

EFFECTING ORGANISATIONAL CHANGE: THE METROBUS EXPERIENCE

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INTRODUCTION

1. This paper provides an overview of how organisational change has been affected at MetroBus in response to the newly created competitive environment. It provides the "operator" perspective of the public transport reforms being implemented in Perth and should be read in conjunction with a companion paper on the policy and planning aspects of the Perth reforms (Middleton 1995).
2. It is not the role of this paper to compare the Public Transport Reform Plan WA-style (Transperth and Department of Transport 1993) with that of the other reforming Australian States but reference is made to obvious differences where appropriate. Eventually, a study of the outcomes of the different approaches to public transport reform would be instructive.

BACKGROUND

3. When considering the reforms to public transport being implemented in Perth, it is interesting to note that there is a reasonable chance of history repeating itself. Up until 1958, Perth had as many as eight private enterprise bus companies operating a fleet of 565 buses providing, without much competition to each other, all bus services to a population of 382,000 people. At their request and in the face of the increasing unprofitability prevailing among operators, the WA Government took control and formed the Metropolitan (Perth) Passenger Transport Trust (MTT), with the senior management largely made up of the most successful of the private companies — Metro Buses Pty Ltd.
4. In the following years, as Perth grew, so did the MTT. Responsibility also extended to include the ferry service on the Swan River and some responsibility for the urban rail services provided by Westrail. In 1986, the name Transperth was adopted for the urban passenger transport network consisting of the bus, rail and ferry networks. By 1993, the population of Perth had grown to 1.3 million and the subsidy for urban transport to \$200 million.

5. March 1993, saw the election for the first time in 10 years of a Liberal/National Party Government which had indicated in opposition and in election policy a desire to improve the State's financial management and reduce the cost of Government. The dominant practice to achieve this outcome was Competitive Tendering and Contracting which is defined as:

The process of "...bringing the discipline of competition to the delivery of public sector services. Services are selected, specified and put out to tender: comparisons are drawn between bids for the work from current in-house providers, the private sector, and in some cases other public sector agencies, and a contract signed with the successful tenderer. Over time and under these arrangements public services will be provided at competitive prices by the most efficient and effective suppliers." (Office of the Premier 1993)

6. Competitive Tendering and Contracting is not new and was already employed in some areas. What was different was the renewed emphasis supported by the reforming zeal of some of the key ministers from both of the coalition partners.
7. What follows is the MetroBus experience after almost two years of travel down the path of the new system.

THE CHALLENGE

8. The original savings target set in September 1993 was to reduce the public transport deficit (based on the adjusted 1992/93 budget figure of \$221.8 million) by \$41.2 million (almost 20 per cent). Table 1 shows that the reduction was to be achieved by expenditure savings of \$26.5 million and additional fare revenue of \$14.7 million. The bus operation was to provide \$20.3 million (77 per cent) of the cost savings.

TABLE 1 ORIGINAL SAVINGS TARGET (SEPTEMBER 1993)

	1993-94 (S million)	1994-95 (S million)	1995-96 (S million)
MetroBus services	1.5	6.5	20.3
Fastrak Train services	0.5	2.0	6.2
Net Expenditure Savings	2.0	8.5	26.5
Fare Revenue Increases	4.7	9.7	14.7
Total Reduction in Public Transport Deficit	6.7	18.2	41.2

9. In May 1994 (Minister for Transport 1994), Cabinet increased the total target to \$46.8 million (Table 2). The bus operation element of the savings was

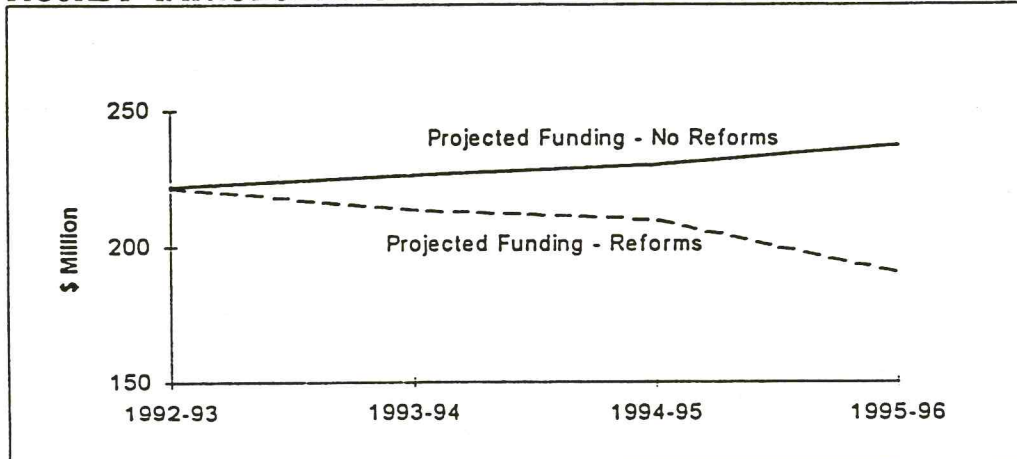
increased by over 45 per cent to \$29.5 million. For the first time, the costs associated with the coordination of public transport were taken into account.

TABLE 2 REVISED SAVINGS TARGET (MAY 1994)

	1993-94 (\$ million)	1994-95 (\$ million)	1995-96 (\$ million)
MetroBus services	3.0	17.0	29.5
Fastrak Train services	0.5	2.0	6.2
Less Public Transport Coordinator	<u>1.5</u>	<u>-3.6</u>	<u>-3.6</u>
Net Expenditure Savings	2.0	15.4	32.1
Fare Revenue Increases	<u>4.7</u>	<u>9.7</u>	<u>14.7</u>
Total Reduction in Public Transport Deficit	6.7	25.1	46.8

Figure 1 illustrates the growth in the public transport deficit if the reform package had not been introduced.

FIGURE 1 IMPACT OF REFORM PLAN ON THE PUBLIC TRANSPORT DEFICIT



10. There were two other elements to the MetroBus challenge — the achievement of world's best practice and to be a successful bidder in the competitive tendering process. Best practice and benchmarking studies of public transport have increased in frequency in Australia during the last three years. As the competitive tendering process gathers momentum the willingness of operators to participate has declined, the commercial-in-confidence nature of the data has increased, and (arguably) the accuracy of the data has become less robust. Frankly, the total cost picture is not so important as organisations will benchmark themselves via the tendering process.

RESULTS TO DATE

11. As at June 1995, almost two years into the process, MetroBus has reduced its subsidy by \$21 million and is well on target to achieve the total savings package of \$29.5 million. The organisation did not win the tender for ferry services and in February 1995 four staff were transferred to the new private enterprise operator which included these former employees as shareholders in the new company.
12. Very competitive bids were submitted for two tenders each of about 10 buses at almost opposite ends of the network. A further competitive bid has been submitted for an approximate 40 bus contract in the Eastern area of Perth. At the time of writing, the results of these three bus tenders are unknown.
13. What now follows is a summary of the lessons learned to date as we seek to make MetroBus more efficient. For obvious reasons, commercial-in-confidence data is excluded from the information.

SUMMARY OF LESSONS LEARNED TO DATE

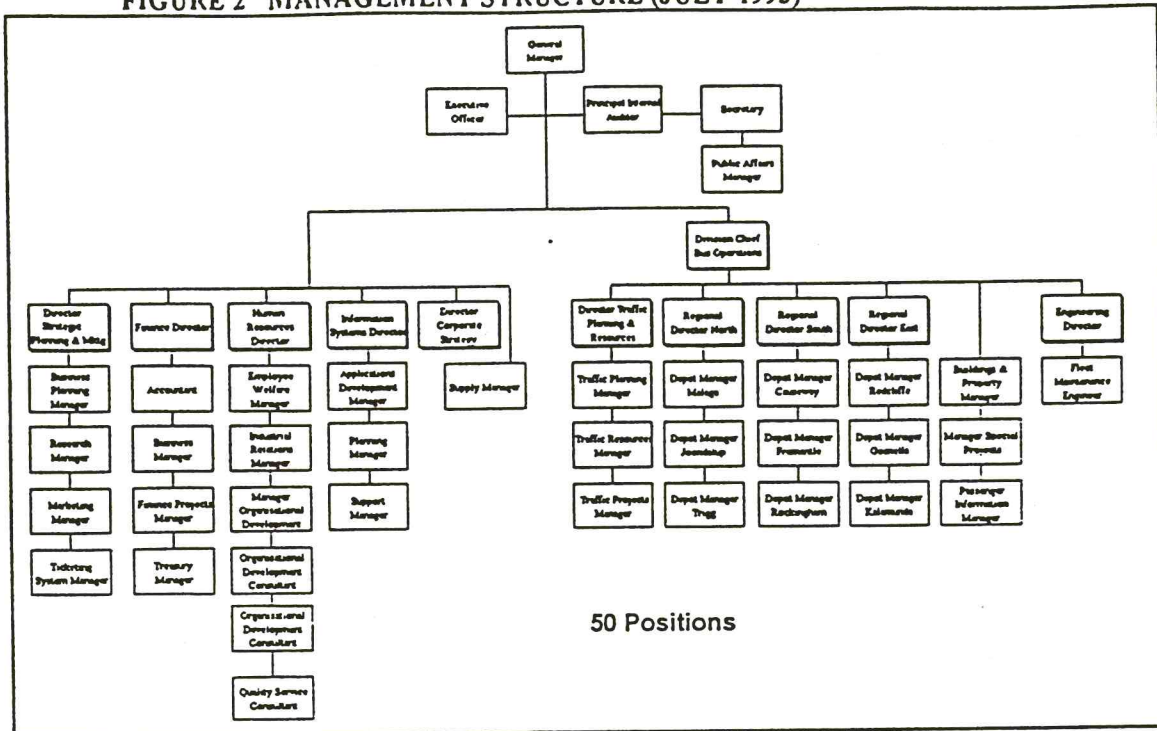
The Organisation Structure

14. Managing the change is obviously a dominant factor in the success or failure of the organisation. A new Chief Executive Officer was introduced to the organisation in February/March 1994. With the benefit of hindsight, but obviously not practicable in this case, the timing of the appointment would have been better had it been done sooner rather than 12 months into the process. External observers have noted the advantage of selecting an outside candidate. Just how "outside" is an interesting point — outside the organisation, outside the metropolitan area or State, or outside the industry?
15. At July 1993, the organisation had 2,230 staff in the following employment areas:-

Managers, Supervisors, Clerical	403
Engineering	276
Drivers	<u>1,551</u>
TOTAL	2,230

The accompanying management structure for the organisation at that time is shown at Figure 2.

FIGURE 2 MANAGEMENT STRUCTURE (JULY 1993)



16. The earlier benchmarking studies suggested that a competitive organisation the size of MetroBus might have about 218 staff in the management, supervisory and clerical areas. (Approximately 25 staff were transferred to the Department of Transport to undertake planning, co-ordination and supervision of the tendering process). The benchmarking studies suggested also that the Engineering Staff needed to be reduced by about 30%. Driver efficiencies would be achieved mostly by new industrial practices, especially employment of part-time staff.

17. An outside Consultant was employed to work with the then senior management and speedily deliver a report on potential organisation structures. The following options were evaluated:-

Option 1: Commercially Focused Central Model

Option 2: Operating Units Model

Option 3: Commercial Bus Operating Units Model ("Operating Regions")

Option 4: Business Units Model

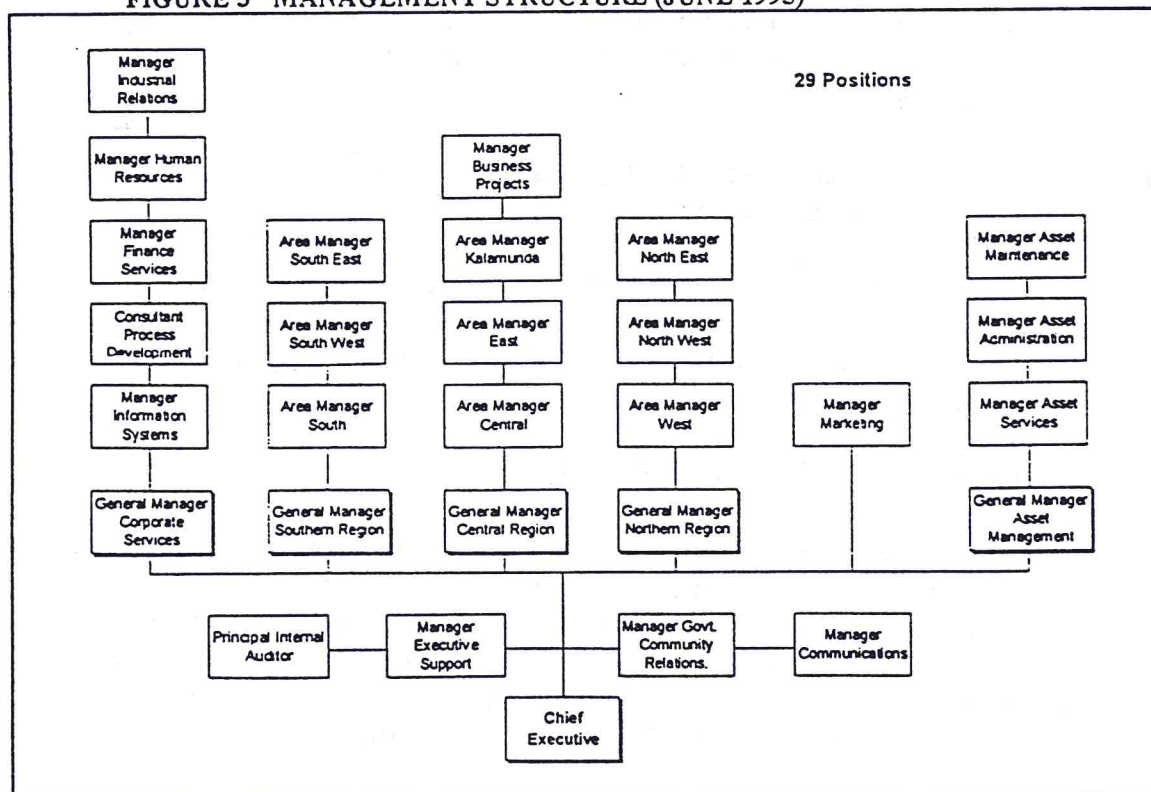
The four options were considered as different points along a continuum with Option 1 being closest to the way Transperth was operating and Option 4 as the most radical development of the organisation (Transperth 1994).

18. The regional option (Option 3) was chosen as being the one that the organisation could accept that provided the most acceptable level of change,

but it was noted that it would probably not go far enough in making the organisation competitive in the long run, that is, in 12 - 24 months a revision was expected.

19. The regional structure seeks to give the organisation a customer focus and put decision making as close as possible to the "sharp end" of the organisation. Authority is delegated. To reinforce the point the former "Head Office", besides being much reduced in staff numbers, is now known as the "Corporate Office".
20. In June 1995, less than 12 months after the first restructure, further changes were made when one of the three Corporate Office branches was removed. Staff numbers at senior levels were further reduced and a number of corporate functions were regionalised. In some cases, regional staff were given additional corporate-wide functions.
21. The old 2,230 person organisation has been reduced to less than 1,800, with further staff reductions expected in the latter part of 1995. The current management structure is shown at Figure 3.

FIGURE 3 MANAGEMENT STRUCTURE (JUNE 1995)



Staffing the New Organisation

22. Before the arrival of the new CEO and the receipt of the Consultant's Report on the organisation structure (Transperth 1994), a self-funded standard WA Government voluntary redundancy scheme was introduced for the administrative and support services areas (including Engineering). A scheme was not made available for Drivers where a policy of no recruitment and natural attrition was expected to accommodate an annual 10 per cent reduction.
23. On the day that the Consultant's Report was delivered, all management, etc, positions in the organisation were declared spilled and a Selection Panel for the Senior Management Positions established. It consisted of the CEO, a Board (Trust) Member and a Consultant. Applications closed within 10 working days, interviews were conducted over the next few weeks and the outcome announced within six weeks of receipt of the Report. Four of the six Senior Positions went to existing senior management, one to a significantly promoted middle manager and the sixth position was in due course filled by an outside candidate.
24. The consequential filling of almost all of the remaining positions was achieved within five months of the receipt of the draft report. Most positions were filled internally but external appointments were made in the key positions of General Manager (one), Marketing Manager, Communications Manager, plus some accounting staff.
25. Surplus staff were allocated "redeployee" status and placed on Government and private enterprise outplacement schemes. While Government policy on voluntary redundancy remains one of self funding, no further voluntary redundancy package has been offered as the cost of funding the package adversely affects overheads in the short term (the competitive tendering period). (This is highlighted in more detail in the Outstanding Issues segment of the paper).

Infrastructure Issues - Common User Facilities

26. Common User Facilities have been defined as those elements of the public transport infrastructure, which can be expected to be used by two or more providers. In the Perth case, they include the Busport, Interchanges, Bus Lanes and the Electronic Ticketing Systems. They represent about 40% of the assets owned by the bus side of the network and in the Perth situation they have been transferred from the MetroBus to the Department of Transport.
27. This exercise should have been simple but it took more than 12 months to complete. Issues to be confronted included:-
 - * The composition of the Common User Facilities, for example, the inclusion or exclusion of buses and Workshops.

- * The extremities of the Common User Facilities, for example, is the Depot reader part of the Ticketing System?
 - * The debt and depreciation funding to be associated with the Common User Facilities, for example, how is an asset, part of which was gifted to the original owner, to be transferred?
 - * What valuation is to be given to the assets — market, book or some other value?
 - * What roles do Treasury and the Auditor General's Department play in the transaction?
 - * Does the new owner have the statutory authority, staff and skills to take on the responsibilities?
28. In the end (at Treasury's recommendation) the Common User Facilities were transferred at market value. In turn, the Accountants determined this to be the same as the book value (how do you value a Busport?!) and a similar proportion of the debt servicing was transferred with the assets.
29. There is a similar but less significant debate concerning the Passenger Information Service and servicing the Common User Facilities. At present they are provided as before by the Government operator but they too are to be subject to competitive tendering.

Infrastructure Issues - The Bus Fleet

30. Buses can be used as a barrier to entry for new competitors. In some isolated (Perth) locations the ability to assemble a reasonable sized bus fleet for a potential tender is difficult. After the recent general downturn in the Australian economy and especially the bus sector of the economy, there are few surplus vehicles of good standard. If privatisation of the network is not going to occur and contracts are to be re-tendered in five to seven years, then the Government must retain control of the fleet. There is a need to maintain fleet standards (for example, average fleet age) and there are economies of scale associated with fleet management. A fleet replacement and expansion program must be maintained.
31. These are all issues concerning the bus fleet in the competitive tendering and contracting environment.

32. In the end, the regime for Perth is divided into the five sectors described below:-

Control

The Government must retain control of the fleet both to encourage private enterprise tenders and prevent the establishment of monopoly fleets.

Ownership

This sector refers to the ownership of all existing, replacement and additional parts of the fleet controlled by the Government that makes up the network. It can be in several forms. A traditional sale and lease back is not expected to provide a significant cost reduction but would release funds for capital investment. A cross border lease may deliver savings spread over several years mostly depending on the size of new bus purchases.

Fleet Co-ordination

Appropriate co-ordination is required to ensure that sufficient fleet is available to meet the reasonable requirements of the network and Bus Operators, and that the Operators meet maintenance and safety requirements. It also includes the requirements of fleet insurance, replacement and financial matters such as an agreed standard lease arrangement with the Bus Operators.

Operation

This refers to the Bus Operators utilising the fleet in accordance with contract conditions to provide the services that makes up the network.

Maintenance

Encompasses the regular repairs and maintenance of the fleet in accordance with guidelines set down by the Fleet Co-ordinator.

33. In Perth, the responsibilities under the above regime are allocated as follows:-

Control — to be the responsibility of the Minister for Transport (the controller).

Ownership — the Fleet Co-ordinator is to investigate and report to the controller the most financially advantageous method of ownership for both the existing and any replacement bus fleet. This may lead to the seeking of Cabinet approval to call tenders for the sale and lease back of the fleet. The proposed investigation is to be jointly sponsored by MetroBus, Transport and Treasury. The CEO of MetroBus is to oversee the project. The aim is to provide the controller with the lowest cost option.

Fleet Co-ordinator — to be the responsibility of MetroBus. As a minimum requirement MetroBus is to operate the fleet management role as a separate centre reporting to the Minister. Transport will provide policy guidelines for implementation by the Fleet Co-ordinator. This proposal recognises MetroBus' management expertise in fleet management and the advantages of the economies of scale provided by one co-ordinator.

Operation — to be the responsibility of probably a range of Bus Operators as arranged by Transport utilising, for example, the competitive tendering and contracting process.

Maintenance — will be as arranged by the Bus Operators to their best financial advantage but subject to them meeting essential maintenance and safety requirements set by the Fleet Co-ordinator and resulting from Transport's policy guidelines.

Infrastructure Issues - Depots And Workshops

34. With few exceptions, Depots and Workshops, provided for Government Bus Operators have been of the highest standard, and they often won Architects and Engineers Awards. On the other hand, private operators (until long established) generally rely on low cost, modified buildings for any facilities that they decide are needed.
35. The questions is — as the network is subject to competitive tendering what is to be done with the Government operators Depots and Workshops? In the Perth situation, consistent with the desire to move the network into a lower cost structure, these Depots and Workshops, will not be made available to the private operators. This will allow any successful private tenderers to maintain their policy of having low cost structures. It will at the same time allow the Government operator to sell, for the Government's benefit, any surplus buildings arising from any unsuccessful tenders. Additionally, an Asset Management Plan will see a rationalisation of land and buildings — as many as one third of these assets being declared surplus.
36. In Perth, this has already occurred in a related area — a surplus ferry is in the process of being sold. Two facilities used for training, maintenance and revenue counting have been closed and the closure of the Central Workshop facility has been announced. Some Central Workshop functions will be completed at regional locations.

Industrial Relations Issues

37. There is not much in the competitive tendering process that is attractive to the Unions and the staff they represent. As staff seeking permanent employment see their livelihoods threatened and seek to make local change they may see their views in conflict with Union Officials following national agendas.

Conditions of employment gained over many years are suddenly put to scrutiny especially when met with the possible different conditions of employment set by the private operators. The desires of the members, the delegates, the local Union Officials and the National Union leadership are unlikely to be the same. In this process the lot of the local Union Official is an invidious one.

38. The analysis of tenders submitted by the Government and private operators will show minimal difference in overheads. All have the same (notional) charges for the Common User Facilities and the actual charges for fleet ownership. There may be difference in charges associated with Depots and Workshops. The larger operator will have economies of scale associated with some operating costs (examples, fuel and tyres) and so in the end tenders will be lost mostly on wages for which the largest group is associated with driving.
39. From the Government operators point of view, a basic requirement is clearly to get the Drivers' conditions of employment as close to those of the private operator. Additionally, new initiatives such as small Sub Depots of self managed work teams are encouraged as this further reduces traditional overheads.

EVALUATING THE TENDERS - THE LEVEL PLAYING FIELD

40. Who does the tender evaluation? This is a very, very live and contentious issue. It is best addressed by posing a number of unanswered questions.
 - * Governments generally have a Supply Commission or Board. Should they be responsible for the tenders or should the responsibility be transferred to a group with a transport background responsible for dividing the network into contract areas?
 - * If a transport related group is to be used then what specialist assistance are they to be given. To whom do they report and do they make recommendations or decisions?
 - * What roles, if any do central Government agencies such as Treasury, Industrial Relations and Premier and Cabinet play in the tender evaluation process?
 - * There are advantages and disadvantages to the existing operator of Government ownership. The Australian Federal Government's competition policy is eliminating most of the advantages but many contentious disadvantages still apply. Superannuation, for example, is more generous for Government employees. Is this to remain so, if so, why?

- * It seems appropriate that there should be some guidelines for the tender evaluation. Who should write them and should they be made public are further questions to be answered?
- * If there are problems answering the above then the question of whether the Government operator should be allowed to tender at all must look inviting?

THE PRIVATE ENTERPRISE BOARD - WHERE?

41. Governments tend to appoint Boards to be involved in the process. A very early question is whether the Board is placed with the Transport regulator (the South Australian Government approach) or the Government owned Transport operator (the West Australian approach — but also the historical approach).
42. The author argues for the WA Government approach for the following reasons:-
 - * It is appropriate that a commercial entity have a commercial Board.
 - * The competitive tendering process will take years (up to five?) to complete but significant budget savings will be required immediately. This is more likely to be achieved if the Government operator gets commercial advice early.
 - * Most importantly the budget savings are to come mostly from the Government operator and it is in the Governments interest to ensure it delivers.
43. Those who support the Board being placed with the regulator would claim recognition of the importance of political factors and customer focus.

MANAGEMENT STYLE AND IMAGE

44. Some of the lessons learned by MetroBus during the last eighteen months include:-
 - * Whatever you do even for the smallest things, do it differently — and if in doubt, do it. For example, the weekly Management Meeting held on Tuesday afternoon is now the sometimes weekly Executive Meeting held on Monday morning.
 - * Any in-house publications are renamed and restyled. An almost weekly News Flash is produced and concentrates on the tendering process. Senior management works in the Regions. Depots or Work Site visits are made on a regular basis.

- * A name change is part of the package — in the Perth case there was no choice as the former name, Transperth, became the network name. Consistent with the new "mean" approach, MetroBus achieved the change at the lowest possible cost — with the assistance of our two major fleet suppliers who sponsored much of the launch.
- * Making contact with key influencers of public opinion is important, eg, Federal, State and Local Politicians, and the media, to give emphasis to the change that has taken place at MetroBus.
- * The large organisations have traditionally been known for their slowness in decision making — and often preferred not to make a decision. Now decisions must be made and there are advantages in making them quickly. A prompt decision prevents on-going analysis of the options, confirms the image change and the need for urgency in the reform process.

THE PRIVATE ENTERPRISE APPROACH

45. Private enterprise might adopt or seek one of two approaches. Initially, buy it all (as cheaply as possible), asset strip, and make some marginal improvements. Secondly, utilise as many freely supplied assets as possible, buy key assets and those areas with the greatest potential. Both of these approaches were rejected in Western Australia.
46. Perth has experienced some dreamers who assumed no competition and, because they made a once in a life time visit, that they had a right to expect entry into the network.
47. Fortunately, Perth has also been visited by some established successful operators, who have spent much time and money trying to understand the requirements. Sadly not all will be successful.
48. Some variations on the theme include joint ventures with the Government operator and sub-contracting elements of the task (eg, maintenance) to the Government operator. In the meantime, the Government operator is making approaches to selected private operators.

ENTREPRENEURIAL INITIATIVES BY THE GOVERNMENT OPERATOR

49. If the Government-owned operator is to follow private enterprise guidelines it must be entrepreneurial. Avenues to be investigated include:-
 - (a) New specialist route services, eg, "Nightrider".

- (b) Venture with Local Councils and businesses, eg, subsidised City Shuttle Service.
- (c) Partnerships with high profile sporting organisations, eg, providing supporters with discounted transport to home games.
- (d) Joint Ventures with private enterprise Bus Operators to provide new style services.
- (e) Using existing resources to bring in new business.

LESSONS LEARNED

50. The lessons learned so far can be summarised as:

- (a) From the Government Bus Operators point of view:-
 - * Make decisions as quickly as possible — if in doubt, do it.
 - * If you can, do it differently.
 - * Maintaining staff morale is important. Talk up successes and create a belief within the organisation that it can be successful.
- (b) Overall point of view:-
 - * Whatever time you think it will take, add 50% — 100%.
 - * Be prepared for frustrations, remain alert to proposed policy changes.

ISSUES FOR WHICH WE STILL DO NOT HAVE THE ANSWERS

51. There remain a number of issues for which MetroBus does not yet have the answers.
- * Ticketing system (Who should control it, what about revenue sharing?)
 - * Gross versus Net contracts (Which is best, what incentives exist?)
 - * Surplus staff (What to do with them, who pays, what about transition costs?)
 - * New capital costs — eg, ticketing (What incentives are there to invest?)
 - * Staff to administer the new policy

CONCLUSIONS

52. The changes occurring in Perth represent the most significant reforms to public transport since the Government took over the private bus operators in 1958. For MetroBus, which has (as Transperth) been long recognised as one of the most efficient government-owned operators in Australia, the changes required have been substantial, with far-reaching impact upon the way the organisation operates, its' customer focus, and the working environment for its' staff.

A number of lessons have been learnt along the way and these have been referred to in the paper. The central conclusion is that implementing reforms to public transport, as is being done in Perth, is difficult and complicated for both the operators involved and the policy makers.

For MetroBus it has meant bringing about organisational change, restructuring, and keeping the bus system operating, while continuing to work with policy makers to ensure that the reforms proposed are workable. From the policy makers perspective, it is about continually developing and refining policies and plans which support and reinforce the reforms.

Fortunately, in Perth, there is sufficient goodwill between operator and policy maker to ensure that the problems, issues, and difficulties which arise are dealt with in an appropriate way for the overall good of public transport.

Meanwhile, MetroBus continues on a journey toward cost-competitiveness and exceptional customer service which, if successful, will see it operating at standards which are among the best of any public transport operator in Australia.

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