Institutional Reform in Transport

THE BRITISH RAIL

EXPERIENCE

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June 1989

DISCUSSION PAPER

The views and interpretations herein are those of the author and should not be attributed to the World Bank, to its affiliated organizations, or to any individual acting on their behalf.
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1. INTRODUCTION

This case study has been prepared in response to the World Bank document "Institutional Reform in Transport. Case Studies : Task Proposal". The Bank had concluded in its 1982 study "The Railways Problem" that the underlying malaise displayed by many railways lay in their institutional behavior, in particular their ability to continue to "do all the wrong things" despite the pressures of the market place. It was also acknowledged that some developed countries had taken initiatives to address this problem, and the Bank expressed interest in understanding the process and context of these institutional reforms. It also provided an analytical framework by which to give case writers a common approach to these issues. This paper attempts to follow the prescribed format as closely as possible, in the hope that this will help the Review Committee. It was presented to a railway roundtable sponsored by the World Bank and the Austrian Verkehrswissenschaftliche Gesellschaft in Vienna on 24th April, 1989.

The paper will demonstrate that since 1982 British Rail (B.R.) has successfully undergone a major institutional reform and that the fruits of this are evident in financial and operational results. It is not claimed that the process is complete as further work is still to be done. But undoubtedly a highly significant change has taken place in the character of B.R. as an institution. It now has clear objectives from Government. It is delivering to these.

This case study was presented at a Railway roundtable in Vienna, Austria, by Sir Robert Reid, C.B.E., F.C.I.T., Chairman, British Railways Board. It is based on the paper presented by Hugh Jenkins, Managing Director, Transmark, to the World Bank on 8th March 1988 using published and unpublished material within B.R.
It was required to reduce the level of Government support through public service obligation grant for the passenger railway by 25% in real terms between 1983 and 1986. It did so and better. It is now well into a second three year period where the objective is a further 25% reduction in the call on the public purse on the original base line. Confidence is high that this will also be achieved.

The Intercity, Freight and Parcels sectors have been set commercial objectives and in addition to their financial objectives, the passenger sectors have formal quality of service objectives written into the Corporate Plan. B.R. now has a clear business orientation. Investment decisions are based on business criteria and the five sectors are accountable for improvements to their bottom lines. Administration has been cut. The Divisional tier of management has been eliminated. Staff numbers continue to fall. There is a new recognition of the importance of the customer. Planning procedures have been overhauled to ensure commitment to objectives at all levels. Direct communication with staff has been established. Investment procedures have been thoroughly overhauled to include a full review of options, business sponsorship, and independent appraisal.

It has been suggested by many outside parties that B.R.'s experience is an appropriate analogue for railways around the world in need of institutional reform. There are transferable lessons, and institutional development should be central to many technical assistance programs.

2. HISTORY OF PERFORMANCE

The key institutional reforms took place in 1982 and 1983. 1982 can be regarded as the watershed year.

A very full account of the financial and statistical performance of the British Railways Board is given in the published Annual Reports and Accounts. Copies of these have been placed with the World Bank and detailed information can be derived from that source. Some of the data has been sampled in this section in order to comply with the format of the case study task proposal, but serious students of form are advised to refer to the very much greater range of information available in the Annual Reports and Accounts. In so far as the data are available, the summary below covers the period from 1978 until 1987/88. Up to and including 1983 B.R.B. reported on a calendar year basis. 1984/5 was a transitional 15 month period. From 1985/6 the British Railways Board reported on the basis of years ending 31 March. Specific results for individual passenger sectors did not emerge until 1984/5. A map of the B.R. railway system is included as Appendix 'A'.
The results for 1982 were influenced by railway strikes and those of 1984 by the miners' strike which had a big impact on bulk coal movement and receipts.

A factor in the decline in Group Turnover and to a lesser degree the group Balance Sheet was the privatisation of Hovercraft in 1981, British Transport Hotels and Sealink in 1983.
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3. INSTITUTIONAL HISTORY

THE ENTITY

LEGAL STATUS

British Rail is a public corporation. The British Railways Board is a public authority, appointed by the Secretary of State for Transport. The principal statutes applicable to the Board are the Transport Acts of 1962 and 1968, the Railways Act of 1974 and the Transport Acts of 1978, 1980, and 1981. The Acts confer appropriate powers on the Board to enable it to carry out its functions.

LEGAL CONTEXT

The primary duties of the Board derive from statute. They include the duty under the 1962 Act to provide railway passenger services in Great Britain, non-specific as to volume, quality or mix, except that the passenger services are to be comparable generally with those existing in 1974.

By a direction under the 1974 Act there is a Public Service Obligation (P.S.O.) for railway passenger services in respect of which the Board is compensated under EEC Regulation 1191/69. There is also a duty under the Transport Act of 1962 to break-even overall taking one year with another after making proper provision for the depreciation and renewal of assets.

POLITICAL CONTEXT

Compensation for the P.S.O. is paid by central Government. The Board also receives grant funds direct from the Passenger Transport Executives (P.T.E.'s) for major conurbations outside London. These relationships are contractual.

But the Board is also subject to a constraint on total external finances (this is grant plus borrowing). Investment plans are submitted as part of the Corporate Planning process. They represent the minimum level the Board considers necessary to achieve the plan forecasts. The External Finance Limit (E.F.L.) reflects the Government's overall desire to control public sector borrowing and reduce the public sector borrowing requirement (P.S.B.R.) in the economy as a whole. The Government can also set financial targets for individual sectors.

There is no statutory control of wages, nor of fares and charges, although the Department of Transport is kept informed of the Board's intentions and may give general guidance about what it would expect.

Although the British Railways Board discharges a statutory role within a framework of Government policies, it is a public
corporation and not a department of State. In the United Kingdom the concept of the public corporation has evolved from that first envisaged during the post-war nationalisation period. At that time it was widely believed as part of socialist doctrine (and enshrined in the famous Clause 4 of the Labour Party constitution) that the State should occupy "the commanding heights of the economy", and further that Public Corporations should act (in Herbert Morrison’s famous phrase) as "high custodians of the public interest". This very much suggested a "public utility" rather than a commercial approach.

At the present time in the UK the number of public corporations is in decline, through the privatisation programme. Those that remain have an "arms length" relationship with Government, are given substantial freedom of management action, and are expected to behave commercially in pursuit of financial targets. There is no over-riding "public service" ethos, although in the case of railways there is a public service obligation through the P.S.O. contract for passenger services. One effect of this is retaining, on social grounds, services making substantial losses, particularly on secondary and rural lines, for which there is no purely commercial justification.

ORGANISATIONAL HISTORY

Railways in Great Britain have a long history dating back to the opening of the Stockton and Darlington railway in 1825 and the Liverpool and Manchester railway in 1830. Although the early period was characterised by the construction of many small private railways, 1846 saw the beginnings of standardisation with the adoption of the standard gauge (4ft 8 1/2 inches), much to the chagrin of Brunel and the champions of the broad gauge (8ft). In the great age of railway expansion many small companies were formed, often duplicating each other’s routes. The peak of the "railway mania" occurred in 1846 when no fewer than 272 Acts were placed before Parliament seeking permission to construct new railways. It would be another 80 years before railways met any real competition from other transport modes.

The first major reform was the Transport Act of 1921, which required the separate companies to amalgamate into groups. The grouping of 1923 established four geographical groups, which were the precursors of the Railway Regions after nationalisation. A contemporary Gazetteer lists 153 separate pre-grouping railway companies.

The four groups set up in 1923 were:

- The London Midland & Scottish Railway (LMSR)
- The Great Western Railway (G.W.R.)
- The London & North Eastern Railway (LNER)
- The Southern Railway (S.R.)
The four railway companies continued from 1923 until 1948.

The post-war Labour Government embarked on a wholesale programme of public ownership. In 1948 the railways were nationalised, and for the first time the public encountered "British Railways" as the railway arm of the British Transport Commission. On nationalisation, British Rail had 20,000 route miles, 52,000 track miles, over 6000 passenger stations, 20,000 steam locomotives and 650,000 staff. It resembled an army and the Government turned to a General to run it. The first Chairman of the British Transport Commission was General Sir Brian Robertson. Initially, B.R. acquired a military rather than a business management ethos. The comparative statistics for the B.R.B. in 1988 show 10,300 route miles, 23,000 track miles, 2,500 stations, 2,400 locomotives and 161,000 staff (137,000 of which are employed in railways).

In 1955 a railway modernisation plan was published. It provided major new investment into the railway system, abolishing steam and replacing it by diesel or electric traction. Track and signalling were improved and investment provided in stations and freight facilities. With hindsight it cannot be claimed that all of this money was spent wisely. Issues like business need, standardisation, value for money, and even the strategic framework for the investment did not get the attention they perhaps deserved. Money became available. Engineers took their plans down from the shelf and dusted them. Few doubted that they were about to experience a golden era of railway renaissance. The idea that massive investment is a certain cure to railway problems lies deep in the railway psyche. The euphoria did not last. Indeed it might have led directly to the famous "Beeching cuts", following the publication of the Beeching Report in 1963.

Another problem caused by the Modernisation Plan was that the single massive tranche of investment created assets which aged together. Thirty years later B.R. faced the quality and maintenance problems of operating on a life-expired asset-base, and a massive rolling stock renewal problem. To avoid repeating this mistake, current investment in the replacement sets is being spread over a longer period.

In this period it was recognised broadly that the social role of the railways had changed. The competitive environment had been transformed by the spread of car ownership and the growth of the road haulage industry. Railways were no longer a monopoly. Dr. Beeching's central theme was to recognise that the plethora of secondary routes and branch lines, a legacy from pre-grouping days, could no longer be sustained at a tolerable financial burden because their social role had changed and their financial prospects were poor.

In the 1960s there was a rash of branch line closures. The debate about the size and shape of the railway system was settled by
surgery. Henceforth railway management would concentrate on what it was good at, recognising the natural competitiveness of rail both for the movement of passengers and freight over trunk routes and for commuting in major conurbations. The other side of the Beeching coin was the development of the trunk routes.

Following the Beeching cuts, the shape and size of the railway network have been relatively stable. Indeed the broad shape of the network is currently "frozen" at the 1974 level, although this does not preclude B.R. from going through the closure procedures for uneconomic or duplicate routes. It is evident, however, that railway closure proposals attract extraordinary high levels of public objection.

The only significant proposal to be considered recently, the closure of the Settle-Carlisle lines, has become a cause celebre and a political "hot potato" well beyond its intrinsic importance. The proposal attracted over 32,000 public objections including one from a dog, whose owner claimed it was a user! There is no public or Government mood for closures at present because closures would produce benefits very small by comparison with the action which is underway to control the passenger grant. After considering possible sale to another operator the Government eventually refused consent to closure and the line will now be fully integrated into the Provincial P.S.O. sector.

Meanwhile the competitive environment has changed significantly. There is a national motorway network; car ownership has grown continually; road transport, both passenger and freight, has grown more efficient; coach and bus services have been de-regulated, and domestic air services have become well established. On the passenger side rail volume has held up, and in some cases grown, but market share has been lost in an expanding market. Nevertheless rail is still an important passenger carrier over inter-city routes and particularly for commuting in the South East.

THE POLITICAL FRAMEWORK

RELATIONS WITH GOVERNMENT

Up until 1983 the Railways Board was not given specific management objectives for the industry. My predecessor, Sir Peter Parker's participated in a grand public debate about the future of the industry in a quasi-political way. Bids were made for more investment often based on extremely optimistic forecasts (the "hockey stick" forecast syndrome).

The idea was given wide currency that the railways were suffering from the "crumbling edge of quality" and that massive investment was needed, both in infrastructure and maintenance. Major capital projects, such as the Advanced Passenger Train (A.P.T.) and network electrification were being pursued.
Serious attempts were made to negotiate a package of productivity measures, but these ran into union opposition, and led to deliberate procrastination, and finally to a series of damaging strikes. The economy suffered a downturn between 1981 and 1983. The railway financial situation deteriorated.

The Government set up a Committee on the Review of Railway Finances (known as the Serpell Committee) on 5 May 1982 with the following terms of reference, "To examine the finances of the railway and associated operations, in the light of all relevant considerations, and to report on options for alternative policies, and their related objectives, designed to secure improved financial results in an efficiently run railway in Great Britain over the next 20 years". These were needed to provide the basis for long-term planning decisions. It reported in 1982. Its findings were controversial and the Railways Board did much to attempt to discredit the report. But the underlying threat was real. Either the Board got a better grip on the management of the industry or a range of unpleasant items would appear on the political agenda, including the issue of system size, substantially untouched since Beeching.

The Serpell Report argued the need for agreement between the Government and the Board on specific objectives and monitoring procedures. But it also pointed the way to improvements in efficiency, modifications to engineering and operating procedures, the scope for reducing British Rail Engineering Limited (B.R.E.L.) manufacturing and maintenance costs and various other improvements. It also endorsed the business management approach B.R. had taken in setting up the Sectors in 1982.

Following the Serpell Report and my appointment to the Chairmanship of the Railways Board, the issue of specific objectives was taken up by the Secretary of State. On my appointment, I indicated that I wanted clear objectives, and that I also wanted to be allowed to get on with the job of achieving them, with the minimum of political interference.

GOVERNMENT OBJECTIVES FOR B.R. 1983

The first fruits of this approach was the setting of new objectives in October. These objectives supplemented the statutory and financial duties of the Board and are summarized below:

The guiding objective was to run an efficient railway providing good value for money. Services should be reliable, attractive, and punctual at acceptable fares and charges. The cost to the taxpayer should be reduced.

The B.R.B. should accelerate its published Corporate Plan intentions and reduce the P.S.O. grant by 25% over three years.
not five. The Plan predicted a P.S.O. requirement of £635m in 1983 prices in 1988. This was to be achieved by 1986.

The Government did not want the Board to embark on a programme of major route closures, but asked the Board to explore the scope for bus substitution on some routes.

It was the Board's responsibility to determine fares. However improved efficiency must make a full contribution to keeping down fares. B.R. must not use its market position to raise fares unreasonably.

Freight should be brought into a current cost operating profit of 5% in 1988, while winning as much traffic from road as possible. The Parcels business should continue to make a proper commercial return. Improvements in the industrial relations machinery must be sought. Sealink must be prepared for privatisation. There must be more private sector involvement in the supply and support services, and the Board should continue to develop and dispose of property. Excess capacity should be taken out of B.R.E.L. and future options for the company explored, including privatisation. Rolling stock should be procured by competitive tendering and the railway equipment industry should be allowed to continue its design role. Investment programmes should relate to financial and business objectives.

This was a very significant milestone in the institutional development of B.R. Here, at last, were clear objectives and a Board totally committed to achieving them. Relationships between the Railways Board and the Department of Transport improved immeasurably. For a start, we no longer found ourselves on opposite sides in some grand debate about the future of the industry. The word went out within British Rail. It is not our job to criticise Government. It is our job to deliver managerially. In any case the Government is our banker and also an important customer and must be treated as such. The debate became internal.

**EXPLICIT GOVERNMENT INVOLVEMENT IN RAILWAY MATTERS**

The level of explicit Government involvement in the day to day operation of the railways is low. When questions are asked about these things in Parliament the invariable reply is "that is a matter for railway management", although this can be a difficult line to hold given the temptations of political involvement, particularly where ballot box advantage can be gained.

There is no direct formal involvement in personnel policies or wage and salary structures, although the B.R.B. is unlikely to behave provocatively in this field. Conversations with Ministers or the Department of Transport on these topics are likely to carry certain nuances which can be taken as "guidance".
The steer on negotiating structure in the 1983 objectives probably reflected frustration at the ability of the unions to use the complexities of the formal negotiating machinery as a delaying tactic during the arid years of productivity bargaining. A major new B.R. Industrial Relations reform initiative was announced in 1988.

Safety is subject to statutory control, with the Railway Inspectorate established as the appropriate independent supervisory body. However, railway managers value their own professionalism in safety matters and the relationship between B.R. and the Railway Inspectorate has always been constructive. In 1988 a Director Safety was appointed for the first time to build on B.R.'s already excellent safety record.

The Railway Inspectorate investigates major accidents and publishes reports. The development of safety practice on B.R. owes much to the recommendations arising from inquiries carried out by the independent Inspecting Officers.

**B.R. PERFORMANCE AGAINST GOVERNMENT OBJECTIVES 1983 - 1986**

During the three years between 1983 and 1986 British Rail applied itself to the task of meeting the Secretary of State's 1983 objectives. In the Annual Report for 1986/7 I was able to report that the financial objective had been achieved. The support from the taxpayer had come down not 25% but 27%, a reduction of L260m in real terms. Passenger volume had also been restored to 19.1 billion passenger miles - the highest level since the beginning of the decade.

**GOVERNMENT OBJECTIVES FOR B.R. - 1986**

But that was not the end of the story. It was now necessary to reduce the call on the public purse by a further 25% to L555m at 1986/7 prices by March 1990, and achieve a commercial return on the non-supported businesses.

The vehicle for conveying this second set of Government objectives was once again a letter to me from the Secretary of State. This letter, in October 1986, set out specific new objectives supplementing the statutory and financial duties of the Board. The new objectives distinguish between the supported sectors (Provincial and Network South East) and the non-supported businesses (Intercity, Freight, Parcels and Freightliner).

The 'rolling forward' of the October 1983 objectives required the Board to:
Reduce the Public Service Obligation (P.S.O.) grant from £763m in 1986/7 to £555m in 1989/90 (L768m to L579 in 1987/88 prices)

- Achieve an overall 2.7% return on assets at current cost before interest within the Non-Supported Sectors (defined as InterCity, Freight, Parcels, Freightliners and Travellers Fare) by 1989/90. These Sectors are expected also to plan on the basis of a required rate of return of 5% on their programmes of new investment.

- Implement vigorous measures to broaden the participation of the private sector in the provision of services to facilitate a more cost-effective and competitive customer service. Specific programmes to this end are required.

This incorporated a decision that the InterCity Sector will cease to qualify for grant beyond 1987/88 and would be taken out of the P.S.O.

In determining the P.S.O. objective, the Secretary of State laid stress on the quality of service expected within the P.S.O. supported Sectors and indicated that:

- In the Network SouthEast (NSE) Sector improved efficiency should provide an improved service to the customer, reduced operating costs and a lower proportion of costs met by the P.S.O. grant. Fares structures should increasingly reflect the costs of provision and improvements in quality of service.

- In the Provincial Sector the pattern of services should continue to be tailored more closely to demand and that modest, but worthwhile reductions in P.S.O. grant will be required. The Board is asked to review those cases where attractive bus services could meet the needs of customers as conveniently and at markedly less cost than present rail services.

The objective for the Non-Supported Sectors supersedes those set earlier for:

- **Intercity** - achieve a 5% return on assets at current cost before interest by 1988/89 (August 1984)

- **Freight** - achieve a 5% return on assets at current cost before interest by 1988/89 (October 1983)

- **Parcels** - continue to earn a proper commercial return (October 1983)
The new P.S.O. and Non-Supported Sector objectives incorporate the need for the Board to have flexibility to create objectives for each sector covered by these arrangements and to vary them as circumstances demand.

Internally B.R. converted the 2.7% objectives into subsidiary objectives for each of the non-supported businesses. The 1986 objectives included the need for the Board to develop quality of service standards for the passenger sectors and in response to this, the Board published adjusted standards in the 1987 Corporate Plan, which specified new standards for punctuality, service provision, customer response times, maximum load factors and cleaning frequencies for the passenger businesses.

THE POLITICAL AND CULTURAL ROLE OF THE ENTITY

The political and cultural role of the railway system in Great Britain today is broadly similar to that found in many European countries, except that there are contrasts in political perception. These are reflected by fundamental differences in philosophy. The B.R. culture is now one of low subsidy and high fares, and since Beeching, has a peripheral network much smaller than its European counterparts. In much of Western Europe lower fares and higher subsidies prevail and railway networks tend to be larger relative to population size.

The railways in the UK remain an important, though not dominant, element in society. As a public sector corporation they are unlikely to get special treatment or political favors in Conservative Britain. Indeed there would be an ideological presumption that public ownership was not a virtue, and that privatisation would confer benefits. B.R. therefore remains in the public sector on pragmatic, rather than ideological grounds. Although the Secretary of State for Transport announced at the Conservative Party Conference in October 1988 that he would consider whether privatisation was the way ahead and set work in hand to study the options before any final decision is made. Paradoxically railways seem to flourish more under Governments which favor neither public ownership nor notions of public service. Managers get a dose of “reality therapy”. There is a realisation that survival depends on delivering to financial and quality targets. They get on with the job.

HISTORICAL PERSPECTIVES ON THE ROLE OF RAILWAYS

Historically the role of the railways in Great Britain has often been conceived in terms of public service. Much of the early thinking about railways was concerned with how to curb their monopoly power rather than how to equip them to be competitive in
the market place. More recently the idea of service has re-emerged in a new guise - as an element of customer orientation having at its root business objectives. Later it became fashionable to view B.R. as a hybrid organisation, displaying a mixture of commercial and public service characteristics. But the distinction between the "social railway" and the "commercial railway" was always a false dichotomy. The commercial railway can never forget that it is giving a service to its customers, and the management of the social railway must always employ commercial judgement.

THE RAILWAY TRADE UNIONS

The railway Trade Unions in the UK have always been reasonably strong, with an industry rather than a craft focus. In some ways they have been impressively enlightened. For example they almost always support major investment in the industry even where the manpower reductions are substantial. But on issues like terms and conditions of employment they are slow to accept change, and have an almost pathological suspicion of productivity bargaining.

The power of the railway unions has declined substantially in recent years. Much of this is due to the consequences of Thatcherism, the defeat of the miners, and the emergence in times of high unemployment of what has become known as "the new realism". In part it is due to the reductions in numbers of railway employees. The railway unions do not command big battalions any more. Also the railway industry is increasingly seen as important but not essential. Trade Union members now realise that strikes confer an advantage on competitors and that this can lead in turn to job losses. This is one reason why in recent years the membership has consistently refused to respond to calls to strike emanating from the leadership. Even massive closures at B.R.E.L. stimulated little reaction in the prevailing climate.

THE RAILWAY LOBBY

The railway lobby is powerful on one main issue - closures. It has become increasingly difficult to achieve even a minor line closure without a huge public furor. There are probably economic arguments in the UK which would point to the soundness of the case for further rail closures, if the only criteria were value for money provision of transport services. However it is probably politically untenable to pursue this except on the margin. This is why the ideas of bus substitution within the 1983 objectives have borne little fruit so far. A watered down version re-appears in the 1986 objectives which refers to reviewing 'those areas where attractive bus services could meet the needs of travellers as conveniently and often at markedly lower costs than the present rail services'.

However, the geography of the adjacent road system has thwarted most promising cases reviewed by the Board so far. It looks increasingly likely that investment in a single car version of the Sprinter
diesel unit is the most cost effective solution to the rural railway.

Under existing procedures where closure is proposed the key issue addressed by the Transport Users Consultative Committees (which report to the Secretary of State) is hardship.

CONFRONTING THE PROBLEM

In institutional terms, the problem came to a head in 1982. The Government was dissatisfied with B.R.'s performance. The level of financial support was too high and growing. There were doubts about the efficiency of many of the activities. Cost control was of limited effectiveness. The management lacked a business ethos. Because of the geographical structure and the originating revenue accountancy convention, no true bottom line responsibility could be exercised. Responsibility for costs was separated from responsibility for receipts.

Plans were put together in isolation by planners rather than implementers, with the result that they were paper exercises only. Historically, the problem had not been difficult to confront, but previous solutions had been tried and failed. Neither high investment, as in the 1955 modernisation plan, nor branch line surgery in the Beeching era of the 1960's had solved the railways problem. Furthermore the scope for deterioration seemed to be greater than the scope for improvement.

The main constraint on B.R. was the "freezing" of system size at the 1974 level. This precluded "another Beeching". Managerially there was substantial freedom of action and it was used. A combination of internal and external factors come together to provide a window of opportunity.

4. REASON FOR CHANGE

The reasons for change in 1982 and 1983 were complex but compelling. Financial performance was deteriorating. The Government took a tough-minded stance on public sector performance. The rail strikes of 1982, directly stemming from the fudged productivity agreement in the 1980 pay deal, were frustrating and damaging. The Serpell Committee review had added to the informed view that the railways were under-performing financially and managerially. The competitive environment was getting harsher. The Serpell Report had explored various options for system size and there was a belief that unless management "got its act together" there would be "another Beeching".

WHY CHANGE WAS UNDERTAKEN

It was recognised that railways were losing market share in a fast growing market. The passenger transport market in the UK had almost trebled over 30 years and the Freight market had doubled. Motorways
now conveyed heavy lorries and luxury coaches around the country. Thirty years ago the rail share of the market had been 20% passenger and 40% freight. It was now 7% and 9% respectively. Only in London commuting does B.R. retain market leadership with 40% share of all movement. Rail transport had sustained volume for its core business but had not shared in the growth of the total market.

As a traditional inward-looking industry B.R. had been slow to react to change. The organisation was production-led and not responsive to customer demand. Staff did not believe that their future depended on satisfying the customer. Planning was centralised and lacked the determined commitment of line managers. Investment was needed, particularly where assets were at the end of their useful life, but there was no commitment by Government to invest in railways per se unless it could be shown to be a sound business case. There was also considerable pressure on B.R. to reduce the call on the public purse. Open doubts were expressed about the ability of B.R. to give value for money. The organisation was insensitive to net revenue issues, exhibited bureaucratic features and lacked proper lines of communication to the employees.

Among the consequences of this were that many investment proposals were engineering-led in response to some day-to-day operational need. No business sponsor was required to ensure value for money, so it was easy to put forward schemes based on engineering excellence rather than real need ("gold plating") or containing high "insurance" costs by low risk over-provision of facilities in new track layouts for example.

WHY CHANGE WAS POSSIBLE

CIRCUMSTANCES

Change had finally become possible in 1983 for a number of reasons: There was a consensus between Government and railway management that the situation was deteriorating and that some kind of intervention was necessary. The issue was what kind of intervention. The pressures on management were such that a determined managerial intervention was the only defensive strategy available.

Between 1981 and 1983 the economic climate was fairly hostile, and the downfall in the economy, reflected in the demand for railway services, had discredited the production-led strategies of the British Railways Board, where the assumption had been that if you improve the quality and availability of the product, demand would look after itself. When this proved unsustainable and faced with coach deregulation, B.R. went for high volume, through very low off-peak fares. This was not an economic success. A more commercial approach would have addressed the issue of market positioning and the price/quality trade-off.
It would be wrong to suggest that 1983 was a sudden change of direction. There were earlier signs. For years B.R. had been getting out of wagon load traffic and concentrating on bulk movements of train load traffic. Nevertheless, a belief remained that the 'Speedlink' system of high speed wagonload services between main conurbations would provide a substantial rail network for less than train load traffic. These expectations were later revised downwards.

Also between 1974 and 1983 some early specific objectives were coming through. For example, Inter City was given interim financial targets based on its 'contribution', but the accounting conventions then in force could not really identify the true range of Inter City costs and revenues anyway.

During the 1970s the vagueness of the remit and the lack of discipline in target setting allowed the production ethos to continue unchecked. But the setting up of the sectors in 1982 provided for the first time the organisational means to address the possibility of a business-led railway.

PERSONALITY

Another key element was the appearance of particular individuals in key positions at the right time. Margaret Thatcher was in 10 Downing Street. Her attitude towards public sector management in general stopped some way short of outright admiration. Too often in the past the public sector companies could be shown to be overblown, unenterprising, uncompetitive, union-dominated and poorly managed, lacking the disciplines of the market place. Where possible they should be privatised.

I was appointed as Executive Chairman in 1983, and I saw no reason why railway management could not assert control over its own destiny. There has been two main catalysts. The Serpell Report of 1982 had signalled serious threats. The message at its simplest was "put your own house in order or else.....". The second catalyst was the NUR and ASLEF railway trade union strikes of 1982. Although this was two years before Margaret Thatcher's classic victory over Arthur Scargill and the NUM, to some extent the writing was on the wall. The Government was impatient at B.R.'s apparent inability to secure productivity improvements within a reasonable time and without damaging industrial disputes. The Government was prepared to be firm. There was frustration inside B.R. too, and the hawks gained ascendency in the dovecote. The days of fudge and smudge were over, and out of the strike emerged a much more tough-minded no-nonsense approach to the railway unions, whose power had eroded anyway.

I sensed that I could do a deal with the Government. My early dealing with Nicholas Ridley, the Secretary of State for Transport, went well and there was an immediate change in the relationship with
the Department. The first success was agreeing a new kind of contractual arrangement. For the first time a B.R. Chairman was given explicit objectives, tough but achievable. But more importantly I was given freedom to get on with the job, a period of stability without overt political interference, in which to show I could deliver.

SITUATION

Another background factor was the clear role remaining within the UK economy for a viable railway system. A successful market-oriented railway would be a significant and valuable part of the social and industrial infrastructure. Even around the fringe of the network, where operating ratios of 300% were not uncommon, there was also a lack of political will to grasp the nettle of system size, such was the sensitivity of the issue. If it were possible to reduce the call on the public purse without drastic surgery this would suit the immediate needs both of the Government and railway management. The basic approach was to give B.R. a strong business orientation. The problem was tackled at the level of institutional behaviour. Forces were set in motion to change the whole culture. It was not a painless process.

A final factor, without which no real progress could have been made, was the availability within B.R. of some high calibre managers who were able to respond to this lead. Organisation change loosened the structure and many able people were set free in new roles and told in effect "now show us what you can do". Institutional change needs the appropriate human resources to carry it out.

5. DESCRIPTIONS OF ACTIONS TAKEN

THE OVERALL PROGRAMME OF ACTION

The prime objective of the overall programme of action was to reverse the deteriorating railway financial performance. The method chosen was that of a radical managerial intervention which was aimed at the fundamental culture of the organisation. The change in structure was one means towards the end of achieving true business orientation for B.R.

THE OBJECTIVES OF THE PARTIES

The objectives of the Government were to reduce the financial burdens on the taxpayer and the railway contribution to the public sector borrowing requirement. They wanted to introduce more self-reliance in railway management and realism in the workforce, a dose in effect of Thatcherism. The Government also wanted to set clear financial targets for the public sector and hold them accountable for results.
The Board knew that the Government probably wanted to retain the passenger railway reasonably close to its present size because of the political sensitivity of closures. The Serpell Committee had considered various system size options and there were clear threats to the future, unless the financial burden could be reduced by management action.

I welcomed the new financial objectives and freedom to get on with the job. It was felt within B.R. that the objectives were achievable (in fact they were B.R.'s own five year targets brought forward by two years) and that success or failure would be measured in terms of achieving them.

From the very first, commitment towards that target was total. I signalled his position early: the central theme was that the railway should become more self sufficient. The less dependent an industry is on any source other than the paying customer, the more efficiently it will run. The way to prosper in any business is to satisfy the customers by giving value for money.

THE PROCESSES OF ACTION

The process through which the plan of action developed were internal rather than external. No fresh legislation came into effect. There was no public participation in a grand debate. At the interface with Government relationships quietly improved. No longer was B.R. seeking overly to influence Government transport policy. The central fact was that now the Government gave B.R. clear financial objectives in 1962 and had sufficient confidence in the Board to get on with it. No additional resources were provided. Indeed the changes were accompanied by an overall net reduction in B.R. management and administration.

However, the Government made additional money available to fund the redundancy costs of the transition, and facilitated the investment which was one of the approaches to cost reduction.

ORGANISATION CHANGE

The first step was a development of an organisational change which had been set up in 1982. Up until 1982 the main focus of the railway organisation below board level had been the five geographical Regions (the Eastern Region, London Midland Region, Scottish Region, Southern Region and Western Region). Until 1984 regions were 3-tier entities (except Scotland) which had an intermediate Divisional level between Regional Headquarters and Area Managers in the field. Areas are the ground level units for each of the four production functions (operations, mechanical & electrical engineering, signal & telecommunications engineering and civil engineering).
Until 1982 Railway management was organised functionally within the Regional structures. At Regional level marketing managers could be found for passenger, freight and parcels traffics; spending departments were represented by the four production functions (above) and there were the usual service departments, finance, personnel and planning.

A similar structure existed at B.R. Board HQ level and functional managers in the Regions had "dotted line" responsibility on standards and procedures, but not for direct control.

Control of receipts and expenditure was based upon the "originating traffic convention". Receipts were accrued at the originating point of a journey and there was no direct relationship between income and expenditure. It was therefore not possible to take genuine net revenue decisions. The true bottom line could only be established at Headquarters and the only "profit centre" was the system as a whole.

Below the Chief Executive responsibility for costs and receipts was divided. Some progress had been made to create Passenger and Freight service profit centres but at a "contribution" level, since no mechanism existed of allocating track, signalling and administration costs. The allocation of track and signalling costs to the Freight and Parcels businesses as a whole was based on an avoidable costing convention. There was a "hierarchy of avoidability" which meant that non-passenger businesses were charged with the incremental costs only, on the premise that the railways existed primarily to run a passenger business.

In 1982 five "bottom line" managers were appointed. They were known as Sector Directors. These are the Director InterCity, the Director Network South East, the Director Provincial, the Director Freight and the Director Parcels. The introduction of Sector Management was designed to spearhead the cultural change from a largely production-led organisation to one which is business-led. This has been achieved by disaggregating the "bottom line" responsibility and focussing attention on the profit and loss situation rather than on receipts and costs in isolation. The supported (by P.S.O. and PTE grants) railway consists of Network South East, Provincial and, currently, InterCity. The non-supported railway consists of Freight and Parcels.

The subdivision of the Passenger business was based upon the generally recognised patterns of train services (and, therefore, profit centres) where certain services were clearly InterCity, many served the London and South East commuters and the balance were considered to be "provincial" in that they were concerned with commuting in the provinces and secondary cross country and rural services.
In establishing the five Sectors, it was determined that, subject to the policy direction of the Board, the Sector Directors would be "in charge" and responsible for the development and implementation of strategies to achieve agreed financial and quality of service objectives.

It was recognised that many of the resources could not be uniquely identified to each Sector. Consequently, the Regional General Managers, through their Functional Managers, were made responsible for the "delivery" of required changes as well as the day-to-day running of the railway. The Functional Directors were required to act in an advisory capacity, particularly in respect of professional standards and the development of across the Board cost saving initiatives. Below the Sectors, sub-sector managers were established with bottom line responsibility for a number of commodity or service groups.

InterCity has eight sub-sectors covering four routes, cross country services, the Gatwick-London express, Anglia and charter trains, each with its own manager; Provincial has four sub-sectors one for each Region except the Southern; Network South East has six sub-sectors reflecting geographical service groups; Parcels has two sub-sectors, reflecting its business structure; and freight has four product-based sub-sectors plus newly formed Railfreight Distribution.

REVISED RESPONSIBILITIES

With the setting up of the Sector organisation at Director and sub sector level, the role of the Regions changed significantly. Because many of the resources employed in the field are serving the needs of more than one sector, direct management of the day-to-day resources remains with the "geographical railway", that is the Area Managers reporting to Regional Managers. But the actual level of resources used and the level of costs to be incurred are determined by the business managers. This introduces 'contractual' elements into the relationship between business managers and the geographical managers, as shown in the diagram below:
Regional production managers are required to deliver the specified quality of service at the cost specified by the business managers.

Significant improvements were made in the Corporate Planning system to accommodate Sector objectives, strategies, and performance goals. The planning system has both "top-down" and "bottom-up" processes. It ensures that action plans are produced in support of Rail Plan intentions. Individual managers are expected to deliver committed and monitorable action plans.
With the introduction of Sector Management, the Board continued to set the broad policies under which B.R. operates. Within these policies the Sector Directors develop and define their strategies. The plans of the five sectors are co-ordinated by myself and the Board. They are implemented by the Regional General Managers, using resources under the technical guidance of the functional directors.

Management Information Systems (MIS) were developed to support the new structure. Infrastructure costs were allocated to the prime business sector with other sectors operating on the margins being charged the additional costs that they incurred. Experience has enabled fine tuning of the system to provide a very effective method of identifying the real cost of running groups of services. There is no doubt that it enabled real savings to be made in all areas of infrastructure as the real cost of retaining marginal facilities has emerged.

If an organisation is attempting a deep cultural change it is not enough to introduce business orientation into the managerial structure. Somehow the understanding and loyalty of the whole workforce has to be engaged. Alongside the sector revolution a system wide "customer first" campaign was launched. In time most staff will have passed through a specially designed training programme. Initial priority is being given to front line customer contact staff. In parallel with this there was widespread adoption of the team briefing approach to direct communication with the workforce. By making sure that all staff knew what was going on, how the business was going, and why the customer was important, management laid a grounding of understanding which made it less likely that militancy would thrive on ignorance.

Since 1983 the railway investment scene in the UK has been transformed. The Government was always anxious to demonstrate the trade off between financial performance and investment. Many of the assets were at the end of their useful life, and business managers were able to produce sound investment schemes. This was helped by a new set of Investment regulations which required a proper examination of options and an independent financial appraisal. All investment schemes have to be sponsored by a business manager who will be very much aware of the effect on his bottom line.

Between 1983 and 1987 B.R. was able to invest L400m in the renewal of the railway, the highest level for 25 years. L650m has been spent on track and signals, L300m on new diesel and electric trains, and main line coaches, L260m on new and refurbished stations. B.R. now plans to spend more than L3,000m at 1987/88 prices over the next five years: L1100m on new locomotive coaches and diesel units, L1000m on infrastructure, L500m on stations and the first L300m of the planned L500m investment in the Channel Tunnel.
Another element of the overall programme is the drive for service quality. With the narrower role of the Regions came the realisation that it was the job of the production functions above all to deliver services of acceptable quality at agreed costs. A range of innovations were adopted in pursuit of this goal, including the appointment of a Director, Quality, supported by Quality Leaders in the Sectors and Functions.

Among the healthy signs which emerged as a result of the new business focus was that the investment proposals were given much more careful scrutiny by their business sponsors. As a result they represented better value for money and investment scheme costs have been brought down. An early success for sector management was the reallocation of some high speed train sets from lines where the production thinking had placed them to others where the business advantage was greater.

Another helpful factor was the continuing trend towards privatising different fringe activities (BT Hotels, Sealink, British Transport Advertising and British Rail Engineering Ltd). This left managers to concentrate on the success of the core business. Similarly when product development, rather than design specification, was taking place within the organisation, it tended to re-inforce the engineering ethos.

The changes involved are fully institutionalised in so far as they reflect new structures, roles, responsibilities, and management systems. Political compromise did not play a significant part in the institutional reform. The actions fitted the interim objectives both of the Government and B.R. There was general satisfaction all round when the three year target to reduce the level of financial support by 25% was achieved in 1986/87.

6. IMPACT OF OTHER CHANGES

The main impact of other changes relates to things happening in the broader environment and in the market place.

In the United Kingdom the transport market has changed. Car ownership has grown to the point where over 21 million vehicles are licensed. Since 1979 38 tonne lorries have been authorised. Entry to markets is easier with coach and bus deregulation. Modern jet aircraft operate the internal domestic routes in the UK. Most British Airways Shuttle flights are now operated by 757s. Competition is getting tougher.

The social, industrial and political climate of the UK has been another factor. Since the defeat of the 1984 miners strike, the industrial relations climate has been characterised by the new realism. Tough minded management is more likely to make progress when militancy is in recession, although it is beginning to appear
that Margaret Thatcher brought a new relationship with the unions, at least in times of high unemployment.

Finally, the underlying financial climate has been generally favourable since 1984 with buoyancy in the passenger markets, particularly in the prosperous South East where London house prices have risen dramatically and forced many people to opt for long range commuting. Although there are danger signs that the economy is now overheating it is too early to anticipate what effect this may have on B.R.

7. EVALUATION OF RESULTS

RESULTS OF THE PROGRAMME OF RAILWAY REFORM

ACHIEVEMENT

It will be several more years before a final assessment can be made of the turn around in B.R.'s fortunes, but on an interim evaluation the results are highly encouraging. There has been a deep and irreversible shift in the attitudes within railway management. B.R. has undergone a major change and become a business-led, productivity-minded organisation.

Compared with 1981, the rail business is operating with over 30,000 fewer staff (22% reduction) 2,824 less locomotives (29% reduction) 4,284 fewer coaches (23% reduction) and 59,443 less freight wagons (67% reduction). In the current Rail Plan 2,000 separate action plans have been identified to effect further improvement over the next five years.

Since the Government set financial objectives in 1983, the call on the public purse has been reduced by 27% in real terms. British Rail is now the most productive and cost-effective railway in Europe. I believe there is no railway in the developed world which has so single-mindedly addressed the issue of value-for-money financial performance. B.R. has moved substantially in the chosen directions: away from bureaucracy, towards individual accountability for performance, towards business success, towards greater financial discipline, towards delegation and towards customer satisfaction.

It has improved its relationship with Government and improved the quality of internal decision taking. It has made strenuous efforts, to improve the quality of its products in the market place. This includes not only service specification, timetable design and hardware, but also reliability, cleanliness, and customer service. It has made great progress on this front but has not yet met its own aspirations, nor those of its customers, in full. Efficiency has improved, as demonstrated by productivity indices, and currently passenger revenue is buoyant. The highest safety standards possible remain a pillar of this cost effective railway.
WHERE THE PROGRAMME WAS UNREALISTICALLY OPTIMISTIC

The programme was not over-optimistic in its basic components. Along with its new structure, the organisation underwent a cultural change towards the business management ethos as planned, and achieved its first three year Government financial target between 1983 and 1986/7. This was a major achievement. However, it is proper in the interests of a balanced assessment to make some qualifying comments. The underlying trends in the British economy were reasonably favourable during the period. There was steady growth in the economy and rising demand. It would have been very interesting to see how the new business ethos coped with a recession, and in one sense the true test may be on the horizon.

The programme also delivered the 1986/7 financial targets by a route slightly different from the planned route. Productivity gains were marginally down but offset by an "oil price bonus" and a "maintenance holiday", so to that extent the huge successes were helped a little by a gratuitous benefit and by the deferment of non-essential maintenance.

B.R. have learned from their experience of working towards the first set of objectives and the lessons will be applied to tackling the second set of objectives.

In terms of organisational development the process since 1982 has been an extremely interesting one. The Sectors were set up not as a new organisation but as a business overlay to the traditional organisation to be followed by evolutionary adjustments in roles and responsibilities. This gave rise to some conflicts of interest between business and production.

At the same time new management information systems were developed to serve the emerging needs of the business. B.R. did not make the mistake of being over-prescriptive from the beginning. They set up the Sectors and to some extent allowed the organisation to evolve organically. Since this was bound to become a power struggle of sorts, one unintended result was the politicisation of the internal management processes.

As Chairman, I have been quite happy with this "creative tension", which conferred a net benefit, but lower down the organisation there were "winners and losers" and quite high levels of jealousy, resentment and in-fighting. Sometimes it seemed that corporate teamwork would become one of the casualties, and even senior people sometimes needed reminding that the real enemies were their competitors not their colleagues.

Managers emerged from this period much more aggressive and tougher minded than they had been before. One view is that this was a necessary process to shake out complacency and incompetence, to confront the realities of working in an entrepreneurial environment.
Another view would be that the change process could have been better managed. The basic proposition appeared to be "set the tigers loose and see what happens". Some of the early efforts were directed towards sectors "playing the allocations game" and attempting to pass costs off to other sectors. Managers had to climb the learning curve. There is no sudden "flip over" into business management, but a sustained period of development.

In time senior management became sensitive to the downsides and two helpful measures were adopted. Re-assurance was given to the "traditional" part of the organisation, who had felt threatened and undermined by the relentless promotion of the novel elements in the structure. Also, I have changed the composition of the team. Senior managers were moved between production and business roles and vice versa. The sublimal message, once again, was corporate teamwork. The general conclusion to be drawn from this is that radical organisational and cultural change probably needs the help of some organisational development interventions. Indeed, some events of this kind were successfully run at Regional level under the joint sponsorship of business and production managers.

**CHANGING EXPECTATIONS AND PERFORMANCE**

The key to success was management motivation. Many individuals flourished in the new climate and made personal contributions of the highest order. It was demonstrated that high performance and high aspirations go together. The existence of individual management objectives (some formalised within the performance review process, others created within the budgetary control system) created a pattern of sustained motivation. Hundreds of managers throughout the system had to come to terms with the business ethos. A few fell by the wayside, but the vast majority made the transition. For those who did not themselves become business managers this meant they had to adjust to a completely new pattern of relationships, and often accommodate changes in their own role. The new relationships were contractual rather than hierarchical.

For many people, such as Area Managers, there was a new network of accountability by which they had to cope with different demands from different business managers, yet try to make sense of their own jobs in the round. The extent to which managers were able to make transitions of this sort and work within a radically different style and culture, is a tribute to the flexibility of many groups who might be expected to be repositories of traditional thought and conventional wisdom. These same local production managers are now making very positive inputs through the medium of the Area Business Groups.
ADDITIONAL MEASURES

The immediate need is to consolidate on the gains already made and encourage the emerging business skills to develop. Understandably the initial business thrust was directed towards cost-cutting. It is now important that even greater weight is given to winning new business in the market place. There are encouraging signs of innovative marketing initiatives now emerging.

With another demanding set of Government financial and quality objectives on the horizon there are clear signs that the run up to privatisation of our transformed industry will be as challenging as the last six years.