

Working paper for 2nd. expert meeting in Zagreb/Croatia Restructuring of public transport organizations

This working paper for our 2nd WG meeting aims at giving you a briefing on the subject of organizational restructuring and change management. It will also give you some rough ideas on the possible scope and priority issues. In this respect it supplements the questionnaire you have received and may help to find the right answers.

Public transport in most European countries is going through a phase of rapid and intensive change¹. In general there is a much stronger

- § focus on cost reduction due to the fact that there is an unwillingness from the part of the government and municipal authorities to cover the increased subsidies that are required,
- § emphasis on improved passenger service and satisfaction as transport companies have come to realize that the customer is the key to their existence

The market has opened for competition in a number of countries and a tendering procedure for the award of the contracts has been established where previously a monopoly situation existed.

Furthermore, more and more countries have turned to privatization as way to increase efficiency and reduce their financial burden which also implies that legal and institutional changes are occurring.

While the reasons for engaging in any public transport reform are many and varied, the reform process is difficult, it affects all stakeholders (transport authority, municipality, passengers, employees) and some times decisions are being made which are unpopular and their effectiveness is questionable.

The broad forces that are generating momentum for reform in the transport sector are the following:

1. External forces of competition and in many cases the deregulation of the market
2. The financial and operational benefits from private sector participation in correlation with scarce financial resources of the public households
3. The Europe-wide operators in the public transport sector.

¹ Incentive Agreements in Public Bus Transport, UITP, September 1998

Sometimes most of the stakeholders have a natural aversion to change or reform. Change is hard; it is much easier to maintain the status quo. Reform however is important to improvement.

Typically, the concept of organizational change is in regard to organization-wide change, as opposed to smaller changes such as adding a new person, modifying a program, etc. Examples of organization-wide change might include a change in mission, restructuring operations, new technologies, mergers, major collaborations, "rightsizing", new programs such as Total Quality Management, re-engineering, etc. Some experts refer to organizational transformation. Often this term designates a fundamental and radical reorientation in the way the organization operates².

Change should not be done for the sake of change -- it's a strategy to accomplish some overall goal. Usually organizational change is provoked by some major outside driving force, e.g., substantial cuts in funding, address major new markets/clients, need for dramatic increases in productivity/services, etc. Typically, organizations must undertake organization-wide change to evolve to a different level in their life cycle, e.g., going from a highly reactive organization to more proactive and planned development. Transition to a new chief executive can provoke organization-wide change when his or her new and unique personality pervades the entire organization.

As mentioned previously there are strong resistances to change. People are afraid of the unknown. Many people think things are already just fine and don't understand the need for change. Many doubt there are effective means to accomplish major organizational change. Often there are conflicting goals in the organization, e.g., to increase resources to accomplish the change yet concurrently cut costs to remain viable. Organization-wide change often goes against the very values held dear by members in the organization, that is, the change may go against how members believe things should be done. That's why much of organizational-change literature discusses needed changes in the culture of the organization, including changes in members' values and beliefs and in the way they enact these values and beliefs.

Successful change must involve top management, including the board and chief executive. Usually there's a champion who initially instigates the change by being visionary, persuasive and consistent. A change agent role is usually responsible to translate the vision to a realistic plan and carry out the

² <http://www.managementhelp.org/mgmnt/orgchnge.htm>

plan. Change is usually best carried out as a team-wide effort. Communications about the change should be frequent and with all organization members. To sustain change, the structures of the organization itself should be modified, including strategic plans, policies and procedures.

This change in the structures of the organization typically involves an unfreezing, change and re-freezing process.

The best approaches to address resistances are through increased and sustained communications and education. For example, meetings should be held with all managers and staff to explain reasons for the change, how it generally will be carried out and where others can go for additional information. A plan should be developed and communicated. Plans do change. That's fine, but communicate that the plan has changed and why. Forums should be held for organization members to express their ideas for the plan. They should be able to express their concerns and frustrations as well.

Transport organization reform should only be undertaken after a full and complete assessment of the objectives that public officials or management is trying to achieve. Institutional reform or even private sector involvement is not an end to itself but only a means to achieve specific and well established objectives. The objectives underlying Public Transport (PT) may be varied as the need to expand or to modernize the vehicle fleet, the need to reduce government expenditures, to achieve a better level of customer service.

PT reformer process should begin with a clear definition of the objectives that the reforms are intended to achieve. The next step is to delineate all of the key institutional design and reform decisions needed to move the process to a successful result. Next, for each decision point along an ordered set of decisions, options and alternatives should be developed and assessed. In particular, all of the possible outcomes from the selection of any specific option need to be explicitly evaluated with respect to the stated objectives of reform.³

With respect to private sector involvement a broad array of options exist for the specific form of public/private partnership that should take place. In addition a key issue to be addressed is what degree of competition should be designed into the PT market. Furthermore, in this case two key issues that emerge are:

³ Adapted from "Port Reform Toolkit", World Bank, 2003

- Ø What powers and authorities should be retained by a public oversight body after reform; and
- Ø How should that body be constituted and what level of government should it operate?

The PT sector is indeed going through rapid changes. In a report sponsored by the Transportation Research Board⁴ six forces and challenges to the status quo system are mentioned and which prompt the need for change in PT companies

1. The quality of life and the economic vitality of the urban areas is increasingly threatened by sprawling development, rising congestion, the increasing cost of public services whose performance is often declining, and the increasing reluctance to commit funds to address these problems under traditional programs.
2. Socioeconomic trends tend to diminish the relevance of traditional public transportation services. These trends include single-parent working households, two-earner households, flexible work schedules, and widely dispersed service-sector employment opportunities.
3. The “enabling environment” in surface transportation is replete with fragmented responsibilities, as well as regulatory constraints, conflicting policies and goals, and restrictive “stove-piped” funding mechanisms that often limit the ability of organizations to adapt quickly and frustrate efforts to enhance responsiveness to shifting travel markets and changing conditions.
4. The organizational culture and dynamics of local public transportation organizations historically have posed a barrier to change and are reinforced by long-standing policies, programs, and regulatory frameworks, as well as deep-seated, change-resistant perspectives and attitudes on the part of many industry managers and many in the labor force.
5. The quality of the customer experience has not fully emerged as a dominant focus in the delivery of local public transportation services as it has in many other service and commercial enterprises. Performance measurement is dominated by operational, output-based measures.

⁴ **Emerging New Paradigms, A Guide to Fundamental Change in Local Public Transportation Organizations, TCRP Report 97, Transportation Research Board, 2003**

6. Local public transportation organizations historically have been slow in the deployment of state-of-the-art information and other emerging technologies that have become commonplace and, in fact, are increasingly expected by customers in most other markets and industries.

To one degree or another, every local public transportation organization is confronting pressures for change stemming from these forces and factors.

From these experiences, a number of consistent themes and principles have emerged that provide a framework for fundamental change in local public transportation organizations. These themes and principles include

- (Re)establishment of the quality of the customer’s experience as a central and strategic focus for the organization;
- Separation of strategic responsibilities focused on the quality of the customer’s experience from responsibility and accountability for the actual production of goods and services;
- Systems of performance measurement that bring into balance the quality of the customer’s experience (the emerging strategic goal) and the efficiency with which resources are used (the production goal);
- Reliance on expanded partnerships and alliances with both public and private partners and providers (for-profit and not-for-profit) to ensure responsiveness to shifting customer needs and cost effectiveness in meeting them; and
- Introduction of state-of-the-art information technologies that can link the organization to both its partners and its individual customers in real time.

There is a school of thought suggesting that a paradigm shift only occurs in response to a crisis in the performance of an organization or in response to outside demands. There is evidence, however, that paradigm shifts also can be fostered by design, through the right combination of leadership, insight, approach, and resources. In either case, successful organizations manage and direct change through a continuous process involving the tasks, steps, and activities highlighted below. No matter how large a change is contemplated, a systematic approach is needed to guide, manage, and sustain fundamental change⁵. Four phases of change are typical in any organization regardless whether it is

⁵ New Paradigms for Local Public Transport Organizations, TCRP Report 58, TRB, 2000

experiencing minor or major changes in the surrounding environment or whether its approach is proactive or reactive.

These four phases include:

- Phase I: Recognizing the Need for Change
- Phase II: Leading and Planning Change
- Phase III: Making Change Happen
- Phase IV: Institutionalizing New Approaches

These activities allow the organization to embed the proactive elements of the change process in the organization, take advantage of strategic opportunities, and establish an environment of trust.

A special note should be made of the fact that the process of PT labor reform often requires the elimination of provisions from existing labor regulations that unduly constrain flexibility and productivity. Overstaffing, in particular, has been a pervasive feature of PT systems in new member states. To achieve more cost-efficient operations will usually require reductions in the workforce. To achieve this result in a socially acceptable way should be a prominent concern of the authorities. One way to achieve this is to ensure that social protection programs exist to make this adjustment as smooth as possible and not to provoke undue labor unrest.

In addition it is necessary that PT labor should be involved in the PT reform process from its earliest conceptual phase. Experience in other fields indicates that the best way to built confidence in the reform process by all affected parties is to broaden the sphere of participation and responsibility to include all stakeholders.