From Deregulation to Change Management:

A former Railroad Monopolist learning to live in a new market setting

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Abstract

The purpose with this paper is to analyze the way top management acted in order to adapt a former railroad monopolist to a new deregulated environment and by that decreasing the amounts of employees with 75% as well as developing a new corporate strategy. In particular, focus is placed on analyzing how top management acted in order to support the learning needed internally to create acceptance of the fundamental changes of both corporate strategy and structure. The approach used is an investigation on the consistency between the content of change, the context for it as well as the process of change - by using an in-depth case study. There are few in-depth case studies on how top management acts in order to support change, particularly in terms of creating learning even though the topic as such have been addressed for several decades. The numbers of failures in change initiatives are severe and over the last twenty years or so, many problems have been raised within this field of research. Several of them boil down to the importance of creating internal understanding for the change needed. This case study show that consistency between actions taken by top management and the content and context of change appeared and is likely to be one major reason why this change process can be considered as successful.
1. Introduction

It is often claimed that a major issue regarding success in change is the way management initiatives support the actual changes needed (Senge 1990; Hamel & Prahalad, 1994; Senior 2002; Kotter, 2002; Walker et al, 2007). Often failures occur because of weak internal acceptance of change created by top management (Walsh & Ungson, 199, Senge 1996; Tichy 2002). Both the form taken by learning the new ways to act and handling the unlearning of the old way of acting, have tremendous importance in this context (Huber, 1991; Starkey, 1996, Akgün et al, 2007; Parish, Cadwaller & Bush, 2008).

However, there are few in-depth case studies on this matter. In particular, there are few in-depth case studies analyzing how top management acts in order to support the learning/unlearning process needed.

1.1. When change management coexists with the content and context of change

In this paper the way a former monopolist adapted to a new deregulated environment is analyzed. A case study on the former Swedish railway monopolist, the Swedish State Railways (the abbreviation SJ will be used henceforth), owned by the Swedish government, will be analyzed with regard to the way in which top management acted in order to support the changes made. Particular focus will be on the period in which a major restructuring, and following from that a separation of units, was made of the former structure, which prior to this had not been changed for over a decade. That period was also one in which top management acted very deliberately in terms of trying to create learning internally for a new market setting.

The concept earlier suggested i.e. by Damonpour (1991), Armenakis & Bedeian, (1999) and Walker et al (2007) is used as an analytical framework for the paper, claiming that in order for change to be successful, the content of change, its context as well as the process of change management must coexist with each other. Indirectly it means that the paper is about testing the empirical value of this kind of methodological framework.

2. Deregulation and the restructuring/separation of SJ

On a general industry level, the changes that occur after deregulation are well captured
by terms like “creative destruction” (Schumpeter, 1934). However, there is little evidence that major changes take place directly after a first formal political decision on deregulation (Beesley, 1997; Geradin, 2000; World Bank 2004). Normally it takes longer than that, sometime decades, between a first step of formal political initiative for deregulation and the business landscape changing (Vietor, 1994; SoU, 2005).

In the case of the Swedish Railroad market, the first steps toward deregulation were taken as early as the late 1980s. It continued with smaller changes during the 1990s but the process escalated with the restructuring, and following that, separation of units, of SJ between 2000 and 2002 – the particular time period that is of main concern here (Alexandersson, 1998; Alexandersson, 2000; Abrink et al, 2000).

One clear sign indicating the huge change in the market of the rail business in Sweden that occurred during that particular time was the formation of the Association of Swedish Train Operators in 2001. The organization showed that the Swedish railway market in just two years had gone from having one major player to a market with new companies such as BK Tåg, Tågkompaniet, A-Train, MTAB, Citypendeln and IKEA Rail established. During these years, international rail operators such as Connex, Railion and Keolis also entered the Swedish market (Blomgren, 2006). Before that SJ had monopoly within Sweden.

Amongst the most commonly occurring effects during deregulation is that the political system separates parts of the former monopoly from each other (Burton, 1993; Peltzman & Clifford, 2000). It often means vertical separation of the basic infrastructure from the operating business. It could also mean horizontally splitting up a former dominant player into competing units.

The restructuring/separation of the Swedish railway industry into Banverket, responsible for the track infrastructure, and SJ, the train operator, as far back as 1989, is an example of vertical separation typical of the railroad market (Davis & Wilson, 1999; Morrison & Winston, 2000; Burton, 2005). From a Swedish perspective it can also be considered as the manifest of the starting point for deregulation of the railroad market (ESO, 2002). A similar development was seen in the UK when Railtrack was formed to
take responsibility for the infrastructure during the British deregulation period. The vertical separation in the UK, however, was also combined with a horizontal separation where passenger traffic was actually split up into 25 competing train-operating companies. UK was first, and Sweden second, in Europe in order to deregulate the railroad market.

In Sweden, the only action that was taken by the Swedish government when deregulation began was to separate responsibility for the track infrastructure from SJ and transfer it to the new organization Banverket (about 20 % of the employees were then separated from the SJ structure). At the time it was done the Swedish political system thought the market was too small to separate the structure further. Thus, as an operator SJ remained an untouched dominant player on the railroad market still owned by the government (Alexandersson & Hulten, 2005).

All this means that no major structural changes took place in SJ between the separation of Banverket 1989 and the restructuring/separation that is of main concern here done between 2000 and 2002 (Hilmola & Szekely, 2006). From a structural point of view, the internal organization of SJ therefore had more than one decade of internal stability before the restructuring that will be discussed in the following sections.

3. Restructuring/separating SJ

In 2000, the board of the Swedish governmentally owned railroad monopolist SJ decided that SJ should be split into six different companies. In the following years, these companies ended up with different future agendas. Altogether, then, SJ changed into a “new SJ”. It also meant that roughly 20 000, or 75 %, of the employees, left the former SJ structure.

Initially, SJ was divided into six separate companies, formerly divisions within SJ. Fairly quickly after that, three of these companies were sold off. The ferry lines became Scandlines, which were soon bought up by the Swedish ferry lines, Stena Group. This was done as early as 2001. Services, cleaning, etc. onboard became Trafficare and was bought up by the Danish multiservice company, ISS, one year later. IT operations became Unigrid and were bought up by the Norwegian IT outsourcing group, EDB, in the
same year.

Maintenance became EuroMaint, a company that remained owned by the government but outside the SJ structure. Officially it was placed on the sales list and two years later it was sold to Ratos, a private equity company. Train stations became Jernhusen, which was also still owned by the government, but like EuroMaint: outside the formal SJ structure. It became owned by the government-controlled holding company Swedcarrier.

Freight operations became Green Cargo and this company is interesting as it shows the complexity of the situation and the political context for what happened. Originally, Green Cargo was also still owned by the government but outside the formal SJ structure. However, officially it was up for sale. The Swedish Minister for Industry also came very close to closing a deal with a European company, German Railion, in 2004. The deal was even presented in the business newspapers.

However, the Swedish business association Swedish Enterprise suddenly publicly stated that they did not like the idea of selling Green Cargo to Railion as they thought it would decrease competition within the market. The government therefore withdrew from the deal at the last minute. It never became publicly known what really happened, or why it happened. Today, Green Cargo is still owned by the Swedish government.

Finally, passenger traffic operations with roughly 4000 employees became the “new SJ”. Thus 20 000 people had left the former SJ structure. In figure 1 the restructuring of SJ is summarized graphically.
The top management of SJ thought that the decision taken by the company board for the restructuring of SJ would be considered as fairly dramatic internally. Therefore, an internal change process was developed.

The intention was to create a possibility for the employees to understand the key ideas behind the restructuring and in this way support the changes and try to avoid an internal backlash. This was a clear intention by the CEO.

4.1. The initiatives taken by top management

A major conference for all managers within the company was the starting point for the process in the sense that it became the first time that the splitting of SJ into six separate companies was officially presented. The forum used for this was the annual internal top management meeting, a forum that had a very long tradition within SJ. The conference was held over two days in 2001. All of the managers, as well as representatives of the trade unions, at several levels, met. In total about 600 people gathered.

With the restructuring/separation of SJ into “the new SJ” this meeting became the last one ever held. It was even the case that the CEO, after this event, refused to arrange any more events. He claimed that it should be up to each CEO of the six separate companies how they should handle their internal communication in the future. It is also of interest to notice that the CEO left the company fairly shortly after this event. Officially he said
that he had fulfilled his task and there should now be new management at the company. During the following years, several of the top management team also left the company.

The annual meeting was normally a very traditional event. Top management would present the last year’s highlights and talk about the future and then every participant would be given information to take home with them – slides, brochures etc. This often took place in what can be compared to a lecture forum. This time the idea was to try something different: an event where the employees participated.

An important idea behind this change of process was to give the participants information that they could take home and actually use to spread the messages from the conference further within the organization - effectively cascading the messages to all employees in a similar way to during the top management meeting. There was therefore a need for simple information that middle managers could use by themselves. Otherwise the process was assumed to stop internally.

The cascading process took about three months to finalize after the top management meeting. Materials used were video films from the CEO and other top management members giving speeches as well as working material from the annual meeting. Facilitator manuals were also included. Responsible for seeing that the cascading occurred was handled by the HR function, where possible facilitators were also available if needed.

4.2. The learning process

The main part of the learning process used during the top management meeting was developed in order for participants to work together in groups of 3–5 people. Four main exercises were developed. Each exercise took about 1-2 hours to solve and breaks were taken between them. During the meeting SJ top management acted as facilitators for the exercises. In several sessions the CEO also gave his comments and answered questions from the audience. The meeting both started and concluded with the CEO giving a speech for about 20 minutes. The material that was subsequently used in the cascade process was video film taken at this top management meeting as well as the material used for the four exercises.
During the first exercise, the Swedish railway industry was compared with the British airline industry and the Swedish telecommunications industry, both industries where deregulation had started earlier. The participants were asked to connect different actions taken, described on cards (e.g. “the selling of noncore businesses”) to a certain point in time and given a choice of an industry where they thought it had happened. They were also asked to describe what SJ had done at certain points in time historically as well as to suggest possible actions for the future. A member of the top management team concluded this assignment on the stage presenting what top management had thought of various possible solutions in the exercise. In particular, he said that one important conclusion that could be drawn was that if the context of SJ changed then SJ would also have to change.

The second exercise started with the participants analyzing their behavior as customers. They were asked to solve the needs of SJ’s customers and to make choices between different possible services. To do this they were given cards, which presented individual customers (names, travel pattern, preferences, etc). These cards represented different important customer segments. The exercise was concluded in the same way as the prior exercise but with another person from top management as facilitator. In this wrap-up the top-manager said that SJ had obviously very different customers, and few of them used the whole palette of services offered by SJ.

In the third exercise, the participants explored strategic alternatives to meet customers’ needs in the future. Descriptions of various important internal processes were analyzed from the customer’s perspective. The participants were asked to describe how several organizational parts of SJ were needed to create a certain service. During the facilitation of this exercise one of the members of the top management team said that the customers did not seem to bother how SJ was organized as long as they got their service. He also said that in the future it was likely that every part of SJ needed to find new individual strategies.

The final exercise concerned the evaluation of ideas as to how employees could contribute to making SJ successful in the new environment. Participators were asked not
only to give ideas on what different parts of the organization could do but also to evaluate various possible future projects that top management had in mind. All these ideas were brought together at the end of the exercise. Two months later these ideas were summarized by the HR function and presented on the intranet.

5. Analyzing the case concerning the process, its context and content

5.1. The case from the process point of view

One must remember that none of what later happened to the six companies into which SJ was split was known at the time of the top-management meeting. However, it was known at the meeting that the material from it should be used in a cascade model during the following months. That made the communication process complicated and what later happened to Green Cargo is a clear example of how complicated this matter actually was.

During the end of the conference, the CEO said that it was important to make preparations so that the government could sell off parts of the organization “if they so wished” in the future. He was thus very open: expressing what he knew that he could be sure of at the time when the meeting took place, but at the same time saying no more than this. On the other hand, what he said was clear.

The fact that the message of future changes of ownership at the same time was very difficult to implement internally was demonstrated at the end of the conference and it is rather likely that this demonstration mirrored much of the internal debate ongoing within the company – both at the meeting and afterwards. Participants were given the opportunity to ask the CEO on the stage questions. One person stood up and said that he had understood what the CEO said. However, he still believed that the government should put money into SJ.

This was very likely something many of the participants had already considered.

The CEO answered that he understood the question well, gave a personal comment that he did not agree but that he appreciated that the question was raised. He also made it
clear that this was not the government’s intention. He reminded the audience about the message from the government representative earlier in the meeting; that the government had now finally decided not to put more money into SJ due to deregulation. During the morning session a governmental representative had given a speech on that topic.

5.2. The context perspective applied on the case

There are several reasons for splitting up a dominant player when deregulating industries. From a governmental perspective, the issue is that separation of activities is necessary to create sufficient competition. The problem is at the same time to take actions that lower the entry barriers into the industry as much as possible for new entrances while at the same time removing capital and weakening the competitive position of the former monopoly. This should also be done without destroying either a functioning system or future business opportunities.

This problem has of course no clear logical solution or technique to be used. Consequently, trying to communicate a logical explanation of that solution internally within an organization could be difficult and very abstract (Peters & Waterman, 1996). It is therefore a question of creating reasonable explanations rather than of using logic. This change management program is thus also a clear case showing that organizational change is not a scientific application of techniques and skills – it is a human endeavor (Eriksen, 2008).

In the political debate on deregulation, a frequently recurring question is how the consequences of separation should be handled (Beesley, 1997; Bergman, 1999). As the basic infrastructure is considered to be far too expensive for one player to manage alone, particularly when the markets are small (as in Sweden), the question is how that infrastructure should be funded. This has often resulted in governments retaining responsibility for the infrastructure. In the Swedish railway industry, this meant that Banverket became a governmental authority even though the political system wanted to increase competition on the market. All these reasons for the creation of Banverket were communicated in the learning process.
The history behind the formation of Banverket was also used during the exercises in order to show that the organization had already undergone a major change with success. Nobody internally seemed to question the creation of Banverket – more than 10 years on – and that was the point in using this historical separation as a pedagogical tool. Clearly the idea that managers make use of organizational history in order to support change management and reconstruct the strategic agenda was used here (Gioia, Dennis, Fabbri, 2002; Ooi, 2002; Ericson, 2006). Since history is not fixed by the members within an organization, it can be altered, while those parts of the company history that fit with the intended future change are emphasized (Brunninge, 2009). Obviously, this is a case where this method was also used deliberately.

In many ways, therefore, the process should be considered as a case where the organization learned to see things in a totally new way – unlearning as well as learning (Hedberg, 1981). In that sense, it is a case of double loop learning (Argyris & Schön, 1974; Senge, 1990; Georges, Romme & Witteloostuijn, 1999).

5.3. The case from the content point of view

From the internal perspective of SJ, the political issues discussed in the previous section look fairly different. For employees, neither participating in the political discussions of the company nor being in direct contact with top management, of course, the perspective of what was in progress looked very different than how government thought of the company.

In the case of SJ, the problem of capital was very much at the top of the internal management agenda. The problem of economy had also been there for a very long time, at least since 1970 (Brunsson, 1989; Lagergren & Westin, 2002). SJ had lost money for decades so it had been well known for a long time, internally as well as externally, that SJ had financial problems.

However, at the same time it was also well known that, so far, each time that SJ had had huge financial problems, the government had put more money into the company.
Therefore it was very important that the representative from the government gave his speech at the management meeting and addressed this matter very clearly.

During the conference, the CEO was very careful in the way he used his words. In response to a direct question on the stage whether SJ would be split up into separate organizational units and sold off or not he answered that he did not know exactly. However, he added that it was important for SJ to become an efficient and profitable company – since it would give the owners options for how to handle SJ in the future. He emphasized that no matter what strategy would be chosen, one issue to consider was the need to fund the appropriate actions. He claimed that new capital was needed for SJ to develop in the future. This was something most of the employees had agreed with during previous years.

As regards external resources, we mainly tend to think of governments and the private capital market as sources of capital. As regards internal resources, we mainly think of ways of transferring capital from fixed assets to new investments. In some sectors, particularly in the telecommunications sector, privatization was a commonly used tool at this time. In other sectors, such as the railway sector, the potential to attract capital from external sources through privatization was far more limited. For SJ, there would not appear to have been any opportunity to attract capital from the external market whilst SJ was a single legal entity – which it was before the restructuring. In other words, the door to external capital was closed for SJ without separating units when government had decided not to put any more money into the company.

During one of the sessions the CEO even said this explicitly using the term “closed door”. He also added that SJ in the future, therefore, had to find the capital needed by itself – indicating the need for future selling-out of units. Talking in terms used in the narrative area of business research therefore, the SJ case is also a story of a company “finding itself in a situation where it needed capital, but with only one way to obtain it – through restructuring and separation of units”.
6. Concluding discussion

Using the terminology suggested by Reger (1994) the case of SJ changing can, on one hand be called fundamental and episodic. Focusing on the formal restructuring, such an interpretation is supported. However, considering the case from the government point of view, the restructuring can also be considered as part of a long-term change process of implementing several incremental changes. This interpretation is supported by Burton (2005) and Bergdahl (2005), for example. Altogether, this shows that the way in which we represent change affects the way we interpret the world (Sarup, 1996; Carr, 2006). The same naturally applies to evaluating change.

However, in order to perform an evaluation of the change initiatives taken by top management, it seems reasonable to focus on the value of the “learning process” and the top-management intentions behind it.

Both the CEO and the top management team were very positive to the idea of letting employees communicate internally around the message of restructuring. They thought the employees needed time to embrace the message and therefore communication was important. In that respect, they were very much in line with issues raised earlier as being very important for success in managing change (Ford, 1999; Taylor, 2004; Jabri et al, 2008).

The internal evaluations conducted afterwards by the HR department showed that employees were positive to the learning process carried out and also understood the reasons behind the idea of splitting up the company. In particular, there was a positive attitude to the idea of involvement as such. Among managers participating at the annual meeting, there were also very clear positive reactions, not least to the basic idea of creating a different meeting than normal.

It is also interesting to note that neither major internal, nor external, related backlashes occurred during the following years. This is interesting since SJ had been a government-owned organization for a very long time, thereby public. Formerly, it had been usual for the media to discuss intensively most major changes that happened internally within SJ. However, this time it did not happen – even though it was a fundamental change.
Thereby it can also be claimed that there are several items of evidence pointing to the conclusion that consistency between the structural changes needed and the context of change as well as the internal learning process was very good in this case. Hence the case also supports conclusions earlier drawn by, for instance, Damonpour (1991), Armenakis & Bedeian, (1999) and Walker et al (2007). Thus, in these respects, the case should be considered rather successful.

The practical conclusion thereby is that there is a need for top-management to develop learning-processes that supports consistency between the process, the context as well as the content of change.

References
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