

RESTRUCTURING OF NEW ZEALAND RAILWAYS :
THE ORGANISATIONAL AND CULTURAL IMPACT

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ABSTRACT:

New Zealand Railways Corporation has experienced major change in its organisation over the last five years. Railways traditions and culture have been severely tested in this process which, although prevalent in New Zealand in more recent times, has applied to Railways on a scale and over a period greater than any other organisation.

The paper examines the setting within which the change took place, and the processes and responses toward the new structures.

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INTRODUCTION

New Zealand Railways, 125 years old in 1988, has been an enduring part of the New Zealand scene over that period. Various a developmental agency, social service, commercial operation and business, more permanent features have been its basic technology, its public ownership, its leadership in size and operational scale in the country's internal transport, a continuous political element in its management and direction, and a strong internal 'culture' and sense of tradition.

Given these features, and the qualities of permanence implicit in a railway system, the task of restructuring carried out over the last five years assumes significant proportions. In the process of change, one is dealing with an institution which, in terms of technology, operating practices, and organisation has assumed a social structure - and culture - of its own. That this is comparable to railways overseas is incidental: change, of the order applied to New Zealand Railways, has taken place within an economy and society which views such change in its own terms, not those of some distant nation.

To Set the Scene ...

With a few exceptions, New Zealand Railways had always been a department of state until 1 April 1982, when the New Zealand Railways Corporation Act took effect to assign corporate status. The exceptions were periods of commission or board control, ostensibly attempts to remove political influence and to allow Railways to become more 'commercial'.

All these experiments failed. Railways and New Zealand politics have been too closely intertwined, and in the case of the experiments of the 30s and 50s the environment of regulation of land transport which applied from the 1930s to 1983, statutes, regulations, and therefore political involvement were part of the conventional package. And, besides, politicians liked being involved with Railways for a variety of reasons.

This entirely natural, even proper, political involvement, and the consequential organisational reporting line to a minister of the Crown, with therefore the implicit involvement of every member of parliament in whose electorate Railways operated, produced the classic centralised organisational structure. The chief executive was the permanent head of the department, and all officers reported to him, or to his immediate associates in top management. The principles of ministerial accountability held as

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strongly here as elsewhere in the public sector, and the pyramidal hierarchy which matched that accountability was a natural consequence.

There were other factors which underpinned such a format. For good reasons a basic tenet in operating a railway is safety; the setting of standards, and their monitoring, was always a major determinant of lines of responsibility. This produced a strong - indeed dominant - influence from the operational management, rather than for example from the market or commercial managers. This emphasis, in turn, introduced two groups within the railway culture with a dominant role - those involved with train running or operations, and the engineers. It is worth looking at their respective roles more closely, because organisational and cultural change has hinged to a large degree around the roles of these two groups.

The Operational Dominance

Train running lies traditionally at the heart of the discipline of a railway system. In operational terms those who manage this part of the organisation determine operating safety standards, the rules and regulations which affect them, the training and selection of the people who make them work, and so on.

When combined with the time taken for people to gain appropriate experience, and to reach the right step on a long and in the past seniority-ridden promotion ladder, the result was almost inevitably that the top managers, the policy makers in the field, were content to apply the system within which they had grown up over the years. (Railways was traditionally, of course, very much a career service, a lifetime job.) Change was made only with exceptionally sound cause: innovation was unusual; experience was the great teacher. And these points must not be decried: they have validity still.

The somewhat arcane nature of this craft, and its intimate link to the safe running of a railway, place these people in a sound position to set the pace of change. That there has been change, some quite radical, is not in doubt; but one needed only to fall back on 'safety' as a dismissal of a suggestion - or more generally, to discount the advice of he who questioned on the grounds that, without a train-running ticket, one could not understand. In short, it was not a culture, or climate, into which major change could be readily introduced.

This sounds perhaps unfair to the men - yes, all men - who for many years held such a powerful position. They

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did their job, and completed a lifetime career, with great commitment, dedication, and skill. Because operating any form of transport is a craft based on routine, rules, and experience, however, it could be said they had little choice but to follow the precedents set for them.

How else could they respond? They were hired at 16 or 17 years old, put through a cadetship overseen by men often 20 or 30 years their senior and usually totally imbued in the culture and established ways of the organisation. These men, and those they trained, were assessed for promotion on their carrying out of rules, codes, and other prescribed forms of performance which were essentially operationally based. There was little place in this scale for recognition of innovation. An organisation whose successful operation depended so entirely on team work between people of many skills and in many locations could not sustain the maverick, the individualist, in a work structure: he would compromise the routine, and even place life or property at risk. This in turn produced a form of discipline which was essentially negative: in order to preserve safety, and the established and tried routine, departures from the norm were not favoured, in both practice and in attitude.

Performance according to rules was expected as of right, and was rarely praised; inadequate performance produced formal disciplining measures. The sheer size of the organisation, its 24 hour, seven day operation, and its location of staff at so many disparate points, left little other option - especially where training was essentially operational and, as with most other organisations at the time, with little or no systematic attention to the finer points of human relations.

The Engineers' Role

The engineers were different, to a degree. Professionally qualified, with the confidence that this brings, they carried the responsibility for the design and safety standards of all equipment on the railway - formation, track, rolling stock, signalling, telecommunications, buildings and other structures (notably bridges).

Engineers are trained to design and build things, and to maintain the result to a good standard. In simple terms, if they are given the responsibility, they must be given the wherewithal to fulfil it. Their competence and confidence can leave them largely unassailable, especially by a non-professionally trained top management. The engineers may themselves, because of these qualities, become top management. Their technical

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qualifications - and the seemingly esoteric elements of railway equipment design and construction - makes their statements about design, operating methods and especially safety bear heavy weight.

There is evidence, on a broader scale, that the propensity to design and build may be overtaken by the inability of the market to absorb the results. When these trends are apparent in an interventionist or regulated environment, the weight of professional advice delivered in measured and assured style is very difficult to counter - especially, as can be the case in many transport enterprises, when the Damoclean Sword of safety is suspended before general management.

The Results

These two organisational and cultural elements are critical to an understanding of where Railways found itself in the period after World War 2. It was not unique in this regard: but when combined with its long life as an institution, the then regulatory context which produced a reasonably sustained market share, and especially the general inertia within the New Zealand social and economic structure in the post war years - all this, coupled with an employment policy which made entry to its management from outside its own inbred ranks virtually impossible until the 1970s - here was an organisation with all the hallmarks of a traditional industry:

- a large and reasonably rigid organisation structure, highly centralised;
- a specialist technology;
- highly integrated in its operations, including provision of many of its own support services;
- recruitment of potential managers at a young age, for a lifetime career;
- a strong family tradition, ie recruiting the children of current staff;
- facing increasingly intense competition in its traditional role.

It was clear that, without restructuring of Railways, left to itself it would ossify and die. This would happen quite simply because customers and competitors would be able to respond more quickly to market changes than could Railways. The structure, and cultural rigidities, had become dominant in the organisation's existence.

The symptoms have been recognised for years, even decades. The need to change was specifically recognised and acted on during the 1970s - but the forces of

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inertia, both inside and outside Railways, were too great for the major changes needed. The impetus to drastic change was prompted by the culmination of a number of forces, from both within and without.

THE SOLUTIONS

Ross Sayers, then Executive Chairman of the Railways Corporation, said in 1986:

"A business needs to be restructured when its management has demonstrated they are unable to achieve the returns comparable with those achieved by their competitors Alternatively the business may be earning returns which are significantly less than those required by the shareholder: or the "business" may have been a state department, so filtered with constraints and conventions that its objectives have blurred, and its focus lost." (Sayers, 1986)

All these factors, but especially the last, have applied to Railways. And it has happened in a period of market decline - which is almost an inevitability. When things are going well, the impetus to change is rarely present.

The Detail of Change

What is set out from now on is as much an appraisal of what happened to Railways rather than a chronological set of events. A detailed chronicle would be excessively long, at times repetitive, and probably tedious.

A variety of forces had led to a centralised structure for Railways. This distanced decision-making from the market. With deregulation, the market became supreme (it had not been ignored before, but then it was but one of a number of factors for corporate survival). And it was a more demanding and sophisticated market, not prepared to brook the delays and more leisurely style of earlier decades.

The establishment of the Railways Corporation provided a platform for change, although many of the existing constraints, especially in the personnel field, remained (for example, commitment to the conditions of the State Services Conditions of Employment Act 1977). The opportunity to hire people with particular skills, rarely used until about 1970, had been used by Railways increasingly after that time as the need grew for people with planning and other specialist skills. But until the late 1970s it was rarely possible, or even desired, to use these people in the influential line management roles. Advisors, as opposed to managers, are of very

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limited utility by themselves in making change happen.

In 1982 the Board of Directors, all from outside Railways, was appointed, perhaps one of the single most significant cultural changes in recent years. They began to test Railways conventional wisdom in numerous areas; and they quickly moved to what must now be regarded as a pivotal decision, the hiring of consultants to review the whole organisation. The result was the appointment of Booz-Allen and Hamilton Inc, of USA, a company with extensive international experience in reviewing railways and, a significant tactical strength, a company which included in its team a number of experienced former railway managers.

So began the cultural revolution of the 1980s in Railways. The exercise evolved steadily rather than spectacularly: the consultants arrived, observed, analysed, discussed, synthesised. They found real strengths, as well as weaknesses; they found constraints on change set externally, as well as self-imposed. They also quickly perceived that Railways was operating in a broader social and economic environment which was not conducive to change at other than a very slow pace. Railways, in many respects, reflected the attitudes and style of the community which they served, although perhaps toward the conservative rather than the progressive sector.

The prime concern of Booz-Allen, and the Board of Directors, was that the Corporation assume a stronger business orientation. To do this there was the need to move away from the operationally-oriented structure. This theme was quickly adopted by the Board, and the result was the establishment of three business groups - freight, passenger and property, leaving a still large head office containing a range of support functions. The incentive to change was made even greater by the then Government's deregulating of the land transport industry, a process largely introduced in November 1983, and fully implemented three years later. This change in the ground rules on which the Corporation had been founded was a further shock to tradition; not only was the internal organisational structure fundamentally altered, but also the market environment was stood on its head. The gradualist style of change typical of New Zealand in the 1970s was itself disappearing in the face of such rapid reform. It must be recorded, however, that this fundamental change in the transport sector preceded by a year the coming to power of the Labour Government in November 1984 and their establishment of a totally different economic and business climate - one within which such change was more readily accepted.

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The foundations for major change were laid in 1983-84. The evolution of business groups within the Corporation, the very large number of repositioning projects, the beginning of major downsizing, stems from that period. And no sector of Railways, however large or small was immune from review and reduction.

Case Studies

- Wagon and locomotive workshops, a large, diverse and very traditional sector of the Corporation, were reduced in number, size, staff and function - a change brought about by reducing demand (already apparent in the 1970s), improved productivity, better organisation.
- Train operations: guardvans were removed from freight trains, a major productivity agreement was made with locomotive staff, larger and fewer trains were run, better operational organisation both generated change and reflected it.
- A later but quite fundamental review was completed in 1988 on track maintenance standards and procedures. Booz-Allen had already noted the high quality in this area: the task was to match the quality and longer term needs to the businesses' ability to afford it. Matching standards to available revenue support without compromising safety is always a challenge; modern concepts of risk management were helpful in achieving the right answers. Better organisation, reduced staff, more capital equipment is providing major savings in this area.
- Support operations - for example housing, purchasing and supply, clerical and administrative services - all had to be reviewed at two levels: the scale and nature of their operational effectiveness, in turn determined by the scale of the front line activity which they supported.

The People Effects

Change develops its own momentum - and, in particular, its own personnel and communication problems. An organisation the size of Railways always has its own internal information network or rumour machine. Plans for change, its implementation and the follow-on effects must be considered by many people, and discussed with service organisations. The 'family' attitude in Railways, and the widespread network of friends/family/workmates (coupled with having its own telecommunication network) makes it hard to contain information - or

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misinformation. And most Railway people in one part of the organisation, or a particular location, will always be interested in what is happening elsewhere.

The management challenge is to plan, prepare and implement change on many fronts in a way which is organisationally constructive and causes the least possible individual pain - and keeps current operations under way. And it is not only the human factor; change is expensive in terms of lost output and reduced morale, which at the extreme can begin to affect security and safety. The strength of Railways peoples' commitment and general level of responsibility in the face of enormous and at times very upsetting change has consistently shown through; in only very rare instances has there been pique and despair affecting Corporation assets.

STRUCTURAL CHANGE

Major change in organisation structure and content is another form of culture shock. There are four examples which illustrate this point.

Passenger Services

Traditionally there were two passenger operations, rail and road, each totally separated in leadership, operations, and ethos. Railwaymen (and women) ran trains, Road Services people ran buses.

With the establishment of market oriented business groups, the combining of these resources around one market, the passenger, was a logical move. The cultural change - bringing together two sets of people who shared and competed for a market, and who (for older rail people looking at Road Services) were seen as competitors taking away their traffic, presented a call for a significant change in attitude. It has been achieved, with firm leadership and the establishment of clear business goals, although the residual loyalties die hard. The market will determine the future of the passenger business, just as it will determine whether to move by rail or road. The patterns and structures of the past are now of essentially historic interest.

Property

Railways is one of the country's biggest landowners. While much of the land holding is rural, there are valuable blocks in urban centres. Changes in urban land use, and in freight handling methods and organisation, are progressively releasing large areas of land for development.

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In the traditional pre-1970s railway, land management was a function of civil engineering. In the 1970s the commercial development of land, especially to attract rail traffic, became attractive: but property management was still regarded as an activity of distinctly marginal relevance within the context of a transport operation. Railways land was perceived as essentially an adjunct to operations, and in the expansionist transport climate of the 70s and early 80s, was retained as a means of attracting rail traffic of the future.

Deregulation, a management approach within which assets had to provide a commercial return, and major changes in urban land use have all combined to bring the property sector of Railways to a point when it is a major contributor to the Corporation's financial viability. The sale or lease of land on a far larger scale than ever before will be seen, looking back to the 1980s, as a critical factor in Railways longer term financial survival.

Telecommunications

As part of its train control system Railways has had its own telecommunications (originally telegraph) system for many decades. As a service to the transport operation, it was regarded as just that - a sector of the engineering activities and subject to the management of one of the most specialist, indeed arcane sectors of railway, the signals division.

In the highly regulated New Zealand environment, where there could be no competitor for the then Post Office telecommunication network, this was perhaps appropriate. In the 1988 and beyond world, the existence of a base resource on the scale of the Railways network was quickly perceived as a business waiting to be launched. From a third level support operation, almost a cinderella amongst such units in the old Railways, communications is becoming the basis for business growth - as well as an essential element in the information systems needed for the effective operation of a modern transport business. The business and regulatory climate has changed, the opportunity has been grasped, and a previously relatively minor support function has become the basis for a significant business.

Housing

Railways at one time owned nearly 6,000 houses, ranging from the small group or even single home at a rural station, to the block of 70-100 houses in large centres.

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With branch line closures, and a degree of centralisation, the number had dropped to 4,000 in the mid 1970s. With stronger centralisation trends, major staff reductions, technologies and work methods which replace staff, and a totally changed national labour market, the need for housing in all but a few remote localities is going. The 'railway settlement', that feature of Taihape, Te Kuiti, Frankton, Greymouth and so on, will have largely disappeared by 1989 (at least from NZRC ownership), and along with it the sense of community generated in such areas. The positive results of this change are considerable, both socially and financially, and in terms of railways visual presentation to the public.

CHANGES TO THE RAILWAY CULTURE

Railways are not unique in either their traditional industry characteristics, or the radical change which has been applied to the industry. In a New Zealand context coal mining, production forestry and perhaps the frozen meat industry amongst the productive sectors share some of these 'traditional' characteristics: the police and post office within the service sector. All have a considerable presence in smaller centres as well as the cities; all have at least to a degree the family tradition and close support bred from generations in the same occupation and in jobs which require unusual physical risk or demands in terms of odd hours, call outs, and above all a strong dependence on one's workmates for safety or functional effectiveness.

Organisational restructuring and changing markets are affecting all these industries and services; the common theme, at least amongst those on the public sector, has been the rapid change from trading department to 'business', status and style. Hence the reconstitution of the old Post Office into its constituent businesses, State Coal into Coalcorp, Forest Service into Timberlands and so on.

Railways, in this general context, are little different. But it was the first to feel the effect of the new policies. Indeed it was a pioneer in this role; the process began in earnest in 1984/85, well ahead of the other state-owned enterprise changes of 1987. And the scale of change - a reduction in staff numbers of some 10,000 in a five year period, is easily the largest fall in absolute terms. Proportionately Coalcorp experienced about the same, in a shorter period - from 1700 to about 850 within a year.

Elimination or reduction of functions, hurtful as it can be to individuals, can be comprehended. The

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accompanying change in 'style', an admittedly hard to define term, is more difficult to describe - and to comprehend. Some of the major elements in this change are set out below.

One must start from the premise that Railways in New Zealand has been, over much of its life, a general purpose transport operation carrying all sorts of people and freight to a wide variety of destinations. There has been no single dominant traffic, like ore or coal, to provide a base load. Even into the early 1970s there was a reasonably strong linkage with the rural community, with many stations, large and small, supplying farmers' transport needs. The community perception was of an organisation which might not be always as upmarket or efficient as could be - but it provided a basic transport service to the nation, staffed by a group of people who worked odd hours, did not lie very high on the social scale, but quietly and in a loyal way got on with their jobs.

Railways and Politics

As a department of state, Railways faced subtle but pervasive pressures to extend or retain services which were, at best, marginally economic. Politics were a fact of life in the old department - not in any sinister way, but as a normal part of a state-owned organisation within a modern democracy.

As a Corporation, led by a Board of Directors, the focus became clearly and specifically on performing services which are profitable. The organisational change of recent times has been geared totally to this objective. The political and economic climate of the time has allowed, indeed encouraged, it to happen. Political factors if and when they enter the stage, are an element to be taken into account alongside this overriding commercial objective. The politician is, after all, the shareholder's representative.

The organisation has changed, as noted earlier, to one of business groups - freight, passenger, property and more recently, telecommunications. Each group has its own management, reporting to the chief executive in terms of business performance measures. The old operational indices are still there - but appropriately placed as subsidiary elements in the overall task of measuring commercial success.

The Railway People

The managers are younger people than the former Railways senior management - partly a result of demography, but

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more particularly because they represent leaders amongst a group of professionally trained people, equipped and able to adapt quickly in both content and style to the new business orientation within Railways. Young enough to adapt and change, intellectually and physically fit enough to handle the enormous pressure of introducing radical change while keeping existing operations going, resilient enough to survive the grinding pressure of all that this involves - in the view of independent observers, the Corporation has a team at management level which would equal or better any other like group faced with such challenges.

To the mass of Railway people, the change has not been easy. Most people look for job stability, either by occupation or employer. Many Railway people had joined expecting a lifetime career. Most Railway people knew that change was due, indeed overdue. I believe that most have recognised and adapted to the new specifically commercial rather than the former rather fuzzy combined service/commercial role. Most accepted that there was overstaffing, for a variety of reasons; after the initial hurt of reduction in numbers, life generally resumed its normal pace.

But amongst the generalisations there are more specific wounds. The person who has acquired specialised railway skills over many years - the guard, locomotive staff - is faced with the prospect of job search in mid career - an especially difficult task for the older man, and the one with his own house in a small town. The tradition of a full career within the one organisation has been severely tested: as younger people, with non-traditional backgrounds and training, assume leadership roles throughout the organisation, older people are left puzzled and at times hurt by the seeming abandonment of traditional work structures and functions. This view has been heard particularly from older or recently retired people, who look back on their stable and generally satisfying career with Railways, and while readily acknowledging the need for change, have grave difficulty in coming to terms with what has happened. To many, Railways, a safe secure occupation with deep commitment to service and organisational loyalty, has assumed the unfeeling discipline and financial measures of the business world. The reality is different: but perceptions are all-powerful.

In short, many traditions have been abandoned. The tribal folklore, social structure, and the patterns of decades have been tested, adapted, abandoned and sometimes rebuilt - all within a very short time span, and in a process which is still continuing. The need for change is accepted; without it, Railways could not

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have survived except as a debilitated relic of a bygone age. The organisational format of the change is clear, logical, and appropriate.

But the cultural effects are, in the short term, severe to Railways and Railways people: it is as much a process of social as organisational change, with all the typical upset and uncertainty that goes with such processes.

CONCLUSION

The challenge lies in riding through the lengthy period of adjustment (which will probably span six years in total), in drawing on the strengths within Railways traditions so that there are some anchors from the past to provide a base comfort level, and at the same time to adjust to a fluctuating transport market dominated by intensive competition for the relatively small quantity of freight and passengers available in this small country, and produce a profitable transport operation at the end.

I can think of no single employer or organisation which has pioneered, experienced, indeed endured organisational and cultural change on a scale such as that seen by the Railways Corporation in the last five years - and which will continue at least until 1990. I judge it will succeed, if only because of the quality of the people in the organisation, the strength and resilience of the underlying Railways traditions, and the intrinsic merits of a transport mode which provides a separate right of way for heavy freight movement in a nation which will have to eventually come to terms with the full social and environmental costs of its roads.

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