

Background Paper

**WORKING GROUP
CORPORATE MANAGEMENT
STRATEGIC CORPORATE MANAGEMENT**

**4th Working Group Meeting,
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General introduction

Every manager in PT organisations seems to recognise how important strategy is to the company and to each of the business units. Yet there is considerable debate on just what a strategy is and how to create it. Talking about a strategy for PT companies the specific circumstances of this business have to be considered, usually narrowing the room for strategic scenarios, like

- legislation, EU and national/regional
- political set of tariffs and influence on network and services provided
- dependency on public financing
- in general: lack of money and cost pressure.

This topic views strategy within the framework given typically as a process that spurs major change so that a PT organisation can achieve better or even outstanding results. Strategy is about understanding what you do, looking out over the long-term future to determine what you want to become, and - most importantly - focusing on how you plan to get there. Strategy requires creative thinking and an ability to identify alternative future states, and strong communication skills to inspire and engage those who will implement the strategy. It requires managers to collect and analyse information that they can turn into action.

The main objective of this WG-meeting is to find out how the various organisations undertake the strategic planning process and then in more detail how strategy is implemented within an organisation.

Why is a strategy important?

It's not enough for a PT organisation to develop a number of successful services. A sound strategy, skill-fully carried out, fosters significant structural shifts in the way the company does business that distinguish it from other transport competitors. By providing a guidepost for a company's evolution, strategy provides the necessary information and direction for all managers to define their work, and help their organisation remain competitive.

How is strategy developed and who is involved?

Broadly speaking, strategy is achieved through two fundamental processes: planning and implementation. Most European PT companies involve both their senior management and business units in the strategic planning processes. Units are involved because they have a tremendous knowledge about their organisation and can make recommendations about what the company should be doing and where it should be going.

The first step in formulating a business strategy is defining a strategic target, often supplemented by a vision and/or mission statement. In order to make this strategic target operative the second step is analysing four key aspects of the environment of an organisation. Remember the exercise we did in the first WG-meeting with the acronym SWOT:

- “*Strengths*” – abilities you can leverage
- “*Weaknesses*” – what is getting in your way?
- “*Opportunities*” – like trends, events and ideas that will help you to advance
- “*Threats*” – these maybe outside your control, but you must respond to them

Strengths and weaknesses describe the status quo situation, opportunities and threats include prognosis for future development of circumstances. The main purpose of SWOT-analysis is a clear (without taboos) and transparent description of status quo and the expected future. Of course the status quo description as an origin of the strategic plan needs to be precise and sound. Otherwise the following steps within the process will lead to wrong deductions, which can result in a failure of the strategic plan. In practice it proves of value to analyse the current situation of the PT company detailed and in depth via benchmarking approaches for cost and performance, technical aspects and revenues, organisation and processes. Naturally the specific circumstances of the individual PT company have to be considered by harmonisation of the external benchmarks.

Furthermore, when units have been involved in the planning process, they are more likely to support and implement the plans that are created.

After this exercise the objective is to arrive at a consensus about the company’s top strengths and after that determine weaknesses. Include the SWOT findings in a report for top management and others involved in creating a new (or revised) strategic plan.

Organisations that fail to include units in the strategic planning process typically receive results inferior to those that do.

The elements of a Strategic Plan

It’s helpful to understand the elements of a strategic plan. While strategic plans in public transport vary quite a lot, they generally contain the following components:

- Direction statement
- Strategic objectives
- Priority issues
- Action plans for implementation and controlling purposes

Direction statement

This acts as a guide for a PT organisation's actions and thinking and usually provides the following information and is usually drafted at corporate level:

- **Mission:** the organisation's purpose
- **Vision:** the organisation's deeply desired future
- **Strategic target:** concrete target to ensure that visions can be realised
- **Business definition:** existing and envisioned services, products, technology, rolling stock, markets, customers
- **Competitive advantages:** customer needs that the organisation plans to meet better than competitors do (*note: PT companies face two types of customers: politicians/public financiers and customers using the services provided*)
- **Core competencies:** the tangible and intangible assets as well as soft facts like know-how and staff (HR) the company will leverage to gain competitive advantage
- **Values/drivers:** the driving beliefs that define a company's culture and that support the organisation's future competitive advantage

A practical example of a mission and value statement:

TMB/Barcelona

"TMB aims

- to offer a public transport service that contributes to improving citizen mobility and the development of the metropolitan area
- to guarantee offering customers a better service
- to develop social responsibility policies within a framework of viability and economic feasibility."

"**TMB's vision** consists in being a leading transport and citizen mobility company in Europe:

- owing to its contribution to improving mobility within the metropolitan area and urban and environmental sustainability
- owing to the technical quality it offers and the level of quality perceived by citizens
- owing to the efficiency of its processes and its resource optimisation"

TMB's VALUES:

The values guiding TMB's conduct, as an entity, and its employees, as people, are as follows:

1. Customer loyalty
2. Competitiveness and economic efficiency
3. Commitment to ethical values

4. Team work
5. Respectful and trustworthy relationships
6. Equal opportunities
7. Stable work environment
8. Dynamic organisation
9. Open and realistic company dialogue
10. Technical innovation
11. Resource optimisation
12. Solidarity
13. Cultural Diversity and accessibility
14. Quality an respect for the environment

The definition of a strategic target is an intermediate step usually substantiating the vision in order to have a concrete and to some extent measurable global objective. This means to underlay the vision with some facts, like a PT company in Germany did:

"The company expands its market position as number 1 player in the region, where it provided services so far. In the greater area the company will gain additional annual revenues of 60 Mio. € with mobility services, which will improve overall economic situation."

STRATEGIC OBJECTIVES

Strategic objectives allow a company to measure how it is performing in key result areas—those areas where the company must achieve good results to achieve its long-term strategy.

Key result areas often come directly from a company's direction statement. Areas for which a company might set strategic objectives are market position, cost coverage ratio, customer loyalty, quality, service, innovation and human resources. Management must decide how it will measure success or progress in the key result areas and then set objectives for those measures. For example if customer loyalty is a key result area, it might be measured by a customer satisfaction index. The objective could be formulated as "raise the customer satisfaction index from 89 to 96 in the next 3 years".

PRIORITY ISSUES

Priority issues are a company's primary instruments for action. These are the key issues that come up during the strategic planning process – for example – a weakness to be addressed or an opportunity to be seized.

Common priority issues are new markets, costs, services, new technologies, geographic expansion, possible restructuring, IT systems, training & development etc.

The successful implementation of a strategy hinges on turning priority issues into high-level action plans and delegating them to units or cross-functional project teams. Examples:

- A marketing unit might be asked to develop actions to determine how to acquire more customers in a certain part of the city.

- An interdisciplinary team of technical and economic experts will develop a new generation of more customer-oriented and - at the same time - life-cycle-cost optimised vehicles.
- Business development shall think about additional services, acquisitions or ways to increase benefits from non-core business.

ACTION PLANS

Units and or teams develop high-level action plans that detail the objectives, tasks, and requirements needed to carry out the strategic initiative. Each priority issue typically generates two or more action plans. For example, if customer retention is a priority issue, it may lead to two action plans for improving customer service and developing a customer loyalty program. If for example cost is a priority, it may lead to four different action plans like a plan for overhead cost, one for operating cost, another for maintenance costs and a fourth for reinvestment planning interlinked to the maintenance.

A high-level action plan for a strategic initiative should include:

- A description of the priority issue and its importance
- Objectives expressed in specific metrics and time frames
- Key steps involved in achieving the priority issue
- Resources required
- Involvement of other units or teams
- Anticipated cost and gain

GENERAL REMARK

One of the main questions to be answered in this 4th WG-meeting is

“How are PT companies handling their Strategic Planning Process and how are they ensuring an effective implementation of their strategy. What kind of management methods are used and what are the results?”

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