ratio has been achieved. Subsidies are used more efficiently and there is better cost control. Staff has been reduced and made more productive. Strategic goals and performance measurements have been established and quality management and customer service have improved. The company acquired an improved ISO certification (9001).

#### Problems

The main difficulties have been:

- the strict framework of different overlaying labour laws and rules;
- a relative lack of support from central services from Salzburg AG in terms of financial and quality management;
- the involvement of middle management in change processes;
- resistance to change among some employees and members of management (e.g. after three years, SLB still had to outsource diesel bus drivers while a strike settlement pended at the court); and
- internal and external communications about the change process.

#### Transferability and success factors

The approach is transferable to other cities to some extent, providing they are using the same careful, long-term approach toward transformation. One of the reasons that Salzburg AG's transformation has succeeded is that it has been a step-by-step process based on clear goals and a strategic vision.

#### Lessons learnt

Patience and a step-by-step implementation are key to a successful transformation. A clear strategic vision and pragmatic approaches and decisions are needed from the top management. Transferring of parts of the organisation not only creates obstacles and problems, but changes the minds and mentality of employees and management.

#### References and contacts

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